



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF GJILAN FOR THE YEAR 2024

Prishtina, May 2025

TABLE OF CONTENT

- 1 Audit Opinion
- 2 Findings and recommendations
- 3 Summary on budget planning and execution
- 4 Progress in implementing recommendations

Annex I: Letter of confirmation

Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

1 Audit Opinion

We have completed the audit of the financial statements of the Municipality of Gjilan for the year ended on 31 December 2024 in accordance with the Law on the Auditor General and the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion on the financial statements and conclusion on compliance with authorities¹.

Qualified opinion on the annual financial statements

We have audited the annual financial statements of Municipality of Gjilan, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2024.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Municipality of Gjilan give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting, the Law no.03/L-48 on Public Finance Management and Accountabilities (as amended and supplemented) and the Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

Basis for Qualified Opinion

- A1 Outstanding liabilities (€2,855,994) presented in article 17 of the Annual Financial Statements (AFS) were overstated by €49,692.
- A2 Capital assets (€242,847,020) presented in article 19.3.1 of the AFS were understated by €18,538.
- B1 The Municipality has paid and recorded expenses of €1,987,278 from inadequate economic categories.

For more see subchapter 2.1 Issues with impact on the audit opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. NAO is independent from the auditee in accordance with INTOSAI-P-10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion on Compliance

¹ Compliance with authorities – compliance with all the public sector laws, rules, regulations, and relevant standards and good practices

² Other reports are required under Article 8 of Regulation no.01/2017 on Annual Financial Report

We have audited whether the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our opinion, except for the effects of the matters described in the Basis for Compliance Conclusion section of our report, transactions carried out in the process of execution of the Municipality of Gjilan's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

Basis for conclusion

- A3 Procurement procedure not conducted in line with the legal requirements
- B2 Payments for projects not made in line with the Law on Budget
- B3 Delayed payment of outstanding liabilities and payments executed by Treasury based on court/enforcement decisions were to the tune of €7,006,316. Of which, the principal debt was €6,483,260, whilst €523,056 were expenses related to interest and court/enforcement procedures
- B4 Delayed evaluation of tenders
- B5 The Municipality has engaged 102 officers on special service contracts without conducting the procurement procedures required by the Law on Public Officials
- B6 In regard to property tax, the municipality has not managed to inspect at least 20% of all facilities within its territory.

For more see subchapter 2.2 Issues with impact on the compliance conclusion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. NAO is independent from the auditee in accordance with INTOSAI-P-10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of Management and Those Charged with Governance for the Annual Financial Statements

The mayor is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, the mayor is responsible for establishing internal controls which he determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The mayor is responsible to ensure the oversight of the Municipality of Gjilan's financial

reporting process.

Management's Responsibility for Compliance

Municipality of Gjilan's management is also responsible for the use of Municipality of Gjilan's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.³

Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective Municipality of Gjilan's authorities with the applicable policies, rules and regulations as regards making use of financial resources of the audited organisation.

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Gjilan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness

³ Collectively referred to as compliance with authorities

of accounting estimates and related disclosures made by management.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves true and fair presentation.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The audit report is published on the NAO's website, except for information classified as sensitive or other legal or administrative prohibitions in accordance with applicable legislation.

2 Findings and recommendations⁴

During the audit, we have identified areas for possible improvement in financial management and control. In particular, we found shortcomings in: classification of expenditures, expenses, management of assets, accounts receivable, outstanding liabilities, contracts on capital investments and public procurement procedures. These issues are presented below in the form of findings and recommendations.

These findings and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in the form of explanatory notes, and improve internal controls relevant to financial reporting and compliance with authorities in connection to the management of public sector funds. We will follow up these recommendations during next year's audit.

This audit report resulted in 14 recommendations, of which six (6) are new ones, eight (8) are repeated recommendations for the improvement of the financial management and controls.

Payments executed by Treasury based on court/enforcement decisions were to the tune of €7,006,316. Of which, the principal debt was €6,483,260, whilst €523,056 were expenses related to interest and court/enforcement procedures.

For the status of the previous year's recommendations and the level of their implementation, see chapter 4

⁴ Issue A and Recommendation A means new issue and recommendation
 Issue B and Recommendation B means repeated issue and recommendation
 Issue C and Recommendation C means partly repeated issue and recommendation

2.1 Issues with impact on the audit opinion

Issue A1 – Overstatement of outstanding liabilities (invoices).

Finding

Regulation no.01/2017 on Annual Financial Statements of Budget Organizations, Article 17.1 stipulates that the Chief Financial Officer of a budget organization is responsible for ensuring that each valid invoice and request for payment of goods and services supplied and/or works completed for the budget organization to be paid within thirty (30) calendar days after receiving the invoice or request for payment by the concerned budget organization. Whilst according paragraph 17.3, budget organisations shall report all liabilities (invoices) as of 31st of December of the reporting year.

The outstanding liabilities presented (€2,855,994) in Article 17 of the Annual Financial Report (AFR) were overstated by €49,692, since the municipality reported as outstanding liabilities the invoices that had already been paid during 2024.

The untrue and incomplete presentation of outstanding liabilities in the AFR occurred because the responsible individuals did not follow the rules for accepting invoices and did not keep the ledger of unpaid invoice updated, for the true presentation of values in the AFS.

Impact

Incorrect disclosure of outstanding liabilities has led to their overstatement and may result in a misunderstanding of the municipality's financial activities. As a result, this, along with other errors, has an impact on the audit opinion.

Recommendation A1

The mayor should strengthen internal controls to ensure that necessary actions are taken to address the causes that led to the overstatement of outstanding liabilities, in order to ensure that their disclosure in the AFS is true and complete.

Response of entity's management (Agree).

Issue A2 – Assets over €1000 note recorded in the KFMIS assets register

Finding MF Regulation no.02/2013 on Management of Non-Financial Assets by Budget Organizations, Article 6.1, stipulates that each budget organization shall put in place and update a register of non-financial assets under its management. The register must be maintained separately for each asset individually and in aggregate form pursuant to categories classified according to the accounting plan”. Article 6.3 further states that “Capital assets must be recorded in KFMIS, while the non- capital assets and stocks in the “e- assets” system.

The following assets were not registered as capital assets, resulting in an understatement of the capital asset ledger:

- Equipment purchased under economic code (13512) "Scientific Equipment" with total value of €18,538 was not recorded in the asset ledger in KFMIS, even though the value per item exceeded €1,000.

The total value of unrecorded assets was €18,538.

The shortcomings identified regarding assets registration occurred due to the asset officers' flaws in properly implementing internal controls over assets.

Impact The shortcomings identified in asset management have led to the understatement of assets in the AFS. Additionally, poor asset management may result in the misappropriation or loss of the municipality's assets.

Recommendation A2 The mayor should provide for improved controls over asset registration, so that all municipal assets are recorded in the appropriate registers, that the asset accounting ledgers are updated before the AFS are prepared and that they are fairly disclosed in the AFS.

Response of entity's management (Agree).

Issue B1 – Misclassification of expenses

Finding According to Financial Rule No. 01/2013/MF on Public Funds Expenditure, expenditures should have the adequate codes, as defined under the Administrative Instruction for the accounting plan”.

The Treasury's chart of accounts also outlines the codes and categories of expenses that the BOs needs to apply.

From the sample testing, we found misclassifications of expenditures across economic categories in the amount of €1,825,594. Out of this amount, the Treasury made payments for jubilee salaries and meal allowances for teachers as per court enforcement decisions. These payments were made from the capital investments category (€1,076,013), the goods and services category (€740,198), and the subsidies and transfers category (€9,383). The payments from inadequate economic categories were paid by the Treasury. At the end of 2024, the municipality requested additional budget approval in the wages and allowances category from the Ministry, but the request was denied.

Additionally, the municipality paid and recorded expenditures in the amount of €161,684 from an inadequate economic category. These payments were made by the Municipality due to poor budgeting and errors in classifying expenditures caused by the municipality itself. These payments are related to expenses for summer road maintenance in the Municipality of Gjiilan, which should have been budgeted and paid from the goods and services category, rather than the capital investments category.

This occurred due to the lack of budget allocations in the adequate economic category to make payments in accordance with court enforcement decisions.

Impact

Payments made from inadequate categories lead to untrue presentation of information in the Municipality's AFS, where the data on expenditure categories are inaccurate and, as such, provide misleading information to the users of the AFS.

Recommendation B1

The mayor should ensure that, in coordination with the Ministry of Finance, Labor, and Transfers, all necessary actions are taken to plan expenditures within the adequate budget allocations or to reallocate funds so that payments and the recording of transactions are carried out in the correct economic categories.

Response of entity's management (Agree).

2.2 Issues with impact on compliance conclusion

Issue A3 - Procurement procedure not conducted in line with the legal requirements

Finding Regulation No. 001/2022 on Public Procurement, point 54.15 states that whenever the Contracting Authority does not know the indicative quantities, or unit price contracts, the CA must determine the weights based on the importance of each “service category” or each “item” in order for the Contracting Authority to determine what is the lowest bid. In these cases, the threshold or ceiling plus/minus thirty per cent (30%) is not applicable, such as car maintenance, generator maintenance, etc. In these cases, the public opening of bids reads the total weighted price which serves only for the purpose of evaluating the bids while the contract relates to unit prices and can be realized up to the estimated value. The amount of performance security for the execution of the contract in these cases must be defined as a fixed amount. Contracts with unit prices can be managed for all types of contracts, contracts for supplies, services and works (repairs and maintenance).

In the framework public contract (unit price) "Technical Maintenance of Facilities" with a total indicative value of €1,280,000, Annex one (1) of the tender dossier included an allowed deviation of +/-30%. The contract was concluded based on this provision, which is contrary to the requirements of the public procurement regulation.

This occurred due to the lack of functioning internal control and the negligence of the procurement office in addressing such issues.

Impact Concluding the contract with an applied deviation of +/-30% is not in compliance with legal requirements. Moreover, this practice results in unjustified and unplanned increases in public expenditure and may lead to an increase in municipal liabilities.

Recommendation A3 The mayor should ensure that the procurement procedure is carried out in accordance with the requirements of the Public Procurement Law, and when the contracting authority is unaware of the indicative quantities with unit prices, then a deviation of +/-30% should not be included in the contract.

Response of entity's management (Agree).

Issue B2 - Payments for projects not made in line with the Law on Budget

Finding According to the Law No. 08/L-260 on Budget Appropriations for 2024, Article 16, section 11, changes in allocated budget amounts for existing projects as a result of transfers and/or reallocations, presented in Table 4.2, including the carried forward own source revenues and projects recorded in KFMIS, must be approved in advance by the Municipal Assembly. All these changes shall be approved by the Minister.

In four (4) tested payments in the amount of €138,714, we identified that the municipality used funds for projects different from the ones originally planned/budgeted. In these cases, there was no approval from the Municipal Assembly for the re-destination of funds and the reallocation of budget allocations from one capital project to another.

The failure to implement legal requirements was due to the direct payments from the treasury for court/enforcement decisions, leaving certain projects without funding.

Impact Using funds for purposes other than those for which they were budgeted, without prior approval from the Municipal Assembly and the Minister of Finance, is not only a violation of the budget law, but also leads to a deviation of the projects implemented from those originally planned in the Municipal Assembly, where citizens' priorities were discussed and approved.

Recommendation B2 The mayor should ensure that the necessary actions are taken for the approved projects to be implemented as planned. If there is a need to reallocate project funds, this should be done following the procedures specified for reallocation in accordance with the Law on Budget Appropriations.

Response of entity's management (Agree).

Issue B3 - Delayed payment of outstanding liabilities and court/enforcement expenses

Finding

The Law on Public Financial Management and Accountability, Article 39.1, stipulates that the CFO of a budget organization shall be responsible for ensuring that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment.

Similarly, Article 40.3 of Law No. 03/L-048 on Public Financial Management and Accountability envisages that "Upon receipt of such a final order or judgment, the Minister shall have the authority and the responsibility to immediately take whatever measures may be necessary to pay that judgment or order out of available appropriations; provided, however, that if the judgment is against a municipality, only the municipality's appropriations may be used to satisfy such judgment".

In four (4) cases of outstanding invoices with the total amount of €361,708, the invoices were not paid within the statutory deadline. The delays in two cases were about 3 years, while in the other two cases, the delays ranged from 3 to 9 months.

Furthermore, due to failure to pay the liabilities on time, Treasury made payments in the amount of €7,006,316 from the municipality's 2024 budget based on court/enforcement decisions. Out of this amount, the principal debt was €6,483,260, with an additional €523,056 in costs related to court/enforcement procedures and interest

This occurred because the municipality did not have sufficient funds and entered into liabilities without conducting proper budget analysis.

Impact

Delays in paying liabilities may incur additional costs, where in addition to the invoice amount, the municipality had to pay additional costs including interest and other court/enforcement procedure-related expenses.

**Recommendation
B3**

The mayor should improve the funds management to ensure that financial liabilities are paid on time and within the 30-day deadline, in order to avoid unnecessary additional costs related to interest and penalties.

Response of entity's management (Agree).

Finding	According to Regulation No. 001/2022 on Public Procurement, Article 40, point 3, the procedure for examination, evaluation, and comparison of tenders shall be completed by the CA within the shortest possible period of time and no more than 30 days from the opening of the tenders. Only in exceptional and justified cases, in particular with contracts of a complex nature, this period may be extended for an additional term of 20 days. The tender evaluation process shall start immediately after the completion of the tender opening process. In the contract for the "Construction of the Family Medicine Center in Uglare" valued at €128,003, the bid evaluation process was extended to 42 days (which is 12 days beyond the permitted timeframe). Similarly, in the contract for the "Construction of the Road in Sefer Village" valued at €298,731, the bids evaluation process was extended to 71 days (which is 41 days beyond the permitted timeframe). This occurred due to insufficient oversight and control by the evaluation committee.
Impact	Delays in bid evaluation impacts the implementation of projects as planned, while also hindering the achievement of defined objectives.
Recommendation B4	The mayor should ensure that internal controls are strengthened to enable the evaluation committee can complete the evaluation of tenders within the 30-day deadline. Response of entity's management (Agree).

Finding	The Law no.06/L-114 on Public Officials, Article 84, stipulates that special service agreements, according to paragraph 4. of Article 12 of the Law on Civil Service No. 03/L-149 of the Republic of Kosovo, entered into before entry into force of this Law are valid until up to the deadline defined in those agreements in line with above stated provisions. Following this period, special service agreements are made according to the relevant public procurement legislation. Even in 2024, the Municipality of Gjilan continued to hire 102 individuals through special service agreements to fill regular positions without following any formal procedures - either via public procurement or the standard recruitment process. Most of these officials were assigned in regular job positions, such as in the Office of the Mayor, the Directorate of Finance, Administration, Procurement, Geodesy and Cadaster, Education, Health, Agriculture, etc. They were paid from the goods and services category (which also included pension contributions and income tax). Despite repeated recommendations from the NAO over the years to follow defined procedures for such agreements, the hiring of employees through special service agreements occurred without adhering to established rules due to a lack of implementation of internal controls.
Impact	Overlooking of procurement procedures or other relevant staff hiring procedures not only constitutes a legal violation by eliminating the principles of transparency and competition, but it also increases the risk of hiring individuals who are not adequately qualified for specific positions and responsibilities, which may negatively impact their job performance.
Recommendation B5	The mayor should ensure that the criteria set forth in the applicable legislation are duly respected when hiring individuals through special service agreements.

Response of entity's management (Agree).

Issue B6 – Failure to carry out a complete inspection of municipal properties

Finding	According to Law no.06/L-005 on Property Tax, Article 15, the Municipality shall carry out Inspection activities each year for at
----------------	--

least twenty per cent (20%) of all objects within the territory of the Municipality.

The Municipality of Gjiilan issued property tax invoices for 44,284 properties through the Protax system. In 2024, the Municipality only managed to inspect 5,465 properties, which is approximately 12% of the total

The Municipality failed to take all necessary measures or alternative actions to ensure the inspection of at least 20% of immovable properties, due to a lack of capacity (staff).

Impact

Incomplete inspection of properties may lead to incomplete information regarding the current taxable property base and may affect the accurate evaluation of property tax revenues.

**Recommendation
B6**

The mayor should ensure that at least 20% of immovable properties are inspected annually so that any changes are integrated in the property database to determine the correct tax liabilities.

Response of entity's management (Agree).

2.3 Other financial management and compliance issues

2.3.1 Revenues

Own source revenues generated in 2024 totalled to €4,365,101. They relate to revenues from property tax, construction permits, administrative fees, business activities, rent, etc. In addition to its own revenues, the municipality also received revenues from traffic fines and court penalties totalling €1,226,778, as well as revenues from the Kosovo Forest Agency amounting to €28,870.

Issue A4 – Poor reporting on allocation of municipal property for use

Finding The Law no.06/L-092 on Allocation for Use and Exchange of Municipal Immovable Property, Article 22, paragraph 2, stipulates that the Mayor shall be obliged to present, within its regular six (6) months reports, to the Municipal Assembly the specific report on monitoring the implementation of contracts and fulfilment of the purpose for allocating the immovable properties for use, until the commencement of implementation and achievement of the purpose for allocating the property for use.

The mayor failed to submit any semi-annual reports to the Municipal Assembly regarding the monitoring of contract implementation and the achievement of objectives related to the use of municipal properties.

This occurred due to overlooking of legal requirements regarding the reporting and oversight of contracts for the use of municipal property.

Impact The lack of reporting on the monitoring of municipal property contracts allocated for use not only results in legal non-compliance but also impacts the complete collection of revenues.

Recommendation A4 The mayor should ensure that regular semi-annual reports are submitted to the Municipal Assembly. These reports should include specific information on the monitoring of contract implementation, the achievement of intended objectives for the use of immovable property, and the execution of plans for the allocation of municipal property for use.

Response of entity's management (Agree).

2.3.2 Capital Investments

The final budget for capital investments was €9,976,426, of which €8,490,201 or 85% were spent. Those relate to: construction of facilities, local roads, water supply systems, sewage systems, national parks, river regulation, etc.

Issue A5 – Delayed implementation of outsourced works

Finding According to Regulation 001/2022 on Public Procurement, Article 70.23, the Responsibilities of the Project Manager shall be to Manage the obligations and duties of the CA specified in the contract, ensure that the economic operator performs the contract in accordance with the terms and conditions specified in the contract, and conduct the contractors' performance evaluation for contracts under his/her management.

We identified shortcomings in contract management as follows:

- Project: "Roads, Sewerage, and Sidewalk in Perlepnica Village" with a contract value of €120,195. The contract was signed on December 5, 2023, and the execution deadline was no more than six (6) months from the contract signing date. As of the audit period (in the execution phase, March 2025), 75% of the payments had been made. The Municipality did not apply the penalties stipulated in the contract.
- Project: "Creation of Green Spaces and Regulation of the Plateau above the Mirusha River - North" with a contract value of €912,708. The contract was signed on December 3, 2019, and the execution deadline was no more than seven (7) months from the contract signing date. As of the audit period (in the execution phase, March 2025), 66% of the payments had been made. The Municipality did not apply the penalties stipulated in the contract.

The lack of accountability by project managers was the reason why the works were not executed in accordance with the terms and deadlines defined in the contracts.

Impact The lack of prior approval for sufficient budget funds to execute the projects, along with the failure to implement contracts according to the specified terms, indicate significant shortcomings in budget planning and contract preparation, leading to delays and failure to complete the work as agreed in the contract.

Recommendation A5 The mayor should ensure that, prior to initiating procurement procedures, sufficient budget allocations are secured for project funding. In addition, the mayor should ensure that contract managers oversee the project implementation in order to address and eliminate any obstacles that prevent the contract from being executed according to the agreed terms.

Response of entity's management (Agree).**Issue B7 – Contract management registers not in the e-procurement platform**

Finding Regulation no. 001/2022 on Public Procurement, paragraph 70.24.f. provides that the contract manager shall ensure that all contract management records are prepared, kept and archived in the contract management module in the e-procurement system.

The Municipality did not maintain or archive contract management and contractor performance evaluations through the electronic public procurement system (e-procurement).

This occurred as a result of ineffective internal controls over contract management process through the e-procurement system.

Impact Failure to maintain and archive contracts through the public procurement system may lead to poor contract management and limit the ability of management to receive timely information regarding the progress and performance of the contracts.

Recommendation B7 The mayor should request from all project managers to ensure that contract management is properly maintained and archived through the electronic public procurement system.

Response of entity's management (Agree).

2.3.3 Capital and non-capital assets

The net value of capital assets presented in the AFS is €242,847,020, that of non-capital assets is €2,349,348, and of stocks is €322,270.

Issue A6 – Failure to close ongoing investments, and recorded as assets in use

Finding Regulation 02/2013 on Management of Non-Financial Assets by Budget Organizations outlines procedures for recording, maintaining asset registers, depreciation, and the inventory process. Furthermore, Article 11 stipulates that upon completion of the investment process, capital non-financial assets will be classified as non-financial assets in use. Depreciation shall apply from the moment of utilizing the asset.

In the registry of assets valued over €1,000, we found 671 assets with a total value of €14,488,346 recorded by the municipality as ongoing investments. These include assets purchased (constructed) between 2015–2024, for which no technical acceptance was carried out although the projects were completed, as well as projects that are in progress, under multi-year implementation, or suspended. Furthermore, the depreciation of these assets cannot be calculated as they are still recorded as ongoing investments. Due to the lack of depreciation over the years, the value of assets in the Annual Financial Statements (AFS) is overstated.

We have addressed this issue with the Municipality, which confirmed that in at least 273 cases, the projects had been completed, and equipment had been received, but the technical acceptance had not been completed yet.

This occurred due to the poor functioning of internal controls in the management of non-financial assets over the years.

Impact Failure to obtain technical acceptance for completed assets, as well as for those ongoing and suspended, affects the transparency of their status and reporting. This leads to shortcomings and difficulties in accurately assessing the Municipality's assets, making their effective management more challenging.

Recommendation A6 The mayor should ensure that internal controls over management of non-financial assets are functional. This includes ensuring the technical acceptance of completed projects and the appropriate accounting of projects that are ongoing or suspended.

Response of entity's management (Agree).

2.3.4 Accounts receivable

The Municipality disclosed accounts receivable of €15,596,380 in the 2024 Annual Financial Statements (AFS), showing a significant increase of €2,846,786 compared to the previous year (in 2023, accounts receivable was €12,749,594).

Issue B8 – Poor management of accounts receivable

Finding	According to Article 26 of Law No. 06-L 005 on Immovable Property Tax, “The Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competences granted by this Chapter to collect outstanding tax liabilities which exceed the amount of ten (10) Euros”. Additionally, Article 27 states that “If a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor”. Furthermore, the Manual for the Implementation of the Mandatory Collection of Property Tax dated 19.01.2024 in Chapter 5 describes the method of mandatory collection of property tax in accordance with this law and the articles mentioned above. The collection of any other revenues should be done in accordance with the deadlines specified on the invoice for each type of revenue.
	The Municipality has not effectively managed the collection of accounts receivable (AR). For our samples, we did not observe any concrete actions taken by the Municipality in 2024 to collection the receivables. Accounts receivable has increased year by year, and this trend continued in 2024. The largest share of receivables is constituted by property tax with €13,451,658, followed by business licenses with €1,743,551, rents with €362,560, and other receivables with €38,611.
	This situation occurred because the Municipality did not take any concrete legal or warning measures to encourage taxpayers to pay off their debts. At the same time, it also indicates a poor functioning of the relevant units responsible for managing revenues and accounts receivable.
Impact	The failure to implement mechanisms established by law and regulations contributes to the continuous increase of accounts receivable, resulting in less funds for achieving municipal objectives and encourages other debtors not to meet their obligations.
Recommendation B8	The mayor should take measures to improve the functioning of the relevant units in order to ensure better management of revenues and accounts receivable. Response of entity’s management (Agree).

3 Summary information on budget planning and execution

This chapter gives a summary on the sources of budget funds, expenditure of funds and revenues collected according to economic categories. This information is illustrated through the following tables and graphs:

Table 1. Expenditures by sources of budgetary funds (in €)

Description	Initial Budget	Final Budget ⁵	2024 Expenses	2023 Expenses	2022 Expenses
Sources of Funds	37,189,018	41,289,491	39,282,737	34,111,198	32,109,663
Government Grant - Budget	32,150,510	34,171,053	33,773,909	29,531,115	26,458,539
Funding through borrowing	0	0	0	0	195,247
Carried forward from previous year	0	2,026,399	1,785,067	1,290,241	1,650,040
Own Source Revenues	5,038,508	5,038,508	3,693,617	3,201,622	3,710,468
Domestic donations	0	31,768	25,866	8,855	46,462
External donations	0	21,763	4,278	79,365	48,908

The final budget was higher than the initial budget by €4,100,473. This was as a result of funds received from donations, revenues carried forward from previous year and the Government's decisions. In 2024, The municipality spent € 95% of the final budget, an increase of 4% compared to year 2023 where the budget was spent at 91%. Treasury has executed around €7 million from the Municipality's budget of different categories.

Table 2. Spending of funds by economic categories (in €)

Description	Initial Budget	Final Budget	2024 Expenses	2023 Expenses	2022 Expenses
Spending of funds by economic categories	37,189,018	41,289,491	39,282,737	34,111,198	32,109,663
Wages and Salaries	19,773,824	22,018,157	21,913,906	18,882,012	15,186,827
Goods and Services	6,838,311	6,934,753	6,755,847	6,532,677	5,032,485
Utilities	675,100	736,730	677,218	605,132	568,787
Subsidies and Transfers	1,536,340	1,623,425	1,445,565	1,692,527	1,165,387
Capital Investments	8,365,443	9,976,426	8,490,201	6,398,850	10,156,178

Explanations on changes in budget categories are given below:

⁵ Final budget – approved by the Assembly and subsequently adapted by the Ministry of Finance

The final budget for wages and salaries was increased by €2,244,333. This was as a result of the Government of Kosovo's decision to raise the salaries with €2,020,543, the own source revenues with €219,570 and donations with €4,220.

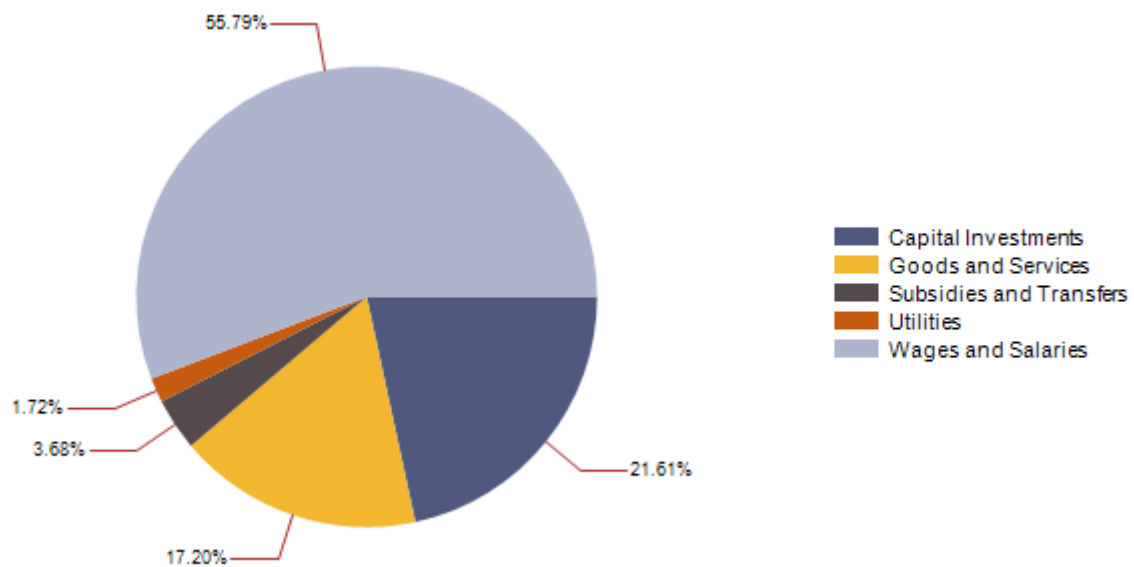
The final budget for goods and services was increased by €96,442. This increase was as a result of unspent own source revenues of €90,740 and the donations of €5,702.

The final budget for utilities was increased by €61,630 compared to the initial budget, as a result of own source revenues carried forward from 2023.

The final budget for subsidies was increased by €87,085; with €83,155 from unspent own source revenues from 2023 and €3,930 from donations.

The final budget for capital expenditures was increased by €1,610,983 compared to the initial budget. This increase was as a result unspent own source revenues of €1,571,304 and the donors grants of €39,679. The budget of this category was spent at around 85%, but it should be noted that €1,076,013 were paid for the collective contract which pertains to the wages and salaries category.

Chart 1. Expenses by economic categories for year 2024



The own source revenues for 2024 were €4,365,101. They relate to revenues from property tax, construction permits, administrative fees, business activities, rent, etc. In addition to its own revenues, the municipality also received revenues from traffic fines and court penalties totalling €1,226,778, as well as revenues from the Kosovo Forest Agency amounting to €28,870. These revenues are not included in the table below because they are planned and collected by the line ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2024 Receipts	2023 Receipts	2022 Receipts
Total of revenues	5,038,508	5,038,508	4,365,101	6,667,379	4,245,470
Tax revenues	3,041,965	3,041,965	1,621,281	3,088,495	2,484,945
Non-tax revenues	1,996,543	1,996,543	2,742,587	3,263,178	1,740,129
Other revenues	0	0	1,233	315,706	20,397

4 Progress in implementing recommendations

Our audit report on 2023 Annual Financial Statements (AFS) resulted in eleven (11) recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2024 audit, three (3) recommendations have been implemented, while eight (8) recommendations had not been addressed yet, as shown in the following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 – Table of Recommendations.

Chart 2. Progress in implementing prior year's recommendations

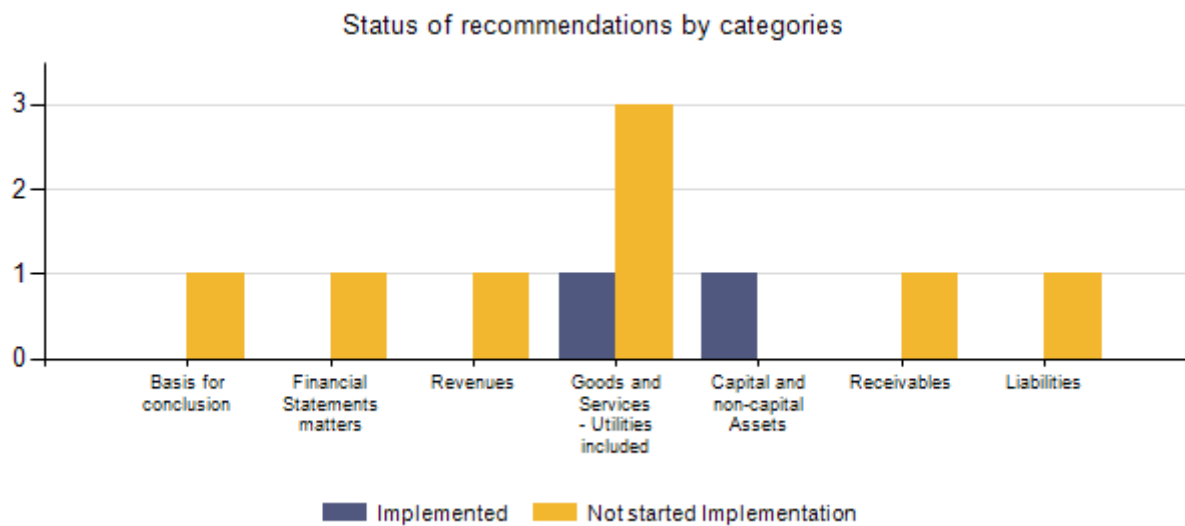


Table 4 Summary of prior year's recommendations and of 2024

No	Audit Area	Recommendations of 2023	Actions taken	Status
1.	Basis for conclusion	The mayor should increase the number of internal controls to ensure that asset officers will register non-capital assets in the e-asset system in order to present them fully and accurately in AFSs.	Despite the actions taken by the municipality, we have noticed that the recommendation has not been implemented yet.	Not started Implementation
2.	Financial Statements matters	Recommendation B1 The mayor, in coordination with the Minister of Finance, Labour, and Transfers, should ensure that all the necessary actions are taken so that the expenses are planned in the adequate budget appropriations or have the funds reallocated in order for the	Despite the actions taken by the municipality, we have noticed that the recommendation has not been	Not started Implementation

		payment and registration of transactions to be done pursuant to the adequate economic categories.	implemented yet.	
3.	Revenues	Recommendation B4 The mayor should ensure that the verification of 20% of immovable properties is achieved so that eventual property changes are integrated into the database to reflect accurate liability.	Despite the actions taken by the municipality, we have noticed that the recommendation has not been implemented yet.	Not started Implementation
4.	Goods and Services - Utilities included	The mayor should ensure that when engaging persons with special service agreements, the criteria of the respective legislation are complied with.	Despite the actions taken by the municipality, we have noticed that the recommendation has not been implemented yet.	Not started Implementation
5.	Goods and Services - Utilities included	Recommendation B7 The mayor should request from all project managers to ensure that contract management will be maintained and archived using the electronic public procurement system.	Despite the actions taken by the municipality, we have noticed that the recommendation has not been implemented yet.	Not started Implementation
6.	Goods and Services - Utilities included	Recommendation B6 The mayor should ensure the strengthening of controls in order for the procurement office to follow all payment processing steps as defined by the Financial Rule on Public Funds Expenditure.	From the samples tested, we have not encountered such errors.	Implemented
7.	Goods and Services - Utilities included	Recommendation A4 The mayor should ensure the strengthening of controls so that the evaluation committee can evaluate the tenders within the 30-day deadline.	Despite the actions taken by the municipality, we have noticed that the recommendation has not been implemented yet.	Not started Implementation
8.	Capital and non-capital	The mayor should increase the number of internal controls to ensure	Appropriate actions have	Implemented

	Assets	that asset officers will register non-capital assets in the e-asset system in order to present them fully and accurately in AFSs.	been taken to implement the recommendation	
9.	Receivables	The mayor should take measures to improve the functioning of the respective units, in order to ensure a better management of revenues and accounts receivable.	Despite the actions taken by the municipality, we have noticed that the recommendation has not been implemented yet.	Not started Implementation
10.	Liabilities	Recommendation B5 The mayor should improve the management of funds to ensure that financial obligations are performed on time and within the deadline of 30 days, in order to avoid additional costs of interest.	Despite the actions taken by the municipality, we have noticed that the recommendation has not been implemented yet.	Not started Implementation

This Report is a translation from the original version in the Albanian language. In case of inconsistency, the version in the Albanian language prevails.

Vlora Spanca, The Auditor General

Lavdim Maxhuni, Audit Director

Xhevat Seferi, Team Leader

Valon Halimi, Team member

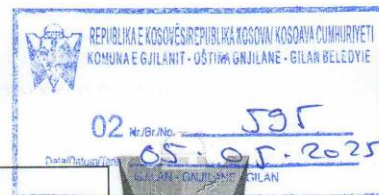
Xhevat Hasolli, Team member

Annex I: Letter of confirmation



REPUBLIKA E KOSOVËS
REPUBLIKA KOSOVA/REPUBLIC OF KOSOVO

KOMUNA E GJILANIT
OPŠTINA GNJILANE/MUNICIPAL GJILAN/GILAN BELEDIYESI



LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2024 dhe për
zbatimin e rekomandimeve

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Gjiçanit, për vitin 2024 (në tekstin e mëtejme “Raporti”);
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.



Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

Auditor's Report on the financial statements⁶ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁷. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

For the purpose of concluding whether an opinion on the financial statements is modified or unmodified an auditor should assure himself/herself whether audit results include or not (a) detected material or pervasive misstatement(s) or potential one(s) presumed in the event of a limitation of scope.

A misstatement is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

(extract from ISSAI 200)

Forms of opinion

Unmodified opinion

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

Limitation of scope occurs when an auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

⁶ Financial statements in the public sector include also the statement(s) of budget execution

⁷ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

Modifications to the opinion in the auditor's report

The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

Adverse opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

“Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Disclaimer of opinion

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.