

Audit for 2019, Zubin Potok municipality

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control and is response directly to the Assembly of Kosovo. The mission of the National Audit Office is to strengthen the accountability of public administration for the efficient, effective and economical use of national resources through quality audits. The reports of the National Audit Office directly promote the accountability of public institutions, as they provide a sustainable basis for demanding accountability by the managers of each budget organization. In this way, the National Audit Office increases trust when it comes to spending public funds and plays an active role in ensuring interests of taxpayers and other stakeholders in increasing public accountability.

The audit in all municipalities, including the municipality of Zubin Potok, was performed in accordance with the International Standards of Supreme Audit Institutions (ISSAI), recognized auditing standards in the public sector, as well as with the best European practices. These standards imply that the Audit adheres to ethical requirements and tells us that the purpose of performing the audit is to obtain certainty, assurance, that the financial statements do not contain wrong presented material expenses. The responsibility and basic mission of the Audit is to express an opinion on the Annual Financial Report (AFR) for a given municipality through a written audit.

The National Audit Office is the only body that provides advisory support for better performance and implementation of the Law on Finance and cooperation with this office is highly rated by the municipality of Zubin Potok. The work of the Audit, Chief of Administration and Financial Officer, reflects the detailed work undertaken for providing information on revenue and expenditure systems in budget organizations. The municipality of Zubin Potok has always been open for cooperation, especially when it comes to checking compliance with the law and the work of the budget and finance departments, so all these years the cooperation is at a high level, and therefore the Audit reports were in our favor.

The report of the National Audit Office is an objective, realistic and true presentation in all material aspects, and it was obtained on the base of testing and procedures necessary to reach this correct opinion regarding the financial statements. The work of

the audit is based on risk assessment, and therefore the report itself has the same basis. It also includes an overview of internal control, the accounting system, general activities of the municipality and based on all that collected, a realistic, quality and accurate report is created.

In the municipality of Zubin Potok, the National Audit Office performed an audit for 2019 and submitted a report on the financial statements of the municipality of Zubin Potok, for the fiscal year ended December 31, 2019.

An audit includes evaluation and assessment of financial statements, other financial information and give answers on following questions:

- Do the financial statements give a true and fair view of the financial invoices and issues for the audit period;
- Whether financial data, systems and transactions are in accordance with applicable laws and regulations;
- Are the internal control functions adequate and efficient;
- Have appropriate actions been taken to implement the audit recommendations.

The audit is based on a risk assessment. The audit analyzed the activities of the Municipality, the level of reliance on managerial controls to determine the level of detailed tests, which are needed to provide evidence to support opinion of Chief Audit. The procedures implemented included a review of internal controls, accounting systems, related substantive tests as well as related management arrangements to the extent that the audit deems necessary for effective performance. The audit findings should not be considered as a comprehensive reflection of all weaknesses that may exist, or all improvements that may be made to the systems and procedures in place.

The Audit Conclusion in this report relates to the following:

The process of preparing annual financial statements is not in accordance with applicable law, with the exception of payment for court decisions. Financial management and control have resulted in weaknesses and controls are needed regarding the implementation of revenue collection laws, incomplete employee files, deficiencies in property registers, failure to establish an internal audit unit, and weaknesses in the reporting of arrears.

The implementation of the recommendations from the previous year indicates that the Municipality implemented three out of a total of 12 recommendations. One was partially addressed, three were considered closed and five recommendations were not addressed. The mayor took this into consideration and agreed with the findings and conclusions of the audit and pledged to address the given recommendations.

The main areas in need of improvement are: payments with court decisions from the wrong economic categories, non-implementation of revenue collection laws, incomplete employee files, lack of property registers, weaknesses in reporting arrears and failure to establish an internal audit unit.

In 2019, the Municipality spent 69% of the final budget or € 2,344,071, with an improvement of 1% compared to 2018 (where the budget was realized 68%). However, budget implementation remains unsatisfactory and explanations of the current situation are provided below.

Consumption of funds by economic categories (in €):

Description	Initial budget	Final budget	2019 Realisation	% of Realisation 2019	2018 Realisation	2017 Realisation
Expenditures of funds according to economical categories:	2,569,693	3,379,028	2,344,071	69%	2,796,040	2,173,627
Salaries and wages	1,550,000	1,550,000	1,071,383	69%	796,075	749,232
Goods and services	281,479	308,629	276,855	90%	257,681	201,489
Utility costs	70,958	70,958	6,451	9%	17,948	2,710
Subsidies and transfers	91,104	116,411	83,750	72%	90,750	90,100
Capital Investments	576,152	1,333,030	905,632	68%	1,633,586	1,130,096

Another task of the National Audit Office is to make recommendations to municipalities for better functioning of services and, more importantly, for more efficient implementation of laws and procedures, managing in accordance with legal requirements, in order to eliminate weaknesses in financial systems. The budget service of the municipality of Zubin Potok always tries to accept and implement the made recommendations. However, at the level of the entire municipality, more precisely in some services there are some shortcomings, which leads to the characterization of non-compliance with certain recommendations. But for the most part, this is quickly resolved through re-consultation and acceptance of responsibility. What remains unfulfilled is attributed to some major problems at the level of many municipalities in Kosovo.

Some of the fulfilled recommendations from 2018, which refer to 2019, concern the issue of workers with expired contracts. This issue is fixed and the Audit did not find any case where a worker was paid without valid contract. The following recommendations have also been met:

- The Mayor should ensure that budget execution is continuously and systematically monitored on a monthly basis and that this review identifies and addresses obstacles and difficulties to budget execution at the planned level. Where initial budget planning is incorrect, that should be fully reflected in the final budget position.
- The Mayor should ensure that mechanisms are clearly defined of how subsidies will be monitored and managed. Controls over the allocation of subsidies need to be strengthened to ensure effective monitoring of the use of funds allocated from the municipal budget.
- The Mayor should ensure that the budget planning for capital projects is in line with the costs considered as capital investments and that they are realized according to the purpose in the appropriate economic categories. In special cases, reallocation of costs is required in accordance with the requirements of the accounting plan.
- The Mayor should ensure that a feasibility study is carried out in advance for the projects concerned, ensure that the project starts at the optimal time and that plans for the duration of the works are planned in accordance with realistic possibilities. Also, during the preparation of complex Capital Project Proposals,

finds appropriate modalities on how to execute the project in order to avoid delays in starting and executing these projects.

- The Mayor should ensure that a review is conducted to determine the form of financial and operational reporting in senior management. Budget performance, including revenue, expenditure and the implementation of the capital project plan, should be subject to regular reporting and reviews by management. Also, in order to reduce the impact of risk at acceptable levels, the organization should compile a risk register, with all appropriate measures / actions to bring the exposed threats under control.

The 2019 recommendations relate to the following:

1. Budget planning and execution: The Mayor should ensure that all actions are taken to plan expenditures in appropriate budget allocations or reallocations, and that expenditures are paid and recorded in accordance with the appropriate economic codes.
2. Revenues: The Mayor should ensure the implementation of the law on revenue collection, which primarily aims to implement legal requirements and increase the quality of services for the citizens of the municipality.
3. Salaries and Wages: The Mayor should take appropriate measures to complete employee files with missing documents in accordance with applicable administrative regulations, including job descriptions and performance assessments.
4. Capital and non-capital assets: The Mayor should take measures to ensure that assets above and below € 1,000 are entered in the relevant registers, for all assets owned by him, so that the presentation of data in the MFS is accurate and complete.
5. Arrears: The Mayor should strengthen controls regarding the management and reporting of arrears.
6. Internal Audit Function: The Mayor should ensure the approval of positions and take measures regarding the establishment and functioning of the IAO, in order to provide support in risk management and improve the control system.

The National Audit Office also provides expert answers that mean a lot to municipal officials and help them improve their work in financial management and strengthen the responsibility of the municipality (budget organization). This is just another example of how cooperation between the municipality of Zubin Potok and the National Audit Office is conducted at a high level.

Another law that is respected in the work and cooperation of the municipality of Zubin Potok and the National Audit Office is the Law on the Use of Official Languages. Sending the report and all the accompanying documentation in both official languages (Serbian and Albanian) once again showed professionalism in performing the work.

National Audit Office as the highest institution of economic and financial control, which according to the Constitution and the Law performs audits, doing this role very professionally on the way that all parties in this process are satisfied, presented with appropriate information and procedures for more efficient functioning, but also to responsibly accept criticism, if any, and in accordance with the rules, correct any irregularities in the work. The Municipality of Zubin Potok can boast of many years of successful cooperation with the National Audit Office. The advisory role of the audit contributed to the improvement of the work and respect of the procedures of many municipal services, while the recommendations contributed the most to the improvement and education of the employees of the finance department. Review of internal controls and follow-up substantive tests are needed in every municipality as procedures for efficient audit. The municipality of Zubin Potok have the same need, and so far the audit has done it without any obstacles in this municipality, which will continue in the future. However, it should be noted that the results of the audit should not be considered as a comprehensive overview of all weaknesses that may exist or all improvements that can be made in the systems and procedures of the municipality, but emphasizes the most important and necessary steps for compliance with the law and smooth functioning of the municipality. In the municipality of Zubin Potok, they believe that the current functioning of the National Audit Office and the municipality of Zubin Potok has contributed to the creation of good institutional cooperation and interpersonal relations, and accordingly to the creation of true views in all aspects of the report. Therefore, there are no objections to the work of this institution by the finance department of the municipality of Zubin Potok, nor by other services of this municipality. This is also confirmed by the Mayor of the municipality of Zubin Potok,

who after this last audit report agreed with the findings and recommendations of the Auditor and obliged to submit the action plan for the implementation of recommendations to him as soon as possible.