

Mitrovica North Municipality
Audit report 2019

July 2020

Mission and main goal of the NAO:

The National Audit Office of the Republic of Kosovo is the highest financial control institution responsible for its work to the Assembly of Kosovo.

The report directly aims to promote the accountability of public institutions as they provide a basis for holding the heads of individual budget organizations.

They build confidence in the spending of public funds and play an active role in ensuring the interests of taxpayers and other stakeholders in advancing public accountability. The audit was performed in accordance with the International Standards of Supreme Audit Institutions and good European practices.

Summary:

This report collected the key elements that emerged from the audit conducted during 2019 by the NAO, for the municipality of North Mitrovica, which includes the opinion of the Auditor General on the annual financial statements.

Note: The examination of the financial statements for 2019 was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAI).

Main guidelines of the audit report:

- An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.
- Whether the financial statements give a true and fair view of the accounts and financial matters for the audit period;
- Whether financial records, systems and transactions are in accordance with applicable laws and regulations;
- Whether internal controls and internal audit functions appropriate and effective;
- Have appropriate actions been taken to implement the audit recommendations.

The audit was based on a risk assessment and focused mainly on the following aspects:

- The conclusions of the annual financial statements have been prepared in accordance with the Ministry of Finance. n. 01/2017 on the annual financial reporting of budget organizations and they should be respected.
- Regarding the financial management and internal controls, the report concludes that the municipality of North Mitrovica needs to take additional actions to improve them. (Deviations were observed in the management and collection of property tax revenues, management of personnel, goods and services, capital investments, subsidies and transfers, and in asset management).
- The mayor agreed with the findings and conclusions of the audit and committed to implement the given recommendations during 2020.

Note: Based on the audit report for 2018, the municipality was not able to take concrete action and implement the recommendations received from the DRC.

Facts:

Annual financial statements for the year ended on 31st December 2019. They give a true and clear view in all material aspects, in accordance with International Public Sector Accounting Standards.

The municipality didn't took any concrete actions in order to collect revenues from the property taxes, while the revenues from construction permits had poor results (only one construction permit was issued).

The Mayor of North Mitrovica is responsible for the preparation and presentation of financial statements at municipal sessions, and in accordance with International Public Sector Accounting Standards - Cash Financial Reporting, he is responsible for overseeing the municipal financial reporting process.

During 2019, the municipality spent 73% of the final budget spending, which is an improvement of 4% compared to the previous year.

Regarding financial management and internal controls, the municipality should take additional measures to improve them (deviations have been noted in the management and collection of property tax revenues, personnel management, goods and services, capital investments, subsidies and transfers and in property management) .

The final budget for salaries and wages in relation to the initial budget did not have any changes. Namely, only 71% of this budget was spent because not all vacancies in the education and health sectors were filled;

The final budget for utilities compared to the initial budget was not changed and budget execution was 44%. The relocation of the office to the new building resulted in lower utility costs;

The final budget for subsidies and transfers was no different from the initial one, however execution was quite low, with only 10% of spending;

Although the final capital investment budget was increased by € 986,682, execution was only 73%.

This level of expenditures was due to delays in the implementation of projects financed by the Development Fund.

Challenges and recommendations:

C1. Non-implementation of tax laws and regulations - The municipality faces difficulties and obstacles in implementing this law. Although the municipality planned higher collection of property tax revenues (16,000 euros) than in 2018 (8,700 euros), it failed to collect property tax revenues at all. Also, the municipality has not yet established a Property Tax Service (the NAO report shows that there is still no manager, no researcher, no trained officer to use the flow system) and has not classified the property that would then establish a tax registry. The municipal assembly did not pass regulations for determining the tax rate. Impact of non-implementation of the Brussels Agreement in its entirety and even the non-implementation of the Law and regulations on property tax collection, the municipality was not able to collect most of the revenues that belong to it by law, given the fact that property tax is the only decentralized tax at the municipal level. In this way, the planned revenues are not collected, which directly affects the achievement of the goals of the municipality where the basis of funding is revenues.

R1. The mayor should ensure that the Law on Property Tax is applied and that an internal regulation is established which determines the tax rate. Furthermore, the mayor should ensure the functioning of the municipal property tax service, and through proactive communication should influence the awareness of citizens about the importance of property taxes and benefits for citizens.

C2. Shortcomings in fee charges for registration of vehicles finding- The municipality does not have a clear legal infrastructure that regulates the collection of vehicle registration tax revenues due to non-compliance with the internal regulations of the AI (MIA) 07/2019 on vehicle registration, Article 5. Municipal regulation, which is based on revenue collection from

vehicle registration fee, does not provide for any documentation that is collected as evidence to determine the amount of the fee based on the tonnage of 6 motor vehicles. Also, the lack of regulations that would accurately determine the required documents, reduced the ability to control collection and charging on behalf of the vehicle registration fee.

R2. The mayor should ensure that the control in the calculation and collection works by determining the necessary documents and evidence for the confirmation of the regularity of the calculation by a municipal regulation.

C3. Poor recording of E-kiosk revenues- By paying 1 euro, the citizens may issue the birth certificates, can get other documents such as wedding certificate and notice of residence, notice of joint family union and proof of tax payment. During 2019, the municipality collected revenues in the amount of 1,236 euros through this machine.

The municipality failed to register the revenues collected through the E-kiosk in a timely manner. The impact of non-recording of revenues in the appropriate economic codes as provided in the chart of accounts and delays in recording revenues affect the quality of reporting and prevent monthly adjustments to the State Treasury.

R3. The Mayor should increase the level of responsibility of responsible officers so that revenues should be registered and reported in a timely and regular manner. It should also ensure that revenues are recorded under appropriate economic codes.

The report of the National Audit Office shows that the cooperation of the management and staff of the municipality during the audit process includes strong efforts to improve the work of the municipality.

By the end of the audit for 2019, two (2) recommendations have been implemented, and three (3) are in the process of complete implementation.