



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 MITROVICA NORTH 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 Mitrovica North in consultation with the Assistant Auditor General, Emine Fazliu, who supervised the audit.

The report issued is a result of the audit carried out by Svetlana Perovic - Team Leader, and Agim Sogojeva - team member, under the management of the Head of Audit Department, Luljeta Morina.

TABLE OF CONTENTS

Executive Summary	4
Audit Scope and Methodology	5
1 Audit Opinion on Annual Financial Statements	6
2 Financial Management and Control	8
3 Progress in Implementing Recommendations	19
Annex I: Explanation of the Different Types of Opinion Applied by NAO	24
Annex II: Letter of Confirmation	27

Executive Summary

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

Our audit focus has been on:



Conclusions

The annual financial statements were prepared in accordance with the MoF Regulation. no. 01/2017 on Annual Financial Reporting by Budget Organizations.

Regarding financial management and internal controls, the Municipality of Mitrovica North should undertake additional actions to improve them. That is because deviations were noticed in management and collection of revenues from property tax, personnel management, goods and services, capital investments, subsidies and transfers and in assets management. This reflects a lack of proper oversight by management in these areas.

The municipality has not taken concrete actions to implement the recommendations made by NAO. By the end of our 2019 audit, two (2) recommendations were implemented, three (3) were under implementation, four (4) were not addressed yet and one (1) was closed.

Opinion of the Auditor General¹

Unmodified Opinion

For more details, see Chapter 1 of this report.

Management's Response on 2019 audit

The Mayor has agreed with audit findings and conclusions and has committed to address a given recommendation. The National Audit Office appreciates the cooperation of the management and personnel of the Municipality during the audit process.

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

Audit Scope and Methodology

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

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

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

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

The following chapters provide in detail our audit findings and recommendations in each audited area. Management's responses to our findings can be found in Annex II.

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Municipality of Mitrovica North 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.

Key Audit Matters

As the key audit matters we emphasise the fact that the Municipality has not yet set policies for the implementation of the Law on Property Tax. The Municipality has not taken concrete actions to collect revenues from property tax and from the use of municipal properties/areas while revenues from construction permits had a poor performance (only one construction permit was issued).

Responsibility of Management for AFS

The Mayor of the Municipality of Mitrovica North 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 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 2019, the municipality spent 73% of the final budget spent, which compared to the previous year represents an improvement by 4%. Regarding financial management and internal controls, the Municipality should undertake additional actions to improve them. That is because deviations were noticed in management and collection of revenues from property tax, personnel management, goods and services, capital investments, subsidies and transfers and in assets 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 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	6,042,381	7,066,526	5,170,718	73%	5,116,041	4,821,771
Government Grant - Budget	5,874,354	5,874,354	4,795,399	82%	4,847,742	4,156,706
Carried forward from previous year ³		63,182	37,181	59%	23,981	13,722
Own Source Revenues ⁴	138,445	138,445	0	0	0	4,831
Development Trust Fund		941,889	319,282	34%	138,973	503,445
External Donations		19,074	18,856	99%	105,345	143,067
Borrowings	29,582	29,582	0	0		

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.

The final budget is higher than the initial budget by €1,024,145. This increase is a result of revenues carried forward from 2018 amounting €63,182, external donations in amount of €19,074⁵ the Development Fund in amount of €941,889.

In 2019, the Municipality spent 73% of the final budget or €5,170,718 with an improvement of 4% compared to 2018. However, the budget execution remains at a no 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	6,042,381	7,066,526	5,170,718	73%	5,116,041	4,821,771
Wages and Salaries	3,490,000	3,490,149	2,491,232	71%	2,000,105	981,414
Goods and Services	601,422	638,736	606,692	95%	874,790	543,958
Utilities	115,706	115,706	51,453	44%	20,366	23,441
Subsidies and Transfers	156,196	156,196	15,950	10%	155,991	156,195
Capital Investments	1,679,057	2,665,739	2,005,391	75%	2,064,789	3,116,763

Explanations for changes in budget categories are given below:

- The final budget in Wages and Salaries compared to initial budget had no changes. Only 71% of this budget was spent because the positions in the education and health sectors were not filled;
- The final budget in Utilities compared to initial budget was not changed and the budget execution was at 44%. Movement of office to new building resulted in lower expenditures for utilities;
- The final budget in subsidies and transfers was not different from the initial one, however the execution was quite low, with only 10% of spending; and
- Although the final budget in Capital Investments was increase by €986,682, the execution was only 73%. This level of expenditures was due to the delays in implementation of projects funded by the Development Fund.

⁵ EU Fund €130, Swiss Government €18,875 and Norwegian Government €69.

2.1.1 Revenues

Revenues generated by Municipality in 2019 totalled €41,296. They are from administrative fees and construction permits. Whereas, the revenues from rent, including property tax, although foreseen by plan were not collected by Municipality. This is because the municipality continues not implementing the Law on Property Tax and the Law on Construction.

We have tested five (5) samples of €2,966 as part of substantive testing, and five (5) samples as part of compliance testing.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Total	138,445	138,445	41,296	30	31,146	25,512

Other than those presented in the table above, the Municipality has also indirect revenues collected by central level (traffic fines) in amount of €2,077.

Issue C1 – Non implementation of the Law and Regulations on Property Tax

Finding

The issue of immovable property tax is regulated by Law no. 06/L-005 on Immovable Property Tax, as well as the Regulations issued for its implementation. Municipality is facing difficulties and obstacles in implementing this law.

Although the Municipality planned higher collection of revenues from property tax (€16,000) than in 2018 (€8,700), it failed to collect any revenue from property tax at all.

Further, the Municipality has not established the Property Tax Service (there is no manager, no survey taker, no trained officer to use protax system, etc) and has not classified properties to establish then the property tax register.

The Municipal Assembly has not issued any regulations for determining the tax rate.

Impact

Due to the non-implementation of the Law and Regulations on the collection of property tax, the Municipality has not collected most of the revenues that belong to it according to the law, considering the fact that the property tax is the only decentralised tax at the municipal level. In this way, planned revenues are not collected, which directly impacts on achievement of objectives of the Municipality where the funding basis are the revenues.

Recommendation C1 The Mayor should ensure the Law on Property Tax is implemented and internal regulation determining the tax rate is drafted. Further, the Mayor should ensure to put into function the municipal service for property tax, and through pro-active communication he should influence on the awareness of citizens about the importance of property tax and benefits to citizens.

Issue A1 – Shortcomings in fee charges for registration of vehicles

Finding The Municipality has no clear legal infrastructure that regulates the collection of revenues from vehicle registrations taxes due to failure to comply with the internal regulation by AI (MIA) 07/2019 on Vehicle Registration, Article 5.

The municipal regulation, based upon the collection of revenues from vehicle registration fees is recorded, does not provide for any documentation that is collected as evidence for determining the amount of the fee based on the tonnage⁶ of motor vehicles.

Impact Shortcomings of regulation which would accurately determine the required documents, reduce the possibility for controlling billing and charging on behalf of the vehicle registration fee.

Recommendation A1 The Mayor should ensure that controls in billing and charging are functional by determining in the municipal regulation the required documents and evidence to confirm the billing regularity.

⁶ The regulation of fees, municipal fines determines: Heavy vehicles up to 3.5 tons 10 € fees; Heavy vehicles over 3.5 tons 20 € fee. Revenues for the three months - January, March, June 2019 - were tested.

Issue A2 - Poor recording of revenues from E-kiosk

Finding From the so-called E-kiosk machine, by paying 1 euro citizens, in addition to the birth certificate, can also obtain other documents such as birth certificate, marriage certificate, and notification of residence, notification of the joint family community and proof of tax payment obligations.

During 2019, the municipality collected revenues in the amount of €1,236 through this machine. Although different types of documents were issued, all revenues were recorded under code 50013 (birth certificate).

Further, according to the Financial Rule no. 03/2010 for own source revenues, their registration in KFMIS should be done on a daily basis, while the reconciliations with the Treasury are made on a monthly basis. The Municipality failed to timely register revenues collected through the E-kiosk and delays in registering these revenues in KFMIS have occurred due to lack of regular reporting.

Impact Failure to record revenues into adequate economic codes as provided for in the chart of accounts, and delays in recording revenues affect the quality of reporting and makes the monthly reconciliations with the Treasury impossible. This increases the risk of not including in the AFS a portion of the revenues collected at the end of the year.

Recommendation A2 The Mayor should increase the level of responsibility of the persons in charge so that revenues are timely and regularly registered and reported. He should also ensure that revenues are recorded under the appropriate economic codes in KFMIS.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries is €3,490,149, of which €2,491,232 was spent or 71%. The number of employees by budget was 850, which by the end of the year was 543, including municipal assembly advisors, while not all the positions in health and education were filled. We have tested 88 samples of €37,894 as part of substantive testing, and ten (10) samples as part of compliance testing.

On 13 November 2019, the Municipality signed a memorandum of understanding with the MLGA, based on the Brussels Agreement, for engagement of MLGA officers in Mitrovica North municipality. By this memorandum five (5) MLGA employees are deployed to relevant departments of Municipality and they are financed by MLGA's budget.

Issue B1 – Challenges in staff management

Finding The management has not approved yet the internal regulation on organizational structure, systematisation of workplaces and its compliance with the needs and budget of the municipality. This has led to some key positions not being filled with staff or covered by special service agreements.

Impact The lack of organizational structure of staff does not provide assurance for the internal organization of the municipality, nor on the occasion of segregation of tasks and specific workplaces.

Recommendation B1 The Mayor should ensure that appropriate actions are taken to urgently address the abovementioned issues in order for the municipality to establish the organizational structure, and that key positions are covered with adequate staff to avoid holding workers under special service agreements.

2.1.3 Goods and Services

The final budget for Goods and Services was €638,736, of which €606,692 or 95% was spent. These spending mainly relate to purchase of other equipment, furniture, sanitary consumables etc. We have tested 24 samples of €410,128 as part of substantive testing, and five (5) samples as part of compliance testing. The final budget for Utilities was €115,706, of which €51,453 or 44% was spent.

Issue A3 – Shortcomings on SSA engagements

Finding Law no. 03/L-149 on Civil Service Article 12, paragraph 4 provides that fixed-term appointments for a period less than 6 months are made based on the contract called Special Service Agreements which are subject to the Law on Obligations and for which a simplified employment procedure is used. Such engagements are allowed only for specific types of work and under unforeseen special circumstances.

The Municipality engaged two staff through the SSA, without using simplified employment procedures. In both cases, the engagement was for regular positions (translator and surveyor position) and it was beyond the statutory timeline. The Translation Officer was engaged throughout the year with a SSA⁷ until the announcement of the job advertisement, which had started in September and was suspended by the Government decision. She worked until the end of the year, whereas in 2020 the municipality announced the job advertisement for these two positions under the regular recruitment

⁷ Several agreements within a one-year period.

process. The surveyor position was also covered by SSA throughout the year.

The reason for such engagement is the fact that the Ministry of Finance did not allow to increase the number of employees.

Impact Engaging staff under SSA by not considering the employment procedures minimises competition and increases the risk of hiring inadequate staff for certain positions.

Recommendation A3 The Mayor should ensure that engagement of staff under SSA occur only for specific tasks and only when requests come from requesting units. For such engagements there should be applied the simplified recruitment procedure.

Issue A4 - Payment of unspecified invoices

Finding 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.

On 20.06.2019, the Municipality received and protocolled the invoice of RWC "Mitrovica" J.S.C. On the same day, the Municipality made the payment in amount of €40,879.06 to the Regional Water Company "Mitrovica" J.S.C regarding the water consumption for the invoiced period 06.2019-30.6.2013. The Municipality did not record this amount as an obligation because there were no invoices received. Moreover, the invoice does not contain clearly specified customer data⁸.

Impact Payment of water compensations from year 2013, which were not recorded as obligations of municipality, without any clearly specified method, without procedures, without reconciliation deadlines, without payment or deferment of payment deadline by RWC "Mitrovica" risks that the obligations paid by the municipality are not recorded as paid, or even statute-barred obligations could have been paid.

Recommendation A4 The Mayor should ensure that payments are made on the basis of invoices whose content complies with the financial rule of KFMIS and the Law on Obligations.

⁸ Write in the invoice Mitrovica across the river 2- mitrovica I, Mitrovica, Economy

Issue A5 – Overpayment for landline phone services

Finding Implementing the Agreements between the Municipality and Telecom Kosovo – MPA for landline phone services, for used services “Tik Centrex ISDN PRA” for 2019, the Municipality paid to Telecom the amount of €5,914.61.

We found that the Municipality paid €3,154.73 more than the realistic expenses. According to municipal officers, that was due to an error in billing platform of telecom, and therefore the bill was not in accordance with the contract between Telecom Kosovo – MPA.

Impact Lack of control when receiving invoices for landline phone services, and overpayment of such invoices damage the Kosovo budget.

Recommendation A5 The Mayor should ensure increased control over the management of contracts with Telecom Kosovo-MPA for landline phone services and the return of funds that damaged the municipal budget.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €156,196, of which €15,950 or only 10% were spent. Subsidies were mainly granted as assistance for social cases and subsidy for medical treatment. We have tested five (5) samples of €2,075 as part of substantive testing, and five (5) samples as part of compliance testing.

Issue C2 – Irregularities in reporting subsidies

Finding On 11.11.2019, the Municipality drafted the regulation on criteria and granting method of subsidies.

Impact Delayed approval of the internal regulation on granting of subsidies and lack of subsidies supervision, namely weaknesses in reporting on the part of beneficiaries, increase the risk that subsidies are not granted for adequate purposes, they are granted without criteria and based on different interests and, on the other hand, they will fail to achieve the intention for which they were granted.

Recommendation C2 The Mayor should ensure the full implementation of the regulation on subsidies and strengthen the mechanisms for supervision and management of subsidies.

Issue B2 – Low budget execution

Finding The budget execution under subsidies and transfers was 10% or €15,950⁹. This low level of budget execution was caused by absence of internal regulation and municipality's unclear specification of subsidy purposes.

Impact Weaknesses in management of expenditures lead to inefficient use of available resources thus resulting in failure to attain the objectives of the organisation.

Recommendation B2 The Mayor should ensure that budget execution is constantly and systematically monitored on monthly basis and that this review identifies and addresses the obstacles and difficulties for appropriate budget execution.

2.1.5 Capital Investments

The final budget for Capital Investments was €2,665,739, of which €2,005,391 or 75% were spent. Those relate to medical equipment, education facilities, and for implementation of projects funded from the development fund. We have tested 14 samples of €1,988,971 as part of substantive testing, and five (5) samples as part of compliance testing.

Issue C3 – Delays in project implementation

Finding In the project "Construction of the fire department building - phase II", with a contracted amount of €183,834 (contract signed on 10.12.2018) according to the dynamic plan, it is planned that the works will be completed within 90 calendar days. The total amount of completed works in 2019 is €93,071. Extension of deadline was requested three times, all the requests for extension were approved by the Municipality's management. These delays were caused by the atmospheric conditions and robbery of the electric instalments which impacted on execution of works.

Impact Delays in the provision of services may result in contracts, which are not carried out in accordance with the required standards. This increases the risk that the fiscal year will end and the municipality will end up in liabilities, which may cause obstacles for the new planned projects, and can cause the postponement of the use by citizens or the benefits from these projects.

Recommendation C3 The Mayor should ensure that measures are taken if the same delays occur in the future. Further, the contract managers should monitor the work as

⁹ Only €17,751 were planned from the grant, while others for the revenues which were not collected.

provided by contract and projects.

2.2 Capital and non-capital assets

Assets are an important part of financial management and control in the public sector. A proper asset management requires the municipality to have a complete picture of assets, control and management procedures, and to constantly update changes to its records. The value of capital assets presented in AFS is €14,020,697, non-capital assets are €916,696 and stocks are €535. The municipality has started applying the e-assets system. We have tested 73 samples of €2,453,831 as part of substantive testing, and ten (10) samples as part of compliance testing.

Issue B3 – Incomplete register of assets

Finding

The Regulation MoF No. 02/2013, article 2 stipulates that “All budget organizations are obliged to take the necessary measures for documenting, preserving, recording, alienation and reporting of non-financial assets with the aim of a more effective, efficient and economic management for the purpose of protection of non-financial assets from damage and misuse”.

The municipality failed to identify all the municipal assets. The commission on registration of assets compiled a list of immovable properties of municipality, which is still incomplete because schools, health institutions and other immovable properties are not included. This reflects an incomplete register of assets owned by municipality.

The municipality had invested on repair works, yet only the renovation expenses were recorded as assets but not the buildings as a whole. This is because the municipality did not complete yet the process of inventory and complete assessment of the assets under its management. Therefore, there is no certainty regarding the values of municipal assets presented in 2019 AFS. Furthermore, the municipality did not register the ongoing investments either, which are financed by the Development Fund or the equipment donated by KFOR (printers).

Impact

Non-updating the assets register creates understatement/overstatement of assets disclosed in the financial statement.

Recommendation B3 The Mayor should ensure that an analysis is performed in order to determine the main causes for not registering the assets. It is necessary to take specific actions so that causes are addressed systematically in order to eliminate shortcomings in recording and true and fair disclosure of assets.

2.3 Handling of cash and its equivalents

Petty cash is a small fund of money that is maintained and controlled within a budget organization, department or smaller budget units depending on budget allocations, which is used to cover costs in small amounts (up to €100). During 2019, the municipality spent €2,117 for this purpose.

2.4 Receivables

Since the municipality does not issue any invoices for taxes and fees, it has no accounts receivable and keeps no records of them. Fees for issuing different certificates are cash payments through the cashier, upon submitting the request for certificate.

2.5 Outstanding Liabilities

The statement of outstanding liabilities toward suppliers at the end of 2019 was €5,589¹⁰, whereas in 2018 it was €2,163. These liabilities are carried forward to be paid in 2020.

The municipality reported on monthly basis on the outstanding liabilities toward suppliers based on the Financial Rule No.02/2013/MF on Reporting of Arrears by Budget Organizations.

2.6 Internal audit function

Budget organizations are required to ensure that their activities and processes are subject to internal audit. An internal audit system helps management identify weaknesses in financial management and municipal controls. This contributes to improving internal controls, achieving goals and improving the services delivered by municipality.

¹⁰ This amount is presented by the audited entity

Issue B4 – Failure to establish the Internal Audit Unit

Finding Law no. 06/L-021 on Public Internal Financial Control, Article 19, determines the establishment of the internal audit function. In spite of our repeated recommendations, the municipality has not managed yet to provide internal audit services and they have not been covered by any other organisation. That is because the municipality did not manage to finalise the competition for the position of internal auditor by the end of 2019.

Impact Lack of internal audit can lead to continuation of repeated weaknesses in key internal control systems. Moreover, management may not be able to identify the control weaknesses and timely react to eliminate them.

Recommendation B4 The Mayor should establish the IAU in order to provide support for risk management and to assist in the ongoing operational activities. In addition, we also propose the establishment/operation of the AC, which would review the results of the internal audit and the activities undertaken by the management regarding the recommendations made.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS resulted in ten (10) recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

The Municipality submitted the Progress report on implementation of recommendations (30.09.2019 and 16.03.2020) under requests deriving from the Rules of Procedure on implementation of audit and action plans. At the end of our 2019 audit, two (2) recommendations were implemented, three (3) were under implementation, four (4) were not addressed yet, and one (1) is closed.

For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of recommendations).

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

Table 4. Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	AFS	The Mayor should ensure that is conducted an analysis to determine the causes for emphasis of matter in the audit opinion and key issues. Specific actions need to be undertaken to systematically address the causes in order to eliminate errors and accurately disclose the value of assets. Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan, addresses all compliance related issues. This should include a Management review of the AFS, with specific focus on high-risk areas and/or areas where errors have been identified in previous years.	This recommendation had to do with weaknesses in the management of assets that affected the emphasis on audit opinion. The municipality has not taken concrete actions.	Recommendation unimplemented
2	Budget Planning and Execution	The Mayor should ensure that budget performance is monitored continuously and systematically on a monthly basis and that this review identifies and addresses the obstacles and difficulties concerning budget execution at a planned level. Where initial budget planning is inaccurate, this should be fully reflected in the final budget position. Further on, the Mayor should ensure that expenditures are planned according to separate economic codes for relevant categories depending on the benefit.	During the audit, we did not notice any misclassification of expenses, but the low level of budget execution in subsidies is still present.	Recommendation unimplemented
3	Budget Planning and Execution	The Mayor should ensure a thorough analysis during preparation of budget requests, including all factors that have impact on budget implementation. Furthermore, planning and budgeting of certain expenditures should be made on the basis of the accounting plan approved by the	During the audit, we did not notice that there was any misclassification of expenses.	Recommendation implemented

		Treasury, in order to avoid misleading reporting for AFS users.		
4	Revenues	The Mayor should without delay initiate drafting of an internal regulation on taxes, fees and charges of citizens for publicly available services, as well as the same are approved by the Municipal Assembly. Further on, should ensure the implementation of the property and construction tax Law, which primarily aims at enforcing minimum legal requirements and enhancing the quality of services for the citizens of the Municipality.	The management has approved an internal regulation on taxes and fees, but it does not implement the Law on Property Tax. While it started granting construction permits.	Recommendation partly implemented
5	Wages and Salaries	The Mayor should ensure that appropriate actions are taken to urgently address issues mentioned above so that the Municipality has the organizational structure established and that key job positions are covered with adequate staff to avoid having employees under special service contracts.	During the audit of staff, we noticed that the management has not approved yet an internal Regulation on the organizational structure and systematization of workplaces.	Recommendation unimplemented
6	Goods and Services, and Utilities	The Mayor should strengthen controls with the aim of more efficient procurement evaluation, increase the level of communication among municipal units to avoid splitting tenders of the same nature and achieving better prices and better quality work/goods at the same time, reducing the costs associated with tendering processes.	During the audit, we did not notice that there was any splitting tenders of the same nature.	Recommendation implemented
7	Subsidies and Transfers	The Mayor should ensure that regulation on subsidies is drafted and approved in the Municipal Assembly whereby will be determined clear criteria for subsidies, as well as mechanisms for monitoring and managing	As the regulation was issued on 30 October 2019, we had cases tested during the year which	Recommendation partly implemented

		subsidies. Controls over subsidizing should be strengthened to ensure effective monitoring of the use of funds allocated from the municipal budget.	were allocated without implementing the internal regulation.	
8	Capital Investments	The Mayor should ensure that are take appropriate measures to avoid similar failures in the future. Furthermore, contract managers should follow the works as foreseen in the contract and projects.	“Construction of the sports hall - phase II” in amount of €325,351 (the contract signed on 04.12.2018 is complete.	Recommendation partly implemented
9	Internal Audit System	The Mayor should establish the IAU in order to provide support in managing areas with risk and which would assist ongoing operational activities. In addition, we suggest the establishment/operation of AC to review the internal audit outcomes and actions taken by the Management in relation to the recommendations given.	The municipality did not manage to finalise the competition for the position of internal auditor by the end of 2019.	Recommendation unimplemented
10	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review on determining the form of financial and operational reporting to senior management has been carried out. Budget performance, including revenues and expenditures, and implementation of capital projects plan, should be subject to regular reporting and review by the Management. 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.	The municipality did not take any action to address the issues from this recommendation.	Recommendation closed unimplemented
No	Audit area	Recommendations of 2019		
1	Revenues	The Mayor should ensure the Law on Property Tax is implemented and internal regulation determining the tax rate is drafted. Further, the Mayor should ensure to put into function the municipal service for property tax, and through pro-active communication he should influence on the		

		awareness of citizens about the importance of property tax and benefits to citizens.
2	Revenues	The Mayor should ensure that controls in billing and charging are functional by determining in the municipal regulation the required documents and evidence to confirm the billing regularity.
3	Revenues	The Mayor should increase the level of responsibility of the persons in charge so that revenues are timely and regularly registered and reported. He should also ensure that revenues are recorded under the appropriate economic codes in KFMIS.
4	Wages and Salaries	The Mayor should ensure that appropriate actions are taken to urgently address the abovementioned issues in order for the municipality to establish the organizational structure, and that key positions are covered with adequate staff to avoid holding workers under special service agreements.
5	Goods and Services	The Mayor should ensure that engagement of staff under SSA occur only for specific tasks and only when requests come from requesting units. For such engagements there should be applied the simplified recruitment procedure.
6	Goods and Services	The Mayor should ensure that payments are made on the basis of invoices whose content complies with the financial rule of KFMIS and the Law on Obligations.
7	Goods and Services	The Mayor should ensure increased control over the management of contracts with Telecom Kosovo-MPA for landline phone services and the return of funds that damaged the municipal budget .
8	Subsidies and Transfers	The Mayor should ensure the full implementation of the regulation on subsidies and strengthen the mechanisms for supervision and management of subsidies.
9	Subsidies and Transfers	The Mayor should ensure that budget execution is constantly and systematically monitored on monthly basis and that this review identifies and addresses the obstacles and difficulties for appropriate budget execution.
10	Capital Investments	The Mayor should ensure that measures are taken if the same delays occur in the future. Further, the contract managers should monitor the work as provided by contract and projects.
11	Capital and non-capital assets	The Mayor should ensure that an analysis is performed in order to determine the main causes for not registering the assets. It is necessary to take specific actions so that causes are addressed systematically in order to eliminate shortcomings in recording and true and fair disclosure of assets.
12	Internal Audit	The Mayor should establish the IAU in order to provide support for risk management and to assist in the ongoing operational activities. In addition, we also propose the establishment/operation of the AC, which would review the results of the internal audit and the activities undertaken by the management regarding the recommendations made.

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



 ZYRA ADMINISTRATIVE E MITROVICËS SË VERIUT ADMINISTRATIVNA KANCELARIJA SEVERNE MITROVICE NORTH MITROVICA ADMINISTRATIVE OFFICE			
Nr. Dreg. Orig. Adresa Orig. Post	01	Nr. Prot. Breg. Prot. Prot. No.	110/031
Nr. Llogarit. Breg. Llogarit. No. pages	03	Data Ditari Date	01 / 07 / 2020

Republika e Kosovës Republika Kosova - Republic of Kosovo

Qeveria- Vlada- Government

Opština Severna Mitrovica -Komuna Mitrovicë e Veriut

Municipality of North Mitrovica

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 Raportit/Pasqyrave Financiare të Komunës Mitrovicë e Veriut , 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 rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Z.Aleksandar Spirić

U.D i Kryetarit të Komunës Mitrovicë e Veriut

Me 01.07.2020

