



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 FUSHE KOSOVA 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 Fushe Kosova in consultation with the Assistant Auditor General, *Naser Arllati*, who supervised the audit.

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

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Executive Summary

This report summarises the key issues arising from our audit of the Municipality of Fushe Kosova 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 process of preparing the Annual Financial Statements has been managed in line with the applicable legislation, with the exception of misclassification of expenditures, which have influenced the Emphasis of Matter.

Although internal controls have operated effectively in some areas, financial management and control have been followed by obvious weaknesses in some important financial systems. Controls require further improvement to prevent weaknesses related to: revenue management, personnel, subsidy management, contract management in capital investments, revenue management challenges, payment delays and inefficient performance of internal audit and audit committee.

The response to the prior year recommendations shows that out of 14 recommendations, the municipality implemented seven (7) recommendations, five (5) recommendations have not been implemented yet and two (2) recommendations were considered closed.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, see Chapter 1 of this report.

Management's Response to audit 2019

Management has agreed on audit findings and conclusions and committed to address all the recommendations given. The National Audit Office appreciates the cooperation from the management and personnel of the Municipality during the audit process.

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

Audit Scope and Methodology

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

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

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

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

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

1 Audit Opinion on Annual Financial Statements

We have audited the AFS of the Municipality of Fushe Kosova 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.

Emphasis of Matter

We would like to draw your attention to the fact that, through budget planning, the municipality paid and recorded expenditures in inadequate economic categories. From the category of capital investments as well as subsidies and transfers, the municipality paid for goods and services, while the Treasury from goods and services paid the jubilee salaries of education workers through court decisions. In this report, this issue is addressed in subsection 2.1 Budget planning and execution. Our opinion has not been modified on this issue.

Responsibility of Management for AFS

The Mayor of Fushe Kosova and the Chief Financial Officer are responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Cash based Accounting, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law No. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations.

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

Auditor General's Responsibility for the audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit conducted in accordance with ISSAIs. These standards require that we obtain reasonable assurance about whether the financial statements are free from material misstatements.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will detect every material misstatement that might exist. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could influence the decisions taken on the basis of these AFS.

The audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the entity's circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

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

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

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

2 Financial Management and Control

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, we have handled budget management, procurement, human resources and assets and liabilities as well as the internal audit function.

Financial Management and Control Conclusion

The municipality has a generally good system of controls in relation to its statutory obligations. However, the main area where more improvements are needed is the prevention of misclassification of expenditures. Special attention should also be paid to controls in the following areas: revenue management, non-inclusion of employees in payroll, management of subsidies, non-extension of performance security, shortcomings in the management of contracts, inadequate segregation of duties, challenges in the management of receivables, late payments as well as the functioning of the internal audit unit and the audit committee.

2.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ²	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
Sources of Funds	11,097,733	14,236,233	11,645,281	82%	9,767,699	8,544,687
Government Grant - Budget	8,574,155	8,574,155	8,241,745	96%	7,279,679	6,491,101
Carried forward from previous year ³ -	-	2,525,862	1,891,886	75%	1,229,372	904,444
Own Source Revenues ⁴	2,439,993	2,989,993	1,444,994	48%	1,210,449	1,072,629
Domestic Donations	-	125,492	53,039	42%	35,313	63,534
External Donations	-	14,185	8,789	62%	10,022	12,979
Financing from borrowing	83,585	6,546	4,827	74%	2,864	-

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 compared to the initial budget was increased by €3,138,500. This increase is a result of revenues carried forward from the previous year in the amount of €2,525,862, own source revenues by €550,000, from internal and external donations by €139,677, while there was a decrease of the budget by €77,039 from financing from borrowing.

In 2019, the municipality spent 82% of the final budget or €11,645,281, with an improvement of 2.5% compared to 2018. However, the budget execution remains at an unsatisfactory level and below are given the explanations for the current position.

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	11,097,733	14,236,233	11,645,281	82%	9,767,699	8,544,687
Wages and Salaries	4,848,709	4,900,709	4,775,829	97%	4,585,983	4,433,952
Goods and Services	1,301,707	1,433,329	1,374,137	96%	766,733	662,379
Utilities	200,000	317,327	274,657	87%	150,000	149,925
Subsidies and Transfers	294,657	760,153	623,395	82%	308,850	362,657
Capital Investments	4,452,660	6,824,715	4,597,263	67%	3,956,133	2,935,774

Explanations for changes in budget categories are given below:

- The increase of the final budget by €52,000 compared to the initial budget for the category of Wages and Salaries was as a result of the revenues carried forward from the previous year to the directorate of education to cover the salary expenses of employed teachers as a result of the increase of number of inhabitants in Fushe Kosova;
- The final budget compared to the initial budget for Goods and Services was increased by €131,622. Initially, it was decreased by €78,873 from financing from borrowing as a result of failing to allocate funds to the health directorate, then it was increased from own source revenues €50,000, revenues carried forward €160,461 and financing from external donations by €34;
- The increase of the final budget for Utilities was €117,327. This increase was as a result of own source revenues carried forward from the municipality in the amount of €67,327, and own source revenues generated during the year in the amount of €50,000. The increase was made in order to pay the previous debts of the municipality.
- The final budget compared to the initial budget for the category of Subsidies and Transfers increased by €465,496. The increase was as a result of own source revenues in the amount of €240,000, revenues carried forward in the amount of €100,004 and domestic donations through the participation of citizens in the amount of €125,492; and

- The final budget for Capital Expenditures was increased by €2,372,055, from own source revenues in the amount of €158,000, revenues carried forward in the amount of €2,198,070, financing from borrowing in the amount of €1,834 and external donations in the amount of €14,151.

Regarding the classification of expenditures, we have handled the following issue:

Issue B1 – Misclassification of expenditures

Finding

According to Financial Rule no. 01/2013/MoF “On Public Funds Expenditures” expenditures must have adequate codes, defined by the Administrative Instruction for the chart of accounts, also the Treasury chart of accounts defined the relevant codes and categories of expenditures that the BO should apply.

As we have highlighted in the Emphasis of Matter, the municipality paid expenses in the amount of €305,708 from the inadequate category of expenses. Of them, €245,734 were made from the category of capital investments for goods and services, which were wrongly planned and budgeted, while €59,974 were made from the category of subsidies and transfers that belonged to the category of goods and services, which have not been planned by budget, but have been wrongly executed and recorded by the municipality. All this has been due to the limited budget for goods and services, which are indispensable, and, as such, were approved by the budget law.

Further, through court decisions (private enforcement agents) a total of €83,203 was paid. Of these, €45,926 were from the category of goods and services, while €37,277 were from capital investments, which belonged to the category of wages and salaries for teachers' jubilee salaries.

For these, the municipality has made efforts during 2019 to allocate additional funds in the category of wages and salaries in order to avoid such issues, while in the 2018 AFS, it presented or disclosed them as contingent liabilities.

Impact

Payments made from inadequate category affect the misclassification of expenditures in the municipality's Financial Statements and, as such, provide inaccurate information to the AFS beneficiaries.

Recommendation B1 The Mayor should ensure that all actions are taken to ensure that expenditures are planned in adequate budget allocations or re-destination of funds and that payment and registration of expenditures is made according to adequate economic codes.

2.1.1 Revenues

Revenues generated by municipality in 2019 totalled €2,621,769. They relate to property tax revenues, construction permit revenues, rental revenues, administrative fees, etc. The municipality had also indirect revenues collected from traffic fines in the amount of €738,774.

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Tax revenues	650,000	778,320	778,320	100%	648,521	599,368
Non-tax revenues	1,789,993	1,843,449	1,843,449	100%	1,752,828	1,423,289
Total	2,439,993	2,621,769	2,621,769	100%	2,401,349	2,022,657

Revenues collected by the municipality for 2019 were generated by €181,776 or 7% more than the revenues planned by the initial budget. While revenues collected in 2019 compared to 2018 have increased by €220,420 or 9%. Regarding our tests, we have handled the following:

Issue A1 – Non verification of taxable properties

Finding According to Article 15 of Law no. 06/L-005 on immovable property tax, the municipality shall perform inspection (verification) actions for at least 20% of all facilities within the territory of the municipality every year.

In 2019, out of 14,364 registered properties, only 2,128 or 15% of immovable properties were verified.

According to municipal officials, the non-verification of property occurred as a result of the non-functioning of electronic equipment in support of the property tax system and the need to be equipped with new technology for property verification.

Impact Non-verification of 20% of properties negatively affects the assessment and real invoicing of property tax and may result in underestimation of revenues from this category.

Recommendation A1 The Mayor should ensure that the verification of municipal properties will be done as provided for by law, verifying at least 20% of the properties per year, to reflect on the real situation of taxed properties.

Issue A2 – Delays in reviewing taxpayers’ complaints

Finding According to Law No. 06/L-055 on Immovable Property Tax, Article 31, para 6 stipulates “The Municipality shall adopt a decision regarding the submitted complaint within sixty (60) days from the receipt of complaint. The Municipality shall send the decision to the person within five (5) business days following the date the decision is adopted.

In two of the three cases tested for complaints filed by taxpayers regarding the inaccuracy of the property tax invoice, their review exceeded the legal review deadline by 17, namely 30 days delay. It also did not notify the taxpayers within the legal deadline of 5 days after the adoption of the decision.

According to the responsible officials, the delays were due to the large volume of work and the lack of staff in this municipality’s directorate, despite the fact that there is a growth in population and in new constructions in the municipality.

Impact Delays in the review of complaints by the municipality and the lack of staff in the relevant directorate affects the delays or non-execution of payments by taxpayers, which would result in increased receivables for property tax.

Recommendation A2 The Mayor should initiate the approval of new positions in the directorates who lack staff and ensure that the review of taxpayers’ complaints and their notification is done within the legal deadlines.

Issue B2 - Non-collection of revenues as per contracts

Finding According to 06/L-092 on Allocation for Use and Exchange of Municipal Immovable Property, Article 7, stipulates that immovable property of the municipality may be allocated for use to all natural and legal persons for a certain term. While based on the terms of the property users' contracts, the payment of the obligation must be made by the end of the first week of each following month.

In this respect, from the testing of three contracts for the use of public property, we identified that in two cases due to monthly non-payment by tenants, the municipality has not managed to collect revenues for 2019 in the amount of €2,823, increasing the total value of receivables by €16,532. Despite the recommendation from last year, the municipality has not yet taken action to collect the revenues in question.

Impact Continuation of such poor rent management practices may encourage other taxpayers to evade rent payments, as well as increase the value of receivables.

Recommendation B2 The Mayor should ensure that no public property will be allowed to be used without paying the rent provided for by the contract. Alternatives should be found to take immediate measures (such an opportunity can be taken through the enforcement agent) that oblige the debtors to respect the contractual obligations.

2.1.2 Wages and Salaries

The final budget for 2019 is €4,900,709, while the expenditure was €4,775,829. The number of employees according to the budget was 772, while at the end of the year their number was 757. During 2019 there were employed 14 new staff. We have tested 36 samples of €16,672 as part of substantive testing, and 13 samples as part of compliance testing.

Issue A3 – Non-inclusion of employees in the payroll

Finding The Budget Law No. 06/L-133, Article 12, para. 2 specifies that provided that the total number of employees allowed and the amount of budget allowed within the organization does not change, the number of employees and budget allocations across sub-programmes in Tables 3.1, 3.1A and 4.1 may be adapted by minister's decision with appropriate justification from the municipality. In the case of local budget organizations, the decision of the Municipal Assembly for such changes is required in advance.

In one case, the municipality conducted recruitment procedures for the position of "Legal Officer" in the Education Directorate and signed the contract with the official on 29.11.2019, despite the fact that there was no budget in this directorate for this position. As a result, this official was not included in the payroll until April 2020. He was also not retroactively compensated for the period for which he was not included in the payroll.

This happened after the municipal assembly approved the positions but there was no budget in the salary category in this directorate.

Impact Recruitment in the absence of a budget for vacancies and the non-inclusion in payrolls, by not paying the employee retroactively can incur additional costs through court lawsuits.

Recommendation A3 The Mayor should ensure that the relevant approvals for vacancies and budgeted funds are obtained prior to the commencement of recruitment procedures. At the same time, the mayor should ensure that the engaged staff is paid from the date of recruitment.

2.1.3 Goods and Services

The final budget for Goods and Services in 2019 was €1,433,329, of which €1,374,137 was spent. Those relate to supplies of consumables, services, maintenance, utilities and other expenses. We have tested 39 samples of €200,748 as part of substantive testing, and eight (8) samples as part of compliance testing.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €760,153, of which €623,395 was spent in 2019. Expenditures were mainly related to scholarships for students, support of non-public entities as well as to natural persons as individual beneficiaries in a difficult socio-economic situation.

We have tested 14 samples of €52,961 as part of substantive testing, and 17 samples as part of compliance testing.

Issue A4 – Non-compliance with the regulation for funding NGOs

Finding MoF Regulation No. 04/2017 sets out the Criteria, Standards and Basic Procedures for public funding of Non-Governmental Organizations (hereinafter NGOs), in order to establish a transparent and accountable system for public funding of programmes and projects of NGOs that are of public interest in the Republic of Kosovo. Articles 6 and 26 stipulate the deadline when the provider of the financial support should submit the plan and annual report to the Office for Good Governance in the Office of the Prime Minister. Article 12 stipulates that any financial support for NGOs must be announced through a public call, which must be published on the website of the financial support provider.

For 2019, the municipality has not prepared and submitted to the Office of the Prime Minister, the annual plan for financial support and the annual report of financial support for NGOs. The municipality has also funded NGOs without making a public announcement.

This occurred due to insufficient attention of the responsible officials to submit the plan and the annual report to the Office of the Prime Minister on time and the financing to be done through a public announcement.

Impact Failure to submit the annual plan and report on time to the Office of the Prime Minister, while funding by not making public announcements or calls for financial support makes it impossible to ensure transparency and public access in spending of funds for public funding for NGOs.

Recommendation A4 The Mayor should ensure that the plan and annual report for financial support of NGOs are submitted to the relevant government office respecting the required criteria and deadlines, and the funding of NGOs should be done through public announcement.

2.1.5 Capital Investments

The final budget for Capital Investments was €6,824,715, of which €4,597,263 were spent in 2019. Those relate to investments in the construction of road infrastructure and various capital facilities as well as co-financing with farmers for the supply of greenhouses, agricultural equipment. We have tested 91 samples of €3,044,030 as part of substantive testing, and nine (9) samples as part of compliance testing. In this respect, we have noted the following:

Issue B3 – Non extension of performance security due to delays in work performance

Finding

In the contracts signed for capital projects, the deadlines for the performance of works were defined. Whereas Rules and Operational Guidelines for Public Procurement, point 30.6 specifies that the performance security shall remain valid for a period of thirty (30) days after the contract completion.

During the testing, we noticed that the implementation of capital projects was delayed delays and despite this, the municipality did not request the extension of performance security for the following contracts.

- The contract “Construction of FMC in Fushë Kosovë” with a value of €246,882 signed on 05.07.2019, the facility should have been completed in 120 days according to the dynamic plan, but the works have not been completed yet. The performance security was valid until 01.12.2019 and, as such, was not extended until 15.06.2020, when we audited this contract; and
- The contract “Asphalting of roads in Fushë Kosovë” with a value of €175,958 signed on 22.05.2019, the works would have to be completed in 60 days according to the dynamic plan, but the works have not been completed yet. The performance security was valid until 19.08.2019. Although the works have not been completed, the extension of the performance security was not required.

The reason for not extending or late extension was the poor control and monitoring of the implementation of contracts and the validity of performance security.

Impact

In cases of insufficient care regarding the extension of the performance security for work damages, the municipality may face additional costs and may not be able to receive compensation for damages.

Recommendation B3 The Mayor should take measures to strengthen controls related to the supervision and implementation of projects according to the dynamic plan and contract conditions so that projects are implemented according to the dynamic plan. Concurrently, the mayor should ensure that the extension of performance security is required for projects that are delayed.

Issue A5 - Shortcomings in contract management**Finding**

Law no. 04/L-042 on Public Procurement, as well as the Rules and Guidelines for Public Procurement, determine the criteria for contract management. "Contract management is the responsibility of the project manager who must ensure that the economic operator performs the contract in accordance with the terms and conditions specified in the contract."

During the testing of the contracts, we noticed that works or supplies were received and paid, which were not according to those contracted:

- In the contract "Construction of the bridge over the River Drenica in the village of Grabovc", in the amount of €27,943, from the physical examination of the project, we have identified that three⁵ positions in the amount of €3,760 were not implemented, although they were invoiced and paid according to the last situation of completed works and payment made in the amount of €16,375;
- In the contract "Purchase of two minibuses to cover the needs of Administration, Health and Education", in the payment of €65,000, we have identified that the municipality received minibuses not in accordance with the specifications stated in the contract; 4-door minibuses were requested, while 3-door minibuses were accepted.

Weaknesses identified have occurred because of poor control and monitoring by the acceptance commission and contract managers in the proper acceptance and management of contracts.

Impact

Weaknesses upon acceptance of works and supplies in incompliance with acceptance commissions and managers may result in irregular payments for work not performed or supplies not according to contract.

Recommendation A5 The Mayor should ensure that acceptance commissions and contract managers apply effective controls upon acceptance of works or supplies and payments are made only for completed works/supplies, which are in accordance with the contract.

⁵ 5.4-Supply and installation of galvanized metal sheet with thickness d = 0.7mm and h = 100mm, for controlled removal of water from the bridge body in the amount of €1,800;

6.1 Supply and placement of the descending water layer under the asphalt layer in the amount of €700; and

6.2 Supply and placement of asphalt AB16 7cm in the passing layer of the bridge in the amount of €1,260.

Issue A6 - Inadequate segregation of tasks

Finding The Rules and Operational Guidelines for Public Procurement stipulate that an official from a department who has prepared specifications and/or terms of reference, or has set quality standards, or prepared drawings may not participate as a member of the evaluation commission and a member of an evaluation commission cannot be appointed as Project Manager.

In this respect, in the contract "Supply with agricultural machinery - second phase" in the amount of €57,400, the official who prepared the specifications respectively the bill of quantity of the project, was also appointed a member of the evaluation commission.

The cause of this, according to responsible officials, was due to lack of staff.

Impact Inadequate segregation of tasks throughout the procurement process may affect potential favouring for a particular economic operator as well as the unequal treatment of bidders during the evaluation process.

Recommendation A6 The Mayor should ensure that there is a proper segregation of tasks during the procurement procedures, so that officials who have prepared the terms of reference/technical specifications should not participate in the evaluation of bids, by avoiding any potential conflict.

2.2 Capital and non-capital assets

The amount of capital assets presented in AFS is €52,293,411, that of non-capital assets is €731,519, and of stock is €78,670. We have tested 100 samples of €3,057,688 as part of substantive testing, and six (6) samples as part of compliance testing.

2.3 Receivables

The BO disclosed in the 2019 AFS receivables in amount of €3,705,777. This is made of €2,588,036 from property tax revenues, €782,408 from business taxes, €177,343 from construction permits, €16,279 from property sales as well as revenues from the use of municipal public property and facilities by €141,711.

We have tested 87 samples of €366,728 as part of substantive testing, and 12 samples as part of compliance testing.

Issue B4 – Challenges in the management of receivables

Finding According to Law No. 06/L – 005 on Immovable Property Tax, Article 26 The Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competences granted by this Chapter to collect outstanding tax liabilities which exceed the amount of ten (10) Euros and Article 27 If a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor.

Despite the efforts of the municipality through individual remarks and agreements with some taxpayers to pay the tax debt in instalments, the values of accounts receivable property tax at the end of the year was €2,588,036, with an increase of €207,926 compared to last year. Most of them are aged receivables from previous years.

According to the municipality, the economic and social situation has led to non-payment of debts in the property tax.

Impact Non-collection of receivables risks that they become aged and uncollectible, creating a direct financial loss for the municipality. This also reduces the flexibility of the municipality towards planned expenditures financed from own source revenues.

Recommendation B4 The mayor should analyse the effectiveness of the mechanisms available for debt collection and propose additional measures and procedures to reduce the balance of these accounts as much as possible.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2019 was €147,996. These liabilities are carried forward to be paid in 2020. We have tested five (5) samples of €24,784 as part of substantive testing, and 12 samples as part of compliance testing.

2.4.2 Contingent liabilities

The statement of contingent liabilities to suppliers at the end of 2019 was €973,975. We tested 24 samples in the amount of €926,164 that related to various issues such as: compensation for damages, compensation for non-fulfilment of contract by the municipality, compensation for dismissal from work, compensation for expropriation of property, compensation for non-performance of additional salaries etc.

2.4.3 Contractual obligations

The statement of contractual obligations at the end of 2019 was €934,189, obligations related to two/three year capital projects as well as some projects, which were delayed in carrying out works and were carried forward for implementation in the following year.

2.5 Internal Audit Function

The Internal Audit Unit (IAU) operates with two auditors. In addition to the Strategic Plan, the IAU has drafted the Annual Work Plan, which has foreseen to carry out six audits pertaining to high and medium risk areas. IAU also prepared a six-month and annual report, which were submitted to the Central Harmonization Unit.

The Audit Committee consists of three members and, during 2019, it held two meetings to review IAU reports. Regarding the functioning of internal audit, we have handled the following:

Issue B5 - Challenges in meeting the annual audit plan

According to the Annual Internal Audit Plan, the IAU planned to conduct six audits for 2019.

Of the six audits planned, only two were completed during the year and one audit on management's demand. Furthermore, IA did not cover high-risk areas, such as; own source revenues, procurement expenses, subsidies, etc.

This occurred because of the audit on management's demand and additional tasks in following up the implementation of recommendations made by the National Audit Office.

Impact

The poor level of implementation of the audit plan by the IAU reduces the assurance of the functioning of financial systems. Lack of effective internal audit activities may result in continued recurrence of weaknesses in key internal control systems and management may not be able to respond in a timely manner to eliminate them.

Recommendation B5 The Mayor should ensure that the internal audit system operates effectively, in order to add value to the improvement of operational activities and the quality of current internal controls and, at the same time, to meet the objectives planned in the annual work plan.

Issue A7 - Ineffective functioning of the Audit Committee

Finding According to the Instruction MoF-No. 01/2019 on the Establishment and Functioning of the Audit Committee, Articles 6, 8, 10 stipulate that the Audit Committee must prepare the statute, the meetings of the Audit Committee are held at least four times a year and the annual report must be prepared for the head of the public entity.

During the audit, we noticed that the AC has not prepared the statute; it only held two meetings of the four required. The AC did not prepare the annual report, which should include information on reasonableness of the internal control environment, the risk management system and ways to eliminate them, the reasonableness of financial system management and reporting, etc.

The reason for not meeting the requirements of the instruction was the inefficient functioning of the Audit Committee.

Impact Non-compliance with the Instruction as well as the ineffective functioning of the AC can make it impossible to provide assurance for municipal management in improving internal controls, good governance and risk management in the municipality.

Recommendation A7 The Mayor should ensure that the Audit Committee functions effectively, contributes to good governance, internal controls and risk management, and has close co-operation with the IAU.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of the Municipality of Fushe Kosova resulted in 14 key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

According to the requirements of the Rules of Procedure for the implementation of the audit and action plans, namely Article 14, para 5 of the Regulation stipulates that BOs are obliged to prepare progress reports on the implementation of recommendations twice a year, namely 30 September and 15 March. The Municipality of Fushe Kosova for 2019 submitted only the first report, while it has not submitted the second one yet. Although management provided comments that the recommendations have been addressed or are in process, we have identified that five recommendations were not implemented.

At the end of our 2019 audit, of the 14 recommendations, seven (7) were implemented; five (5) were not implemented yet and two (2) were considered closed. For a more thorough description of the recommendations and the way they have been addressed, see Table 4 (or Table of recommendations).

Table 4 Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	AFS	The Mayor should consider cooperation with the Ministry of Finance on budget appropriations for economic categories in order to ensure a proper, fair and accurate budget planning for specific projects and categories in order to eliminate errors in classification of expenditures through respective economic categories, which will be reflected fairly in the presentation of the AFS.	Even this year there are misclassifications, see issue B1.	Repeated
2	Budget Execution	The Mayor should ensure that a thorough analysis of all factors influencing the budget execution precedes the preparation of budget requests. While, planning and budgeting of certain projects should be done based on the Treasury approved chart of accounts.	The management has taken measures to execute the capital budget. This issue will not be addressed in the 2019 audit report.	Closed
3	Revenues	The Mayor should ensure that all lessees are in possession of contracts for the use of public properties in order to have a legal basis for collecting their income from lease.	The management has taken measures to sign contracts for the tenants.	Implemented
4		The Mayor should ensure that no public property is allowed to be used and misused without the payment of the leases stipulated by the contract. Ways should be found in order to take immediate action (such a possibility could be taken through the enforcement agent) obliging lessees to respect the contractual obligations.	The same weaknesses have been identified this year as well.	Repeated
5	Goods and Services	The Mayor should provide a reasonable plan for work related to special service agreements. In addition, the additional needs for regular staff should be dealt with by the relevant bodies and an accepted solution is found and is	During the first quarter of the year, SSA were paid from the category of goods and services, while in the following months,	Implemented

		foreseen when planning the budget.	they were paid through the project "Provision of social, educational and other services" by Caritas.	
6		The Mayor should perform an internal review of the controls to determine the decisions related to the establishment of the relevant commission to confirm that the supplies have been received according to the quality and quantity stipulated by the contract.	We have not identified such issues in 2019.	Implemented
7	Capital Investments	The Mayor should undertake measures to strengthen controls over the supervision of project implementation according to the dynamic plan and terms of the contract and should resolve property and administrative issues (obtaining relevant permits) prior to the start of the works, in order to not have interruption of works and projects should be implemented according to the dynamic plan.	Even this year, we noticed that the municipality was delayed in implementing the dynamic plan and did not extend the performance security.	Repeated
8		The Mayor should ensure that when co-financing the Municipality will be an active and equal party in the follow-up, implementation and supervision of these projects. It should also be ensured that future projects are executed on the basis of the foreseen objectives of the programme.	The Municipality conducted procurement procedures and managed the project in accordance with the set objectives.	Implemented
9	Capital and Non-capital Assets	The Mayor should ensure that the commission will draft a comprehensive report in order that the assets register is complete and accurate.	This year, we have not identified any shortcomings in the report of the asset inventory commission.	Implemented
10		The Mayor should ensure that necessary actions to complete asset registration in the KFMIS and e-assets system are taken in	This year, we have not identified any shortcomings in the report of the asset	Implemented

		order to have asset management and reporting in accordance with the requirements of the Regulation on the Management of Non-financial Asset.	inventory commission.	
11	Receivables	The Mayor should analyse the effectiveness of mechanisms available for debt collection and propose additional measures and procedures to reduce these accounts as much as possible.	There is the same issue this year.	Repeated
12	Outstanding Liabilities	The Mayor should consider that outstanding obligations are handled with MoF when budgeting is planned, and set budgetary priorities in performing the obligations. Further, the Mayor should set concrete policies to pay the obligations in a timely manner in accordance with the legal deadline, in order to prevent entering into new obligations.	We have not identified such issue in 2019.	Implemented
13	Internal Audit System	The Mayor should ensure that the internal audit system operates effectively in order to add value to the improvement of operational activities and the quality of current internal controls, while at the same time meeting the objectives set out in the annual work plan.	The same weaknesses have been identified this year as well.	Repeated
14	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review has been carried out to determine the financial and operational reporting format to senior management required to support effective management of the activity and to ensure that an appropriate solution is found within a period of reasonable time. In addition, in order to reduce the impact of risks to acceptable levels, the organisation should draft the risk register with all appropriate measures/actions to put the exposed threats under control.	This issue will not be addressed in the 2019 audit report.	Closed

No	Audit area	Recommendations of 2019
1	Budget Planning and Execution	The Mayor should ensure that all actions are taken to ensure that expenditures are planned in adequate budget allocations or re-destination of funds and that payment and registration of expenditures is made according to adequate economic codes.
2	Revenues	The Mayor should ensure that the verification of municipal properties will be done as provided for by law, verifying at least 20% of the properties per year, to reflect on the real situation of taxed properties.
3		The Mayor should initiate the approval of new positions in the directorates who lack staff and ensure that the review of taxpayers' complaints and their notification is done within the legal deadlines.
4		The Mayor should ensure that no public property will be allowed to be used without paying the rent provided for by the contract. Alternatives should be found to take immediate measures (such an opportunity can be taken through the enforcement agent) that oblige the debtors to respect the contractual obligations.
5	Wages and Salaries	The Mayor should ensure that the relevant approvals for vacancies and budgeted funds are obtained prior to the commencement of recruitment procedures. At the same time, the mayor should ensure that the engaged staff is paid from the date of recruitment.
6	Subsidies and Transfers	The Mayor should ensure that the plan and annual report for financial support of NGOs are submitted to the relevant government office respecting the required criteria and deadlines, and the funding of NGOs should be done through public announcement.
7	Capital Investments	The Mayor should take measures to strengthen controls related to the supervision and implementation of projects according to the dynamic plan and contract conditions so that projects are implemented according to the dynamic plan. Concurrently, the mayor should ensure that the extension of performance security is required for projects that are delayed.
8		The Mayor should ensure that acceptance commissions and contract managers apply effective controls upon acceptance of works or supplies and payments are made only for completed works/supplies, which are in accordance with the contract.
9		The Mayor should ensure that there is a proper segregation of tasks during the procurement procedures, so that officials who have prepared the terms of reference/technical specifications should not participate in the evaluation of bids, by avoiding any potential conflict.
10	Receivables	The Mayor should analyse the effectiveness of the mechanisms available for debt collection and propose additional measures and procedures to reduce the balance of these accounts as much as possible.
11	Internal Audit Function	The Mayor should ensure that the internal audit system operates effectively, in order to add value to the improvement of operational activities and the quality of current internal controls and, at the same time,

		to meet the objectives planned in the annual work plan.
12		The Mayor should ensure that the Audit Committee functions effectively, contributes to good governance, internal controls and risk management, and has close co-operation with the IAU.

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

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

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Confirmation letter



REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/ REPUBLIC OF KOSOVA
QEVERIA E KOSOVËS / VLADA KOSOVA /GOVERNMENT OF KOSOVA
KUVENDI KOMUNAL FUSHË KOSOVË
OPSTINA KOSOVO POLJE
MUNICIPALITY OF FUSHË KOSOVË , KOSOVO POLJE

LETËR E KONFIRMIMIT

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

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

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

z. Burim Berisha

Kryetar i Komunës së Fushë Kosovës

Data: 10 korrik 2020, Fushë Kosovë

