



Republika e Kosovës
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Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF SUHAREKA 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 Suhareka 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* - Team Leader, and Abdurrahmon Bërbatovci and *Mexhit Ferati* - team members under the management of the Head of Audit Department, *Shkëlqim Xhema*.

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Executive Summary

This report summaries the key issues arising from our audit of Municipality of Suhareka 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 Annual Financial Statements is managed in accordance with applicable law, with the exception of misclassification of expenditures that 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, goods, subsidies, capital investments, non-financial assets, receivables and liabilities.

The response to the prior year recommendations is not being addressed at the required level. At the end of our 2019 audit, five (5) recommendations have been implemented, two (2) recommendations have been partially implemented, one (1) has been closed, while four (4) recommendations have not yet been implemented.

Opinion of the Auditor General¹

Unmodified Opinion with Emphasis of Matter

For more details, see Chapter 1 of this report.

Management response to the 2019 audit

The Mayor agreed with the findings and conclusions of the audit, and pledged to address all recommendations given. The National Audit Office appreciates the cooperation of the management and staff 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 analyzed the Suhareka 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 Suhareka 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 organizations' 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 expenses in inadequate economic categories. From the category of capital investments, the municipality has paid for goods and services and vice versa. In this report, this issue is addressed in finding B1. Our opinion is not modified in respect of this matter.

Responsibility of Management for AFS

The Mayor of Municipality 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 Organizations.

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

Auditor General's Responsibility for the audit of the AFS

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

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

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

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

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

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

2 Financial Management and Control

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

Financial Management and Control Conclusion

In general, the municipality has a well-established control system in relation to its statutory obligations. However, the main areas where more improvements are needed are the prevention of misclassification of expenditures. In addition, special attention should be paid to controls in these areas: revenue management, acceptance of goods and services, management of subsidies, delays in the implementation of capital investments and procurement planning, asset management, management of receivables and delays in payment.

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	16,260,041	16,659,235	15,572,696	93%	16,307,057	13,606,775
Government Grant - Budget	13,859,013	13,859,013	13,656,163	99%	14,176,544	11,707,336
Carried forward from previous year ³ -	-	515,908	340,091	66%	526,389	682,570
Own Source Revenues ⁴	2,239,252	2,239,252	1,537,975	69%	1,456,155	1,183,517
Domestic Donations	-	47	-	-	83,068	-
Financing from Borrowing	161,776	45,015	38,467	85%	64,901	33,352

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 €399,194. This increase is a result of revenues carried forward from the previous year in the amount of €515,908 and €47 from external donations, while there was a decrease of the budget by €116,761 from financing from borrowing.

In 2019, the municipality has spent 93% of the final budget or € 15,572,696, with a deterioration of 2% compared to 2018. However, the budget execution remains at a satisfactory level and below are 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	16,260,041	16,659,235	15,572,696	93%	16,307,057	13,606,775
Wages and Salaries	8,448,110	8,448,110	8,229,756	97%	8,174,021	7,921,188
Goods and Services	1,716,144	1,615,739	1,468,962	91%	1,375,493	1,028,221
Utilities	294,700	317,154	273,881	86%	244,473	211,604
Subsidies and Transfers	300,000	300,510	298,620	99%	1,278,201	278,401
Capital Investments	5,501,087	5,977,722	5,301,477	89%	5,234,869	4,167,361

Explanations for changes in budget categories are given below:

- The budget of the category of Wages and Salaries has not changed in relation to the initial budget;
- The final budget for Goods and Services was decreased compared to the initial one in the amount of €100,405 as a result of budget cuts, while the budget for Utilities was increased by €22,454 as a result of increased electricity costs for municipal lighting;
- The increase of the final budget by €510 compared to the initial budget for the category of Subsidies and Transfers was as a result of own source revenues carried forward from the previous year; and
- The final budget for capital expenditures increased by €476,635, which was as a result of own source revenues in the amount of €471,496, financing from borrowing in the amount of €5,092 and external donations in the amount of €47.

Issue B1 – Misclassification of expenditures

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

As we have presented in the Emphasis of Matter, the municipality paid €489,208⁵ from the category of capital investments for goods and services and €7,777⁶ from the category of Goods and Services for Capital Investments. According to the municipality, these is a consequence of the limited budget for goods and services, which are necessary; therefore they were 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-allocation of funds and that payment and recording of expenditures is made according to adequate economic codes.

2.1.1 Revenues

Revenues generated by the municipality in 2019 were in the amount of €1,738,348. They relate to; property tax revenues, revenues from construction permits, revenues from business activities, rental revenues, administrative taxes, etc. In addition, the municipality has collected indirect revenues from traffic fines, court fines and fines from the Forest Agency in the amount of €107,122.

Table 3. Revenues (in €)

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Tax revenues	896,672	896,672	766,843	86%	685,035	566,800
Non-tax revenues	1,342,580	1,342,580	971,505	72%	896,594	965,804
Total	2,239,252	2,239,252	1,738,348	78%	1,581,629	1,532,604

⁵ For the contract “Maintenance of green areas in the Municipality of Suharekë” there are 11 payments in the amount of €130,805 and for the contract “Services for the implementation of the vitalization of the infrastructure for the functioning of the project “Home beds” are 10 payments in the amount of €219,715.50, for the contract “Winter road maintenance” there are 4 payments in the amount of €91,087 and for the contract “Funeral services” a total of 10 payments in the amount of €47,600.

⁶ Renovation of the hall of the Technical High School "S.Luarasi" -Suharekë.

Revenues collected were 78% of planned revenues. In respect of our tests, we have handled the following:

Issue A1 – Non-verification of tax properties

Finding The municipality has not managed to verify at least 20% of immovable properties, as required by the Law on Immovable Property Tax no. 06/L-005.

In 2019, out of 14,800 registered properties, the municipality managed to verify only 2,379 or 16% of immovable properties.

According to municipal officials, the non-verification of the property occurred in the absence of timely equipment with new technology needed to support the new property tax system and the need for equipment with new technology for property verification.

Impact Non-verification of 20% of properties negatively affects the assessment and actual 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 is done as provided by law by verifying properties at least 20% per year to reflect the real situation of taxed property, resulting in accurate municipal revenues and better budget performance.

Issue A2 - Non-application of the annual tax to users of municipal public properties

Finding According to contract no. 597, concluded on 14.10.2009, between the user of public property and the Municipality of Suhareka for the use of municipal property in the Industrial Zone for "Production of concrete elements", the parties agreed that the deadline of rent is 99 years, respectively, Article 2 of the contract, with an amount of €2,450 per year specified in Article 3 of the contract.

In this regard, we have identified that the municipality has not imposed an annual charge to the user of the property as provided for in the contract since 2014. This has happened since the municipality in 2014 established a commission for supervision and implementation of contracts for the use of municipal property, which at that time had recommended the termination of the contract in question because of non-fulfilment of the purpose of giving the property for use.

In the absence of any decision by the mayor to terminate the contract, the responsible officials had not invoiced the annual amount for the company in question, despite the fact that the company continued to use municipal property under the contract terms. Following our recommendation, the municipality has retroactively charged the business for the period that they were not charged.

Impact

Non-application of the annual tax to users of municipal public property has not only damaged the municipal budget, but it can also cause dissatisfaction among the other lessees and increases the risk of non-payment of annual rent by users. This may affect the increase in debt for revenues from the use of municipal property.

Recommendation A2 The mayor should strengthen the controls on the management of immovable property allocated for use, and ensure that each property is charged with tax, in accordance with the conditions and usable area of municipal property.

2.1.2 Wages and Salaries

The final budget for 2019 is €8,448,110, while the expenditure was €8,229,756. According to the budget, the number of employees was 1,316, while at the end of the year, their number was €1,309. During 2019, nine new employees were employed. We tested 47 samples for substantial tests in the amount of €22,589, as well as 13 samples for compliance tests.

2.1.3 Goods and Services

The final budget for Goods and Services (including Utilities) in 2019 was €1,932,893, of which €1,742,843 was spent. They relate to supplies of consuming material, firewood supply, contracting, intellectual and consulting services, maintenance, utilities and other expenses.

We tested 29 samples for substantial tests in the amount of €123,479 and eight samples for compliance tests. For these we have addressed the issue as follows:

Issue C1 – Acceptance of services and supplies in incompliance with rules

Finding

According to Article 8, par. 4 of the Financial Regulation 02/2013 on Management of Non-Financial Asset, the Chief Administrative Officer (CAO), upon decision must establish the Commission for Acceptance of Non-Financial Assets, which has the responsibility to verify the quantity, quality, the type and value of the non-financial asset accepted. Whereas according to Article 7, par. 4 of the internal guidelines 01-No. 7011/1-2008 for the use of official vehicles, the Commission must report in writing on the performance of services, quality and a copy should be sent to the procurement office, which is attached to the invoice for the execution of the payment for the repair and maintenance of the vehicle.

During the payments testing, we noticed the following:

- In one case, supply of office material in the amount of €1,945, the acceptance was not made on decision nor by the commission, but it was made by the director of the requesting unit and the contract manager; and
- In two (2) payments with a common financial value of €8,615, the ordering and acceptance of services for maintenance and repair of vehicles was done by a single person, not complying with the requirements of the internal guidelines.

According to the management, this happened because the relevant directorates did not make timely requests to CAO for the establishment of a commission for the acceptance of supplies or services.

Impact

Acceptance of services or supplies in the absence of the relevant acceptance commission may lead to the performance of payments for which there is no assurance that the services or supplies have been accepted under the terms of the contract.

Recommendation C1 The mayor should ensure that the relevant commissions for the receipt of services or supplies are established in a timely manner, the receipt of goods/services is done according to the established rules and that payments are made based on acceptance reports.

2.1.4 Subsidies and Transfers

The final budget for subsidies and transfers was €300,510, of which €298,620 were spent in 2019. Expenditures mainly related to scholarships for students, support for non-public entities and natural persons as individual beneficiaries in difficult socio-economic situation.

In these expenses, we tested 6 samples for substantial tests in the amount of €11,400 as well as 15 samples for compliance tests. For these we have addressed the following issue:

Issue A3 – Non submission of the annual plan and report for approval, for financial support to NGOs, in the Office of the Prime Minister

Finding Regulation MoF No. 04/2017 on Subsidising NGOs has defined the procedures, requirements and criteria for subsidising NGOs. Article 6, para. 1 - Financial support providers prepare the part of the annual financial support plan for NGOs no later than 30 days after the approval of the annual budget and send it to the relevant Office for Good Governance at the Office of the Prime Minister.

The municipality has prepared the annual plan for the financing NGOs, the list of NGOs, individuals who have met the conditions for evaluation and the decision of the announced winners. However, the municipality did not send the same plan and the annual report of financial support for NGOs for 2019 to the Office of the Prime Minister as required by the regulation.

This was due to inadequate attention of the relevant officials to submit this plan in time to the Office of the Prime Minister.

Impact Failure to submit the annual plan for approval as well as the annual report on financial support makes it impossible to ensure transparency and public access to the spending of funds for public financing of NGOs.

Recommendation A3 The mayor should ensure that the annual plan and report on the financial support of NGOs are sent to the relevant government office, complying with the criteria set out in the law.

2.1.5 Capital Investments

The final budget for capital investments was €5,977,722, of which €5,301,477 were spent in 2019. They relate to investments in the construction of road infrastructure and various capital facilities. We tested 79 samples for substantial tests in the amount of €2,293,451, as well as 8 samples for compliance tests. For these we have addressed the following issues.

Issue B2 – Non implementation of the dynamic plan for the execution of works and non-extension of the work execution security

Finding

In the contracts signed for capital projects, the deadlines for the implementation of works or deadlines for the supply of equipment were set. Whereas according to Rules and Operational Guidelines for Public Procurement, point 30.6 specifies that, the execution 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 had delays, as follows:

- In the project “Construction of local roads” Perspektiva, Mustafaj, Rustem Osmani, Dita e Flamurit, Zeqirve -Abazaj, Kovaqit ”and construction of the bridge in the neighbourhood of “Sopaj” in Mushtisht”, the municipality signed a contract in the amount of €103,000 in May 2019, where work should be completed within 90 days. However, the works have not been completed yet, which shows that the delays are almost to one year;
- In the project “Construction of Freskia Street (segment), Luk Simoni and local roads in Sallagrazhdë” in the amount of €20,840 concluded on 30.07.2019, the works should be completed within 60 days, while the works had not been completed yet, which represents a delay of more than six months in the implementation of this project;
- In the project “Repairing of sports fields in the village of Grajqevc and other renovation works” in the amount of €41,623, signed on 16.06.2019, the works should be completed within 60 days, while the works had not yet been completed or were seven months late; and
- In the contract “Purchase of medical equipment for MFMC, FMC” contract concluded on 19.07.2019 in the amount of €56,130, the acceptance of supplies was foreseen in the contract to be done within 30 days, while their supply was done on 30.10.2019 with two months delay. For this contract, the municipality did not offer any explanation to us as to why such delays occurred.

According to the municipality, the reasons for the delays for all the above-mentioned projects were as a result of the prolongation of works by work executors, due to property issues and citizens' disagreement with some positions of the works foreseen by the municipality in the contract and the need for changing the positions. All this results because of inappropriate projects and technical specifications by the municipality and their non-compliance with field conditions.

Furthermore, the municipality did not request the continuation of the execution security of the above-mentioned projects to cover the delays in the implementation of the works.

Impact

Delays in the implementation of projects without a good analysis of projects and conditions for the performance of works affects the extension of the implementation of projects. It can also result in project failure and failure to achieve municipal objectives, affecting the budgetary processes of other projects. Insufficient attention regarding the continuation of execution security in cases of damaging works/goods, may face the municipality with additional costs and not achieve compensation for damages.

Recommendation B2 The mayor should take measures to strengthen controls regarding the supervision of the implementation of projects according to the dynamic plan and contract terms, as well as the resolution of property and administrative issues before the start of works so that there are no work interruptions and projects are executed according to the dynamic plan. Concurrently, for projects that are in delay of execution the mayor should ensure that the continuation of the execution security is required.

Issue A4 – Failure to notify CPA about procedures outside the procurement plan**Finding**

According to Article 9.6 of Law no. 0 /L-042 on Public Procurement, if the objects of the procurement activity have not been included in the contracting authority's final procurement, the CAO shall provide a copy of the concerned Statement of Needs and Determination of Availability of Funds to the CPA at least five (5) days before the Authorizing Officer authorizes the Procurement Officer the initiation of the concerned procurement activity.

The municipality did not include all the planned activities or projects in the procurement plan; it had developed tendering procedures outside the procurement plan by not notifying the CPA for two (2) projects, as follows:

- The project “Construction of the Ukë Bytyqi House of Culture in Suharekë-First Phase” in the amount of €747,897, and
- The project “Construction of the road Ngucat-Javord” in the amount of €162,961.

All this has happened because of inadequate professional attention of the responsible officials in respecting the criteria set out in the law.

Impact

Tendencies outside the procurement plan by not notifying the CPA may affect inefficient budget spending and reflect a lack of needs assessment and poor planning of requirements.

Recommendation A4 The mayor should ensure that the procurement plan is drafted after a detailed analysis of all requesting units and has included, according to priorities, all planned projects. At the same time, when there is a need for purchases outside the plan, mechanisms should be established for prior notification of the relevant bodies according to legal requirements.

2.2 Capital and non-capital assets

The value presented in the AFS of capital assets is €282,890,745, non-capital assets is €674,509, and stocks are €55,466. We tested 100 samples for substantial tests in the amount of €2,677,333, as well as 6 samples for compliance tests. In this respect, we have treated as follows:

Issue C2 – Irregularities in asset management and disclosure in the AFS

Finding

According to Article 6 of Regulation MoF No. 02/2013 on the Management of Non-Financial Asset by Budget Organizations, each budget organization must create and update the register of non-financial assets under its management. The asset register must include capital assets over €1,000 that must be registered in the KFMIS, while non-capital assets under €1,000 and stocks in e-assets. Furthermore, Article 19, para. 4.7, stipulates that inventory of assets should be carried out before the completion of the AFS.

Regarding our tests, we have found the following:

- Capital assets in the amount of over €1,000 presented in the AFS were not accurate. From the samples tested, we have identified 10 payments in the amount of €183,225, which were not included in the KFMIS register; and
- Assets under €1,000 presented in the AFS was incomplete. The value of the assets integrated in the register of e-assets was in the amount of €781,106, while the value of €780,306 was sent to the MPA for integration after the preparation of the 2019 AFS.

This has occurred because of poor management and control by the responsible persons to harmonize payments and registrations in the relevant registers.

The asset inventory commission in the municipality has not been able to complete the report before the preparation of the AFS.

The Commission completed the report on 21.05.2020 and consequently no inventory results were reflected in the AFS.

Impact

Weaknesses identified in asset management related to non-registration of capital assets as well as the inventory process affect the reporting of inaccurate information on the assets of the municipality and their value in the AFS. At the same time, it increases the risk of their misuse and mismanagement.

Recommendation C2 The mayor should take measures to ensure that assets over and under €1,000 are recorded in the relevant registers for all assets under the mayor's possession so that the presentation of information in the AFS is accurate and complete. Concurrently, the mayor should ensure that the inventory report is taken into account before preparing the AFS.

2.3 Receivables

The Municipality of Suhareka disclosed in the AFS of 2019 accounts receivable in the amount of €4,674,508. Of these, €2,849,806 are from property tax revenues, €1,289,586 from business taxes on activities and €535,116 from revenues from the allocation for use of municipal public property.

We tested 83 samples for substantial tests in the amount of €553,023, as well as 12 samples for compliance tests. For these we have addressed the following issues.

Issue B3 – Challenges in the management of receivables

Finding	<p>Measures that should be taken in case of non-payment of rent according to the criteria defined in the contract are foreseen in the contracts concluded between the municipality and the lessees. Furthermore, Article 3 of the contracts specified that the contract should be renewed every year due to better monitoring, however, it was not renewed.</p> <p>From the testing of 11 contracts for the allocation for use of public property, we identified that due to monthly or annual non-payment by lessees according to the contracts, the municipality has failed to collect the revenues from the accumulated debt in the total amount of €155,776.</p> <p>In the six out of the 11 contracts mentioned above, the time limit for the contracts had expired, while they had not been renewed. Even the annual charge was done based on the preliminary contract. The reason for not extending the contracts were property issues and very old buildings, and according to the responsible officials of the municipality, the status of these properties will be defined after the approval of the municipal development plan.</p>
Impact	<p>Low level of collection of receivables and invoicing based on expired contracts affects them to becoming uncollectible creating a precedent case for other lessees who may feel unequally treated or may even not be collected at all, in the absence of a valid contract.</p>
Recommendation B3	<p>The mayor should ensure that the possible options are being actively considered to ensure that the allocation for use of the property is covered by contracts based on applicable rules and laws. For all municipal properties allocated for use, the municipality should also accept the agreed payment/rent based on contracts or valid agreements.</p>

2.4 Liabilities

2.4.1 Outstanding liabilities

The statement of liabilities not paid to suppliers at the end of 2019 was €73,597. These liabilities were carried forward to be paid in 2020. In respect of our tests, we have noted the following:

Issue B4 – Delays in the execution of payment of liabilities

Finding According to Article 39.1 of Law No. 03/L-048 on PFMA that any valid invoice and payment demand for supplied goods and services and/or works performed for the budgetary organization must be paid within thirty (30) calendar days after receipt of the invoice.

From the five(5) samples tested, it resulted that all invoices with a common value of €37,881 were not paid within the foreseen legal deadline. Delays ranged from 55 days to 5 months, beyond the legal deadline foreseen of 30 days. This has happened in the absence of full implementation of regulations on the public funds expenditure by responsible officials. Because of poor management, direct payments were executed for 2019 according to the decisions of the Basic Court in the amount of €178,315.

Impact Non-payment to suppliers within the legal deadlines increase the risk that current expenditure plans will not be implemented because the municipality must repay the liabilities of the previous year. This has also resulted in lawsuits or direct payments from the Treasury that have also been reflected in additional costs.

Recommendation B4 The mayor should consider addressing the remaining liabilities with the Ministry of Finance and setting budget priorities in their implementation when planning budget. The mayor should also perform all confirmed invoices or other expenditure decisions on time according to the prescribed legal deadline of 30 days.

2.4.2 Contingent liabilities

The statement of contingent liabilities to suppliers at the end of 2019 was €293,267. While in 2018, the value of contingent liabilities was €388,533, after court disputes and payment of liabilities through the courts they remain as liabilities for the fiscal reporting year in the amount of €293,267.

2.4.3 Contractual obligations

The statement of contractual liabilities to suppliers at the end of 2019 has not been provided by the Municipality of Suhareka.

2.5 Internal audit function

The Internal Audit Unit (IAU) operates with only one member, the Head of IAU. In addition to the Strategic Plan, the IAU has drafted the Annual Work Plan, which has foreseen to conduct seven audits belonging to high and medium-risk areas. IAU has also prepared a six-month and an annual report, which was sent to the Central Harmonization Unit.

The IAU has managed to complete all planned audits belonging to the current year period, making 52 recommendations, of which 21 were addressed, 26 were in the process of implementation and five (5) had not yet been addressed.

The Audit Committee of three members held five meetings during 2019. We noticed in the minutes of the meetings that the work of the IAU was reviewed, but it was generalized and there was no contribution of the AC in providing management suggestions for taking measures and actions regarding the recommendations made by the audit.

3 Progress in Implementing Recommendations

Our Audit Report on the 2019 AFS of the Municipality of Suhareka resulted in 12 (twelve) key recommendations. The municipality prepared an Action Plan stating how all recommendations will be implemented.

The Municipality has submitted the Progress Report on the implementation of the recommendations (1 October and 12 March) according to the requirements deriving from the Rules of Procedure for the implementation of the audit and action plans.

At the end of our 2019 audit, five (5) recommendations have been implemented; two (2) recommendations were partly addressed, one (1) was closed, while four (4) recommendations had not been addressed yet.

For a more thorough description of the recommendations and how they are 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 ensure that upon budget planning for organization, are assessed real needs of the Municipality, so that budget planning is done adequately, and are eliminated errors in misclassification of expenditures in relevant economic categories. Further on, to consider as a priority the issue of assets management, namely complete assets recording, which would reflect correctly the presentation in the AFS.	There are misclassifications in this year too, see Section 2.1. While asset management issues are addressed in the relevant sections.	Repeated
2	Revenues	The Mayor should review functioning of controls in this area by ensuring that the system is timely updated by the Property Tax Officers, in cooperation with the Property Tax Department at the Ministry of Finance, so that the data related to property tax system are updated, evaluated, and managed based on the Property Tax Regulation.	During the 2019 audit, we did not notice any irregularities in the registration and management of property tax revenues.	Implemented
3	Goods and Services	The Mayor should ensure that goods, which should be identified by a serial number and other necessary specifications, are included in the purchase order/invoice, to ensure that goods are received in accordance with the specifications and contracted prices. Further on, to ensure that within commissions are appointed field experts of relevant field, and that commissions draft reports on goods received.	This year we have partially noticed the same issue, see C1.	Partly implemented
4		The Mayor should ensure that the requesting unit initially assesses the needs for execution of works, and then drafts the project (Bill of Quantity), and adjustments to items are done in line with	During the testing, we noticed that changes were made with approvals	Implemented

		procurement procedures.	according to legal requirements.	
5	Capital investments	The Mayor should undertake measures to strengthen controls over the oversight of implementation of projects according to the dynamic plan and the contract terms, and to resolve property and administrative issues (obtaining of relevant permits) prior to the start of works, so that there are no interruptions of works, and projects are implemented according to the dynamic plan.	Even this year, we noticed that the municipality was delayed in implementing the dynamic plan. See issue B2.	Repeated
6	Common issues on Goods and Services and Capital Investments	The Mayor should ensure that over the procurement area are exercised controls by the Procurement Office, in this context, the criteria should not contain specific trademarks, and, other necessary requirements are to be received in electronic form according to the ROGPP, in order to achieve the goal of proper implementation of contracts.	We have not noticed such cases during the 2019 audit.	Implemented
7		The Mayor should establish adequate controls and adequate monitoring to ensure that all legal requirements are met during procurement and that the Municipality applies guarantees to ensure that the execution of works, goods or services is done in compliance with the agreement.	We have not noticed such cases during the 2019.	Implemented
8	Capital and non-capital assets	The Mayor should review controls related to assets management and ensure their accurate and complete registration. Further on, should provide necessary training to the relevant officials, so that assets are recorded supplemented with necessary information (barcodes, serial numbers, etc.) and are disclosed in accordance with legal requirements, by providing full transparency to the users.	The municipality endeavored to identify all assets with the value under €1,000, but failed to register and integrate them into the e-asset register prior to the 2019 AFS preparation.	Partly implemented
9	Receivables	The Mayor should ensure that options are actively considered to ensure that the use of property is	There is the same issue this year too regarding the	Repeated

		covered by contracts based on applicable rules and laws. Further on, the Municipality should receive the agreed payment/rent based on valid contracts or agreements for all municipal property which is given out for use/rent.	challenges in the management of receivables.	
10		The Mayor should ensure that the list is updated with active and inactive businesses on annual basis, in order to have an accurate estimate of accounts receivable. Further on, specific measures should be applied to reduce accumulated receivables over the years. Further on, forgiveness of accumulated debts for several years should be discussed in the Municipal Assembly.	Measures have been taken by management.	Implemented
11	Outstanding liabilities	The Mayor should consider that upon budget planning are handled liabilities and contingent liabilities remained with the Ministry of Finance, and establish budget priorities for their execution. Further on, all invoices confirmed or other decisions on expenditures should be carried out timely in accordance with the legal deadline of 30 days.	There is the same issue this year too, regarding the delays in payments.	Repeated
12	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, procurement plan, assets management and management of accounts receivable 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-allocation of funds and that payment and recording of expenditures is made according to adequate economic codes.
2	Revenues	The mayor should ensure that the verification of municipal properties is done as provided by law by verifying properties to reflect the real situation of taxed property, resulting in accurate municipal revenues and better budget performance.
3		The mayor should strengthen the controls on the management of immovable property allocated for use, and ensure that each property is charged with tax, in accordance with the conditions and usable area of municipal property.
4	Goods and Services	The mayor should ensure that the relevant commissions for the receipt of services and supplies are pursuant to applicable regulations and instructions.
5	Subsidies and Transfers	The mayor should ensure that the annual plan and report on the financial support of NGOs are sent to the relevant government office, complying with the criteria set out in the law.
6	Capital investments	The mayor should take measures to strengthen controls regarding the supervision of the implementation of projects according to the dynamic plan and contract terms, as well as the resolution of property and administrative issues before the start of works so that there are no work interruptions and projects are executed according to the dynamic plan.
7		The mayor should ensure that the procurement plan is drafted after a detailed analysis of all requesting units and has included, according to priorities, all planned projects for what budgetary funds are provided, and eventually to ensure transparency and accuracy in presentation of all signed contracts.
8	Capital and non-capital assets	The mayor should take measures to ensure that assets over and under €1,000 are recorded in the relevant registers for all assets under the mayor's possession so that the presentation of information in the AFS is accurate and complete. Concurrently, the mayor should ensure that the inventory report is taken into account before preparing the AFS.
9	Receivables	The mayor should ensure that the possible options are being actively considered to ensure that the allocation for use of the property is covered by contracts based on applicable rules and laws. For all municipal properties allocated for use, the municipality should also accept the agreed payment/rent based on contracts or valid agreements.
10	Outstanding liabilities	The mayor should consider addressing the remaining liabilities with the Ministry of Finance and setting budget priorities in their implementation when planning budget. The mayor should also perform all confirmed invoices or other expenditure decisions on time according to the prescribed legal 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

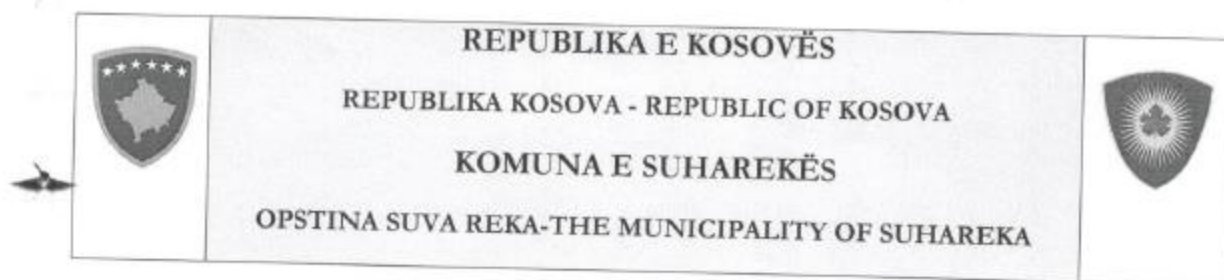
157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not 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: Confirmation letter



KRYETARI I KOMUNËS

Datë 08.07.2020

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 Suharekës për vitin e përfunduar më 31 dhjetor 2019 "Raporti i auditimit të pasqyrave financiare të Komunës së Suharekës".
- 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.

KRYETARI I KOMUNËS

Bali Muharremaj

