



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE MINISTRY OF
LOCAL GOVERNMENT ADMINISTRATION FOR THE YEAR
ENDED 31 DECEMBER 2011

Prishtina, June 2012

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List of abbreviations

AFS	Annual Financial Statements
AG	Auditor General
AI	Administrative Instruction
BO	Budget Organisations
CAO	Chief Administrative Officer
EO	Economic Operator
FM/C	Financial Management and Control
FR	Financial Rule
GS	General Secretary
IA	Internal Audit
IAS	International Accountant Standards
IAU	Internal Audit Unit
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KFMIS	Kosovo Financial Management Information System
LPFMA	Law no. 03/L-048 on Public Finance Management and Accountabilities
LPP	Law on Public Procurement no 03/L-241 as amended with Law no. 04/L-042 applicable from 05.10.2011
MLGA	Ministry of Local Government Administration
OAG	Office of the Auditor General

Executive Summary

The Office of the Auditor General (OAG) has carried out an audit of the Annual Financial Statements (AFS) of the Ministry of Local Government Administration (MLGA) for the year ended 31 December 2011.

Our audit was carried out in accordance with international auditing standards issued by INTOSAI and included such tests and procedures as we deemed necessary to arrive at an opinion on the AFS.

In our opinion the financial statements *present a true and fair view* in all material aspects.

We would like to bring your attention to the disclosure of the information on assets, which is not complete.

Incomplete disclosure on fixed assets does not affect the opinion on Financial Statements compiled in line with IPSAS cash based accounting **(ISSAI 400: Unqualified Opinion with an Emphasis of Matter)**

However, we have identified shortcomings in several areas of financial management and control. These shortcomings are described more in depth in the report.

Our conclusion is that internal control system of MLGA is designed in an appropriate manner in eliminating possible shortcomings, but it has not functioned appropriately.

Shortcomings in compilation of AFS, although with no materiality to affect audit opinion, require addressing by management. Our findings also indicate that MLGA is not carrying out a constant supervision on budget execution process in category of capital transfers in support of municipalities. Problems in procurement, subsidies and assets management are matters that indicate MLGA should improve accountability and transparency in regard of administrative actions.

We recommend the Minister of MLGA to review and analyze the existing control system in areas with highlighted shortcomings. This should be carried out in order to increase the level of accountability and responsibility, in compliance with tasks and respective mandates.

In this regard, we recommend the Minister of MLGA to ensure that:

- General Secretary reviews and analyses the implementation of existing internal control systems within areas with emphasized shortcomings. The FMC self assessment tool might be the point of departure.

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- More attention in addressing the given recommendations, to improve financial management;
 - More efficient planning of budgeting process and creating of preconditions for a more appropriate budget execution for respective projects;
 - Strengthening of control from planning, monitoring up to approval of payments, in order to avoid piling of procedures in the end of the year;
 - Organization's AFS to contain appropriate disclosures according to legal framework requirements and information on assets;
 - Change of wages coefficient in contract to be carried out according to grading and respective approvals by MPA;
 - Better procurement and payment process;
 - Planning, disposal and commitment of budget funds before any contractual agreement;
 - Execution of liabilities against EO's to be carried out in accordance with the agreement;
 - Taking of measures for the work implementation to be carried out in compliance with the dynamic plan defined in the contract.
 - Increasing of controls on advances over business travels and on their use;
 - Increase of controls over planning, monitoring and use of subsidies for public and non public entities;
 - Assets registries to be complete, accurate and in compliance with the legal framework on governmental assets management and assets to be disclosed in AFS;
 - Action plan in addressing recommendations given by Internal Auditor and undertaking of needed steps in their implementation; and
 - Current processes and procedures are reviewed with the aim to secure services in most effective and efficient way in accordance with the Public Finance Management requirements.

MLGA management has acknowledged our findings and conclusions presented in the audit report on Annual Financial Statements for the year 2011 and committed themselves to make efforts in addressing all given recommendations.

1 Introduction

This audit relates to the annual financial statements of MLGA for the year ended 31 December 2011.

It is the responsibility of Kosova to prepare financial statements in accordance with the Financial Rules 07/2011 and International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under the Cash Basis of Accounting".

The Office of the Auditor General is responsible for carrying out annual regularity audits of this should be focused on the very institution at stake, the MLGA in this case.

A Regularity Audit is defined as an attestation of financial accounting, involving examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

We have carried out an interim audit of the MLGA. During that stage of the audit process we addressed the Kosovo's handling of recommendations given earlier and the quality of financial management. Based on this we have given advices to the management. This also included advice related to the preparation of the Annual Financial Statements. An audit memo was submitted the date in this case November 2011.

In order to fulfil our responsibilities for the audit of MLGA, we have undertaken the following activities:

- Reviewed the MLGA Annual Financial Statements against the approved budget for 2011;
- Determined whether the MLGA Annual Financial Statements were compiled in accordance with IPSAS "Financial Reporting under the Cash Basis of Accounting" and Financial Rule no. 07/2011;
- Established a materiality level of revenues and expenditures, as a threshold for assisting in determining the type of opinion to render on the financial statements;
- Used a combination of judgment and random sampling to select transactions for testing;

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- Undertaken internal control assessment and tested them as appropriate;
 - Undertaken extensive substantive testing of financial transactions;
 - Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions; and
 - Assessed the quality of work of the Kosova Internal Audit.

In this report we summarise this year's audit and give a formal opinion on the Annual Financial Statement 2011.

In regard with our audit opinion for MLGA annual financial statements, the international auditing standards set out specific criteria that govern the type opinion that can be rendered.

These are set out more fully in Annex 1.

2 Audit Opinion

In our opinion the financial statements present a true and fair view in all material aspects.

We would like to bring your attention to the disclosure of the information on assets, which is not complete.

Incomplete disclosure on fixed assets does not affect the opinion on Financial Statements compiled in line with IPSAS cash based accounting (**ISSAI 400: Unqualified Opinion with an Emphasis of Matter**).

3 Status of Prior Years Recommendations

In audit report on AFS for the year 2011, recommendations were given in eight (8) main areas of MLGA.

MLGA has adopted and Action Plan in addressing OAG's recommendations. Until the end of our audit, two recommendations were fully addressed, three partially and three were not addressed at all.

Areas where recommendations were not addressed yet have to do with: disclosure of assets in financial statements, payments on capital investment from subsidies and registration of expenditures in inadequate economic codes.

For a more in depth description of recommendations and on the manner of how they were addressed, see Annex 2.

Conclusion

The failure to fully address our prior recommendations led to similar problems repeated in some cases, even during 2011.

Recommendation 1

We recommend the MLGA Minister to ensure that:

- The General Secretary is paying more attention to addressing of given recommendations.

4 Financial outturn compared to approved budget

Analysis of result in AFS against Approved Budget indicates:

Table 1. Budget funds sources – current against the budget (in €)

Description	Initial Budget	Final Budget ¹	2011 Outturn	2010 Outturn
Budget funds sources. Total:	8,309,859	8,042,076	7,682,145	8,305,658
Government Grant – Budget	8,309,859	8,040,676	7,680,745	8,239,812
External Donations	-	1,400	1,400	65,846

From the data presented in the table, it can be seen that there is a decrease from initial budget to the final budget. Changes were made under the Government decision no. 01/43 dated 19.10.2011 approving internal reconciliations and new budget appropriations.

During 2011, MLGA has executed €7,682,145 or 95.5% of the final budget.

Table 2. Funds expenditures by economic categories – current against budget (in €)

Description	Initial Budget	Final Budget	2011 Outturn	2010 Outturn
Funds expenditures by categories – Total:	8,309,859	8,042,076	7,682,145	8,305,658
Wages and Salaries	699,919	776,980	726,375	610,831
Goods and Services	306,058	433,633	414,451	749,073
Utilities	30,000	37,709	37,661	33,642
Subsidies and Transfers	437,249	429,319	408,164	391,406
Capital Investments	6,240,801	6,316,909	6,095,493	6,520,706
Reserves	595,832	29,162	-	-

From the table, we can see changes within and between the categories.

¹ Final Budget – the budget approved by the assembly subsequently adjusted by the Ministry of Finance

An increase of the final budget regarding the wages and salaries resulted from the decision of the Government for covering the lack of funds for the brain fund and salaries. These intentions were not executed fully due to non approval of salary multipliers by MPA.

An increase of final budget for goods and services and utilities resulted from moving funds from the contingent reserves and subsidies to this category.

An increase of final budget in capital investment resulted due to funds allocation from reserves into the contingent expenditures programme.

Reduction in the final budget regarding the subsidies and transfers was related to the transferring of funds into category Goods and Services.

In 2011 budget, €595,832 were appropriated for the contingent expenditures programme. These funds were appropriated in support of new municipalities. Allocation of these funds was carried out with the consent of International Civilian Office's (ICO).

Final budget compared to the initial budget for the category "Reserves" was reduced for €566,670 remaining only €29,162. Out of the reduced amount, €296.670 were transferred to the newly established Municipalities while other part of €270,000 were cut by the Government decision.

We have noticed there was an increase of expenditures in subsidies and capital investment in the last quarter of the year. 90% of subsidies and 63% of capital investment expenditures have been executed in this quarter.

Conclusion

We conclude that MLGA has managed to execute its' budget within the limits set for the year 2011. But, high level of expenditures in category subsidies and capital investment in the last quarter indicates that MLGA has not been efficient in budget planning and execution process.

Recommendation 2

We recommend the MLGA Minister to ensure:

- More efficient planning of budgeting process and creation of preconditions for budget execution for the respective projects. This should be carried out by strengthening the constant supervision of budget execution plan in relation with its' prior planning.

5 Financial Statements - Compliance with reporting framework and the quality of information

According to requirements in LPFMA No. 03/L-048 and Financial Rules no. 7/2011, we have identified the following matters:

- Financial Statements are signed within the required time frame on 31/01/2012 and Submitted to MoF;
- Financial Statements have been signed by the Chief Administrative Officer and Chief Financial Officer of the audited body;
- Financial Statements were submitted only in Albanian;
- We have reviewed information presented in AFS compiled by MLGA before their finalization. We have noticed that MLGA has compiled AFS in compliance with Financial Rules no. 7/2011, but several shortcomings, that don't materially affect the opinion, were identified.

We present shortcomings noticed in regard of AFS quality as follows:

- Note 2- In general fund appropriation, budgeted value has been presented and not the receipts value, as required in Treasury's rule.
- Note 30- Summary of non financial assets (of value over €1000) in possession of Budget Organization (BO), summary of non financial assets for the year 2011 has not been presented. Assets purchases throughout the years are being presented for a certain year, but not in a summarized manner.
- Note 30- Only assets purchased in the year 2011 have been presented in summary of non financial assets (of value under €1000), while there has been no disclosure of assets for the years 2010 and 2009 as comparative notes through the years.

Conclusion

In general, AFS of MLGA are in compliance with the legal framework on financial reporting and FR no.07/2011. Matters emphasized above are not material and do not affect opinion on AFS. However, lack of asset disclosure should be addressed in future to provide a better quality of Ministry's financial reporting.

Recommendation 3

We recommend the MLGA Minister to ensure that:

- The assets and other identified reporting deficiencies are properly addressed in the nine month financial statements.

6 Financial Management

6.1 Expenditures

6.1.1 Remunerations (Wages and Salaries)

Approximately 129 employees were employed in MLGA during the year 2011, while expenditures for wages and salaries were in amount of €726,375.

We have initially tested 11 samples and then extended our testing to 35 employment contracts. We have noticed that the payments have not been executed according to the rules as follows:

In all tested samples we have identified differences between basic wage (in payroll system) and coefficient defined in the contract.

Differences are based on the decision taken by General Secretary, who has changed wages' coefficients in contracts of 35 employees, without changing their positions. As a result a higher budget was required and assured from MoF, with the Government's decision.

Despite the facts above, the change of coefficients (their increase) was not approved by MPA as a governmental institution in charge for payroll system and approval of grading in the entire Civil Service of Kosovo.

Conclusion

Increase of employees' salary multipliers without needed approvals, indicates that MLGA has not cooperated in a sufficient manner with MPA.

Recommendation 4

We recommend the MLGA Minister to ensure that:

- Salary multipliers in the contract are in compliance with the grade (multiplier) defined in the payroll system as well as multiplier changes are approved by MPA.

6.1.2 Procurement

In the year 2011, MLGA has executed the total of €6,338,086 through procurement. In our audit, we have chosen 44 samples of executed payments recorded in KFMIS in the amount of €1,740,359 and seven samples from procurement contracts in the amount of €253,392.

MLGA keeps direct relations with Kosovo municipalities, providing services for them in order to increase their efficiency and functionality in relation with the citizens.

MLGA's budget is used to support development of the legal framework, building roads and other capital investments of Kosovo municipalities, especially of the new ones.

The Assembly appropriates a total amount of funds for infrastructure investments. Afterwards the municipalities compete with their particular projects in order to get subsidies from MLGA for the whole or the part of the project.

MLGA selects projects and signs memorandums of understanding with municipalities on projects funding. In every agreement, procurement procedures and project supervision are foreseen to be implemented by municipalities, while the implemented investment after finalization becomes a municipal asset.

The municipalities must complete some paperwork such as contracts, supervision commission's decisions, reports on work conclusion, original invoices and etc. Once the paperwork is completed, MLGA executes payments directly to the contracted Economic Operators (EO).

Our tests resulted in several findings as follows:

Non execution of liabilities against EO's

In subject "Construction of power supply network in village Boletin" of Municipality of Zvecan, we have noticed that MLGA has foreseen an agreement with the Municipality to fund this project in amount of €250,000, while €214,686 were paid to the EO.

Apart from lack of budget, MLGA was not able to give another convincing reason over failure to execute these liabilities. This indicates that MLGA has charged itself with liabilities without having the appropriate funds to execute them.

MLGA and the Zvecan municipality have no written agreement on who will further handle the outstanding liability in such case.

Such situations can cause circumstances that might produce further handling of matter through court procedures and might more risk organization's budget, by creating further fines besides the basic amount of the liability.

Delays in conclusion of work

In subject "Repair of sewerage system in Budrik" in amount of €62,359, validity period for work conclusion was 70 days after signing of the contract, while there has been approximately a year of delay. Contract was signed on 30 August 2010, while work has been completed on 5 July 2011. In this case the Ministry did not apply penalties for delays in work execution.

Lack of funds commitment

In subject "Oil for vehicles" in amount of €3,215, funds were committed after invoices were received by the EO and not before the contract has been reached.

Recording of expenditures in inadequate economic codes

In subject "Supply with cameras" in amount of €6,492, expenditures were recorded in office supply code and not in the respective economic code (purchase of equipment of value over €1000 in capital investment).

Selection of an EO as a responsible one without fulfilling determined criteria

In subject "Supply with IT equipment" of amount €22,963, one of the EO has been evaluated as responsible. EO has brought only three letters of reference, but without attaching the respective contracts, as required in tender's dossier.

Conclusion

We conclude that in the tested samples MLGA has not developed sufficient controls over capital investment, especially over payment execution procedures according to agreements. There has been a lack of appropriate supervision of projects distributed in municipalities and this has caused problems, in regard of projects procurement and execution in time. Lack of funds to execute liabilities in agreements with municipalities indicates that MLGA has not appropriately planned the budget and charged itself with liabilities with no coverage.

Recommendation 5

We recommend the MLGA Minister to ensure that:

- Increased controls for the projects' work to be implemented within the defined timeline, in contrary, taking of measures to penalize operators;
- Budget funds are planned, disposal and committed prior to any contractual agreement for projects implementation;
- Execution of liabilities against EO's are carried out in accordance with the agreement. A re-regulation of the prior agreement should take place to ensure the execution of liabilities;
- Increased controls over tender assessment, and to assure that members of the respective commission handle criteria as required in tender's dossier; and
- All expenditures are recorded in accordance with the respective economic codes (nature of expenditure).

6.1.3 Other purchases

Approval of advanced payments for business travels by disobeying procedures

In subject "Official visit of MLGA delegation" in Croatia, we have noticed that there were two RTK journalists as part of the delegation.

There is no approved document regarding the engagement of the journalists in visit to Croatia. The expenditures for the journalists were paid by MLGA in amount of €1,500 and include: travel, accommodation and meal expenses.

Delays in reconciliation of advance payments from business travels

AI-2004/7 for business travels foresees advance payments to be reconciled 15 days after the return from the travel. We have noticed that there were delays in reconciliation of advance payments in two cases:

In subject "Official visit of MLGA delegation" to USA, we have noticed that the delegation has stayed in the business travel from 16-24 October 2011, while reconciliation of advanced payments was carried out on 5 January 2012, respectively almost in two months delay.

In subject "Official visit of MLGA delegation" to Albania, delegation has stayed in business travel from 7-9 July 2011, while reconciliation of advance payments was carried out on March 2012, respectively in eight (8) months delay.

Conclusion

We conclude that MLGA needs to strengthening the processes related to travels.. This can be noticed in their negligence to timely reconcile the advance payments for business travels and in their failure to assure appropriate records to justify the given money, in all cases. Such shortcomings effect spending of funds in an inefficient manner and for inefficient purposes.

Recommendation 6

We recommend the MLGA Minister to ensure:

- A written document that would determine purposes and reasons for participation of non civil servant staff as part of delegation paid by KB funds. Documentation should include respective agendas and invitations; and
- Reconciliation of advance payments for business travels within 15 days after returning from the travel;

6.1.4 Subsidies and Transfers

Final budget for Subsidies and Transfers was €429,319, whereas €408,164 or 95% were executed. Out of this, we have tested 10 samples in the amount of €371,251.

We have noticed the following findings:

Granting of subsidies through inadequate module (purchases)

Subsidies granted for public and non public beneficiaries should be recorded in KFMIS in the approvals module.

In four payments in the amount of €29,743, the subsidies have not been recorded in the respective module, but in the purchases module. This is in contradiction with the procedures on subsidies granting.

Granting of subsidies for capital investment

According to Treasure's rules, subsidies should not be given for expenses on capital investment. We have noticed in two cases that subsidies were granted to municipalities for implementation of projects in capital investment and those are the following:

- Subject "Asphalting of the local road in Karaqevë" in amount of €150,000; and
- "Repair and asphalting of a road in village Dimcë, Municipality of Hani i Elezit" in amount of €100,000.

Due to the insufficient planning for subsidies, a considerable amount of the Ministry's budget has remained unspent. Consequently, Ministry's management decided to use it for funding municipalities' capital projects.

Conclusion

We conclude that both, decision making processes and internal controls in MLGA has not functioned properly to secure efficient management of subsidies. Planning is not based upon concrete needs and demands and does not contain clear procedures on subsidies granting.

Lack of proper internal control regarding the subsidies led to spending not in compliance with Financial Regulation.

Recommendation 7

We recommend the MLGA Minister to ensure:

- Implementation of subsidies to go through approval procedures, while their recording in KFMIS to be carried out in approvals module.
- Subsidies are planned in compliance with granting needs and criteria and also granting criteria to be compiled in order to assure that subsidies granting is being implemented only for categories defined in a legal framework.

6.2 Assets

6.2.1 Handling of capital and non capital assets

The list of MLGA assets received from the Treasure consist a net value of €6,415,484.

We have reviewed the accounts registry, general registry of assets and their management in compliance with AI no.21/2009 on Governmental Assets Registration and Management.

Capital investment projects funded by MLGA in respective municipalities are recorded in the municipality's accounting registries.

Based upon our testing, we have noticed several shortcomings in regard of assets management and recording, and as follows:

- General Registry of Assets does not contain all elements required in AI no. 21/2009. We have noticed that barcode and serial number are missing in the registry;
- In one case, purchase of Outdoor Megapixel equipment and IR camera of value €1,267 has not been recorded into Accounting Registry (KFMIS); and
- Physical calculation (inventory) of assets was carried out for the year 2011, as required in AI. But, harmonization of data from assets registry with inventory report has not been carried out.

Conclusion

Lack of fully records on assets indicates weakness in assets management. This indicates MLGA has not developed sufficient control. Non harmonization of general registry of assets with the inventory would also lead to not recording of differences between these registries. The quality of reports on assets is thus not sufficient.

Recommendation 8

We recommend the MLGA Minister to ensure:

- Assets registries to be fully accurate. All assets of value over €1000 to be recorded in Accounts Registry (KFMIS); and
- Reconciliation of records between general registry of assets and inventory report, in order to find out the differences and needed measures updating registry are taken.

6.3 Handling of debts

Unexecuted liabilities against suppliers in the end of 2011 were in amount of €52,215.

Unexecuted liabilities have mainly to do with expenditures over representation, oil supply, vehicle maintenance, per diems and etc.

According to officers in charge, the key reason for non execution of liabilities was the lack of funds committed and delays in invoice reception.

Conclusion

Improper planning of funds and lack of controls in securing timely receiving of invoices had an impact on MLGA to enter into liabilities without having funds committed.

Entering into liabilities presents difficulties in implementation of coming year's projects, since execution of liabilities carried forward from prior year, reduces the current year budget.

Recommendation 9

We recommend the MLGA Minister to ensure:

- More appropriate forecasts and constant monitoring of funds determined for expenditures categories.

6.4 Current reporting and timeliness in the overall budget process

MLGA fulfils its current external reporting obligations such as:

- During 2011, MLGA has compiled quarterly reports and submitted them in time to the MoF Minister;
- Submitted performance report for the year 2010 to Treasury on 26.08.2011, despite the fact that FR -05/2011 requires for the BO to submit this report to Minister of Finance one month after receiving audited Financial Statements, but not later than 15 August.
- Submitted nine months financial statements in time;
- Adopted an action plan addressing recommendations given from audit and submitted it to the OAG;
- Submitted report on liabilities to MoF; and
- Submitted preliminary and final procurement plan for the year 2011, in time to PPA.

Conclusion

MLGA has fulfilled current external reporting requirements to a large extent. An exception is delay in submitting performance report in compliance with FR -05/2011 requirements on External Reporting for BO.

Recommendation 10

We recommend the MLGA Minister to ensure that:

- Annual performance reports are submitted within the statutory timeline.

7 Management Control

7.1 Internal Control Systems

In general, MLGA has a well designed internal control that appropriately determines control environment. Identified findings indicate this system has not functioned properly.

MLGA has structured levels of responsibility and accountability within the organization.. Control activities are distributed in appropriate segments of the organization. Distribution of tasks and controls are built within.

The controls are not operating to provide an appropriate, transparent and competitive functioning in several areas.

Procurement, management and assets recording processes are still accompanied with shortcomings. The Ministry also faces weaknesses in implementation of reached agreements with municipalities over implementation of capital investment, and in subsidies' granting for public and non public entities. MLGA, still deals with problems in budget planning and supervision resulting in much of liabilities carrying forward to the coming year.

Conclusion

The internal control systems are not functioning properly in all segments. It still has to be emphasized that problems in regards of procurement, assets management and liabilities are key matters that MLGA should focus on to improve the situation.

Recommendation 11

We recommend the MLGA Minister to ensure:

- Strengthening of internal control in areas with highlighted weaknesses, identification of causes that caused those weaknesses and concrete actions to prevent them.

7.2 Internal Audit System

MLGA has an established IAU consisting Internal Audit Director and one officer.

IAU has compiled an audit annual and strategic plan for the years 2011-2013. During the year, IAU has carried out five audits based upon the annual plan and two others based on requests from management.

Annual audit plan foresaw seven (7) audits and consultancy services for preventive audits. Our audit has concluded that this unit has not fulfilled completely the annual audit plan.

Furthermore, IAU has not compiled its' statute that would help implementation of IAU's objectives and aims.

During the year, IAU has compiled quarterly reports, annual report on carried out activities and IA activities and submitted those to Central Harmonisation Unit of Internal Audit.

All reports were accompanied by findings and recommendations. IAU findings and recommendations have not been followed up by concrete action plans from respective departments.

MLGA has established an audit committee on 31.01.2011, consisting of three (3) members. Later on, the committee has been reformulated with the Management's decision of date 30 May 2011. The Audit Committee compiled a Committee's statute on September 2011.

During the year 2011, it has held three regular meetings, where IAU work and implementation of recommendations have been analyzed.

Conclusion

In general, in comparison with prior years, there is a progress in 2011 in regard of focus in auditing current year's processes and in increase of Audit Committee's supervising role. However, the Ministry have not done its' best to compile concrete plans to determine actions in addressing of recommendations given by IAU.

Recommendation 12

We recommend the MLGA Minister to ensure that:

- IAU charter is drafted to increase its functioning;
- IAU fulfils its' audit plan and focus its' work in financial management and control supervision in compliance with the respective procedures drawn from MoF; and
- An action plan is produced stating concrete actions in addressing of IAU recommendations.

8 Overall conclusion on the Management of MLGA

Our conclusion is that MLGA management has a designed system on internal control. But, in some cases, MLGA has not managed to entirely implement those controls. Shortcomings in compilation of AFS, no material enough to affect audit opinion, require addressing by management.

Our findings also indicate that MLGA is not carrying out a constant supervision on budget execution process in category of capital transfers in support of municipalities.

Problems in procurement, subsidies and assets management are matters that indicate MLGA should improve accountability and transparency in regard of administrative actions.

Delays in regard of payments, or non commitment of funds in time, delays in reconciliation of advance payments and etc., have effected implementation of MLGA plans in an inefficient manner.

Overall recommendation

We recommend the MLGA Minister to ensure that:

- The General Secretary reviews and analysis implementation of existing control system is within areas with emphasized shortcomings to raise functioning of accountability and responsibility in compliance with defined tasks and responsibilities; and
- Current processes and procedures are reviewed with the aim to secure services in most effective and efficient way in accordance with the Public Finance Management requirements.

Annex I. Different types of Audit Opinions

(extract from ISSAI 400)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.
10. **An unqualified opinion** is given when the auditor is satisfied in all material respects that:
 - a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
 - b) the statements comply with statutory requirements and relevant regulations;
 - c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
 - d) there is adequate disclosure of all material matters relevant to the financial statements.
11. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

12. An auditor may **not be able to express an unqualified opinion when** any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:
- a) there has been limitation on the scope of the audit;
 - b) the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
 - c) there is uncertainty affecting the financial statements.
13. **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.
14. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.
15. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.
16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annex II: Prior year's recommendations

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
V. Annual Financial Statements	Disclosure of assets in financial statements.			Appropriate measures were not taken. Recommendation has not been addressed.
VI.1 Expenditures	1. Payments for capital investment from subsidies. 2. Expenditures registration into inadequate codes.			Appropriate measures were not taken. Recommendation has not been addressed.
VI.1.2 Other purchases	Exceed of expenses for land line phones.	Measures have been taken and recommendation has been implemented.		
1.3 Remunerations (Wages and salaries)	Inappropriate update of staff's dossiers such as non signing of monthly wages.	Measures have been taken and recommendation has been implemented.		
1.4 Subsidies and Transfers	Payments for projects from category subsidies.			Appropriate measures were not taken. Recommendation has not been addressed.
VI.2. Capital and non capital	1. A comprehensive registry of assets, premises and equipments		1. Physical counting of assets has been carried	

assets	<p>and that the same are disclosed in financial statements.</p> <p>2. Regular physical counting over the existence of assets and reconcile the outcome of counting with the asset and accounting register.</p>		<p>out in the determined period but data on assets registry have not been harmonized in relation with the inventory report.</p> <p>2. There is a progress in assets registration but there is not an appropriate disclosure of assets in financial statements.</p>	
VII.1 Internal Control Systems				
VII.2 Internal Audit	<p>1. IAU when compiling the annual audit plan is focused more on the processes and activities if the current year.</p> <p>2. IAU recommendations are addressed by the Management under concrete action plans taken from respective departments.</p> <p>3. Strengthening of AC to ensure appropriate oversight of Audit plans and outcomes.</p>		<p>Internal Auditor has been focused in auditing current year's processes and audit committee has been empowered.</p> <p>But, there is no progress in regard of concrete action plans from departments in implementing IAU recommendations.</p>	