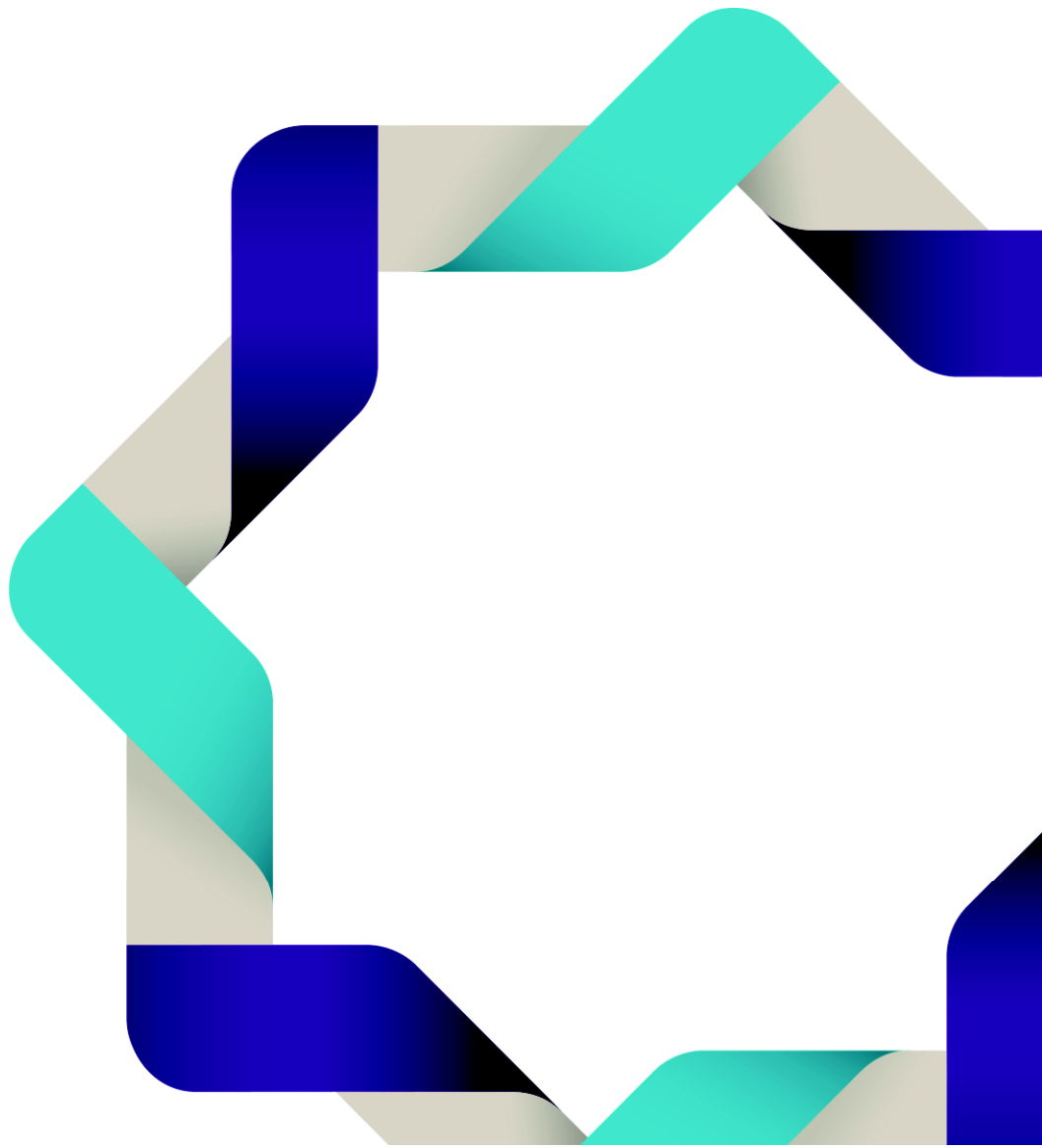


Auditor's Report

Network of Associations of Local Authorities of South East Europe (NALAS)

Project: "Open Regional Fund Southeast Europe-Modernization of Municipal Services/ Regional Capacity Development Network (RCDN)"

Period from 1 March 2020 through 31 March 2021



Auditor's Report

Recipient:

Network of Associations of Local Authorities of South-East Europe (NALAS)

Country:

Republic of North Macedonia

Project title:

Open Regional Fund Southeast Europe-Modernization of Municipal Services/ Regional Capacity Development Network (RCDN)

Contract number:

81254676

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0. Summary of main audit results

We have performed the procedures agreed with you and enumerated below concerning the topics from the Terms of Reference that are related to the accompanying summary financial statements presented in Annex I, for the period from 1 March 2020 through 31 March 2021 of the Project "Open Regional Fund Southeast Europe-Modernization of Municipal Services/ Regional Capacity Development Network (RCDN)" implemented by NALAS.

For the period from 1 March 2020 through 31 March 2021, we have reviewed the expenditures in the total amount of 111.467,51 EUR, which represents 52,23% from the total Project's expenditures amounting to 213.429,79 EUR. We have reviewed 100% of the Staff expenditure category in the total amount of 93,820.09 EUR and from the rest of the population (without bank fees) in the total amount of 118.856,29 EUR we have randomly selected sample of expenditures in the total amount of 17.647,42 EUR.

There were no findings and recommendations from the procedures performed for the period from 1 March 2020 through 31 March 2021.

1. Management and administration in terms of clearly defined roles, responsibilities, separation of tasks and an internal and/or external audit function (insofar as required under the agreement)

Objections/recommendations:

No findings identified. Roles and responsibilities are clearly defined in the employment contracts. According the Recipient's Rules and Procedures authorizations for transfers of funds are prepared by the Finance Officer. In particular, the task of the Finance Officer includes checking the balances of the different bank accounts and donor budgets and linking this information with the planned expenditures/transfers based on the information provided by the project/programme staff, and preparing a proposal what to pay from which account. The authorizations for fund transfers are confirmed and signed by the Executive Director. The Executive Director is authorised to make fund withdrawals or transfers from the bank accounts. Once the bank order is signed by the Executive Director, the Finance Officer is in charge to make the arrangement with the bank to transfer the funds and ensure that the bank provides all the required documents.

Accounting and record-keeping system is simple, effective and corresponds to the capacity, size and complexity of the Recipient (the Accounting is in-house). The financial reports are created from the accounting data and reviewed by the Executive Director.

2. Integrity and anti-corruption regulations, including the obligation of employees to adhere to a code of conduct, regulations on dealing with conflicts of interest when awarding contracts, an external or internal reporting procedure for fraud and corruption, and an independent and objective system for investigating cases of alleged corruption (insofar as required under the agreement)

Objections/recommendations:

No findings identified. We have inquired the Recipient and he is aware of the requirements of the Grant Agreement and ensures that the persons it entrusts with the preparation and implementation of the Project and the awarding of contracts for the provision of materials and services to be financed do not demand, accept, provide, grant, promise or accept promise for illegal payments or any other advantages in connection with these tasks. The Recipient, for the period from 1 March 2020 through 31 March 2021 has no the occurrence of any event which results in the Recipient, being listed on a sanctions list issued by the United Nations Security Council, the EU or the Federal Republic of Germany.

3. Proper use of funds as stipulated in the agreements, with random auditing of vouchers and bank accounts

Objections/recommendations:

No findings identified. The Grant Agreement between the Recipient and the donor defines that the Recipient must provide evidence of the use of the funds awarded under this Grant Agreement by submitting appropriate financial reports and supporting documents. For the period from 1 March 2020 through 31 March 2021, the Recipient has sent financial statements to the donor with supporting documents as evidence for the proper use of funds. As a result of performed procedures on a sample basis, we have been provided with the adequate supporting evidence of the use of funds as stipulated in the sub-grant agreements concluded between the Recipient and the associations as final recipients.

We have used alternative procedures for reviewing time sheets that have not been originally signed by the staff because of COVID-19 situation. The Recipient has sent us the e-mails with sent time sheets to the Finance Officer and Executive Director by the staff.

4. Rendering of any agreed partnership contributions by contractual partners

Objections/recommendations:

N/A. Rendering of any agreed partnership contributions by contractual partners is not agreed.

5. Regularity and efficiency of accounting processes set up for the agreements

Objections/recommendations:

No findings identified. The accounting of the Recipient is in-house. The recording of all financial transactions is in a consistent, practical and accessible format which is essential for good financial management. The Recipient keeps timely and accurate accounting records of financial transactions which shows what those funds are used for. Financial records and systems are regularly verified and authorized to ensure that the procedures are being followed correctly. Based on our procedures on a sample basis, we can verify that each transaction in the Recipient is adequately documented, authorized, verified and recorded.

6. Regularity of the contract award procedure for goods and services in the scope of the agreements

Objections/recommendations:

No findings identified. The Recipient follows contract awarding procedures for supplies and services which are prescribed in Annex 4a of the Grant Agreement.

7. Proper project implementation, including documentation of delivery and acceptance, documentation of whereabouts of procured materials and documentation of performance

Objections/recommendations:

No findings identified. The Recipient for the project implementation has prepared financial reports on forms prescribed by the donor. The activities, resources and time for implementation of project activities is structured into the budget and operation plan. The Recipient keeps electronic "Quick Book" expenses journals for each budget category and uses them to prepare periodical financial reports for review by the Executive Director and sending them to the donor with supporting documents as evidence of a proper use of funds to justify further disbursement of funds. On periodical basis the Executive Director reviews the expenses against project budgets. The review of periodical expenses is focused on the explanation of any significant budget variances.

8. Transparent file management

Objections/recommendations:

No findings identified. The Recipient is aware that the records have a definite life cycle that involves various stages. When a record is created, it must be filed according to a well-defined file plan so that it will be easily accessible to authorized users. The Recipient complies with the requirements required by local regulation, while complying with specific donor requirements as well.

9. Formal correctness of annual statements of accounts (in general and with respect to agreements)

Objections/recommendations:

N/A. Annual statements of accounts are not subject of audit. The engagement refers to the Project's financial reports covering the period from 1 March 2020 through 31 March 2021 in accordance to the Grant Agreement with the Network of Associations of Local Authorities of South-East Europe (NALAS), Contract No. 81254676.

10. Description of improvements to accounting, the contract award procedure and settlements with GIZ

Objections/recommendations:

N/A. There were no findings for the reporting period from 1 March 2020 through 31 March 2021 which would require improvements in regards of accounting, the contract award procedure and settlements with GIZ.

11. Differences from past financial statements

Objections/recommendations:

N/A.

12. The documentation of project implementation meets the requirements of the local stakeholders and at GIZ (planning, actual payments)

Objections/recommendations:

No findings identified. Based on our procedures on a sample basis, we can verify that the project implementation is adequately documented in all stages, as follows:

a) Funds allocation

In the planning phase, the budget is prepared based on the program activities included in the Operational Plan. During this preparation process, the Program/Project and Finance Officer are in charge of the fund's allocation, which at the end should be approved by the Executive Director, before the final submission to the GIZ. The funds allocation is approved by the Executive Director.

b) Financial transactions

b.1. Bank Transfer - This type of transaction is done by a payment order (payment of current obligations, expenses, and payment of the expenses for procurement of high priced goods). This type of transaction has to be previously approved by the Executive Director.

b.2. Cash Transactions - These types of transactions include order for cash withdrawal from the Recipient's accounts. This type of transaction has to be previously approved by the Executive Director.

The Program/Project Officer in coordination with the Executive Director, are responsible for monitoring the transaction of the funds on the bank account of the project and the transactions of the funds out of the project petty cash which is part of the program.

c) Reporting

Financial Reporting – The Financial Officer is responsible for producing periodical and final project's reports.

13. Formal correctness for accounting entries

Objections/recommendations:

No findings identified. The Recipient is using the double-entry book-keeping and keeps track of different budget lines. The accounting system complies with the national accounting standards and requirements and donor's standards and requirements.

14. Other comments (advisory services provided, etc.)

Notes/other objections: No other comments.

Proper use and settlement of the aforementioned grant agreement is confirmed.



Suzana Stavrikj
Director
Grant Thornton DOO, Skopje



Suzana Stavrikj
Certified Auditor

Skopje, 17 September 2021