



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 2012

Prishtina, May 2013

The Office of the Auditor General (OAG) undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson is the head of the OAG which employs around 140 staff. The Auditor General and the OAG shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

Our Mission is to “Contribute to sound financial management in public administration”. We shall perform quality audits in line with internationally recognized public sector auditing standards and good European practices. We shall build confidence in the spending of public funds. We shall play an active role in securing taxpayers’ and other stakeholders’ interests in enhancing public accountability’

The reports produced by the OAG directly promote accountability as they provide a base for holding managers’ of individual budget organisations to account.

The Auditor General has decided on the audit opinion and the report on the Annual Financial Statements of the Ministry of Local Government Administration in consultation with the Assistant Auditor General, Ibrahim Gjylderen, supervising the audit.

The opinion and report issued are a result of the audit carried out under the management of the Audit Director Bezad Halilaj supported by Agron Fetiu (Team leader), Ariana Berisha-Rexhebeqaj and Edona Abazi.

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Executive Summary

Introduction

This report summarises the key matters arising from our audit of the 2012 Annual Financial Statements (AFS) of Ministry of Local Government Administration. I would like to thank the Minister and his staff for their assistance during the audit process.

The examination of the 2012 financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs) issued by INTOSAI. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

Our audit focus has been on:

- The Annual Financial Statements;
- Financial Management and Internal Control (including budget management and execution); and,
- Internal Audit System.

Opinion

The Auditor General (AG) reports his opinion to. Annex I explains the different types of Opinions applied by the OAG. The AG's report includes an opinion as to the truth and fairness of the financial statements.

The AG's opinion is:

Unqualified Opinion

In our opinion the financial statements present a true and fair view in all material aspects
(ISSAI 400 Unqualified Opinion)

Overall Conclusion

The level of work undertaken by the OAG to complete the 2012 audit is a direct reflection of the quality of the internal control environment implemented by management. Our overall conclusion is that:

Internal control systems within MLGA were properly designed but did not operate effectively in all cases.

We have been able to take assurance from the effective operation of management controls in a number of account areas but have also identified weaknesses in some important areas of financial management. Weaknesses are detailed below.

Audit recommendations are intended to support MGLA in improving financial controls and enhancing other aspects of operational activity. We have considered the response to our recommendations made in 2011 – the current position is summarised in Annex III. Our overall conclusion is that further action is required to address some significant prior year recommendations.

We discuss the quality of MLGA’s financial reporting and our detailed audit findings with regard to the Annual Financial Statements, Financial Management and Control and Management Accountability and Internal Audit in the main body of this report.

Our key recommendations are the following:

MLGA Management should:

- ensure that a revised action plan clearly sets out a timetable for addressing audit recommendations with accountable staff members identified – and with initial focus on those areas of greatest significance;
- Systematically assess the reasons for the reduced level of budget execution in 2012 and determine practical options for improving both this and the profile of expenditure across the year. This may include working with municipalities and other budget organisations; proactively monitoring likely expenditure levels at sub category level, liaising with the MoF to release funds that are not expected to be utilised and revisiting budget planning processes to ensure that these are robust.
- Ensure that Municipality funds are committed in advance in order that the projects agreed can be executed in line with agreed contracts and on time. The MLGA should introduce effective monitoring to ensure that municipality cash flows match project requirements and ensure that no contracts are entered into by municipalities until a formal Memorandum of Agreement has been signed.
- Identify the reasons for delays in project completion and actions should be taken to ensure that projects are finalised within the expected timeliness. Penalties should be imposed where appropriate to support this process.;
- review the reasons why a payment was made without contract requirements being met and implement necessary controls to ensure that this situation cannot be repeated
- Ensure that asset registers are formally reconciled to the inventory report and all necessary information incorporated within the register or maintained separately as appropriate.

Management have confirmed agreement with all of our audit findings and have committed to address our recommendations.

1 Audit Scope and Methodology

It is the responsibility of MLGA to prepare financial statements under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting'. The Office of the Auditor General is responsible for carrying out a Regularity Audit which involves the 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.

Audit work undertaken reflected our audit risk assessment for MLGA. We have considered our understanding of the organisation, the extent to which management controls can be relied upon and the level of detailed testing required when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of Management Responses to recommendations made in 2011 is at Annex II.

We have included the significant and other, less significant findings arising from our audit. For completeness we have included issues identified at the month 9 audit where they remain relevant. Our findings are defined as:

Significant - major issues for the attention of those charged with governance and senior management which may have the potential to result in a material weakness in internal control ; and

Other - weaknesses identified in our audit where action will offer the potential for improvements to the efficiency and effectiveness of internal controls.

Our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

2 Annual Financial Statements

Our review of the Annual Financial Statements considers both compliance with the reporting framework and the quality and accuracy of the information recorded in the financial statements. We also consider the Declaration made by the CAO and Chief Financial Officer when the draft AFS are submitted to the Government.

The declaration regarding presentation of financial statements incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the financial statements. A number of the declarations are intended to provide assurance to the Government that all relevant information has been provided to ensure that a comprehensive audit can be undertaken

2.1 Compliance with the Reporting Framework

Overall Conclusion

The AFS of MLGA are in line with legal framework for financial reporting and Financial Rule no. 07/2011.

Description

The Annual Financial Statements are required to comply with a specified reporting framework. We noted that the AFS were:

- submitted to MoF - Treasury within the required time frame, on 31.01.2013;
- prepared in both hard and electronic copies;
- signed by the Chief Administrative Officer and Chief Financial Officer; and
- Submitted within the Treasury in Albanian and Serbian language.

2.2 Quality and Accuracy of Information Presented in the Annual Financial Statements

Overall Conclusion

The AFS submitted to the Treasury on 31 January 2013, were of a good quality. Only one element of the Budget Execution Statement required adjustment following audit.

Description

Within the Statement of Budget Execution, donations in the amount of €47,713 were not included in the final budget. This was adjusted for to ensure Accurate presentation of budget appropriations within budget execution table.

Given the above - the Declaration made by the CAO and Chief Financial Officer that information in AFS are complete, accurate and contain proper information, was a fair assessment.

2.3 Audit Opinion

Unqualified Opinion

In our opinion the financial statements present a true and fair view in all material aspects
(ISSAI 400 Unqualified Opinion)

3 Prior Year Recommendations

Overall Conclusion

Despite the implementation of an action plan by the Municipality to address 2011 recommendations – a number of significant issues have yet to be addressed.

Description

Our Audit Report on the 2011 AFS of MLGA resulted in 12 key recommendations. At the end of our 2012 audit, 5 recommendations have been fully addressed; 3 are partially addressed; and others have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Findings and Recommendations

1. Issue - Addressing Prior Year Audit Recommendations – Priority Significant

Finding Only a proportion of prior year recommendations have been implemented.

Risk The continued weakness of internal controls in key financial systems has resulted in – for example:

- Continued ongoing organisational inefficiencies and poor value for money in the area of expenditure ; and
- Delays in improving controls associated with asset management;

Recommendation 1 Management should ensure that a revised action plan clearly sets out a timetable for addressing audit recommendations made with accountable staff members identified - with initial focus on those areas of greatest significance.

4 Financial Management and Control

4.1 Introduction

Our audit approach is focused on understanding and evaluating the actions taken by management to secure effective financial management and control. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be monitoring activity undertaken by senior management or lower level operational controls.

We consider whether controls are well designed, have been implemented as planned and operate effectively. Although in some aspects such as the budget management, it still has a room for improvement. This requires an assessment of structures, processes and accountability lines introduced by management.

Following our advice the MLGA Management undertook a self assessment process which will be developed further in the future with support from the Ministry of Finance. The initial self assessment process is a positive development.

4.2 Budget Planning and Execution

Overall Conclusion

While the MLGA does not have full control over its budget allocations or aspects of budget execution there remains potential to increase the overall level of budget execution. Although expenditure levels have reduced since 2010 actual budget execution has also reduced.

Description

We have considered the source of budgetary funds for MLGA, spending of funds by economic categories and revenues collected. This is highlighted in the following tables

Table 1. Sources of budgetary Funds - outturn against the budget (in €)

Description	Initial Budget	Final Budget ¹	2012 Outturn	2011 Outturn	2010 Outturn
Sources of Funds	6,769,058	6,788,072	5,792,704	7,682,145	8,305,658
Government Grant - Budget	6,769,058	6,740,358	5,752,550	7,680,745	8,239,812
External Donations	-	47,713	40,154	1,400	65,846

The consolidation and establishment of new municipalities has resulted in the reducing budget allocation for MLGA.

The table indicates that in 2012, MLGA spent €5,792,704 or 85% of the final budget - . This is a significantly lower level of f execution than was the case in 2011 (95%).A reduction from initial to final budget with €28,7002 was made under Government decision 06/2012 for functioning of brain fund and decision no.04/101 for reducing new budget appropriations.

Table 2 Spending of funds by economic categories - outturn against the budget

Description	Initial Budget	Final Budget	2012 Outturn	2011 Outturn	2010 Outturn
Spending of funds broken down by economic categories	6,769,058	6,788,072	5,792,704	7,682,145	8,305,658
Wages and Salaries	699,919	779,542	696,535	726,375	610,831
Goods and Services	336,058	789,104	672,666	451,113	782,715
Subsidies and Transfers	437,249	487,249	390,063	408,164	392,406
Capital Investments	4,700,000	4,732,177	4,033,440	6,095,493	6,520,706
Reserves	595,832	-	-	-	-

Changes between the initial and final budget reflect the allocation of reserves. The existence of reserves is unique to MLGA but the impact of the allocation of this has been to increase the under spend against budget. The under spend against Wages and Salaries primarily reflects that additional funds for the preparatory team for the Municipality of Mitrovica were approved under budget review but not utilised as the team was transferred into the Administrative Office in North Mitrovica and funded separately.

¹ Final budget - the budget approved by the Assembly which was subsequently adjusted for by the Ministry of Finance.

² the initial budget was €6,769,058 , while the final budget €6,740,358, a difference of €28,700 resulted from Government's decision €6,769,058+€22800-51500€=€ 6,740,358 (final budget)

Delays in implementing projects and the need to repeat procurement procedures also contributed to reduced budget execution.

2. Issue - Poor Budget Execution - Priority Significant

Finding The level of budget execution is low as detailed in the comments related to Table 1 and Table 2. We also noted that budget execution varied significantly between budget sub categories - for example - official travel expenses from €25,058 to €61,198, and other purchases from €25,000 to €50,069 and in marketing expenses and furniture purchase where from €33,000, €2,215 was spent and from €35,000, €7,870 was spent).. In the last quarter 55% of total expenditure was spent and for capital investments 63% of the respective budget was spent.

Risk Poor budget execution will result in inefficient resource utilisation across the public sector and reduce the effectiveness of expenditure plans in individual budget organisations.

Expenditure concentrated in the last months of the year risks that funds are spent ineffectively where the focus is on achieving the desired level of expenditure rather than effective outcomes.

Recommendation 2 Management should systematically assess the reasons for the reduced level of budget execution in 2012 and determine practical options for improving both this and the profile of expenditure across the year. This may include:

Working with municipalities to ensure that any potential pitfalls in the procurement processes are avoided

Working with other budget organisations to seek to influence procurement processes to promote more streamlined processes which reduces timescales and the potential for objections to the process

Proactively monitoring likely expenditure levels at sub category level and liaising with the MoF to release funds that are not expected to be utilised

Revisiting budget planning processes to ensure that these are robust

3. Issue - Recording expenditures within inaccurate codes – Priority other

Finding The Project “Preparing, Delivery and publication of materials before and after the third international conference for local self-government” in the amount of €10,505 belongs to the Goods and Services while it was financed from the category of subsidies.

Risk Recording expenditures within inaccurate categories increases the risk that the intended purpose of the expenditure is not achieved and is potentially in contradiction of financial rules which require funds to be spent on intended purposes. It also reduces the effectiveness of budget management.

Recommendation 3 Management should ensure that controls are implemented to ensure that planned expenditures on subsidies and transfers are only spent in these areas.

4.3 Reporting Requirement

Overall Conclusion

MLGA met the requirements for external reporting. All requested reports were submitted within the required time frame.

Description

MLGA during 2012:

- Prepared and submitted quarterly reports to Minister of MoF;
- Prepared and submitted nine month financial statements in time;
- Prepared and submitted an action Plan on addressing audit recommendations;
- Prepared and submitted annual performance report for 2011 within the required time frame (14 August 2012);
- Reports on debts submitted to the MoF in time;
- Prepared and submitted draft and final procurement plan for 2012 to PPA in time;
- Prepared and submitted to MoF reports on internal controls including self assessment report; and
- Capital projects with value higher than €10,000 were reported to MoF, as required by law on budget.

Recommendations

We have no recommendations in this area

4.4 Expenditures

Overall Conclusion on Expenditures

Although improvements have been made in managing procurement activities, there remain some shortcomings in this area as well as in granting subsidies and advances for official travel.

4.4.1 Procurement

Description

MLGA spent €5,792,704 in 2012 of which €4,376,623 related to procurement exercises. This expenditure is intended to be used for developing legal frameworks, infrastructure and other capital investments in Municipalities.

For infrastructure investments municipalities have to bid for MLGA funds for the whole or part of the project. Where municipalities receive funding, a Memorandum of Understanding is agreed with MGLA. This, in most cases, foresees that the procurement procedures and supervision are carried out by the Municipalities, while after the investments are finalised, they become Municipality property. Municipalities must complete documentation, such as: (contracts, decisions of the supervisory committee, reports on the execution of works, original receipts, etc.). After that, MLGA executes the payment directly to the contracted Economic Operators (EOs).

4. Issue - Financing Municipality Projects - Priority Significant

Finding We identified two projects where Municipality Funding was not committed as agreed with MLGA. These related to:

Gjilan Municipality: "road construction Shillove, second phase" where the funds for co-financing were committed by MLGA in May 2012 but the municipality had entered into a contract in April 2012 and the MLGA carried out payments although the Municipality did not yet complete the payment of €184,155 despite the fact that MGLA funds were only to be paid after all municipality payments were made.

In the project "Construction of collection points and supply with containers" in the amount of €133,362, the Municipality did not meet the request for commitment of funds. The Project, planned to be finalised in 2012, was not completed. Despite this, MLGA made its payments in the amount defined for co-financing.

Risk Making payments to municipalities without full co-financing being achieved may result in incomplete projects and an ineffective use of public money. Where municipalities enter into agreements with EOs without MGLA committing the funds first, there is a risk of municipalities not being able to fund projects resulting again in incomplete projects and an ineffective use of public money.

Recommendation 4 MLGA Management should secure that Municipality funds are committed in advance in order that the projects agreed can be executed in line with agreed contracts and on time. The MLGA should introduce effective monitoring ensure that municipality cash flows match project requirements and ensure that no contracts are entered into by municipalities until a formal Memorandum of Agreement has been signed

5. Issue - Delays in execution of works – Priority- significant

Finding In the contract “Construction of pavement Klokot-Radivojce” in the amount of €75,000 deadline for completion of works was determined 22 days from the date contract was signed, and the project was delayed 102 days.

In the contract “Paving the road in the Municipality of Ranilug” in the amount of €140,654, the deadline for completion of works was 42 days from the date contract was signed. The contract was signed on 02nd of August 2012, and in early 2013, the works were not finished yet.

Furthermore, the measures for imposing penalties were not set towards the contractor, except the first project where penalties were applied for 13 days but not for the total of delay.

Risk Delays in execution of work increase the likelihood of project completion not meeting contract specifications and will have a negative impact on the level of budget execution. The failure to raise penalties for delays will set a precedent whereby other contractors may not consider completion dates as an important target to be achieved

Recommendation 5 Recommendation Management should identify the reasons for delays in project completion and actions should be taken to ensure that projects are finalised within the expected timeliness. Penalties should be imposed where appropriate to support this process.

6. Issue - Changing the item in the invoice when compared to receiving of goods – Priority-Other

Finding In the case “Supply with inventory” in the amount of €10,005, for “Office accessories” we have noticed that items presented in the invoice and delivery note do not comply with receiving report and the contract. The intended control to apply a comparison between the items received and those requested was not applied.

Risk A failure to apply expected checks on items received increases the risk of not receiving items paid for or receiving inferior goods.

Recommendation 6 Management should add an additional supervisory control in the process of ensuring that items received are those requested and invoiced.

7. Issue - Execution of payment despite contract specifications not being met- Priority-Significant

Finding In the contract “Paving the road Ruhot-Turbonoc-Staradan”, there are differences between the final report of the work done and the technical specification defined by the contract. For example, the amount of work planned to be carried out was 2,040 m³, and only 1,640 m³ were completed. The value of uncompleted work is (€1,600). Despite this, MLGA executed the payment without requesting information regarding this situation.

Risk Payments made for uncompleted works are potentially irregular. Where work is incomplete there is a risk that additional funds are required to complete the contract.

Recommendation 7 Management should review the reasons why a payment was made without contract requirements being met and implement necessary controls to ensure that this situation cannot be repeated

4.4.2 Other expenditures

Description

MLGA, in 2012 spent a total of €337,753 on other expenditures. These are not subject to procurement procedures and mainly include: purchase of stationeries, fuel, expenses for business trips, utilities, etc.

8. Issue - Weaknesses in controls related to Official travel - Priority Other

Finding	Official travel expenses included: <ul style="list-style-type: none">- “Visit to the U.S.” - of €11,290 not supported by a formal invitation and agenda in advance and- ‘visit to Slovenia’ of €4,616, with no invitation as above; per diem rates of € 117 were exceeded as €137 was paid; and two RTK journalists joined the trip at MGLAs expense (€1000). No internal regulations exist to regulate such expenses. Furthermore, in these cases there were delays in closing the advance within 60 days in one and 35 days in another.
Risk	The absence of a formal basis for overseas trips and a lack of clarity about those who should be involved and paid for by MGLA may result in an ineffective use of public funds. Delays in closing advances increase the risk of amounts due not being returned.
Recommendation 8	Official trips should only be funded if supported by a robust business case justifying the purpose of the trip. Regulations should be introduced specifying MGLA liabilities related to non MGLA staff being involved in official trips and controls regarding advances should be reviewed and enhanced where appropriate.

4.4.3 Remunerations (Wages and Salaries)

Description

During 2012 the average number of employees was 125 compared to the budget plan for 141 employees. This reflects the Government’s decisions on the establishment of the Administrative Office in North Mitrovica - a part of the Ministry’s staff were transferred into this office. Wages and Salaries are paid through a centralised system. Controls operated locally by the MGLA relate to authorisation of the payroll, a review of variances and internal reconciliations. Our testing has disclosed shortcomings in grades and coefficients, but after receiving our advices MLGA has corrected this issue.

Recommendation

We have no recommendations in this area

4.4.4 Subsidies and Transfers

Description

Subsidies were provided for public and non-public benefit in 2012.

Finding and Recommendations

9. Issue - Avoiding an agreement on subsidies Priority- Other

Finding In the project “Linguistics for the region of Gjilan (Anamorava)” in the amount of €9,400, the subsidy beneficiary did not adhere to the agreement which defined the duration of activities and submission of reports to the Ministry.

Risk A failure to meet agreements required for granting subsidies increases the risk that subsidies paid do not achieve the specified objective.

Recommendation 9 Management should review existing controls associated with subsidies and determine if additional action can be taken to ensure the achievement of agreed action – this may include staged payments reflecting receipt of required reports etc.

4.5 Assets

Overall Conclusion on Assets

Although MLGA performed an inventory and evaluation of assets at the end of the year as required by Administrative Instructions there remains incomplete recording of assets within MLGA highlighting an ongoing weakness in asset management.

4.5.1 Capital and non capital assets

Description

Asset management is an important part of financial management and control in the public sector.

Capital investment projects financed by MLGA throughout respective municipalities are recorded in the accounting records of the municipality. MLGA also maintains its own assets.

The key guidance in this area is AI no.21/2009 - on Registration and Management of Government Assets.

Findings and Recommendations

10. Issue - Incomplete asset register- Priority - significant

Finding While a physical count (inventory) of assets was undertaken for 2012, as required by the AI there was no reconciliation between this and the asset register. Furthermore the asset register does not contain all elements required by AI no. 21/2009. For example barcodes and serial number are missing.

We also identified one asset where no documentation exists to support its purchase (TV Sony 37 M)

Risk A failure to reconcile the asset register and the inventory report may result in assets not being included in the asset register and not being managed effectively leading to obsolescence/loss etc Incomplete Assets records will also potentially lead to difficulties in identifying/locating such assets again leading to a risk of obsolescence / loss/disputes over ownership.

Recommendation 10 Management should ensure that asset registers are formally reconciled to the inventory report and all necessary information incorporated within the register or maintained separately as appropriate.

4.6 Handling of debts

Overall Conclusion regarding Handling of Debts

MLGA when compared with earlier periods, it has shown some progress in terms of handling debts. While in previous year, obligations in the end of the year were €52,215, in late 2012 they were €3,200. As with other organisations there are other known obligations and these could be recorded in the AFS for the benefit of the reader of the accounts.

Description

The statement of liabilities not paid to suppliers at the end of 2012 was €3,200. Outstanding liabilities mainly relate to: representation expenditures and one purchase for capital investment. These liabilities are carried forward to be paid in 2013. As with most budget organisations there are other known liabilities but AFS guidance does not require these to be included in the accounts.

Recommendations

We have no recommendations in this area

5 Internal Audit System

Overall conclusion on internal audit system

MLGA has a functional system of internal audit as an important segment of controls in general. The Audit Committee and IAU are functional and operated based on defined plan and responsibilities. However, the reporting to CHU/IA needs to be improved.

Description

The internal audit system is a key part of internal control and due to its importance we present it here separately. We consider the scope of internal audit work and the activity of the Audit Committee. In addition we review actions taken by senior management as a result of the work carried out by internal audit and the audit committee.

MLGA has an IAU established, and it is comprised of Internal Audit Director and one officer. IAU prepared an annual and strategic audit plan for 2011-2013. For 2012, the Internal Auditor planned five regular audits and audits upon request (ad-hoc audits). He made these based on risk assessment and priorities, focusing the audit in different areas.

IAU during the year drafted quarterly reports, including an annual report on audits performed and IA activities. All audit reports were followed with findings and recommendations. During the year, the Committee held four regular meetings, where it analysed the work of the IAU and implementation of recommendations.

11. Issue - Failure to report in time to CHU/IA Priority Other

Finding Internal Audit reports for the first and second quarter were not submitted in time to CHU/IA. However, they were included in third quarter.

Risk Failure to report in time to CHU/IA increases the risk of required actions not being recognised and addressed.

Recommendation 11 The IAU should place emphasis on submitting the reports to CHU/IA in time, respectively 15 days after each quarter ends.

6 Overall conclusion

Our overall conclusion reflects our review of the controls associated with the AFS, Financial Management and Control and the Internal Audit System. This can be summarised as:

Internal control systems within MLGA were properly designed but did not operate effectively in all cases.

The AFS of MLGA are in line with legal framework for financial reporting and Financial Rule no. 07/2011. The AFS submitted to the Treasury on 31 January 2013, were of a good quality. Only one element of the Budget Execution Statement required adjustment following audit. MLGA met the requirements for other external reporting. Reports are delivered within the required time period.

Despite the implementation of an action plan by the Municipality to address 2011 recommendations – a number of significant issues have yet to be addressed.

While the MLGA does not have full control over its budget allocations or aspects of budget execution their remains potential to increase the overall level of budget execution. Although expenditure levels have reduced since 2010 actual budget execution has also reduced.

Although improvements have been made in managing procurement activities, there remain some shortcomings in this area as well as in granting subsidies and advances for official travel..

Although MLGA performed an inventory and evaluation of assets at end of the year as required by Administrative Instructions, a challenge that remains is incomplete recording of assets within MLGA highlighting an ongoing weakness in asset management.

MLGA when compared with earlier periods, it has shown some progress in terms of handling debts. While in previous year, obligations in the end of the year were €52,215, in late 2012 they were €3,200. As with other organisations there are other known obligations and these could be recorded in the AFS for the benefit of the reader of the accounts.

MLGA has a functional system of internal audit as an important segment of controls in general. The Audit Committee and IAU are functional and operated based on defined plan and responsibilities. However, the reporting to CHU/IA needs to be improved.

Annex I: Explanation of the different types of opinion applied by the OAG

(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.

Wages and Salaries	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	Yes		
Subsidies and Transfers	Implementation of subsidies to go through approval procedures, 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.	Yes Yes		
Assets	Assets registries to be fully accurate. All assets of value over €1000 to be recorded in Accounts Registry (KFMIS); 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	Yes		No measures taken
Internal control system			Partially in some areas	
Handling of debts	More appropriate forecasts and constant monitoring of funds determined for expenditures categories	Yes		
Internal Audit	Implementation of IAU recommendations, and fully executing the plan	Yes		