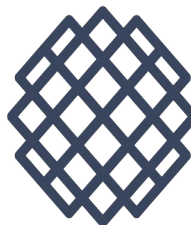




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

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

Signed by

Vlora Spanca

The Auditor General

**Prishtina, June 2024**

## 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 Municipality of Deçan 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 on the financial statements and conclusion on compliance with authorities<sup>1</sup>.

## **Qualified opinion on the annual financial statements**

We have audited the annual financial statements of the Municipality of Deçan, 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 at 31 December 2023.

In our opinion, except for the effects of the matters described in *Basis for Qualified Opinion* section of our report, the annual financial statements of the Municipality of Deçan 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 Disclosures of contingent liabilities were not complete and true because they were overstated by €2,009,250.
- B2 In 14 cases of payments of €308,550 executed by the Treasury for enforcement decisions, which by the nature of the expenditure belong to goods and services, were made from the category of capital investments.
- B3 Disclosure of non-financial assets in AFS was not complete and true, because they were understated for over €49,000,000.

*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.

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<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

## Conclusion on compliance

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 conclusion, except for the effects of matters described in the *Basis for Conclusion on Compliance* section of our report, transactions carried out in the process of budget execution of the Municipality of Deçan 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

- A1 Capital projects outsourced in lack of financial means.
- A2 Outsourcing carried out in lack of an executive project.
- A3 Shortcomings in making payments through enforcement decisions/orders.
- B4 Delayed payment of invoices and other additional expenditures for payments executed by the Treasury.
- B5 Appointment and engagement of officers to perform special services not in compliance with applicable laws and regulations.

*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 of Deçan 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 of Deçan 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 Deçan's financial reporting process.

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

Municipality of Deçan's Management 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 Deçan'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 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 Deçan's internal control.

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

- 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 shortcomings 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

During the audit, we noted areas for improvement in financial management and internal control. The Municipality's reporting process has suffered shortcomings, this was also noted with the preparation of the Annual Financial Statements (AFS). Despite our request, even the rectified financial statements have not met the expectations due to the fact that the financial records of assets are still incomplete, including other issues. However, during the audit process, we found shortcomings in non-financial assets, revenues, contingent liabilities, execution and classification of expenditures, as well as in public procurement procedures, which are presented below in the form of findings and recommendations. These findings and recommendations are intended to make the necessary correction of 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 funds in public sector. We will follow up these recommendations during next year's audit.

This report resulted in 12 recommendations, of which 3 are new recommendations and 9 are repeated recommendations.

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

### 2.1 Issues with impact on the audit opinion

#### Issue B1 - Overstatement of contingent liabilities in AFS

**Finding** Regulation No. 01/2017 on the Annual Financial Statements of Budgetary Organizations, Article 18 stipulates that "budgetary organizations in accordance with the LPFMA report all contingent liabilities".

The disclosures of contingent liabilities were not complete and correct, because they were overstated by €2,009,250. We found that the register of contingent liabilities included: 1 payment of €64,000 which was executed by the Treasury based on court decisions. Also, 12 cases in amount of €1,945,250 have been included in this register, for which there is a final decision from the court, with no possibility of recourse from the Municipality, pending execution from Treasury.

This situation was due to the lack of proper communication between the finance sector and the legal representative of the Municipality, because this issue was also addressed in the previous year's report.

**Impact** Failure to disclose contingent liabilities has led to overstatement in the financial statements and may lead to a misunderstanding of the financial activities of the Municipality.

**Recommendation B1** The mayor should ensure that actions are taken to address the causes behind the overstatement of contingent liabilities to ensure that their disclosures in the AFS are complete and true.

**Auditee's Management Response (Agree)**

**Issue B2 - Misclassification of expenditures**

**Finding** Financial Rule No. 01/2013 on Public Expenditures, Article 18 point 3 specifies that the expenditures must have adequate codes, defined by the Administrative Instruction on accounting plan. Consequently, Article 11 of AI 19/2009 on the accounting plan requires the CAO and the CFO to ensure that all transactions are registered in KFIMS according to the structure of the accounting plan and the classifications defined by this Administrative Instruction.

In 14 cases of payments of €308,550 executed by the Treasury for enforcement decisions, which by the nature belong to goods and services, were made from the category of capital investments. These expenditures were mainly related to supplies with inventory and various services. This has resulted in the financial overstatement of the expenditures in capital investment category and the understatement of the goods and services category.

This happened due to the lack of proper budget planning for possible liabilities in the relevant economic category.

**Impact** Misclassification of expenditures in the respective economic categories may result in untrue reflection of the Municipality's financial position through AFSs.

**Recommendation B2** The mayor should ensure that all actions are taken to plan expenditures in the appropriate budget allocations (or to reallocate funds when necessary and possible) and that payment and registration of expenditures are made strictly according to adequate economic codes.

**Auditee's Management Response (Agree)**

**Issue B3 - Shortcomings in capital and non-capital asset registers**

**Finding** Regulation No. 02/2013 on Management of Non-Financial Assets, Article 6.1 stipulates that: "every budget organization must create and update the its own non-financial assets register. Further, Article 6.3 stipulates that: Capital assets must be registered in KFIMS, while non-capital assets and stocks must be registered in the e-assets system".

We found that the value of over €9,000,000 of non-financial capital



assets purchased during the years (2020-2023) was not recorded in the KFIMS, in addition, the municipal properties/evaluated lands over €40,000,000 were not registered either. The assets of this year and previous years, including; the administration, the directorate of health (FMCs) and of education (schools) were not fully recorded in the e-assets register of non-financial non-capital assets,

This happened due to dysfunctional internal control over the recording of non-financial assets in the respective books.

### **Impact**

The lack of complete and true registers of non-financial assets results in lack of information for the management regarding the assets owned by the Municipality, and leads to understatement of assets thus resulting in incomplete, untrue and unfair presentation of information in the AFS.

### **Recommendation B3**

The mayor should ensure that the internal control over maintenance of assets registers is functioning, by establishing communication between the assets officer and the finance department, in order to ensure that all the assets of the Municipality are correctly identified and recorded in the respective registers of municipal assets and AFS.

### **Auditee's Management Response (Agree)**

## **2.2 Issues with impact on the compliance conclusion**

### **Issue A1 – Outsourcing of capital projects in lack of financial means**

#### **Finding**

Law on public procurement no. 04/L-042, Article 9 paragraph 3 specifically stipulates that, if the contracting authority is a public authority or budget organization and the corresponding procurement will cause the raising of financial obligations which will be fulfilled from the budget allocations expected to be made in the coming fiscal years, the CFO will (i) ensure that the tables attached to the Budget Appropriations Law provide a reasonable basis for expecting that in future fiscal years sufficient funds will be provided to fulfil such obligations (ii) include in the contract relevant public a provision that clearly conditions the applicability of the obligations set forth in the contract, with future appropriations legislation, of funds for the purpose of fulfilment, and in an amount sufficient for the fulfilment of

such obligations. Law No. 08/L-193 on Budget for the year 2023, article 12 paragraph 8 determines that; the signing of contracts for multi-year capital projects is done by the BOs only if such expenditures for the total cost of the project are foreseen in the budget law for the fiscal year 2023 and for the following two (2) years.

The outsourcing of projects in lack of financial means has been identified in the following cases:

- In the contract for "*Asphalting of roads and alleys in the villages of the Municipality of Deçan - Lot III*" dated 13.04.2023 in the amount of €3,548,221, the budgeted funds in the PIP for this project for the year 2023 and the following two years were €250,000 (2023 in the amount of €200,000, 2024 in the amount of €30,000 and 2025 in the amount of €20,000) and based on the agreement of the understanding between MESPI and the Municipality dated 05.04.2023, the ministry has pledged to finance this project in the amount of €700,000, which results in a lack of funds for €2,598,221 for the implementation of this contract; and
- In the contract "*Construction of semi-Olympic indoor swimming pool*" in the amount of €825,825, dated 08.08.2023, the funds budgeted in the PIP for this project for the year 2023 and the following two years were €250,000 (2023 in the amount of €100,000, 2024 in the amount of €100,000 and 2025 in the amount of €50,000) which results in a shortage of funds for €575,825 for the implementation of this contract.

This happened due to insufficient analysis and unrealistic estimates of the projects' financial costs when planning for their budget.

### **Impact**

The lack of proper analysis of financial costs for capital projects, signing contracts beyond the budget limits and entering into contractual obligations without securing the necessary budget means, creates difficulties and disrupts the financial flow of the Municipality because many budget adjustments and reallocations of funds must be made to cover the deficit of these projects and increases the risk of additional costs.

### **Recommendation A1**

The mayor should ensure that the values of public contracts concluded (signed) for capital projects are in accordance with the amounts approved by the Law on Budget Appropriations for the fiscal year and for the following two (2) years.

### **Auditee's Management Response (Agree)**

### **Issue A2 - Outsourcing in lack of an executive project**

#### **Finding**

Law on Public Procurement no. 04/L-042 in article 28.10 determines

that: Technical Specifications for work contracts must accurately define the nature and performance characteristics of the required works. The Technical Specifications must include, as a substantial part of it, an executive project. The Contracting Authority is responsible for drafting the Executive Project, 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 tender documentation without attaching a detailed description of the project.

In the contract *"Asphalting of roads and alleys in the villages of the Municipality of Deçan - Lot III"* in the amount of €3,548,221, dated 13.04.2023, was outsourcing procedure was carried out only based on the bill of quantity tendered, without including contracted the locations as a result of lack of the executive project.

Outsourcing without an executive project has resulted in the lack of locations for the performance of works in the contracted bill-of-quantities along with other accompanying elements.

### **Impact**

The lack of locations and the executive project in the construction contracts may mislead the contracting authority or the contractor about the locations and other specifics during the execution of the works.

### **Recommendation A2**

The mayor should ensure that the works (construction) contracts are only concluded based on the mandatory executive project in order to accurately determine the locations and objectives that will be achieved with the implementation of the project.

### **Auditee's Management Response (Agree)**

### **Issue A3 – Shortcomings in payments through enforcement decisions/orders**

#### **Finding**

Based on financial regulations no. 01/2013/MF the Expenditure of Public Money, Article 15.1 specifically stipulates: Obligation means a legal agreement, such as a contract or purchase order entered into by the budgetary organisation, and which requires the BO to make an expenditure. Article 23.2 also stipulates that: The report of acceptance of the goods/service by the authorized official/commission must be submitted to the Office for Budget and Finance (together with the contract and the purchase order).

During the testing, we found that four (4), invoices in the amount of

€73,586 were not paid within the legal deadline as a result of the lack of acceptance report and contracts for goods, supplies and services performed by EO. The cases are related to (services of sound and lighting equipment for events, for various material supplies, for services with tents and chairs for demonstrations and inventory supplies), for these cases there was an executive order as follows:

- Decision/order for enforcement transfer P. no. 178/23 dated 01.09.2023 on the main debt of €9,580 for services of sound and lighting equipment for events was based only on the invoice received by the Municipality, there was no acceptance report (statement) and contract for the provision of these services;
- Decision/order for enforcement transfer P. no. 206/23 dated 12.04.2023 with the main debt of €9,831.94 for various material supplies was based only on the invoice received by the Municipality, there was no acceptance report (statement) and contract for the provision of these services;
- Decision/order for enforcement transfer P. no. 34/23 dated 10.02.2023 with the main debt of €11,805 for services with tents and chairs for demonstrations, was based on invoices not specified in the invoice for the type of tents invoiced, there was no acceptance report (finding); AND
- Decision/order for enforcement transfer P. no. 239/22 dated 14.10.2022 with the main debt of €42,370 for supplies of various inventory was based on the invoice which referred to the total price of the delivery notes (not the quantities and prices per unit that should make up the invoice, moreover except the delivery notes there was no acceptance report (finding) and contract for the supply of inventory.

The execution of enforcement decisions was made as a result of the acceptance of the invoice by the OB as a reliable document for execution by the executor and this resulted as a consequence of the acceptance of the invoices without obtaining the acceptance report and the contract in advance.

### **Impact**

The lack of a contract and of acceptance reports as essential documents in the budget execution process leads to possible misuse of public money and additional costs of enforcement procedures.

### **Recommendation A3**

The mayor should ensure that all goods and services are outsourced in the first place, and authorized acceptance is made according to the contractual terms, before any other actions on spending public money is made.

### **Auditee's Management Response (Agree)**

## **Issue B4 – Delayed payment of invoices and other additional expenditures for payments executed by the treasury**

### **Finding**

The Law on Public Financial Management and Accountability (LPFMA) No. 03/L-048 article 39.1 determines that; any valid invoice and request for payment for goods and services rendered and/or work performed for the budget organization shall be paid within (30) calendar days after receipt of the invoice. While according to Article 40, the invoice can be executed directly by the Treasury after receiving the final order from the court/executor. Likewise, the Law on obligational relationships no. 04/L 077 article 382.2 specifically provides; The amount of interest due is eight percent (8%) per year, unless otherwise provided by a separate law.

During the testing of the payments executed by the Municipality, we found that in nine (9) cases, in the amount of €806,803, the payments exceeded the legal deadline of 30 days for execution. From the samples tested, we did not notice that there were requests for the collection of funds from EO through executive/judicial procedures. However, from the analysis of the expenditure report, we noticed that through executive/judicial procedures and based on court decisions, the Treasury had executed €2,149,951. This form of payments, in addition to misclassification, has also influenced the increase in the costs of enforcement procedures and interest. Only in one case, decision/executive order P. no. 44/2023, for the delay in the payment of the obligations, the interest in interest due in the amount of €63,587 was applied.

Entering into obligations is due to the outsourcing and implementation of works without having sufficient budget and the lack of responsibility of the responsible officials has led to failure to make payments within the statutory deadlines, which has resulted in their payment through judicial/executive decisions with additional costs for the procedures enforcement and late payment interest.

### **Impact**

Delayed payments undermine the Municipality's ability to forecast and manage its liquidity by enforcement decisions through the treasury, which directly leads to more costs for the Municipality.

### **Recommendation B4**

The mayor should ensure that the liabilities are planned/budgeted and paid within the statutory deadlines in order to prevent the municipal budget from suffering additional enforcement costs.

### **Auditee's Management Response (Agree)**

## **Issue B5 - Appointment and engagement of officials for the performance of special services not in compliance with applicable laws and regulations**

### **Finding**

law no. 03/L-212 on Labour, Article 10, paragraph 6 determines that, the Contract for a specific task cannot be longer than (120) days within

one (1) year, Law on Public Officials no. 06/L-114, article 84 determines that, Agreements for special services, according to paragraph 4 of article 12 of the Civil Service Law no. 03/L-149 of the Republic of Kosovo, concluded before the entry into force of this law, are valid until the term defined in those agreements in accordance with the aforementioned provisions. After this period, agreements for special services are concluded according to the relevant public procurement legislation.

During the year, the Municipality engaged 51 employees through Special Service Agreements (SSA), 41 of them in the municipal administration in the mayor's office and various directorates, eight (8) in health, and two (2) in education. For these employees, the Municipality has not developed either a formal recruitment procedure or a procurement procedure for the Ministry of Interior, but they have engaged with the decisions of the mayor of the Municipality. For 41 employees, there was a decision for a certain period of six (6) months, while 10 others had a decision until the end of the Mayor's mandate. On 21.07.2023, the Mayor issued decision No. 02/2023 for the termination of all contracts and decisions of workers engaged for special services. Meanwhile, from the month of August, 27 other decisions were issued for the engagement of employees, 21 of whom were engaged for a period of six months, and 6 (six) of them for the period until the end of the mayor's mandate, in positions such as: inspector of constructions; electronic media consultant; Administrative assistant; ambulance driver at MFMC; official for receiving the goods; and veterinary inspector. All of them continue to be engaged in 2024.

They were not engaged for special services or specific tasks, but rather for regular job positions. For these employees, the Municipality paid €204,660 in 2023.

The engagement of staff without procedures occurred due to a lack of workers and the impossibility of developing recruitment procedures, as well as the need to cover positions after the retirement of some employees. Although it should be noted that this issue is addressed continuously in the audit reports.

## Impact

The appointment of officials for regular positions for a certain period and engagement with contracts for a specific task with a longer term and without procedures is contrary to the relevant legislation. At the same time, this increases the risk of engaging incompetent staff for certain positions, eliminating competition and equal opportunities for employment.

## Recommendation B5

The mayor should ensure that the procurement procedures for the engagement of staff for MFA are applied and that this form of

engagement is applied only for specific work and only when the demands from the requesting units are reasonable.

### **Auditee's Management Response (Agree)**

## **2.3 Other financial management and compliance issues**

### **2.3.1 Revenues**

The revenues generated by the Municipality in 2023 were €804,746. They are mainly related to income from property tax, income from construction permits, administrative taxes, income from business activities, income from rent, etc.

#### **Issue B6 - Shortcomings in the management of property tax revenues**

##### **Finding**

Law no. 06/L-005 on Property Tax, article 11.1 and 11.4 4, stipulates that: A natural person who owns or possesses two (2) or more residential units of buildings, may declare in accordance with paragraph 1 of this article, only one of these buildings as his primary residence, regardless of the fact that the building units may be located in different municipalities, is allowed a deduction of €15,000 from the estimated value of the building unit. AI No. 03/20211 for the collection and registration of information on the property and the taxpayer, article 7, paragraph 1.1 requires the personal identification number of the physical taxpayer.

After the analysis made, in relation to the implementation of the deduction allowed for the primary residence and the implementation of the Decision on the registration of the personal number, we found that for 711 taxpayers, a deduction of €15,000 was applied from the estimated value of the building unit, relied on article 11 - "Deductions for primary residence", but this deduction was made for the properties of persons for whom the personal number was not recorded.

This issue was carried over from previous years and due to insufficient staff in the property tax sector, it has not been possible to update the data in Protax.

##### **Impact**

Applying the deductions allowed to taxpayers without a personal number and without declaring that the taxpayer's residence serves as a primary residence, may result in inaccurate calculations of deductions for property tax and consequently less income.



**Recommendation B6** The mayor should increase controls to ensure that property tax assessments are done correctly for taxpayers and ensure there is a better coordination between the Municipality and the property tax department within the Ministry of Finance, in order to improve/update the entries in the database.

**Auditee's Management Response (Agree)**

**Issue B7 - Failure to verify 20% of the current state of the facilities**

**Finding** Law No. 06/L-005 on Tax on immovable property, Article 15, point 2 determines that; Every year the Municipality must carry out inspection (verification) actions for at least 20% of all facilities within the territory of the Municipality.

From 7,033 objects recorded in the database, the Municipality has registered 222 new properties, as well as managed to carry out 497 modifications, a total of 719 verifications have been carried out from all properties or about 11%. Although compared to last year there is an increase of almost 10%, the level of the percentage of verification is still low, therefore concrete actions are still required to improve the situation on the ground.

Non-verification of properties, lack of surveyors in the field and insufficient controls in the property tax sector.

**Impact** Incomplete verification of properties for property tax purposes may result in incomplete information of the actual taxable property as well as affect inaccurate assessment of property tax revenues.

**Recommendation B7** The mayor should ensure the verification of 20% of immovable objects is achieved in order to integrate all possible changes in the database for the existing properties of the Municipality. The collection of revenues from this source will directly affect the implementation of projects that have an effect on increasing the quality of services for the citizens of the Municipality.

**Auditee's Management Response (Agree)**



## 2.3.2 Capital and non-capital assets

The value presented in the AFS of capital assets is €13,581,954, of non-capital assets is €166,533, and of inventory €22,658.

### **Issue B8 - Shortcomings in the process of inventorying and evaluating non-financial assets**

#### **Finding**

Regulation No. 02/2013 for the management of non-financial assets, Article 19.4.3 stipulates that: at the end of each year, a comparison is made between the state of the inventory and the state of the registers of non-financial assets, further Article 21 of this regulation has defined the requirements for the assessment of non-financial assets.

The Municipality has carried out the process of inventorying non-financial assets, but there was no comparison of the inventoried state with the state of the assets in the accounting registers, therefore the differences between the accounting state and the inventory are not known. Further, the evaluation of non-financial assets was not done, which has to do with the evaluation of damaged assets, the evaluation of requests for alienation of assets as well as the preparation of the report on the assets that must be removed from use.

This situation was due to the lack of knowledge related to the requirements of the regulation for the management of non-financial assets, as well as the lack of internal guidelines related to the process of inventorying and evaluating assets.

#### **Impact**

Failure to compare the inventory results with the non-financial asset registers and failure to evaluate the assets makes it impossible to obtain any assurance regarding the accuracy and completeness of the asset registers.

#### **Recommendation B8**

The mayor should ensure that the assets inventorying and evaluating process will be carried out according to the requirements of Regulation 02/2013 on Management of Non-Financial Assets in budget organizations, as well as comparing the results of the inventory with the accounting balance of the assets, clarifying all the differences.

#### **Auditee's Management Response (Agree)**

### 2.3.3 Internal audit function

In addition to the strategic plan, IAU had drawn up the annual work plan, which included 5 audits, which were carried out during the year 2023. The number of recommendations given in the audit reports was 30, of which 12 were implemented, 8 were in the process and 10 were not implemented. The audits were focused on the area of assets, subsidies, contract management, review of procurement processes and expenditure. The audit period was mainly covered for the year 2023. The audit committee held 4 meetings, where the work and reports of the IAU were discussed.

#### **Issue B9 - Lack of staff and action plans in addressing IAU recommendations**

**Finding** Regulation 01/2019 on establishment of the Internal Audit Unit, article 5.1.1 stipulates that every public sector entity with a budget over seven (7) million euros must have at least three auditors. Also, according to Regulation 01/2019 on the establishment and implementation of internal audit, article 9, point 7 - Internal auditors monitor the implementation of recommendations systematically according to the action plan approved by the leader of the public sector entity. Also, according to article 10 point 1.3 of the same regulation - It is the responsibility of the leader of the public sector entity for internal audit to ensure the implementation of the recommendations agreed upon for the internal audit according to the action plan.

IAU in the Municipality of Deçan consists of the director and one member, and must have at least three auditors.

The audited units had not prepared action plans for addressing the recommendations given in the internal audit reports. As a result, the recommendations of the IA were not sufficiently addressed by the management, where out of the 30 recommendations given for the year 2023, 10 of them were not addressed, 8 were in the process, while 12 were implemented.

This situation was due to the lack of budget allocated to meet the minimum number of auditors according to legal requirements. While the lack of plans for addressing the recommendations of the IAU was due to the negligence and irresponsibility of the responsible officials of the respective directorates.

**Impact** Failure to complete the IAU with sufficient staff may affect that the internal audit does not cover all areas of risk. Whereas, the lack of an action plan and the undertaking of insufficient actions by the management in addressing the recommendations may result in the continuation of the identified weaknesses, inefficiency in the internal control system.

**Recommendation B9** The mayor should ensure that the budget planning for the required positions will be done in time and that the IAU is filled with sufficient staff according to the regulation for the establishment of the IAU. Likewise, it should ensure the preparation of action plans by the audited units for addressing the recommendations of the internal audit and at the same time ensure the implementation of the recommendations given by the IAU.

**Auditee's Management Response (Agree)**

### 3 Summary information on budget planning and implementation

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

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

| Description                        | Initial budget    | Final budget <sup>5</sup> | 2023 Expenditures | 2022 Expenditures | 2021 Expenditures |
|------------------------------------|-------------------|---------------------------|-------------------|-------------------|-------------------|
| <b>Sources of funds</b>            | <b>12,119,805</b> | <b>13,727,206</b>         | <b>13,362,912</b> | <b>10,801,693</b> | <b>9,785,496</b>  |
| Government Grants – Budget         | 11,021,320        | 12,388,227                | 12,369,409        | 9,713,779         | 9,098,298         |
| Funding through borrowing          | 0                 | 0                         | 0                 | 94,003            | 32,434            |
| Carried forward from previous year | 0                 | 183,174                   | 182,351           | 322,938           | 112,052           |
| Own source revenues                | 1,098,485         | 1,098,485                 | 775,302           | 669,476           | 530,712           |
| Domestic Donations                 | 0                 | 17,002                    | 0                 | 1,496             | 12,000            |
| External donations                 | 0                 | 40,318                    | 35,850            | 0                 | 0                 |

The final budget is higher / lower than the initial budget by €1,607,401. This increase is the result of an increase in the government grant for €1,366,907, an increase in revenues carried over from the previous year for €183,174, an increase in local donations for €17,002 and external donations for €40,318.

In 2023, the Municipality spent 97% of the final budget of €13,362,912, an improvement of 1% compared to 2022.

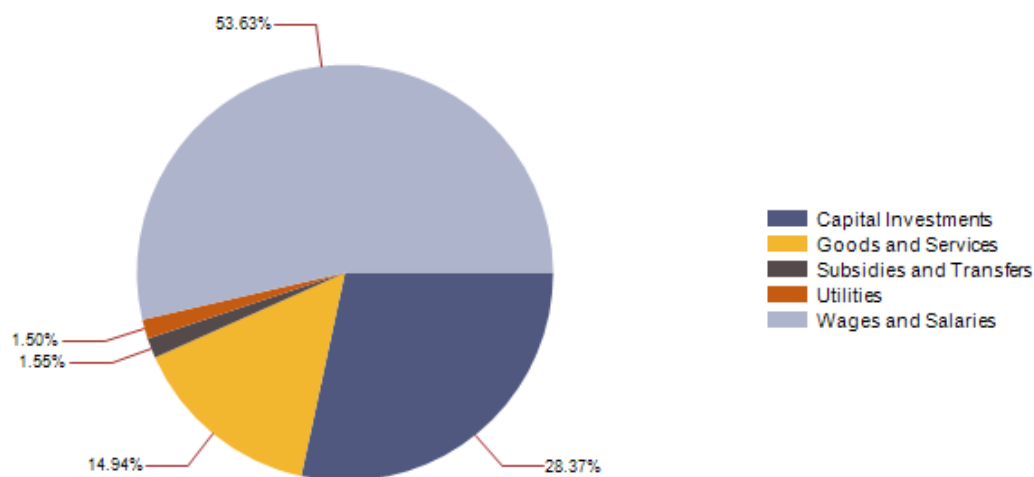
**Table 2. Spending of funds by economic categories (in €)**

| Description                                     | Initial budget    | Final budget      | 2023 Spending     | 2022 Spending     | 2021 Spending    |
|---|-------------------|-------------------|-------------------|-------------------|------------------|
| <b>Spending of funds by economic categories</b> | <b>12,119,805</b> | <b>13,727,206</b> | <b>13,362,912</b> | <b>10,801,693</b> | <b>9,785,496</b> |
| Wages and Salaries                              | 5,800,000         | 7,166,907         | 7,166,907         | 5,934,913         | 5,779,575        |
| Goods and Services                              | 2,100,000         | 2,128,575         | 1,997,058         | 1,844,173         | 1,619,414        |
| Utilities                                       | 200,000           | 200,000           | 199,991           | 195,491           | 154,906          |
| Subsidies and Transfers                         | 200,000           | 208,028           | 207,422           | 152,100           | 172,625          |
| Capital Investments                             | 3,819,805         | 4,023,696         | 3,791,534         | 2,675,016         | 2,058,976        |

Explanations for the changes in the budget categories are given below:

- The final budget for wages and salaries was increased by €1,366,907. The increase was the result of government decisions;
- The final budget for goods and services was increased by €28,575. The increase was as a result of the transferred revenues in the amount of €27,553 and from donations for €1,022;
- The final budget for utilities has not changed; and
- The final budget for subsidies and transfers for €8,028. The increase was as a result of self-carried income; and
- The final budget for capital investments was increased by €203,891. The increase was the result of personal income for €147,593 and donations for €56,298.

**Chart 1: Spending by economic categories for year 2023**



The revenues generated by the Municipality in 2023 were in amount €804,746 or about 17% more than the previous year. The revenue structure consists of property tax revenues, construction permit revenues, administrative taxes, business activity revenues, rental revenues, etc.

**Table 3. Revenues (in €)**

| Description              | Initial budget   | Final budget     | 2023 Receipts  | 2022 Receipts  | 2021 Receipts  |
|--------------------------|------------------|------------------|----------------|----------------|----------------|
| <b>Total of revenues</b> | <b>1,098,485</b> | <b>1,098,485</b> | <b>804,746</b> | <b>689,783</b> | <b>712,376</b> |
| Tax revenues             | 726,771          | 726,771          | 505,170        | 387,433        | 473,002        |
| Non-tax revenues         | 371,714          | 371,714          | 299,577        | 302,350        | 238,124        |
| Other revenues           | 0                | 0                |                |                | 1,250          |

## 4 Progress in the implementation of recommendations

The 2022 AFS audit report resulted in 17 key recommendations. The Municipality had prepared an action plan stating how it will implement the recommendations given. However, the Municipality has not reported on time regarding the implementation of the recommendations through periodic reports on the implementation of the recommendations which should have been submitted on 30.09.2023 and 15.03.2024.

By the end of our audit for 2023, eight (8) recommendations have been implemented, while nine (9) recommendations have not been implemented, as shown in Chart 2, below. For a more complete description and how they were addressed, see Table 4 of the recommendations.

**Table 4 Summary of the previous year's recommendations**

| No. | Audit Field          | 2022 Recommendations  | Actions taken  | Status                         |
|-----|----------------------|---|--|--------------------------------|
| 1   | Basis for opinion    | The mayor should ensure that actions are taken to address the causes that have influenced the disclosure errors for outstanding liabilities and ensure that all invoices are received through the municipality archive                                      | For deficiencies in the disclosure of data in the AFS, refer to the issue of contingent liabilities. | It is no longer applicable     |
| 2   | Basis for opinion    | The mayor should take all the necessary actions to ensure that the means paid for these purposes are directed to the intended destination, as well as to strengthen control in the execution of payments to ensure that such cases will not be repeated     | Appropriate measures have been taken.  | Implemented                    |
| 3   | Basis for conclusion | The mayor should increase controls over the procurement office to ensure that the staff assigned to the management of procurement procedures are familiar with the legal requirements for public procurement and that they apply controls in all its phases | We have not come across similar cases.   | Implemented                    |
| 4   | Basis for conclusion | The mayor should enhance controls over the process of evaluating applicants for the allocation of municipal subsidies to ensure that only those who meet the criteria defined in the public call can benefit.   | It has taken appropriate measures in the evaluation of subsidy applications.                         | Implemented                    |
| 5   | Basis for conclusion | The mayor should ensure that the obligations are planned/budgeted   | Even this year, we recorded the  | Implementation has not started |

|   |                      |  |   |                                |
|---|----------------------|--|---|--------------------------------|
|   |                      | and paid within the legal deadline in order not to damage the municipality budget with additional enforcement costs  | same occurrence.  |                                |
| 6 | Basis for conclusion | The mayor should increase controls to ensure that property tax assessments are done correctly for taxpayers. He should also ensure a better coordination between the municipality and the property tax department within the Ministry of Finance, in order to improve the records in the database.   | Even this year, we recorded the same occurrence.  | Implementation has not started |
| 7 | Basis for conclusion | The mayor should ensure the application of the procurement procedures for the appointment of SSA staff. In addition, he should ensure that this form of appointment is applied only for specific work and only when the demands are reasonable from the requesting units.  | Even this year we have encountered the same occurrence.   | Implementation has not started |
| 8 | Basis for conclusion | The mayor should ensure the verification of 20% of immovable properties is achieved in order to integrate all eventual changes in the database for existing municipal properties. The collection of revenues from this source will directly affect the implementation of projects that have an effect on increasing the quality of services for the citizens of the municipality | The verification of 20% of properties has not been achieved even in 2021.   | Implementation has not started |
| 9 | Revenues             | The mayor should ensure a better coordination between the municipality and the property tax department within the Ministry of Finance, in order to improve the entries in the database. Moreover, the Mayor should increase the controls to ensure that the correct appraisal of the property tax for the taxpayers is done.   | The repeated recommendation of the previous years has been fulfilled to a large extent and in 2023 there were only 28 complaints from taxpayers for incorrect tax burden, therefore it is considered as no longer applicable. | It is no longer applicable     |

|    |                                |   |  |                                |
|----|--------------------------------|---|--|--------------------------------|
| 10 | Subsidies and Transfers        | The mayor should ensure that the subsidizing NGOs is carried out through a public call as defined by the Regulation on the Criteria, Standards and Procedures of Public Funding of NGOs. Moreover, when allocating subsidies, should make an agreement with the beneficiaries to ensure that the funds are spent on the defined objectives              | There were public calls for NGOs this year.  | Implemented                    |
| 11 | Capital investments            | The mayor should ensure that all actions are taken to plan expenditures in the appropriate budget allocations (or to reallocate funds when needed and applicable) and that payment and registration of expenditures are done strictly in accordance with the adequate economic codes.   | Necessary actions have not been taken because this year we have encountered the same occurrence. | Implementation has not started |
| 12 | Capital investments            | The mayor should ensure the improvement of internal controls related to the correct planning of needs for work and the fair implementation of the legal public procurement framework. He should also ensure that the specified projects do not exceed the estimated parameters both in quantity and value as defined by the terms of the contract.      | We have not encountered this occurrence in the payments executed by the Municipality.            | Implemented                    |
| 13 | Capital and non-capital Assets | The mayor should ensure the internal control functioning in the maintenance of assets registers by establishing communication between the asset officer and the finance department to ensure that all municipality assets are correctly identified and registered in the relevant AFS and municipal assets registers                                    | Even this year we have encountered the same occurrence.  | Implementation has not started |
| 14 | Capital and non-capital Assets | The mayor should ensure that the process of inventorying and evaluating the assets will be carried out in accordance with the requirements of Regulation 02/2013 on Management of Non-Financial Assets by budget organizations, as well as comparing the results of the inventory with the assets accounting balance, by clarifying all the differences | Necessary actions have not been taken because this year we have encountered the same occurrence. | Implementation has not started |



|    |                        |  |   |                                |
|----|------------------------|--|---|--------------------------------|
| 15 | Receivables            | The mayor should consider all possible actions to ensure higher efficiency in collection of receivables.   | The management of the Municipality has taken actions for the collection of accounts receivable by sending the tax obligors a final warning for the payment of the debt before they are sent to enforcement. | It is no longer applicable     |
| 16 | Contingent liabilities | The mayor should ensure that actions are taken to address the causes that have influenced the underestimation of contingent liabilities to ensure that their disclosures are complete and accurate in the AFS.   | Even this year, we have documented that contingent liabilities were understated.  | Implementation has not started |
| 17 | Internal Audit         | The mayor should ensure that the budget planning for the required positions will be done in time and that the IAU is completed with sufficient staff in accordance with the regulation for establishment of the IAU. He should ensure the preparation of action plans by the audited units for addressing the recommendations of the internal audit and at the same time ensure the implementation of the recommendations provided by the IAU. | Even this year, we encountered the same occurrence.   | Implementation has not started |

## Appendix I: Letter of confirmation



Komuna e Deçanit  
Municipality of Decan  
Opstina Deçan

### 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

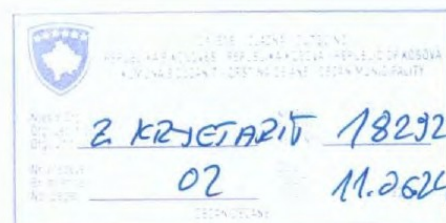
Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të **KK- Deçan** për vitin 2023 (në tekstin e mëtejshëm "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit.
- 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. Bashkim Ramosaj  
Kryetar i Komunës së Deçanit

Data: 11.06.2024, Deçan,



## 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>4</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>5</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 opinions

##### **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.

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<sup>4</sup> Financial statements in the public sector include also the statement(s) of budget execution

<sup>5</sup> 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