



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 ZVEÇAN 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 Zveçan* 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 *Xhevat Seferi - Team Leader*, and *Stana Dancetovic* and *Nebojsa Ristic - 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 .....	19
Annex I: Explanation of the Different Types of Opinion Applied by NAO .....	25
Annex II: Letter of Confirmation .....	27

## Executive Summary

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

Our audit focus has been on:



### Conclusions

The process of preparing annual financial statements is managed in accordance with applicable legislation.

Financial management and control have resulted in weaknesses, and improvements are needed in planning and budgeting expenditures to prevent misclassification of expenditures, in the implementation of revenue collection laws, staff recruitment and contract updates, vehicle cost management, in granting and monitoring subsidies, asset management, reporting unpaid liabilities, and establishing an internal audit unit.

The implementation of the prior year recommendations shows that of 15 recommendations, the municipality addressed four (4) recommendations, three (3) were considered closed, one (1) was partially addressed, while seven (7) recommendations remained unaddressed.

### Opinion of the Auditor General<sup>1</sup>

#### Unmodified Opinion

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.

<sup>1</sup> 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 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 Zveçan 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.

## **Responsibility of Management for AFS**

The Mayor of Zveçan 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 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 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

The Municipality has generally a well-established control system in relation to its statutory obligations. However, the main area where more improvements are needed is to prevent expenditure misclassification. Special importance should be paid to controls in these areas: non-implementation of revenue collection laws, non-updating of contracts and not complying with recruitment procedures, weaknesses in vehicle cost management, weaknesses in granting and monitoring subsidies, irregularities in asset records, weaknesses in reporting unpaid liabilities and failure to establish an internal audit unit.

#### 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 <sup>2</sup>	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
<b>Sources of Funds</b>	<b>2,501,643</b>	<b>3,794,163</b>	<b>2,150,769</b>	<b>57%</b>	<b>2,045,974</b>	<b>2,649,381</b>
Government Grant - Budget	2,453,689	2,453,689	1,876,699	76%	1,844,362	1,595,124
Carried forward from previous year <sup>3</sup> -	-	27,125	26,393	97%	15,817	25,748
Own Source Revenues <sup>4</sup>	30,000	30,000	6,350	21%	-	-
Borrowing	17,954	17,954	-	-	-	-
Development Trust Fund	-	1,226,466	241,327	20%	97,891	809,721
External Donations	-	38,929	-	0%	87,904	218,788

<sup>2</sup> Final budget – the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

<sup>3</sup> Municipal Own Source Revenues unspent in previous year carried forward into the current year.

<sup>4</sup> Receipts used by the entity for financing its own activities.



The final budget is higher than the initial budget by €1,292,520. This increase is a result of the transfer of funds from the Development Trust Fund by €1,226,466, from external donations €38,929 (which have not been spent at all this year), as well as from the transfer of own revenues from previous years in the amount of €27,125.

In 2019, the municipality spent 57% of the final budget or €2,150,769, with an improvement of 7% compared to 2018.

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

Description	Initial Budget	Final Budget	2019 Outturn	% of 2019 Outturn	2018 Outturn	2017 Outturn
<b>Spending of funds by economic categories</b>	<b>2,501,643</b>	<b>3,794,163</b>	<b>2,150,769</b>	<b>57%</b>	<b>2,045,974</b>	<b>2,649,381</b>
Wages and Salaries	1,520,000	1,540,307	1,135,531	74%	816,766	481,920
Goods and Services	274,283	292,878	228,442	78%	191,426	217,355
Utilities	70,000	70,000	6,044	9%	3,580	18,073
Subsidies and Transfers	70,000	97,125	72,465	75%	80,678	69,120
Capital Investments	567,360	1,793,853	708,287	39%	953,524	1,862,913

Explanations for changes in budget categories are given below:

- The budget for Wages and Salaries compared to the initial budget was increased by €20,307 from external donations;
- The budget for Goods and Services compared to the initial budget was increased by €18,595 from external donations;
- The budget for Utilities had no changes compared to the initial budget;
- The budget for Subsidies compared to the initial budget was increased by €27,125 from the transfer of own source revenues from previous years; and
- The final budget for Capital Investments compared to the initial budget increased by €1,226,493. This increase was as a result of the transfer of funds from the Development Trust Fund €1,226,466 and €27 from external donations. The low level of budget execution 39% is since the project funded by the development fund, Construction of drinking water tanks in the amount of €460,523 has not yet begun. The management of the municipality has clarified that due to the problems with the preparation of the technical documentation of the project, the procedures have been delayed; therefore, the procurement procedures are being developed in 2020.

---

**Issue B1 – Misclassification of expenditures**
**Finding**

According to Financial Rule no. 01/2013/MoF “On Public Funds Expenditures” expenditures must have adequate codes, defined by the Administrative Instruction on the chart of accounts. While the regulation MoF no. 02/2013 on Management of Non-financial Assets by Budget Organizations, in Article 3, has defined capital expenditures.

During 2019, the municipality paid and registered expenses in the amount of €33,321 in inadequate economic categories as follows:

- Two payments for the project "Maintenance of local roads" in the amount of €9,310 were made from the category of goods and services, although by nature they belong to the category of capital investments, which can be verified by the contract, acceptance reports, invoices of quantities and type of works (asphalting);
- In two payments for “Supply with medical equipment” in the amount of €18,239 were made from the category of goods and services, which also belonged to capital expenditures. The medical equipment supplied in these payments individually exceed the amount of €1,000; and
- Six payments for electricity expenses in the amount of €5,772 were paid from the category of subsidies and transfers instead of being paid from utilities.

This happened due to poor planning of the municipality to budget all the necessary amounts in the relevant category.

**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 users of the AFS.

**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 payment and registration 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 €1,762, the sources of direct collection of own source revenues are limited only to administrative fees and taxes on civil status certificates. In addition, the Municipality of Zveçan had indirect revenues, collected from traffic fines and court fines in the amount of €31,691.

**Table 3. Revenues (in €)**

Description	Initial Budget	Final Budget	2019 Receipts	% of 2019 Receipts	2018 Receipts	2017 Receipts
Tax revenues	13,000	13,000	-	0%	-	-
Non-tax revenues	17,000	17,000	1,762	10%	1,034	8,852
<b>Total</b>	<b>30,000</b>	<b>30,000</b>	<b>1,762</b>	<b>10%</b>	<b>1,034</b>	<b>8,851</b>

The table shows that municipality has not collected revenues from property tax, while the collection in relation to planning is very low or only 6%. In respect of our tests, we have identified:

### **Issue B2 – Non-implementation of laws for revenue collection (property tax, construction permits and allocation for use of the public property)**

#### **Finding**

Article 2 of Law no. 06/L-005 on immovable property tax clearly states that each budgetary organization must collect immovable property tax revenues. In addition, Law no. 04/L-110 on Constructions, in Article 1 and 2 has determined the purpose of issuing construction permits. While Law no. 04/L-144 on the allocation for use and exchange of immovable property of the municipality regulates the manner and determines the procedures and forms for the allocation for use of the property.

For 2019, planned tax revenues were 13,000, while collection was zero. Despite the prior year recommendation, the municipality has not yet collected property tax revenues, construction permits, and properties allocated for use and has not issued internal regulations for taxes, fees and charges on citizens for public services.

This is because the municipality has not yet established policies for the implementation of laws and has not taken concrete actions to collect revenues from the activities that have a significant impact on the level of the municipal budget.

---

**Impact** Non-implementation of laws and regulations for the collection of property taxes, construction permits and other taxes and fees by the municipality reflect a non-serious approach to applying legal requirements in this area. This increases the risk of non-compliance with applicable laws and reduces the level of personal income, as well as the possibility of financing projects from this source of income.

**Recommendation B2** The Mayor should ensure the implementation of laws on revenue collection the intention of which is primarily the implementation of legal requirements and increase of the quality of services to citizens. At the same time, the Mayor should immediately initiate drafting of an internal regulation on taxes, fees and charges on citizens for public services.

## 2.1.2 Wages and Salaries

The final budget for 2019 for Wages and Salaries was in the amount of €1,540,307, of which €1,135,531 was spent. The number of employees by budget law was 361, whereas by the end of the year the number of employees was 244. During 2019 there were employed 48 new staff. We have tested 66 samples of €321,635 as part of substantive testing, and 21 samples as part of compliance testing.

---

### Issue A1 – Non-compliance with recruitment procedures

**Finding** Law No. 03/L-149 Law on Civil Service, Article 11 and 12 have defined the conditions of recruitment. More specifically, Regulation no. 02/2010 Recruitment procedures in the civil service Article 4, para. 1 has determined that the personnel unit of the respective institution, which employs civil servants after the authorization of the Department for Civil Service Administration (DCSA) conducts competitive selection procedures with the purpose of recruiting civil servants according to Articles 11 and 12 of the Civil Service Law.

Based on the Government decision No. 18/35 issued on 09.03.2018, the Municipality of Zveçan is allowed to have the staff of 10 officials in the Department of Administration, on behalf of the integration of employees of the so-called former MUP. Further, in the minutes and the submitted list of employees integrated by the commission of the Ministry of Local Government Administration, a list for nine (9) integrated officials was submitted because one in the list of 10 officials died. To replace this, the municipality hired without recruitment procedures by adding an employee whose integration was not foreseen by agreement in the list of integration of officers.

The appointment act of the employee was signed on 16.05.2019, while it was paid retroactively for five months in amount of €1,969.

---

**Impact** Recruitment of staff by not complying with recruitment procedures without competition and without defined criteria affects the elimination of competition and transparency and does not meet the required qualifications for that job.

**Recommendation A1** The Mayor should ensure that staff recruitment is done according to approved positions and in accordance with the recruitment procedures prescribed by law.

### **Issue C1 – Failure to update employment contracts and payroll lists**

**Finding** Law no. 03/L-149 on the Civil Service of the Republic of Kosovo, Article 96 stipulates that within one (1) year from the date of entry into force of this law all contracts of employment in the Civil Service of Kosovo, for positions which by their nature, function and duties are permanent shall be replaced with letters of appointment as regulated by this law and new secondary legislation. Law no. 03/L-047 on Salaries of Civil Servants, Article 14 and 16 stipulate additions for specific working conditions, where as part of their regular duties they are exposed to special conditions and requirements in the workplace and pose a health risk, the institution requires the approval of an addition to working conditions for these civil servants, according to the secondary legislation determined by the Government.

During the testing of personnel files, we found that:

- In 2019, contracts expired to eight employees in the budget and finance departments, administration and urban planning, seven cases on 01.03.2016 and one on 01.02.2018. In the absence of the personnel officer, they were no longer replaced by new appointment acts. These cases were fixed in early 2020; and
- In one case, an employee in the administration department, an official of the civil registry during 2019 has erroneously received a compensation of €107 per month, an additional monthly hazard payment, in total €963. This issue was resolved after our findings in 2020 when we were in the process of auditing. The reason was poor control when conducting changes in the payroll list.

**Impact** The shortcomings presented in the non-updating of employment contracts and payroll lists will result in poor controls in HR management and may affect irregular payments.

**Recommendation C1** The Mayor should ensure that all employee contracts are updated according to legal requirements and payments on the payroll are in line with them.

---

### 2.1.3 Goods and Services

The final budget for Goods and Services in 2019 was €292,878, of which €228,442 or 74% was spent. In terms of Utilities for 2019, of €70,000 budget, only €6,044 was spent. The expenditures mainly related to the supply of equipment and inventory, office supplies, contracted services, fuel, medical equipment, maintenance of office buildings, utilities, etc.

We have tested 18 samples of €81,134 as part of substantive testing, and ten (10) samples as part of compliance testing.

---

#### Issue B3 – Weaknesses in the vehicle expenditure management

**Finding** Administrative Instruction MAPL No. 2008/01 on the Use of Official Vehicles in Municipalities, Article 1 defines the purpose of using vehicles, while Article 2 defines the right to use vehicles, completing the travel sheets specified by the transport unit. While according to Law no. 03/L-040 on Local Self-Government, Article 12, the Municipal Assembly may adopt acts within the scope of its competencies.

Despite the prior year recommendation, the municipality has not yet approved a regulation on the use of official vehicles, and is not implementing the AI on the use of official vehicles in municipalities. Furthermore, fuel costs were €15,480, while the municipality does not keep records of official vehicle costs (daily data on mileage, fuel consumption and destination for each car). For the use of official vehicles, there is no requirement nor completion of a travel sheets for official travel.

This happened because the municipality did not comply with the requirements of the AI and did not issue an internal act for the use of official vehicles.

**Impact** Weaknesses in the management of official vehicles in terms of not completing the travel sheets and not keeping records of fuel costs can affect their irrational use, poor control and poor cost management.

**Recommendation B3** The Mayor should ensure that the use of vehicles and the keeping of their records is done in accordance with the requirements of AI otherwise the Mayor should initiate drafting of an internal regulation on the use of official vehicles.

## 2.1.4 Subsidies and Transfers

The final budget for Subsidies and Transfers was €97,125, of which €72,465 were spent in 2019. They are mainly about assisting individuals as social cases. We have tested ten (10) samples of €9,362 as part of substantive testing, and five (5) samples as part of compliance testing.

### Issue B4 – Weaknesses in granting and monitoring subsidies

**Finding** Regulation for granting municipal subsidies, Article 8 and 9, define the requirements for granting subsidies, which must contain documents related to evidence of permanent residence in the Municipality of Zveçan (photocopy of ID card or certificate of competent authority); the request with a detailed explanation of the indispensability for granting the subsidy; evidence that clearly confirms the claims; etc.

When testing five payments for subsidies in the amount of €4,460, we identified that there was a lack of documents<sup>5</sup> for these cases and there were no reports from beneficiaries on how to spend the funds received. Furthermore, the regulation on subsidies did not have any article defining clear criteria for monitoring the subsidies by the municipality or to confirm that the granted subsidy has been spent for the given purpose. This has occurred because of shortcomings in the regulation of subsidies and poor control over their granting and monitoring.

**Impact** Weaknesses in the process of granting and monitoring subsidies, as well as not clearly defining the criteria in the regulation may affect the non-fulfilment of the purpose for which the subsidy was granted.

**Recommendation B4** The Mayor should ensure the full implementation of the regulation on subsidies, and the mechanisms on how subsidies will be monitored and managed. Controls over the allocation of subsidies should be strengthened to ensure effective monitoring of the use of funds allocated from the municipal budget.

<sup>5</sup> The missing documents were: evidence of permanent residence in the Municipality of Zveçan (photocopy of ID card or certificate of the competent authority); request with a detailed explanation of the indispensability for granting the subsidy; evidence that clearly confirms the claims; documentation required by the competent department for each individual case



## 2.1.5 Capital Investments

The final budget for Capital Investments was €1,793,854, of which €708,287 were spent in 2019. Those relate to the construction of cultural facilities, sports fields, sewerage, maintenance, etc. We have tested 16 samples of €708,287 as part of substantive testing, and nine (9) samples as part of compliance testing.

## 2.2 Capital and non-capital assets

The amount of capital assets presented in AFS is €708,287, that of non-capital assets is €0, and of stock is €0. We have tested 25 samples of €607,980 as part of substantive testing, and ten (10) samples as part of compliance testing.

### Issue B5 – Irregularities in the management and disclosure of assets in the AFS

#### Finding

According to Article 6 of Regulation MoF no. 02/2013 on the Management of Non-Financial Assets by Budget Organizations, each budget organization must create and update the register of non-financial assets under its management. Further, 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.

Unlike last year, this year, the municipality registered the value of €708,287 of assets over €1000. However, a large part of the assets purchased and appropriated during the previous years has not yet been registered in the accounting records of assets and the full value of assets has been disclosed in the AFS. It is worth mentioning that last year the capital investment was €953,524, which should be reflected in the accounting register of assets).

When recording assets in the amount of €60,252, the municipality erroneously registered them in the amount of €6,025,285, with an error of €5,965,033. For this value, we have discrepancies between the municipal AFS and the annual statements of the Kosovo Budget.

The municipality has also not yet put into operation the E-asset system, and has not disclosed any assets under €1,000 in the AFS. This happened because of poor control over the registration of assets and the failure to put into operation the e-asset system.

#### Impact

Weaknesses identified in asset management related to non-registration of capital and non-capital assets, failure to put into operation the e-asset system as well as errors during registration affect the reporting of inaccurate information on municipal assets and their value in the AFS and the annual report of the Kosovo Budget. At the same time, it increases the risk of their misuse and mismanagement.



**Recommendation B5** The Mayor should take measures to ensure that assets over and under €1,000 are recorded in the relevant registers for all assets under his/her management so that the presentation of information in the AFS is accurate and complete. At the same time, the Mayor should ensure that e-asset is used.

## 2.3 Receivables

The municipality does not collect tax revenues from property, construction permits and the use of public property (see sub-section 2.1.1), and as a result it does not have accounts receivable and does not keep records of them.

## 2.4 Liabilities

### 2.4.1 Outstanding liabilities

The statement of liabilities at the end of 2019 was €14,890. These liabilities are carried forward to be paid in 2020. Our tests have detected the following:

---

#### Issue B6 – Weaknesses in management and reporting liabilities

---

**Finding** According to Article 5 of the Financial Rule of the Ministry of Finance no. 02/2013 on Reporting of Unpaid Liabilities of Budget Organizations, they are obliged to report their outstanding liabilities to the Ministry of Finance – Treasury. All liabilities under this regulation should be made through monthly reports. While according to the Financial Rule no. 01/2013/MoF on Public Funds Expenditure, Article 24, para. 1.3, all invoices should be accepted by applying internal control procedures for the circulation of documentation. Among other things, invoices should be recorded and identified in the invoice ledger.

Despite repeated recommendations during 2019, the municipality has not reported the financial liabilities to the MoF on a monthly basis. Furthermore, the municipality does not keep a protocol book for receipt of invoices. This happened due to improper controls in reporting outstanding liabilities to the municipality's finance unit.

**Impact** Weaknesses in not reporting unpaid liabilities on a monthly basis and not keeping a protocol ledger on accepted invoices may result in untimely identification of payment invoices.

**Recommendation B6** The Mayor should strengthen controls over the management and reporting of outstanding liabilities. Firstly, the Mayor should ensure that a protocol ledger is kept where all received invoices will be recorded and identified. Further, the Mayor should create an effective system in which all unpaid invoices are accurately and fully reported on a monthly basis to the MoF.

## 2.4.2 Contingent liabilities

The statement of contingent liabilities at the end of 2019 was €26,172. These relate to four court disputes.

## 2.4.3 Contractual obligations

The value of contractual liabilities according to the municipality is €309,922. Of this value, €283,698 are the remaining amounts of unfinished and unpaid works for the project "Reconstruction and expansion of the sewerage network in phase II", and €26,224 for the project "Infrastructure works".

## 2.5 Internal Audit Function

Budget organizations are required to ensure that its activities and processes are subject to internal audit. A proper internal audit system assists management in identifying weaknesses in financial management and municipal controls. This contributes to improving internal controls, achieving objectives and improving the services provided by the municipality. However, it should be noted that at the request of the municipal management, the IA/Central Harmonization Unit has conducted an audit regarding the budgeting process, making recommendations to improve the identified weaknesses.

In this regard, we have made the following recommendation:

### Issue B7 – Failure to establish the Internal Audit Unit

**Finding** Law no. 06/L-021 on the Public Internal Financial Control and the CRK Regulation No. 01/2019 on the establishment and implementation of the internal audit function in the public sector entity, Article 4 and 5 have defined the function and the manner of establishing the IAU.

Despite our repeated recommendations, the municipality has not yet managed to establish an internal audit unit .

According to the municipality, the reason for not establishing the IAU was the non-approval of the position for starting the recruitment procedures for this unit.

**Impact** Non-establishment of the IAU will affect to continue in the repetition of weaknesses in key internal control systems. Furthermore, management may not be able to identify control weaknesses and respond in a timely manner to their elimination.

**Recommendation B7** The Mayor should ensure the approval of the positions and take measures related to the establishment and functioning of the IAU, to provide support in management of risky areas and improvement of control systems.

### 3 Progress in Implementing Recommendations

Our Audit Report on the 2018 AFS of the Municipality of Zveçan resulted in 15 recommendations. The Management prepared an Action Plan stating the details of measures and activities, which will be taken to implement the recommendations.

The Municipality submitted the Progress report on implementation of recommendations (30 September 2019) under requests deriving from the Rules of Procedure on implementation of audit and action plans, while it has not submitted a report for the period of March 2020.

At the end of our audit, of the 15 recommendations made, four (4) were fully addressed, one (1) was partly addressed, seven (7) were repeated and three (3) recommendations were considered closed. For a more thorough description of recommendations and how they are addressed, see Table 4.

Table 4 Summary of prior year recommendations and of 2019

No	Audit area	Recommendations of 2018	Actions undertaken	Status
1	Annual financial statements	<p>The Mayor should ensure making an analysis to determine the causes for the emphasis of matter in the audit opinion and key issues. Specific actions needs be undertaken to systematically address the causes for eliminating errors and accurately disclose the value of assets.</p> <p>Further on, the Mayor should ensure that effective processes are in place to confirm that the 2019 AFS production plan, addresses all compliance related issues. This should include Management review of the AFS, with specific focus on high-risk areas and/or areas where errors have been identified in previous years.</p>	We have made the recommendation for the assets in sub-section 2.2 Assets.	Closed
2	Budget Planning and Execution	The Mayor should undertake a systematic assessment to identify reasons behind the low level of budget execution for capital investments and of other economic categories in 2018, and determine practical options for improvement of its execution in 2019. The Mayor should systematically monitor budget performance on monthly basis and identify and address obstacles that hinder planning levels of budget execution and effective use of public money, including collection of own source revenues.	The issue is closed regarding this recommendation.	Closed
3	Budget Planning and Execution	The Mayor should ensure a thorough analysis during preparation of budget requests, including all factors having impact on budget implementation, planning and budgeting of certain expenditures should be made based on the chart of accounts approved by the Treasury	Even this year we have expenditure misclassification. See issue B1.	Repeated
4	Revenues	The Mayor should without delay initiate drafting of an internal regulation on taxes, fees and charges of citizens for publicly available	The municipality has not yet taken any concrete action to	Repeated

		services, as well as the same are approved by the Municipal Assembly. Further on, should ensure the implementation of the property and construction tax Law, which primarily aims at enforcing minimum legal requirements and enhancing the quality of services for the citizens of the Municipality.	implement the recommendation. See issue B2.	
5	Wages and Salaries	The Mayor should ensure that all employees have valid employment contracts and that they are paid on the basis of contract and the work they do. In addition, to undertake appropriate actions in order to address issues mentioned above, so that the Municipality implements the organizational structure and that key positions are filled with adequate personnel and with clear description of duties and responsibilities, as well as updating and completing each file of the employees.	The municipality had weaknesses this year in terms of not updating contracts, but there were weaknesses also in the payroll. See issue C1.	Partly repeated
6	Goods and Services	The Mayor should ensure that the contracts are signed in compliance with the requirements of the LPP and sign a service contract for vehicle maintenance through open procurement procedures and through a transparent and competitive process. Furthermore, strengthen adequate internal controls on expenditures in order to ensure value for Money.	The municipality signed a contract for vehicle maintenance in May 2020	Implemented
7	Goods and Services	The Mayor should ensure that the contracts are signed in accordance with requirements of the LPP. Furthermore, ensure adequate internal controls over expenditures, and ensure that an internal regulation for fixed and mobile telephony expenditures is drafted and approved.	In 2019, we have not identified similar cases.	Implemented
8	Goods and Services	2The Mayor should ensure that each processed payment is documented and that goods or services are received based on the respective price and terms specified in the contract. Furthermore, the Mayor should ensure application of clear rules on	The municipality has not yet addressed this issue. See issue B3.	Repeated

		the manner of use of vehicles.		
9	Subsidies and Transfers	The Mayor should ensure full implementation of the Regulation on subsidies, as well as mechanisms on how subsidies will be monitored and managed. Controls over the award of subsidies should be strengthened to ensure effective monitoring over the use of funds granted from the municipal budget.	The municipality has not yet addressed this issue. See issue B4.	Repeated
10	Capital Investments	The Mayor should undertake specific actions to ensure that the responsibility of the oversight body increases, and to ensure that for each stage of project implementation (for payment) there is a report on the progress of implementation and fulfilment of payment terms.	During our tests, we did not notice such cases.	Implemented
11	Capital Investments	The Mayor should carry out a review of the process to find out the reasons over these delays and take necessary actions to better manage the implementation of the contracts and apply penalties for delays.	During our tests, we did not notice such cases.	Implemented
12	Financial and non-financial assets	The Mayor should undertake specific actions to ensure that within a reasonable timeframe to establish committees for assets valuation and inventory. These committees should carry out a correct and complete evaluation of all assets owned by the Municipality, and monitor evaluation results. In addition, at the end of the year, prior to drafting of financial statements should be conducted an inventory process, which should be reconciled with assets registers, and if there are differences they should be eliminated.	Even this year we have weaknesses in the management of assets and their disclosures. See issue B5.	Repeated
13	Outstanding liabilities	The Mayor should strengthen controls over the receipt of invoices and process the payments within the legal deadline, to ensure that the finance department will establish an effective system and that all outstanding invoices within the 30-day period are reported accurately and completely. Furthermore, should ensure	The municipality continues not to report on a monthly basis and still does not keep the Protocol Book.	Repeated

		maintaining a reference book, where all received outstanding invoices would be referenced and recorded.		
14	Internal Audit System	The Mayor should establish the IAU in order to provide support in managing areas with risk and which would assist ongoing operational activities. In addition, we suggest the establishment/operation of AC to review the internal audit outcomes and actions taken by the Management in relation to the recommendations given.	The municipality continues not to have established the IAU.	Repeated
15	Management Reporting, Accountability and Risk Management	The Mayor should ensure that a review on determining the form of financial and operational reporting to senior management has been carried out. Budget performance, including revenues and expenditures, and implementation of capital projects plan, should be subject to regular reporting and review by the Management. Further on, in order to reduce the impact of risks to acceptable levels, the organization should draft a risk register with all appropriate measures/actions to put the exposed threats under control.	The issue is closed regarding this recommendation.	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 payment and registration of expenditures is made according to adequate economic codes.		
2	Revenues	The Mayor should ensure the implementation of laws on revenue collection the intention of which is primarily the implementation of legal requirements and increase of the quality of services to citizens. At the same time, the Mayor should immediately initiate drafting of an internal regulation on taxes, fees and charges on citizens for public services.		
3	Wages and Salaries	The Mayor should ensure that staff recruitment is done according to approved positions and in accordance with the recruitment procedures prescribed by law.		
4		The Mayor should ensure that all employee contracts are updated according to legal requirements and payments on the payroll are in line		



		with them.
5	Goods and Services	The Mayor should ensure that the use of vehicles and the keeping of their records is done in accordance with the requirements of AI otherwise the Mayor should initiate drafting of an internal regulation on the use of official vehicles.
6	Subsidies and Transfers	The Mayor should ensure the full implementation of the regulation on subsidies, and the mechanisms on how subsidies will be monitored and managed. Controls over the allocation of subsidies should be strengthened to ensure effective monitoring of the use of funds allocated from the municipal budget.
7	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 his/her management so that the presentation of information in the AFS is accurate and complete. At the same time, the Mayor should ensure that e-asset is used.
8	Outstanding Liabilities	The Mayor should strengthen controls over the management and reporting of outstanding liabilities. Firstly, the Mayor should ensure that a protocol ledger is kept where all received invoices will be recorded and identified. Further, the Mayor should create an effective system in which all unpaid invoices are accurately and fully reported on a monthly basis to the MoF.
9	Internal Audit Function	The Mayor should ensure the approval of the positions and take measures related to the establishment and functioning of the IAU, to provide support in management of risky areas and improvement of control systems.

\*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 emphasized 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 emphasized.

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 judgment, 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

**OPŠTINA ZVEČAN**  
**Z V E Č A N**

*Ul. Kralja Milutina bb. tel. (028) 664-726, fax (028) 664-728*

**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 Zveçanit 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. Vučina Janković .....



Kryetar i Komunës së Zveçanit

Data: 07. korrik 2020, Zveçan