



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

# AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF PODUJEVA FOR YEAR 2023

Prishtina, May 2024

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# 1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Podujeva for the year ended on 31 December 2023 in accordance with the Law on 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 the financial statements and conclusion on compliance with authorities<sup>1</sup>.

## Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Podujeva, 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 reports<sup>2</sup>, for the year ended as of 31 December 2023.

In our opinion, except for the effects of the matter/s described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Municipality of Podujeva, give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

## Basis for Qualified Opinion

- B1 Capital assets over €1,000, reported in the amount of €109,471,716, in article 19.3.1 of the Annual Financial Report were undervalued by €1,293,740, while non-capital assets under €1,000, reported in the amount of €2,374,845, in article 19.3.2 of (AFR) were underestimated by 247,470€.
- B2 Following the testing of the samples, it was found that expenses in the amount of 301,385€ had been misclassified in various economic categories.

*For more details, see sub-chapter 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'

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

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

AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Audit Conclusion on Compliance**

We have also audited if 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 matter/s described in the Basis for Compliance Conclusion section of our report, transactions carried out in the process of execution of Municipality of Podujeva'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 the Conclusion**

- A1 The municipality had paid €200,000, from project code 53888 Construction and reconstruction of faecal and atmospheric sewerage for project 52909 Expansion and adjustment of the bed of the Llapi River in the city without receiving approval for the transfer of funds from the Municipal Assembly.
- A2 The municipality had mistakenly used the type of framework public contract for work (repair/maintenance) instead of using the public contract for work.
- B3 The municipality had registered the payments made for the capital projects as assets in use and not as future investment even though the projects are still in the construction phase.  
Assets registered in the wrong or inadequate code from the tested samples were worth 379,448€.
- A3 For payments in the amount of €387,491, the steps for payment processing were not respected.
- B4 The municipality had issued the tender documentation without drawing up the executive project.
- B5 The municipality had entered into contractual obligations without having sufficient committed funds.
- B6 Non-payment of obligations within the legal term of 30 days.

*For more details, see sub-chapter 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 Podujeva's financial reporting process.

#### **Management's Responsibility for Compliance**

The Management of Municipality of Podujeva is also responsible for the use of the Municipality's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.<sup>3</sup>

#### **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 Podujeva's authorities with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

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

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<sup>3</sup> Collectively referred to as compliance with authorities

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 Podujeva's internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

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 recommendations<sup>4</sup>

During the audit, we noticed areas where possible improvements are needed, around financial management and control. Obvious weaknesses have been observed in important financial areas such as: lack of commitments, lack of executive project, non-reporting by contract managers in the public procurement e-platform, weaknesses in the management of assets above and under €1,000, delay in the collection of accounts receivable. Likewise, the reporting process in the municipality has been followed with deficiencies, this was also observed in the case of the preparation of the Annual Financial Statements (AFS) which had other errors, which were observed during the audit and possible corrections were made after our suggestions. However, the issues related to assets and the classification of expenses are not correctly and fairly presented in the AFS. The findings and recommendations are intended to improve the financial information presented in the financial statements, including disclosures in the form of explanatory notes and to improve internal controls related to financial reporting and compliance with authorities related to the management of public sector funds. We will follow up (review) these recommendations during next year's audit.

We should also point out that for the year 2023 the Treasury had executed through enforcement/judicial procedures the amount of €1,100,795 these payments for the obligations arising from the collective contract which were realized in the category of salaries and wages (€765,593), goods and services (€60,880), subsidies and transfers (€74,642) and capital investments (€199,680). These expenses are related to the payments that were made for tuition, inflation and qualification for the education sector, of which interest expenses were €243,669.

This report resulted in 13 recommendations, of which 5 are new recommendations, 8 are repeated.

*For the status of previous year's recommendations and the extent of their implementation, see Chapter 4.*

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<sup>4</sup> 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 B1 – Understatement of assets over €1,000 and under €1,000

**Finding** Regulation MF-No. 02/2013 on the management of non-financial assets in budgetary organizations, Article 6.1. determines that, "Each budget organization must create and update the register of non-financial assets under its management. The register must be kept separately for each asset and in aggregated form according to categories classified on the basis of the accounting plan. Also Article 6.3 stipulates that: Capital assets must be registered in KFMIS, while non-capital assets and stocks must be registered in the "e-property" system".

The capital assets over €1,000, reported in article 19.3.1 in the Annual Financial Report, were underestimated because the payments in the amount of €1,293,740 were not registered in KFMIS. Likewise, non-capital assets under €1,000, for the year 2023, were not registered in the e-property system in the amount of €247,470, and as a result these assets were undervalued.

This happened as a result of weak controls in the monitoring and verification of property registers, where this then had the effect that the properties were not registered in the relevant registers.

**Impact** Failure to register assets, according to the criteria defined in the regulation for the management of non-financial assets, may affect the loss or alienation of assets and the presentation of incomplete information in the financial statements.

**Recommendation B1** The mayor must ensure the correct implementation of internal controls related to the correct registration of non-financial capital and non-capital assets in accordance with the criteria of the regulation for the management of non-financial assets.

**Response of entity's management (Agree).**

## Issue B2 - Misclassification of expenses

**Finding** Article 18, paragraph 3 of the Financial Rule No. 01/2013/MF on the Expenditure of Public Money, provides that "expenditures must have the appropriate codes, determined by the Administrative Instruction for the accounting plan. In the accounting plan of the Treasury, the corresponding codes and categories of expenses that the OBs must apply are defined.

From the testing of our samples, we observed misclassifications of expenses across economic categories in the amount of €301,385. From this value, the treasury had paid, according to the court's executive decision, for jubilee salaries and allowances for teachers from the category of capital investments €199,678, and from subsidies and transfers 46,707€. Also, from the capital investment category, the municipality had paid €55,000, which by nature belong to the goods and services category.

These happened due to poor budget planning and the lack of funds in the appropriate categories.

**Impact** Payments made from the inadequate category led to the presentation of incorrect entries in the financial statements of the municipality, where the data for the categories of expenses are not correct and as such provide misleading information for the users of the AFS.

**Recommendation B2** The mayor must ensure that all the necessary actions are taken so that the expenses are planned in the appropriate divisions of the budget, or the funds are reallocated according to the appropriate economic categories.

**Response of entity's management (Agree).**

## 2.2 Issues with impact on compliance conclusion

### Issue A1 - Payment of the project from the funds of another project without approval by the Municipal Assembly

#### Finding

Article 16-Changes in the amounts allocated for capital projects within the sub-programs, paragraph 11 of Law no. 08/L-193 on Budgetary Allocations for the Budget of the Republic of Kosovo for the year 2023 provides that "Changes in the allocated budget amounts for existing projects as a result of transfers and/or reallocations, presented in table 4.2, including own revenues transferred, as well as registered in KFMIS, must be approved in advance by the Municipal Assembly. The changes made under this article are registered in KFMIS by the Minister".

The municipality had paid €200,000 from the funds of the project "Construction and Reconstruction of Faecal and Atmospheric Sewerage from the Village of Bajqin to Lupq", for the project "Widening and Regulating the Bed of the Llap River in the City", without the transfer of funds being approved by the Assembly Communal. The value of the project was 804,871€.

This happened because it was the end of the year and the sewerage project was not initiated on time, then it was decided by the management that the funds of this project should be used to pay for the next project without seeking approval from the Municipal Assembly.

#### Impact

The payment of a project from the funds of another project without the approval for the transfer of funds from the Municipal Assembly may affect the failure of the project for which you received the funds.

**Recommendation A1** The mayor must ensure compliance with the procedures for managing funds, ensuring that any transfer of funds from one project to another is approved in advance by the Municipal Assembly.

**Response of entity's management (Agree).**

## Issue A2 - Misuse of the public framework contract

**Finding** Article 54-Framework Contracts respectively paragraph 54.2 of Regulation no. 001/2022 on Public Procurement provides that "Public framework contract is a general term for agreements between contracting authorities and economic operators for supplies, services, and work (repair/maintenance), which sets out the terms and conditions under which ancillary contracts or making orders may be performed through the terms of the agreement.

The municipality had mistakenly used the type of public framework contract for work for the capital project "Schoolyard enclosures" in the amount of €46,800, allowing +/-30% in the contract. The contract should not be public framework but for work with a fixed price, since public framework contracts for work according to the regulation are only allowed in cases where we are dealing with the performance of repair/maintenance works.

This happened as a result of the lack of checks by the procurement office to respect the legal requirements related to the public framework contract for work.

**Impact** The incorrect use of the type of public framework contract for work (repair/maintenance) can affect the municipality to realize +/- 30% even though the nature of the work is not related to repair/maintenance work but work that would have to be be a fixed price contract.

**Recommendation A2**The mayor must ensure that all necessary actions are taken so that the procurement office implements the appropriate contract as provided by the legal regulations.

**Response of entity's management (Agree).**

### Issue B3 – Assets recording under the wrong category

**Finding** Regulation MF-No. 02/2013 on the Management of Non-Financial Assets in Budgetary Organizations, Article 11 provides that "non-financial capital assets that are in the following investment phase or in the construction phase must be registered in the accounting register in the following investment category. financial capital that are in the following investment phase are not depreciated".

Assets registered in the wrong or inadequate code were worth €379,448. This is related to the fact that the assets were recorded as assets in use, while they should have been recorded as future investments.

This happened as a result of the non-functioning of internal controls, as well as the lack of monitoring by the management that assets are registered according to legal requirements.

**Impact** The registration of property in the category of property in use and not as investment property affects the undervaluation of municipal property.

The mayor must ensure the correct implementation of internal controls related to the correct registration of non-financial capital assets in accordance with the criteria of the regulation for the management of non-financial assets.

**Recommendation B3** The mayor must ensure the correct implementation of internal controls related to the correct registration of non-financial capital assets in accordance with the criteria of the regulation for the management of non-financial assets.

**Response of entity's management (Agree).**

**Issue A3 - Failure to comply with the steps for processing payments as required by the financial Rule**

**Finding** Article 22 of the Financial Rule No. 01/2013/MF - Expenditure of public money, defines the steps for the payment process, where first the Purchase Request is made, the purchase order is issued, the goods/service is accepted, then the Economic Operator brings the invoice for payment.

From the 32 samples tested as part of the substantial testing in the goods and services category, we noticed that in 13 cases in the amount of €387,491, the steps for processing payments were not respected, where the goods and services/supply were first accepted, and the invoice was then commitment and purchase order issued.

This was as a result of the failure of controls by the finance and procurement office since the contracting officer and the procurement office had not respected the steps for processing payments according to the financial rule.

**Impact** Failure to comply with the steps for processing payments may cause an increase in municipal obligations to economic operators.

**Recommendation A3** The mayor must ensure that the finance and procurement office will follow all the steps for the payment procedure defined by the Financial Rule for spending public money.

**Response of entity's management (Agree).**

**Issue B4 - Lack of executive projects**

**Finding** Paragraph 19.17 of Regulation No. 001/2022 on Public Procurement provides, among other things, that "The Contracting Authority is responsible for the design of the executive project and which must be attached (also in electronic equipment) to the Technical Specifications, which are part of the tender file. No Contracting Authority is allowed to issue the tender documentation without attaching the detailed description".

In three cases, the municipality had started procurement procedures and signed a contract without drawing up an executive project. The cases were in the project "Asphalting of streets in the city Lot I" worth €143,954, "Asphalting of streets in the city Lot III" worth €117,843, and "Fencing of school yards" worth €46,800.

This happened as a result of the lack of proper planning before the start of the procurement procedures, including the lack of drawing up the executive project for specific projects.

**Impact** The lack of an executive project can cause difficulties in the realization of projects during the execution phase and increases the risk that during the process of project execution various obstacles will be presented, both in the professional aspect, as well as in the delays of the works or even in the increase of the costs of projects.

**Recommendation B4** The mayor must ensure the strengthening of controls and monitor the implementation of legal requirements, so that when the procurement procedures for the contracting of works are initiated, the drafting of projects in accordance with the anticipated needs and requirements is ensured in advance.

**Response of entity's management (Agree).**

**Issue B5 - Initiating projects without sufficient commitment of funds****Finding**

Article 36 paragraph 1 of Law no. 03/L-221 on Amendment and Supplement to Law no. 03/l-048 on the Management of Public Finances and Responsibilities provides that "Before initiating a procurement process which aims to result in the raising of an obligation in the current fiscal year, the Budget Organization records all commitments of allocated funds in the Information System for Financial Management in Kosovo in accordance with the rules".

In four (4) cases the municipality had entered into contractual obligations without sufficient pledged funds. Cases are related to projects:

- Supply of material for the maintenance of municipal buildings - the value of the commitment was €20,000, while the value of the contract was €119,131;
- Drafting of projects - the value of the commitment was 3,000€, while the value of the contract was 140,000€;
- Demolition and removal of buildings - the commitment value was 25,764€, while the contract value was 35,000€; and
- Examination of construction materials - the value of the commitment was 4,000€, while the estimated value of the contract was 40,000€.

This happened as a result of the lack of controls when initiating the procurement procedures without having sufficient commitment of funds.

**Impact**

Entering into obligations without securing the necessary funds, affects the increase in unpaid obligations, or budgetary implications for the current year, as well as being a burden for the next year's budget.

**Recommendation B5** The mayor must strengthen controls and procedures to ensure that before initiating procurement procedures, all project commitments are evaluated and approved in accordance with available funds.

**Response of entity's management (Agree).**

## Issue B6 - Delays in performing unpaid obligations

**Finding** Article 39.1 of the Law on Public Finance Management and Accountability provides that "the CFO of the budget organization is responsible for ensuring that any valid invoices and requests for payment for goods and services supplied and/or work performed for the budget organization are paid within thirty (30) calendar days after receipt of the invoice or request for payment from the relevant budget organization".

In five (5) cases in the amount of €253,545, we noticed that the municipality had not fulfilled its financial obligations within the deadline of 30 days. The delays were up to four months from the date of receipt of the invoice.

This happened because the municipality did not have sufficient financial means and entered into obligations without making any proper budget analysis.

**Impact** Delays in the performance of obligations may cause additional costs to the municipality because it may face a lawsuit where, in addition to the value of the invoice, it must pay additional costs including interest, interest and court costs.

**Recommendation B6** The mayor must improve the management of funds to ensure that financial obligations are met on time and within the 30-day deadline, including the drafting of a detailed budget analysis to avoid delays in bill payments.

**Response of entity's management (Agree).**

## 2.3 Other financial management and compliance issues

### 2.3.1 Goods and services and utilities

The final budget for goods and services and the municipality in 2023 was 3,825,402€, of which 3,607,195€ had been spent. They are mainly related to expenses for derivatives, repair and maintenance, fuel supply, utilities, etc.

**Issue A4 - Exceeding the indicative quantities in the framework public contract****Finding**

Paragraph 54.10 of Regulation no. 001/2022 on Public Procurement defines that "The estimated quantity specified in the tender documents is only an indicative quantity. Whenever the contracting authority specifies the indicative quantity, the contracting authority shall specify in the tender file the value or quantity of the contract as a threshold or a ceiling and will allow deviation from it, also stating the percentage of the allowed discrepancy. The allowed discrepancy cannot be higher than thirty percent (30%). If the CA does not declare the percentage of the discrepancy in the tender file, then the contract is terminated with the value or quantity of the contract as a threshold or a set ceiling. If the CA declares the percentage of discrepancy in the tender file and if the purchase order exceeds the total indicative quantity or the total indicative value of the public contract framework (including + thirty percent (30%)), regardless of the original expiration date of the Public Framework Contract, the contract will be automatically terminated. The allowed discrepancy of plus/minus thirty percent (30%) also applies to Lot and position/item, and in case of reaching the allowed threshold, the CA cannot make other orders for that Lot or position/item".

In the framework public contract, "Supply of drugs and reagents" dated 07.12.2022, in the amount of €541,956, we have identified excess quantities in 11 positions in the amount of €3,838, compared to the contracted amount. It is worth noting that the total value of the contract has not been exceeded.

Among the excesses beyond the permitted discrepancy of plus/minus thirty percent (30%) are:

Position 16 Methylergometrine amp ", the realized quantity was 1000 pieces, while the contracted quantity was 300 pieces;

Position 35 Cannula 24 G", the realized quantity was 3500 pieces, while the contracted quantity was 2000 pieces;

Position 46 Paraffin 10cm x10 cm, the realized quantity was 4300 pieces, while the contracted quantity was 2400 pieces;

Position 48 Wooden shoulder 1x100 pieces, the realized quantity was 800 pieces, while the contracted quantity was 200 pieces;

Position 158 Microveta EDTA K3 200uL, the realized quantity was 3000 pieces, while the contracted quantity was 2000 pieces; AND

Position 204 Lancets realized quantity was 3500 pieces, while contracted quantity was 2000 pieces.

Exceeding the contracted quantities occurred as a result of poor contract management by the contract manager.

**Impact**

Exceeding the discrepancies above the allowed limit of plus/minus thirty percent (30%) per position/item, is contrary to the criteria defined for public framework contracts and may result in payments beyond the planned budget for those projects and makes it difficult to realize other planned projects.

**Recommendation A4**The mayor must ensure that the contract managers exercise regular checks on the supply of each item under the framework contract and ensure that the contracted quantities are not exceeded.

**Response of entity's management (Agree).**

**Issue B7 - Contract management not recorded through the e-procurement platform**

**Finding**

Paragraph 70.24.f. of Regulation no. 001/2022 on Public Procurement provides that "The contract manager shall ensure that all contract management records are prepared, kept and archived in the contract management module in the electronic procurement system".

The contract/project managers have not maintained and archived through the electronic public procurement system the contract management and performance evaluation of the contractors.

This happened as a result of the negligence of the project managers.

**Impact**

Failure to maintain and archive contracts through the public procurement system may affect an ineffective management of contracts and does not provide sufficient opportunities for management to receive timely information regarding the progress and performance of contracts

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

**Response of entity's management (Agree).**

## 2.3.2 Capital Investments

The final budget for capital investments in 2023 was 9,794,789€, of which 8,468,073€ had been spent. They are related to the expenses for the adjustment of the road infrastructure, the construction of sewers, the construction of water supply, etc.

**Issue A5 - Failure to provide performance guarantee and payment deadline****Finding**

Article 13- Advance payments of Law no. 08/l-193 on Budgetary Allocations for the Budget of the Republic of Kosovo for the year 2023 provides, among other things, "For the payment of the advance for capital projects, the contract must contain the performance guarantee and the clearly defined schedule of payments, which simultaneously foresees the work which must be completed before each payment is made".

The municipality had signed a memorandum of understanding with the Orphans of the Balkans for the financing of the project "Construction of a house for daily stay for the elderly, a humanitarian kitchen and a hostel in the Municipality of Podujeva". According to this agreement, for the year 2023, the municipality must provide financial means in the amount of €126,500, or 5% of the project's value in the form of prepayment. For the years 2024 and 2025, the municipality must provide financial means in the amount of 403,500€ or 201,750€ for each year. The association has undertaken to provide financial means in the amount of €2,000,000. The procurement procedures will be led by the Association.

For the year 2023, the municipality had paid 5% of the project value of 126,500€ as an advance. However, for this payment made, the performance guarantee was not provided, and the schedule determined for the payments, which simultaneously determines the work that must be done before each payment is made.

According to the response from the municipality, the reason why this has not been done is because it concerns a reliable donor and if guarantee insurance and payment schedule are required from the donor, there is a risk that the donor will leave.

**Impact**

Failure to provide a performance guarantee for an advance and a defined payment schedule that provides for the work to be performed may affect the project not being realized as planned.

**Recommendation A5** The mayor must ensure that for the payments made in advance, I request the insurance of the performance guarantee and the schedule of payments, which at the same time foresees the work to be performed.

**Response of entity's management (Agree).**

### 2.3.3 Accounts receivable

In 2023, the municipality disclosed in the AFR accounts receivable in the amount of 3,721,030€.

#### Issue B8 - Shortcomings in the management of accounts receivable

**Finding** According to Article 26 of the Law on Tax on Immovable Property 06-L 005, the Municipality, the Ministry of Finance and the competent enforcement bodies have the authority and powers to collect unpaid tax liabilities that exceed the amount of ten (10) Euros and Article 27 If a the taxpayer or debtor has not fully paid the tax and the fine, if any, or unpaid tax obligations, in accordance with the established deadlines, the municipality issues the final written notice within ten (10) working days after the last day for payment, where it requires full payment of unpaid tax obligations, no later than ten (10) calendar days after the day that the final notification is considered to have been received by the debtor.

The collection of other revenues must be done according to the time limits specified in the invoice for each type of revenues.

The municipality did not have an effective management in the collection of Accounts Receivable (LA). From our analysis, we have not noticed that the Municipality has taken any concrete action for the year 2023 to collect the LLA. Most of the receivables come from property tax, in the amount of 2,627,106€, followed by the rent of buildings (plots) in the amount of 1,090,988€ and others in the amount of 2,936

Weaknesses identified related to accounts receivable are due to inefficient internal controls in their management and collection respectively.

**Impact** Failure to collect the charged revenues on time affects the level of funds collected for the municipal budget and reflects negatively on the financing and implementation of projects from own revenues.

**Recommendation B8** The mayor should ensure the improvement of the accounts receivable management process in order to increase the efficiency in the collection of accounts receivable, not excluding legal measures.

**Response of entity's management (Agree).**

### 3 Summary on budget planning and execution

We have considered the sources of budget funds, spending of funds and revenues collected by economic categories. This is highlighted in the following tables:

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

Description	Initial Budget	Final Budget <sup>5</sup>	2023 Outturn	2022 Outturn	2021 Outturn
<b>Sources of Funds</b>	<b>27,406,567</b>	<b>31,594,651</b>	<b>29,739,731</b>	<b>24,913,687</b>	<b>22,218,657</b>
Government Grant –Budget	25,600,074	28,705,948	27,799,690	22,300,431	20,767,918
Funding through borrowing	0	0	0	180,268	75,565
Funding through borrowing-investments clause	0	0	0	95,756	0
Carried forward from previous year	0	778,057	610,627	880,898	458,564
Own Source Revenues	1,806,493	1,806,493	1,214,331	1,214,141	868,016
Domestic Donations	0	303,631	115,083	204,186	48,594
External Donations	0	522	0	38,008	0

The final budget in relation to the initial budget had increased by 4,188,084€. This increase is the result of Government Decisions, the transfer of personal income from the previous year, as well as donations.

The municipality has spent about 94% of the final budget, which represents a good budget performance.

**Table 2 – Spending of funds by economic categories - (in €)**

Description	Initial Budget	Final Budget	2023 Outturn	2022 Outturn	2021 Outturn
<b>Spending of funds by economic categories</b>	<b>27,406,567</b>	<b>31,594,651</b>	<b>29,739,731</b>	<b>24,913,687</b>	<b>22,218,657</b>
Wages and Salaries	13,041,474	16,147,349	16,110,409	13,450,099	12,881,047

<sup>5</sup> Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

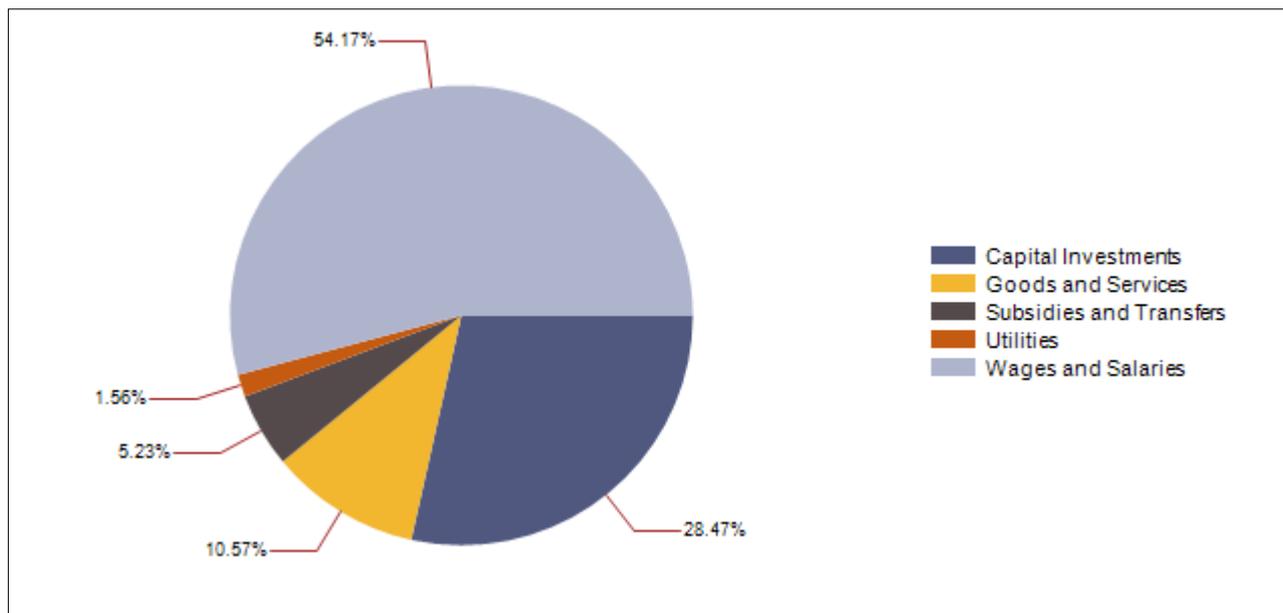
Goods and Services	3,088,899	3,357,402	3,142,048	2,588,859	2,583,473
Utilities	468,000	468,000	465,147	419,968	410,040
Subsidies and Transfers	1,600,050	1,827,111	1,554,054	1,272,012	703,733
Capital Investments	9,208,144	9,794,789	8,468,073	7,182,751	5,640,364

Explanations for changes in budget categories are given below:

- The final budget for salaries and wages was increased by €3,105,875, compared to the initial budget. This increase comes from the Decisions of the Government of Kosovo in the amount of €3,090,837 for the implementation of the new wage law, as well as an increase of €15,038, allocated by the government for economic recovery.
- The final budget for goods and services had increased to €268,503. This increase comes from the transfer of funds from the category of capital investments to the category of goods and services by decision of the Municipal Assembly in the amount of €235,621, an increase from the transfer of unspent personal income from 2022, for €25,680, as well as an increase from donations for €7,202.
- The final budget for subsidies was increased by €227,061, from this amount: €226,311, was an increase from internal donations (citizen participations) as well as an increase of €750, from the carryover of unspent personal income from 2022.
- The final budget for capital expenditures compared to the initial budget had increased by €586,645. This increase comes as a result of the transfer of unspent personal income from 2022 for €751,627, an increase from donations for €70,639, and a reduction in the category of capital investments of €235,621, whereby decision of the Municipal Assembly they were transferred to the category of goods and services.

The funds spent in 2023 for the Economic Recovery were €15,038, they were mainly allocated for health supplements.

Chart 1. Expenditures by economic categories in 2023



The personal incomes planned for 2023 were 1,806,493€, while 1,740,942€ were realized. They are related to income from property tax, income from construction permits, administrative taxes, income from business activities, income from rent, etc. Also, for the year 2023, the municipality has received income from traffic fines and court fines in the total amount of 404,427€, as well as income from the Forestry Agency of Kosovo in the amount of 5,337€. These revenues are not included in the table below because they are planned and implemented by line ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
<b>Total of revenues</b>	<b>1,806,493</b>	<b>1,806,493</b>	<b>1,967,251</b>	<b>1,472,653</b>	<b>1,427,378</b>
Tax revenues	758,488	758,488	666,373	515,799	685,098
Non-tax revenues	1,048,005	1,048,005	1,300,877	951,155	739,571
Other revenues	0	0		5,699	2,709

## 4 Progress in implementing recommendations

Our audit report on 2022 AFS of the Municipality of Podujeva resulted in 14 key recommendations. The Municipality of Podujeva prepared an Action Plan stating how all recommendations will be implemented. The audit report for year 2022 was deliberated by the municipal assembly. By the end of our audit, five (5) recommendations have been implemented, one (1) has been implemented and eight (8) have not been implemented yet, as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

Chart 2. Progress on implementation of prior year's recommendations

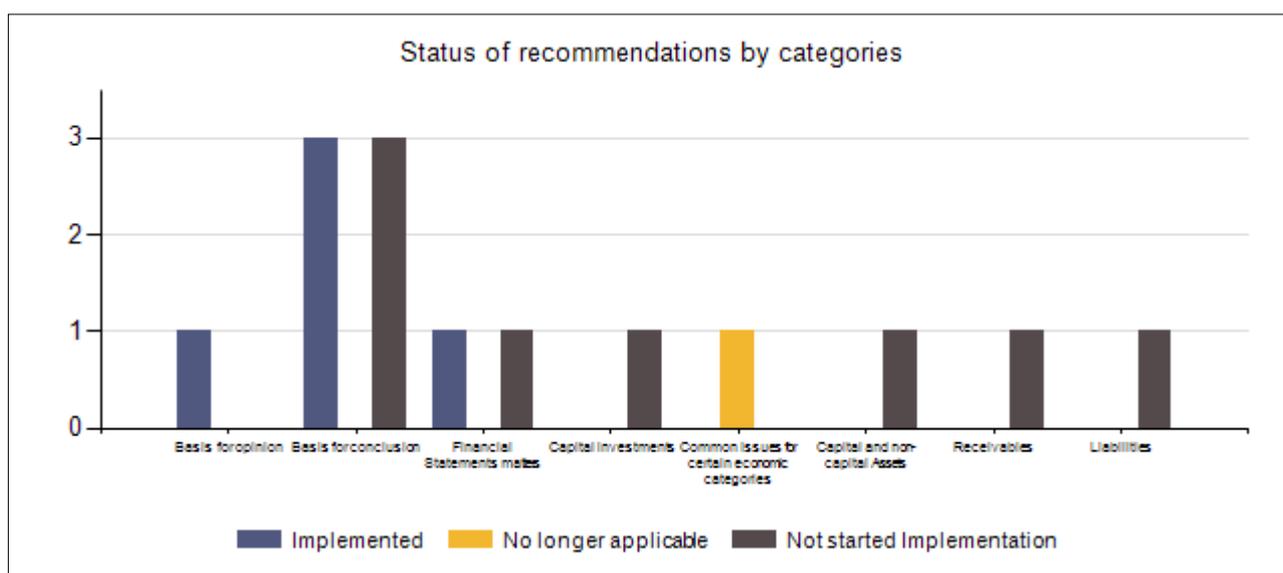


Table 4 Summary of the previous year's recommendations

No	Audit Area	Recommendations of the year 2022	Actions taken	Status
1.	Basis for opinion	The mayor, in the case of payments made by agreement with external donors, discuss with the treasury about the method of payment to make sure that the legal requirements are being respected. Furthermore, the Mayor should increase controls to ensure that property registration is only done when all the legal requirements are met.	We have not observed any issues of this nature.	Implemented
2.	Basis for conclusion	The mayor must ensure the correct implementation of internal controls related to the correct registration of non-financial capital assets in accordance with the criteria of the regulation for the management of non-financial assets.	In 2023, there were assets that were not registered in the correct class.	Implementation has not started
3.	Basis for conclusion	The mayor must strengthen controls during the development of projects, ensuring that before the initiation of procurement procedures, each capital project has sufficient funds for implementation.	The municipality had entered into contractual obligations without sufficient commitment.	Implementation has not started
4.	Basis for conclusion	The Mayor should ask all project managers to ensure that contract management is maintained and archived by the electronic public procurement system.	Even in 2023, contract management is not done through the e-procurement platform.	Implementation has not started

5.	Basis for conclusion	The mayor should increase the checks on the procurement office and in cases where the EO withdraws during the tendering process, confiscation of the security of the tender should be done.	We have not encountered any issues of this nature.	Implemented
6.	Basis for conclusion	The mayor must increase controls to ensure that the finance office will not allow any expenditure unless it is justified in accordance with legal requirements.	For 2023, we have not come across cases where advances for official trips were unreasonable.	Implemented
7.	Basis for conclusion	The mayor should increase controls at the procurement office to ensure that all required documents are uploaded to the public procurement electronic platform.	For our samples it was observed that eligibility documents were uploaded to the e-procurement platform.	Implemented
8.	Annual Financial Statements	The mayor must ensure that all the necessary actions are taken so that the expenses are planned in the appropriate divisions of the budget or the funds are reallocated according to the appropriate economic categories.	Even in 2023, the municipality had misclassified expenses.	Implementation has not started
9.	Annual Financial Statements	The mayor must ensure that in the case of the preparation of the AFR the Chief Financial Officer will make the appropriate presentation and disclosure regarding the final budget, movements and budget changes of the municipality.	Annual Financial Report for 2023 We have not encountered any errors in this AFS table.	Implemented

10.	Capital investments	The mayor ensures the strengthening of controls and monitors the implementation of legal requirements, so that when the procurement procedures for the contracting of works are initiated, the drafting of projects in accordance with the anticipated needs and requirements is ensured in advance.	Four instances were encountered when procurement procedures were started without an executive project.	Implementation has not started
11.	Common issues	The mayor must provide accurate information and sufficient funds for the salary category and address this issue to the Ministry of Finance, in order to take into account during budget planning if there is a need for an additional budget for jubilee salaries. Until, for other delays in payments, add checks so that the process of making payments is done within the budget plans and the defined deadlines.	Even in this year, there were payments made by the treasury with court decisions, we have presented this as information in the findings and recommendations chapter.	It is no longer applicable
12.	Properties	The mayor should increase internal controls to ensure that the property officer will register the property under €1,000 in the property accounting records.	Even this year, the municipality has not registered all assets in e-property.	Implementation has not started
13.	Accounts receivable	The mayor should ensure the improvement of the accounts receivable management process in order to increase the efficiency in the collection of accounts receivable, not excluding legal measures.	Necessary actions have not been taken.	Implementation has not started

14.	Outstanding obligations	The mayor should strengthen internal controls and ensure that all obligations are paid within the legal term of 30 days.	Even in 2003, the municipality did not pay the bills within the previous deadline of 30 days.	Implementation has not started
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This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Vlora Spanca: Auditor General

Agron Fetiu: Assistant Auditor General

Lavdim Maxhuni: Audit Director

Florim Beqiri: Team leader

Muharrem Qyqalla: Team member

Mexhit Ferati, Team member

Annex I: Letter of confirmation

**Republika e Kosovës**  
Republika Kosova - Republic of Kosovo  
**Komuna e Podujevës**  
Opština Podujevo - Municipality of Podujeva

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**LETËR E KONFIRMIMIT**

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2023 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 Podujevës, për vitin 2023 (në tekstin e mëtejshëm "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.

Z. Shpejtim Bulliqi  
Kryetar i Komunës

Data: 23.04.2024 Podujevë



## 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 statements<sup>6</sup> 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 authorities<sup>7</sup>. 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).

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

<sup>7</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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.

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.