



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 GRACANICA 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 Gracanica* 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 *Lavdim Maxhuni* - Team Leader, and *Illir Abazi* and *Fetah Osmani* - team members, under the management of the Head of Audit Department, *Shkëlqim Xhema*.

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	17
Annex I: Explanation of the Different Types of Opinion Applied by NAO	22
Annex II: Letter of Confirmation	24

Executive Summary

This report summarises the key issues arising from our audit of the Municipality of Gracanica 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 preparation of the Annual Financial Statements has been managed in accordance with the applicable legislation, with the exception of misclassification of expenditures which have affected the Emphasis of Matter.

Financial Management and Control - although internal controls have operated effectively, significant weaknesses have been noted in important financial areas such as revenues, procurement procedures, non-financial assets, receivables and outstanding liabilities.

The response to the prior year recommendations shows that of the nine (9) recommendations made, four (4) recommendations were implemented, three (3) recommendations were considered closed, while (2) recommendations have not been implemented yet.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, see Chapter 1 of this report.

Response of Management in audit 2019

The Mayor has agreed with our audit findings and conclusions and committed to address all recommendations given. The National Audit Office appreciates the cooperation by the management and staff of Municipality during the audit process.

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

Audit Scope and Methodology

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

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

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

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

The following chapters provide in detail our audit findings and recommendations in each audited area. Management'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 Gracanica 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 has paid and recorded expenditures in inadequate economic categories. Goods and services were paid from the category of capital investments and vice versa. In this report, this issue is addressed in subsection 2.1 Budget Planning and Execution. Our opinion has not been modified in this regard.

Responsibility of Management for AFS

The Mayor of Gracanica 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 of Gracanica for 2019 spent 68% of the final budget, which means an unsatisfactory execution at the general level. The challenge remains with the low level of execution of capital investments in only 52%. 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: property tax invoicing according to real zones, shortcomings in technical specifications, asset management, and disclosures for accounts receivable and delays in making payments.

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	12,554,286	13,265,470	9,065,733	68%	7,652,622	6,694,513
Government Grant - Budget	5,786,007	5,863,093	5,835,035	100%	5,898,108	5,346,845
Carried forward from previous year ³ -	-	630,665	584,483	93%	747,505	284,851
Own Source Revenues ⁴	1,627,551	1,627,551	1,157,393	71%	997,488	985,564
External Donations	-	3,433	-	-	9,521	77,253
Investment clause	5,115,108	5,115,108	1,488,822	29%	-	-
Revenues from borrowing	25,620	25,620	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 €711,184. This increase is a result of revenues carried forward from the previous year in the amount of €630,665, from the government grant to cover the deficit in wages and salaries €77,086 as well as from external donations by €3,433.

In 2019, the Municipality of Gracanica spent 68% of the final budget or €9,065,733, while in 2018 the municipality spent 91% of its budget. However, the explanations on how the budget is implemented at the category level are given in the table 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	12,554,286	13,265,470	9,065,733	68%	7,652,622	6,694,513
Wages and Salaries	2,882,484	2,959,570	2,959,570	100%	2,833,159	2,702,541
Goods and Services	1,045,289	1,299,197	1,269,445	98%	729,506	774,503
Utilities	150,000	158,533	138,143	87%	137,764	139,702
Subsidies and Transfers	180,859	195,318	190,660	98%	209,567	183,451
Capital Investments	8,295,654	8,652,852	4,507,915	52%	3,742,626	2,894,316

Explanations for changes in budget categories are given below:

- The final budget for the category of Wages and Salaries was increased by €77,086, with a Government decision to cover the deficit in Wages and Salaries;
- The final budget compared to the initial budget for the category of Goods and Services was increased by €253,908, this is as a result of revenues carried forward from the previous year;
- In the category of Utilities, the budget was increased by €8,533 from revenues carried forward from previous year;
- In the category of Subsidies, the budget was also increased from the revenues carried forward by €14,459; and
- While in the category of Capital Investments the final budget compared to the initial budget was increased from the revenues carried forward in the amount of €357,198.

It should be highlighted the draft law on Ratification of the Loan Agreement between the Republic of Kosovo and Unicredit Bank Austria is approved by the Government Decision No. 07/79 as a loan concluded to the financing of the water supply system construction project for the Municipality of Gracanica, the value of the project is €5,115,108 through the investment clause.

Furthermore, the Municipality budgeted €8,652,852 to invest in capital projects, of which it spent €4,507,915 or 52%.

The reason that has influenced spending at this level is that the clause project is a two-year project for the construction of water supply system for the Municipality of Gracanica (2019-2020) and, as such, could not be spent during 2019. From the value of the project €5,115,108 for 2019, €1,488,821 was spent, while the rest is expected to be spent during 2020.

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

Issue B1 – Misclassification of expenditures in economic categories

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, the Treasury chart of accounts has also defined the relevant codes and categories of expenditures that the BO should apply.

As we have presented under Emphasis of Matter, the municipality during 2019 paid eight (8) payments in the amount of €379,150 from the category of capital investments for expenditures which by nature were goods and services (cleaning, washing of roads and pavements, winter road maintenance, waste cleaning, disinfection and deratization of municipal facilities, purchase of sports equipment and clothing). It is worth mentioning that the three payments above for waste cleaning were executed according to Article 39.2 of the LPFMA from the Treasury, since the municipality had no budgetary funds.

According to the municipality, this is a consequence of the limited budget for goods and services, which were indispensable and, therefore, approved by the budget law.

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

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 payment and registration of expenditures is made according to adequate economic codes.

2.1.1 Revenues

The planned budget of own source revenues for 2019 was €1,627,551, while execution was €1,624,676. These relate to property tax, revenues tax for changing of destination of land, revenues from the use of municipal property, etc. The municipality this year has received revenues from traffic fines in the total amount of €118,423, which are not included in the table below because these are planned and implemented by line ministries.

Table 3. Own Source Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Property tax	531,751	531,751	603,415	582,638	501,776	531,751
Municipal fees	1,095,800	1,095,800	1,021,261	948,704	1,142,778	1,095,800
Total	1,627,551	1,627,551	1,624,676	1,531,242	1,644,554	1,627,551

It is worth mentioning that this year, compared to last year, the municipality has generated more revenues by €93,434 or at 6%. The most significant increase is in property tax, construction permits, as well as the use of public area. Regarding our tests, we have noticed the following:

Issue A1 – Invoicing not according to real zone determined by regulation

Finding

The Regulation on Immovable Property Tax for 2019 (approved on 29 November 2018) in the Municipality of Gracanica, Article 1. Tax bases, and Article 2. Tax zones and sub-zones has determined the tax base in four zones of the town.

During the testing of nine property tax invoices and the Protax (property tax database), the municipal taxpayer evaluation zones were not located according to the zones defined in the regulation. This has resulted in eight taxpayers being charged with higher taxes and one invoice with lower tax than it should have been. Therefore, there is an over invoicing by €6,475 and under invoicing by €743. According to municipal officials responsible for property tax, this happened because the current system has three cadastral zones and does not provide zone IV (Highway Prishtina - Ferizaj), as the system has not been updated with the requirements of the new regulation.

Impact

Failure to update the property tax system in accordance with the municipal zones according to the Property Tax Regulation affects the invoicing or change of the tax base (taxable value) by over invoicing or under invoicing taxpayers.

Recommendation A1 The Mayor should ensure that the zones approved by the regulation on immovable property tax are updated in the property tax system, before invoicing is applied, so as not to harm the municipality, as well as the citizens as taxpayers.

2.1.2 Wages and Salaries

The final budget for Wages and Salaries was €2,959,570, which was all spent. The number of employees by budget was 592, whereas by the end of the year the number of employees was 585. During 2019 there were employed only one (1) new staff.

We have tested 21 samples of €10,137 as part of substantive testing, and six (6) samples as part of compliance testing.

2.1.3 Goods and Services

The final budget for Goods and Services, including Utilities, in 2019 was €1,457,730, of which €1,407,588 were spent. These expenses are mainly related to other contracting services, maintenance of facilities, municipal costs, central heating, office supplies, etc.

We have tested 29 samples of €477,197 as part of substantive testing, and five (5) samples as part of compliance testing. Regarding the following, we identified the following:

Issue A2 – Shortcomings in the preparation of the technical specification of goods and services

Finding According to Law no. 04/L-042 on Public Procurement Article 28, and Rule and Guidelines for Public Procurement Article 20, it is required that the tender dossier is prepared in a way that does not discriminate or act in favour of one or more economic operators (EO). Determining the technical specifications that refer to a specific product or resource, or a particular process, or trademark, patent, type or specific origin or product, is generally prohibited.

In the public framework contract “Supply of sports clothing and equipment” in amount of €25,909, in the tender dossier, respectively in the bill of quantity/technical specification defines the trademark or type of goods, exactly those at the possession of the winner of the contract.

The reason why this has happened is the lack of adequate internal controls in the procurement process and the reasoning by the municipality to accept better quality goods, because Eos are offering goods of poor quality.

Impact Determining the trademark or model in the specifications of the tender dossier affects the favouring of the operator/s assigned to the particular type of product by limiting competition.

Recommendation A2 The Mayor should ensure that the technical specifications are prepared in full compliance with the specific applicable legislation, without using the brand name or model that favours or discriminates against any EO.

2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €195,318, of which €190,660 were spent. Those relate to financing individual beneficiaries and NGOs for cultural projects.

We have tested eight (8) samples of €69,238 as part of substantive testing, and five (5) samples as part of compliance testing.

2.1.5 Capital Investments

The final budget for Capital Investments was €8,652,852, of which €4,507,915 were spent in 2019, with a lower level of expenditures as in previous years. Capital investments are mainly related to the regulation of infrastructure, social centres, as well as various improvements to facilities and inventory, etc.

We have tested 53 samples of €3,638,531 as part of substantive testing, and five (5) samples as part of compliance testing.

2.2 Capital and Non-capital Assets

The amount of capital assets presented in AFS is €15,936,689, that of non-capital assets is €156,300, and of stock is €1,428,533. We have tested 87 samples of €1,428,533 as part of substantive testing, and nine (9) samples as part of compliance testing. Regarding asset management, we identified the following:

Issue A3 – Non-preparation of the inventory report before finalising the AFS

Finding Regulation no. 02/2013 on Management of Non-financial Assets by Budget Organizations, Article 19, paragraph 4.6 and 4.7 require the inventory commission to prepare the report for conducting the inventory and drafting the general report based on individual reports of the commission for the inventory of non-financial assets at the appropriate time before the preparation of the annual financial statements. This process should precede the preparation of the AFS.

During 2019, the asset inventory commission was established by Mayor's decision on 20.01.2020, but it has not prepared any report indicating that this process has been completed and, at the same time, the non-preparation of this report reflects on the presentation of assets in the AFS of the municipality.

This was because the commission was not able to provide evidence that it has completed its work according to legal requirements.

Impact Non-inventorying of assets affects and increases the risk of incomplete information about the assets under the management of municipality, including the existence and physical condition of non-financial assets. Failure to complete it as a process may result in the asset disclosure information being incomplete and inaccurate.

Recommendation A3 The Mayor should ensure that the asset inventorying commission has completed its work by drafting the asset inventory report and then harmonising this with the municipality's AFS.

Issue B2 – Non-functioning of the e-asset module

Finding According to Regulation No. 02/2013 on Management of Non-financial Assets by Budget Organizations, Article 6, capital assets must be registered in KFMIS, while non-capital assets and stocks must be registered in the "e-assets" system.

Despite the prior year recommendation, the e-asset module is still non-functional. Data on assets under €1,000 are maintained on the internal database in Excel format, which does not calculate the depreciation of assets and, as such, overstates their value in the AFS. To solve this issue, the municipality made a request to the MPA, but nothing was done about it.

According to the management, it is expected that during 2020 they will submit the migration table with the completed data and start with the registration of non-capital assets for 2019 in the e-asset system.

Impact Failure to operate the e-asset system and reporting of assets under €1,000 from the Excel format which does not calculate depreciation affects the overestimation of the value of assets in the AFS. At the same time, it hampers an effective management and control over its assets.

Recommendation B2 The Mayor should take the necessary action to apply the asset management system (e-asset) in order to have an asset management and reporting in accordance with the requirements of the regulation on management of non-financial assets. This issue should also be addressed by the MPA in order to enable the municipality to make the e-assets system operational.

2.3 Receivables

The Municipality disclosed in the 2019 AFS receivables in amount of €3,168,252. This is made of property tax in the amount of €2,179,756, business taxes in the amount of €268,105 and other revenues in the amount of €720,391 (old debt for land expropriation, rental income and inspection penalties). Regarding receivables management, we identified the following:

Issue A4 – Inaccurate disclosure of the value of accounts receivable in the AFS

Finding MoF Rule no. 01/2017 on Annual Financial Reporting by Budget Organizations, Article 16, states that the BOs that collect revenues are obliged to keep records of collected revenues and invoiced but uncollected amounts. Receivables are disclosed in the annual financial report in the relevant table by type of revenue.

Based on the AFS and records for receivables, we have noticed that:

- The municipality has not reconciled the final balance of accounts receivable for property tax with the initial balances, therefore this account was overstated by €77,399 in the AFS; and
- In the AFS, the accounts receivable from waste collection in amount of €25,793 were not presented at all, understating their value.

According to the property tax manager reasons that cause discrepancies in the balance of accounts receivable are from property tax payments made for 2019 and which may have been carried forward in previous years and distributed on behalf of interest and penalties.

The non-presentation of receivables from waste collection according to the responsible officials happened because they do not yet have an accurate database with invoices for each family or household, and that receipts are issued for these revenues.

Impact Weaknesses identified in the disclosures of accounts receivable affect the disclosure or presentation of inaccurate information about their value in the AFS. At the same time, such differences also affect project planning which could be planned based on the efficiency of their collection by the municipality.

Recommendation A4 The Mayor should take measures to ensure that accounts receivable are recorded on the basis of invoices and that their value is accurately disclosed in the AFS after the harmonisation of records by the relevant directorates with the CFO.

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities at the end of 2019 was €154,219⁵. These liabilities are carried forward to be paid in 2020. In this regard, we identified the following:

Issue A5 – Delays in the payment of invoices

Finding Article 39 of Law no. 03/L-048 on Public Financial Management and Accountability requires that any valid invoice and payment demand for goods and services performed shall be paid within 30 calendar days after receipt of the invoice.

During the testing, we found that in 17 payments in amount of €139,526, invoices were not paid within the statutory deadline of 30 days. Delays in payments ranged from 30 days up to 3 months.

The reason for the non-timely payments was the poor controls in the finance office to ensure that they are carried out on time.

Impact Delays in payment to suppliers can result in lawsuits that also create additional costs and affect the non-implementation of planned projects.

Recommendation A5 The Mayor should ensure that all invoices are paid within the statutory deadline of 30 days.

2.4.2 Contingent liabilities

The statement of liabilities at the end of 2019 was €5,280,422. Most of them are cases related to the payment of salaries, while other cases are related to property issues and administrative and criminal matters. We have tested five (5) samples from this account and we have no issue to report.

2.4.3 Contractual obligations

The contractual obligations reported by the Municipality at the end of 2019 are in amount of €3,593,797.⁶

⁵ This amount of liabilities includes: goods and services €143,477, municipal expenditures €10,339, and capital investments €403, a value disclosed by the Municipality of Gracanica.

⁶ This value is provided by the Municipality of Gracanica, it is a value that we have not managed to audit.

2.5 Internal audit function

The Internal Audit Unit (IAU) operates with two members - the Head of IAU and one auditor. In the Annual Audit Plan for 2019, it planned nine (9) regular audits based on risk assessment and priorities.

IAU managed to finalise five audits on activities of 2018/2019. The reason why the audit plan was not covered is that two audit officers in July 2019 had gone on maternity leave.

Areas which were covered by five audits were: budget and finance directorate, procurement, assets, staff and registry office.

The Audit Committee (AC) held six meetings during 2019 where the findings and recommendations of the IAU were reviewed and the reports of the NAO were discussed.

3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS resulted in nine (9) recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

The Municipality submitted the Progress report on implementation of recommendations (30th of September and 15th of March) under requests deriving from the Rules of Procedure on implementation of audit and action plans.

At the end of our 2019 audit, four (4) recommendations were implemented, three (3) were considered closed, and two (2) were not implemented yet. 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	Recommendations regarding Annual Financial Statements	The Mayor should ensure that an analysis is undertaken to determine the causes for emphasis of matter in the audit opinion and in key issues. Specific actions should be taken to address the underlying causes in a systematic manner to remove errors related to inaccurate disclosure of Assets value, Contingent Liabilities and Accounts Receivable in the AFS. Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan addresses all issues related to compliance. This should also include Management review of the AFS with specific focus on high risk areas and/or areas where errors have been identified in previous years.	The municipality took no steps to address this recommendation. We made recommendations on these issues in subsection 2.1 and 2.2.	Closed
2	Budget Planning and Execution	The Mayor should ensure that prior to preparation of budget requests is conducted a proper analysis of all factors that affect budget execution. In addition, management of expenditures should be improved to ensure that they are carried out under legal deadlines, to avoid additional costs for court proceedings.	The municipality took measures for this recommendation and it will not be addressed in the report of this year, it will be considered as a closed issue.	Closed
3	Wrong classification of expenditures	The Mayor should ensure that a proper analysis of all factors that affect budget execution is conducted prior to preparation of budget requests. In addition, planning and budgeting of certain projects should be done based on the accounting plan approved by the Treasury, to avoid a misleading reporting to the AFS users.	The municipality took no measures to address this recommendation and this year there were such cases.	Repeated
4	Wages and Salaries	The Mayor should ensure a reasonable plan for works that relate to agreements for special services. In addition, the need for additional regular staff should be handled with	The municipality took measures to address this recommendation.	Implemented

		relevant bodies to find a reasonable solution. By doing so, there will be no need for contracts for special services that may exceed the specified period of time.		
5	Goods and Services	The Mayor should ensure monitoring and implementation of the agreement, to get a detailed report on provided services, in order to provide higher assurance to the management that the agreements are being implemented in accordance with the contracted terms. Further on, when planning the budget, the Mayor should ensure that there are sufficient funds for implementation of the agreement, otherwise the agreement may become inapplicable under the defined budget rules.	The municipality took action on this recommendation, and has entered into a new agreement for cleaning.	Implemented
6	Capital and Non-capital assets	The Mayor should ensure that necessary actions are taken to apply the asset management system (e-Asset) in order to have asset management and reporting in accordance with requirements of the Regulation on management of non-financial assets. This issue should also be addressed by the MPA in order to enable the municipality to make the e-assets system operational.	No action was taken to address this recommendation, the situation remains the same as last year.	Repeated
7	Accounts Receivable	The Mayor should analyse the reasons behind the increasing trend in property tax receivables and strengthen controls to prevent its further growth. It is required to establish a strategy and mechanisms to allow identification and collection of accumulated debts by setting some conditions for some municipal services, based on submission of evidence of paid property tax. Further on, the Municipality is required to adequately manage receivables from business tax.	The municipality took measures to address this recommendation.	Implemented
8	Internal Audit System	The Mayor should take specific actions for drafting an action plan on implementation of the recommendations, and take all measures against the administrative	The municipality took measures to address this recommendation.	Implemented

		units that are subject to addressed recommendations, in order to get their optimal commitment in taking corrective measures in areas where weaknesses have been identified.		
9	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review has been carried through to determine the form of financial and operational reporting to Senior Management. Budgetary performances, including revenues and expenditures, and implementation of plan for capital projects 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.	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 payment and registration of expenditures is made according to adequate economic codes.		
2	Revenues	The Mayor should ensure that the zones approved by the regulation on immovable property tax are updated in the property tax system, before invoicing is applied, so as not to harm the municipality, as well as the citizens as taxpayers.		
3	Goods and Services	The Mayor should ensure that the technical specifications are prepared in full compliance with the specific applicable legislation, without using the brand name or model that favours or discriminates against any EO		
4	Capital and Non-capital Assets	The Mayor should ensure that the asset inventorying commission has completed its work by drafting the asset inventory report and then harmonising this with the municipality's AFS.		
5	Capital and Non-capital Assets	The Mayor should take the necessary action to apply the asset management system (e-asset) in order to have an asset management and reporting in accordance with the requirements of the regulation on management of non-financial assets. This issue should also be addressed by the MPA in order to enable the municipality to make the e-assets system operational.		
6	Receivables	The Mayor should take measures to ensure that accounts receivable are		

		recorded on the basis of invoices and that their value is accurately disclosed in the AFS after the harmonisation of records by the relevant directorates with the CFO.
7	Outstanding liabilities	The Mayor should ensure that all invoices are paid within the statutory deadline of 30 days.

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

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

(extract from ISSAI 200)

Form of opinion

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

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

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

Modifications to the opinion in the auditor's report

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

Determining the type of modification to the auditor's opinion

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

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

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

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

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

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

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

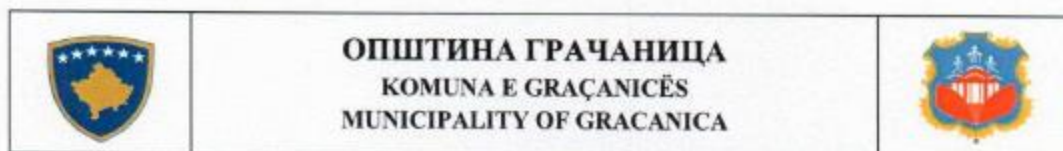
157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not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

158. An Emphasis of Matter paragraph should:

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

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

Annex II: Letter of Confirmation



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 Graçanicës 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. Srdjan Popović

Kryetar i Komunës së Graçanicës

Data: 03. korrik 2020, Graçanica

