



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT FOR THE ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF PRIZREN FOR THE YEAR 2023

Signed by
Vlora Spanca,
The Auditor General

Prishtina, June 2024

TABLE OF CONTENT

1	Audit Opinion	Error! Bookmark not defined.
2	Findings and recommendations.....	Error! Bookmark not defined.
3	Summary on budget planning and execution...	Error! Bookmark not defined.
4	Progress in implementing recommendations.....	Error! Bookmark not defined.

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 Prizren 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 authorities¹.

Unmodified opinion on the annual financial statements

We have audited the annual financial statements of the Municipality of Prizren, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2023.

In our opinion, the annual financial statements of the Municipality of Prizren give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for opinion

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

Conclusion on compliance

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 Prizren 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.

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

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

Basis for conclusion

- A1 Full payment for supply with fuels
- A2 Failure to include relevant elements in the contract terms with the beneficiaries.
- A3 Poor project management through the of e-procurement platform
- A4 Failure to include decisions for inflation payments in the e-procurement.
- A5 Commitment of funds and purchase orders not in accordance with financial rules.
- A6 Lack of executive project.
- B1 Delayed payment of bills.
- B2 Delayed implementation of capital projects.
- B3 Initiation of procurement procedures without sufficient funds.

For more, see sub-chapter 2.1 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 Prizren 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 Prizren 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 Prizren's financial reporting process.

Management's Responsibility for Compliance

Municipality of Prizren'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.³

³ Collectively referred to as compliance with authorities

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 Prizren'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 Prizren'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 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 recommendations⁴

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). Following our request, some issues raised in the AFS have been rectified and submitted to the MF. However, during the audit process, we found shortcomings in the management of assets, revenues, accounts receivable, subsidies, execution and classification of expenditures, the management of capital projects, 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 public funds in the public sector. We will follow up these recommendations during next year's audit

Based on the Treasury data, the total amount of payments made based on court/executive decisions is €810,436 from the category of salaries and wages as a result of non-implementation of the collective contract.

This report resulted in 13 recommendations, of which seven (7) are new recommendations, five (5) repeated and one (1) partly repeated.

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

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

2.1 Matters with impact on the compliance conclusion

Issue A1 – Payment in full for supply with fuels

Finding Regulation on the expenditure of public money No. 01/2013, Article 23 determines that; the acceptance of the goods/service is done by the authorized official/commission. In addition, the terms of the contract stipulate that payments will be made on the basis of supplies provided by the economic operator and approved by the supervisory body.

On 23.02.2022, a contract was signed with EO in the amount of €56,550, for the project "Supply of wood for heating for social occasions". On 06.04.2023, the commission, on the basis of the received invoice, concluded that the supply of wood was received both in quantity and quality according to the terms of the contract. According to the documentation provided, it is noted that the amount of 725m³ was paid, while the supply and acceptance of supplies was 715m³ or 10m³ less than the amount paid/contracted. The value of the fuel paid and not accepted is €780.

This happened due to the non-functioning of the internal controls as well as the lack of responsibility from the relevant commission.

Impact Executing the payment for the received invoice without verifying the full acceptance of the supply is against the financial rules. In such cases, achieving value for money and accountability to citizens is at risk.

Recommendation A1 The mayor should ensure supervision and control over the commissions/supervisory bodies for the acceptance of fuel supplies. Likewise, the contract manager must request from the economic operator the full supply of the quantity or return the funds for the quantity not supplied.

Auditee's Management Response (Agree)

Issue A2 – Failure to include relevant elements in the contract terms with the beneficiaries

Finding According to the public call dated 26.06.2023, with no. protocol 10-320, the application for participation with co-financing for subsidizing the farmers of the municipality with agricultural machinery and motorized cultivators has been opened. Also, based on the contract in its point 1, the serial number for the agricultural mechanisms for each contract is provided.

On 19.06.2023, a public contract was concluded between the municipality and the economic operator for the supply of motorized cultivators and agricultural mechanisms for the farmers of the municipality of Prizren. The price of the framework contract was €357,400, with the participation of the municipality with 85% and the farmers of the municipality with 15%. In the case of testing two payments (€183,000 and €100,000), we noticed that the municipality made the technical acceptance of the motorized cultivators on 12.09.2023, finding that they were accepted according to the required specifications. Based on the examinations made to 11 contracts entered into with beneficiaries, under the rights and obligations section of contracts with farmers, the contracts were not completed with relevant information such as the setting of serial numbers for agricultural machinery.

Failure to include all the contract terms, such as the serial number, occurred due to non-implementation of the requirements set out in the terms of the contract.

Impact

Failure to include the element for the serial number of all agricultural mechanisms in the terms of the agreement leads to the risk of eventual alienation.

Recommendation A2

The mayor shall ensure that any agreement entered into with the beneficiaries/farmers for granting subsidies of any agricultural mechanism shall include the relevant elements, requiring the establishment of serial numbers of all such cases.

Auditee's Management Response (Agree)

Issue A3 - Poor project management through the e-procurement platform

Finding

Regulation no. 001/2022 on Public Procurement, article 70.24 (f) stipulates that; contract managers shall ensure that all contract management records are prepared, maintained and archived in the contract management module in the electronic procurement system.

From the tests carried out, we found that in nine (9) cases, the management of contracts and the evaluation of the performance of the contractors was not maintained and archived through the electronic public procurement system (e- procurement), such as:

- "Construction and maintenance of sports club facilities, laying of tartan fields" in the amount of €174,174;
- Renovation of the "Sezair Surroi" Sports Center in Prizren" in the amount of €518,035;
- "Construction and maintenance of sports club facilities in Prizren" in the amount of €262,000;

- "Construction of the old people's home" in the amount of €94,250;
- "Asphalting of the Trepetic-Petrovë road" in the amount of €198,933;
- "Construction of the annex of the school building Ardhmëria in the village of Landovicë" in the amount of €522,546;
- "Construction of local roads in Lubizhde i Has" in the amount of €327,118;
- "Complete renovation of the school building (old annex) Naim Frasheri Vlashnje" in the amount of €64,083; AND
- "Construction of sewerage in the village of Randobravë" in the amount of €249,954.

This has happened as a result of the overlooking of the procedure by the responsible officials.

Impact

Failure to maintain and archive contracts through the public procurement system may lead to poor contract management, as well as not providing sufficient opportunities for management or authorized users to receive real-time information regarding the progress and management of contracts.

Recommendation A3

The mayor should review the reasons for not using the e-procurement system and undertake additional control measures to ensure that contract management will be maintained and archived in the electronic public procurement system.

Auditee's Management Response (Agree)

Issue A4 - Failure to include decisions for inflation payments in the e-procurement

Finding

Law no. 08/L-183 on the support of public works, article 7.2 stipulates that within three (3) calendar days after issuing the decision to approve or reject the request for compensation for inflation, the Contracting Authorities place all decisions on the public procurement electronic platform. Any claim for payment of inflation compensation without complying with this paragraph shall be deemed invalid. Likewise, point 7.3 determines that the Public Procurement Regulatory Commission (PPRC) monitors whether all decisions for compensation for inflation are uploaded to the electronic procurement system.

According to Treasury data, within the economic code "34200" compensation for inflation, the municipality has paid a total amount of €507,959 for 25 different capital projects. In the case of testing two samples in the amount of €110,135, we noticed that the municipality made the approval for payment as inflation compensation until these decisions were placed on the public procurement electronic platform, as is determined by the regulations in force.

In another case, we noticed that an operator, based on the request, was given a decision to compensate inflation in the amount of €30,000. Despite this, the operator has not fulfilled the contract in its entirety, where the value of unfinished works was €36,515.

We have not found that the municipality has received from PPRC any written explanation for the non-functioning of e-procurement, despite the fact that the procurement office has notified PPRC. While in the other case, according to the contract manager, the non-fulfilment of the contract in its entirety (for the above-mentioned value) occurred as a result of unwillingness, namely the economic operator's refusal to fulfil the contract in its entirety.

Impact

Non-compliance with the legal rules for the establishment of all decisions in e-procurement has resulted from the irresponsibility of the competent officials. Refusal to complete the contract in its entirety by the project manager may cause higher value financial problems to the municipality.

Recommendation A4

The mayor should ensure that the responsible officials in such cases will take immediate corrective measures to implement the legal obligation to report inflation compensation decisions on the public procurement electronic platform. I also request additional actions or mechanisms for the implementation of the project from the economic operator or take other legal steps.

Auditee's Management Response (Agree)

Issue A5 - Commitment of funds and purchase orders not in accordance with financial rules

Finding

Rule No. 01/2013/MF on spending public money, Article 22 defines that; the steps that must first be processed are the commitment of funds, the purchase order is issued and after the purchase is accepted, the acceptance report is made, the invoice is accepted and finally the payment from the Treasury is processed.

During testing, we identified that:

- In (19) cases of payments of €1,692,329, the funds were committed after the goods or service/works were accepted and the invoice received; and
- In (31) cases of payments of €2,271,085, purchase orders were made after goods or service were accepted and receiving the invoice received, not as required by the financial rules.

This occurred due to the responsible officers' failure to apply the legal rules for spending public money and due to improper planning of the flow of money.

Impact Entry into obligations without securing the necessary funds leads to increased outstanding liabilities or budget implications for the current year, as well as creates a burden for the next year's budget.

Recommendation A5 The mayor should ensure that the steps set forth in the applicable rules on payments are followed in order to ensure that during the payment process, funds are first committed, then a purchase order is issued and finally the work/service is accepted, and the payment made.

Auditee's Management Response (Agree)

Issue A6 - Lack of executive project

Finding The Rules and Operational Guidelines for Public Procurement (ROGPP), article 20, point 10 requires that "Technical specifications for the work contract must include an executive project as a substantial part of itself". Whereas, point 13 "The contracting authority is responsible for the drafting of the executive project, which must be attached to the technical specifications which are part of the tender file" in a mandatory manner. No Contracting Authority is allowed to issue tender documentation without attaching a detailed description of the project.

The project for "Rehabilitation and construction of asphalt roads" in the amount of €3,470,000, did not have an executive project drawn up by the municipality. However, the procurement process was started by preparing only the bill of quantities.

This happened as a result failure to timely plan this investment project.

Impact The development of procurement procedures without an executive project increases the risk of carrying out works without standard construction criteria, delays in their execution and not achieving the appropriate quality.

Recommendation A6 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.

Auditee's Management Response (Agree)

Issue B1 - Delayed payment of bills**Finding**

According to Article 39.1 of Law no. 03 /L-048 on Public Finance Management and Responsibilities, it is required that each valid invoice and request for payment of goods and services be paid within 30 calendar days after receipt of the invoice. While, according to Article 40, the invoices can be executed directly by the Treasury after receiving the final order from the court/executor.

In (6) six cases, invoices with a total value of €601,437, presented in the financial statements, present unpaid invoices for more than 30 days, with a delay of 15 days to about 4 months.

By testing nine (9) payments from the category of capital investments and six (6) payments from the category of goods and services, we identified that payments were executed based on executive/court decisions. According to the tested value of these samples, we noticed that €89,448 (from capital investments) and €74,191 (from goods and services) were paid in the name of severance pay/jubilee salaries.

This happened as a result of non-timely payments of financial obligations and requests for jubilee salaries, where part of them were for the implementation of the collective contract, the expenditures of which are not planned in the budget.

Impact

As a result of payment delays, the municipality may face additional costs of interest and fines/court costs for delays claimed by third parties.

Recommendation B1

The mayor should 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.

Auditee's Management Response (Agree)**Issue B2 - Delayed implementation of capital projects****Finding**

The public contract signed between the municipality and the contractor sets forth the special contracted terms and deadlines for the project implementation. Contract managers must monitor and ensure that contracts are completed properly and on time.

In three (3) cases, we have identified delays in the implementation of projects, as follows:

- The contract "Construction and maintenance of sports club facilities and paving with tartan" in the amount of € 174,174, signed on 02.03.2023, was not completed according to the dynamic plan of 180 days;
- The contract "Construction of the road Trepetice - Petrove" in the value of €198,933, signed on 23.05.2023, was not completed according to the dynamic plan of 120 days; AND
- The contract "Construction of local roads Lubizhde e Hasit" in the value of € 327,118, signed on 08.03.2021, has not been completed according to the dynamic plan of 360 days. By the time we were under audit (April 2024), none of these projects had been completed.

The cause of the delays was the lack of funds available to complete the contract as a result of poor project planning, as well as some problems in the expropriation of properties.

Impact

Delays in the implementation of projects lead to increased contractual obligations, which may cause budgetary implications for the following year's budget. This also affects the performance and non-achievement of the defined objectives of the Municipality.

Recommendation B2

The mayor should ensure the establishment of controls in the management of contracts by implementing a regular and effective supervision. Realization of contracts must be done in accordance with the dynamic plan/deadline for the performance of works/supplies and for unjustified delays, apply the measures/penalties foreseen in the contract.

Auditee's Management Response (Agree)

Issue B3 - Initiation of procurement procedures without sufficient funds

Finding

Law no. 03/L-221 on Amendment and Supplement to Law no. 03/L-048 on the Management of Public Finances and Responsibilities, article 36, paragraph 1 determines that "Before initiating a procurement process which aims to result in the raising of an obligation in the 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 13 cases, the municipality had entered into contractual obligations without having sufficient funds committed. The cases concern the projects:

- The project "Rehabilitation and construction of asphalt roads" with a contract value of €3,470,000, whilst the commitment of funds was €50,000;

- The project "Rehabilitation of the water supply network and installation of water meters outside private property in the village of Zhur" with a contract value of €2,497,919, whilst the commitment of funds was €50,000;
- The project "Regulation of public lighting in the village of Lubizhde Hasit of Prizren" with a contract value of €444,887, whilst the commitment of funds was €14,307;
- The project "Layering of roads with asphalt in the village of Hoqë" with a contract value of €248,980, whilst the commitment of funds was €17,801;
- The project "Layering of roads with asphalt in the village of Hoqë of the City" with a contract value of €76,671, whilst the commitment of funds was not attached to the statement of availability needs;
- The project "Rehabilitation and revitalization of public spaces in the first protected area in the old part of the city, restoration of squares and buildings" with a contract value according to the price per unit 3,360 (estimated value 3,000,000) whilst the commitment of funds was 5,914 €.
- LOT 2 'Supply of heating pellets for the schools of the Municipality of Prizren 2023/2024 with a total indicative value of the contract of €354,042, whilst the commitment of funds was €5,000;
- "Supply of gravel for unpaved roads in the Municipality of Prizren" with a contract value of €1,399,255, whilst the commitment of funds was €24,312;
- "Supply of beech wood fuel for heating for families of martyrs, families of war invalids and ordinary families - social cases of the Municipality of Prizren" with a total indicative value of the contract of €184,161, whilst the commitment of funds was €24,000;
- "Transportation of traveling teachers in the Municipality of Prizren" with a total indicative value of the contract of €266,335, whilst the commitment of funds was €10,000;
- "Theatrical magazines" with an estimated contract value of €60,000, whilst the commitment of funds was €19,425;
- "Designing projects according to the needs of the Directorate for Tourism and Economic Development" with a total indicative contract value of €59,950, whilst the commitment of funds was €1,000; AND
- "Supply of hygienic material for the needs of the KPSH (2-year project)" with a total indicative value of the contract of €139,935, whilst the commitment of funds was €15,000.

This occurred as a result of lack of controls over initiation of procurement procedures with no funds committed.

Impact Entering into obligations without committing the necessary funds, leads to increased outstanding liabilities or budgetary implications for the current year, as well as creates a burden for the next year's budget.

Recommendation B3 The mayor should strengthen controls during the evaluation of projects, in order to ensure that, before the initiation of procurement procedures for each capital project, there are sufficient funds for the realization of the projects.

Auditee's Management Response (Agree)

2.2 Other financial management and compliance matters

2.2.1 Common issues for certain economic categories

The following are common issues related to economic categories: (goods and services and capital investments).

Issue B4 - Inadequate classification of expenditures

Finding Financial Rules str. 01/2013/MF "On spending public money", article 18, point 3 specifies that; expenditures must have the appropriate codes, defined by the Administrative Instruction for the accounting plan. Consequently, Article 11 of AI 19/2009 on the accounting plan requires the ZKA 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 AI.

The municipality has paid and recorded expenditures in the amount of € 241,824 in inadequate categories:

- From the capital investments category, salaries and wages/salaries were paid in the amount of € 89,448; and
- From the goods and services category, €74,191 were paid for the supply of aids to NGOs and sports clubs, as well as €78,185 were paid for the supply with construction material for the houses for social cases in Prizren, which by nature the expense belongs to subsidies and transfers.

Payments for jubilee salaries and similar occurred due to entering into financial obligations without having planned budget funds and misclassification occurred as a result of non-implementation of expenditure reporting requirements according to the relevant categories.

Impact The planning and realization of expenditures from inadequate economic categories affects the overestimation/underestimation of the relevant categories of expenditures and assets. As a result, it affects the unfair presentation of expenditures in the AFS.

Recommendation B4 The mayor should ensure that all the necessary actions are taken so that the expenditures are planned in the appropriate allocations of the budget or the re-destination of funds is done and that the payment and registration of the expenditures is done according to the adequate economic codes determined by the accounting plan.

Auditee's Management Response (Agree)

2.2.2 Capital and non-capital assets

The net value of capital assets presented in the AFS of 2023 is €502,556,542, non-capital assets is €3,314,325, as well as stocks €439,693.

Issue A7 - Failure to close the ongoing investments and their registration as assets in use

Finding Regulation 02/2013 on the Management of Assets of Budget Organizations, determines the method of registration, maintenance of asset registers, depreciation, inventory process, also according to article 11 it is stated that after the end of the investment process, non-financial capital assets will be classified as non-financial assets in use. From the moment the property is ready for use, the assessment will also be applied.

In the register of assets worth over €1,000, we have identified that the municipality has the ongoing investments of €57,444,588 registered in the accounting registers. This includes assets purchased (built) during the years 2013-2023, for which technical acceptance has not been made even though the projects have been completed, as well as projects that have not yet been completed or are in process for years or suspended. Furthermore, the depreciation of these assets cannot be calculated, as they are still recorded as future investments.

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

Impact The lack of technical acceptance for completed assets, or those that are in process and suspended, affects the ambiguity of their status and reporting. This leads to shortcomings and difficulties in the accurate assessment of the municipality's assets, making their effective management difficult.

Recommendation A7 The mayor should provide for the functioning of internal controls over the management of non-financial assets, ensuring the technical acceptance of completed projects and the proper handling of projects that are in process or suspended.

Auditee's Management Response (Agree)

Issue C1 - Non-registration and non-reconciliation of the register of non-financial assets in a timely manner

Finding Regulation no. 02/2013 for the management of non-financial assets, article 6, paragraph 3 determines that; "Capital assets must be registered in KFIMS, while non-capital assets and stocks must be registered in the e-property system." Further, Article 19, point 4.7, determines that the asset inventory must be carried out before the finalization of the AFS.

During the audit, we found that:

- In seven (7) cases/payments made in 2023, in a total value of €513,637, they were not registered in KFIMS and AFS, but these assets are registered at the time of the audit process (April 2024);
- In 2023, the municipality started registering non-capital assets in the e-property system, but this register lacks information related to the subcategory code to identify the audited year's registrations; and
- The property inventory commission was formed on time, but it did not manage to complete the report before the preparation of the AFS, but on 23.02.2024.

This happened due to the officers' irresponsibility to discharge their tasks in time and in accordance with the legal requirements.

Impact Failure to fully register capital and non-capital assets with appropriate information, as well as failure to perform the asset inventory process within the legal deadline increases the risk of insufficient information on the state of assets owned by the municipality. It also causes over/undervaluation of assets, as well as may result in incorrect presentation of information in financial statements.

Recommendation C1 The mayor should ensure that capital assets are fully and timely recorded in KFIMS and that non-capital assets are registered in e-assets with the appropriate information, according to the required economic codes. He should also ensure that the inventory process is carried out on time and these reports are reconciled with the assets' registers, preceding the preparation of the AFS, so that the value of the assets is fairly disclosed.

Auditee's Management Response (Agree)

2.2.3 Receivables

The accounts receivable presented in the 2023 AFS in total are €22,978,746. The balance of receivables mainly consists of property tax, waste management taxes, business taxes, rent from the use of municipal properties, etc.

Issue B5 - Increase in accounts receivable balance

Finding According to Article 26.1 of the Law on Real Estate Tax 06-L 005, the Municipality, the Ministry of Finance and the competent enforcement bodies have the authority and powers granted under this chapter to collect unpaid tax liabilities that exceed the amount of ten (10) Euros. Likewise, Article 27.1 1. specifies that; if a 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 notification 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.

Accounts receivable in the amount of €22,978,746 were disclosed in the financial statements. Most of them come from property tax (53%), waste tax (22%), business tax (11%), rent for the use of public property (4%) and building permit tax (10%). In 57 cases the revenues were not collected on time, this has led to the increase in accounts receivable by €4,042,130 compared to the previous year.

This happened due to insufficient legal controls and actions in revenue collection.

Impact Failure to collect revenues on time leads to the lowest level of the budget due to uncollected funds and has an adverse impact on the financing and implementation of municipal projects. This also leads the obsolescence of these accounts, thus making it impossible to collect them.

Recommendation B5 The mayor should ensure that the accounts receivable management process is improved, by undertaking the necessary actions in order to increase the efficiency in the timely collection of revenues.

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 charts:

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

Description	Initial budget	Final budget ⁵	2023 Expenditures	2022 Expenditures	2021 Expenditures
Sources of funds	60,491,944	69,387,339	62,409,458	46,266,941	50,185,605
Government Grants – Budget	49,088,386	52,703,176	50,062,613	36,663,440	41,768,695
Funding through borrowing	0	0	0	359,900	311,911
Funding through borrowing – investments clause	3,000,000	3,000,000	0	0	0
Carried forward from previous year	0	4,632,318	4,366,480	3,934,810	2,405,653
Own source revenues	8,403,558	8,403,558	7,885,742	5,118,768	5,382,984
Domestic Donations	0	543,880	72,273	41,530	315,934
External donations	0	104,407	22,349	148,492	428

The final budget is higher than the initial budget by €8,895,395, this increase is the result of savings from the Government Grant based on the decision of the government for €3,614,790, the carryover of revenues from the previous year €4,632,318, and the benefit of funds from internal donors €543,880 and external for €104,407.

In 2023, the Municipality spent 90% of the final budget or €62,409,458, an improvement compared to last year (2022 – 84%). The budget execution is at a satisfactory level and the explanations for the current position are detailed below.

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

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

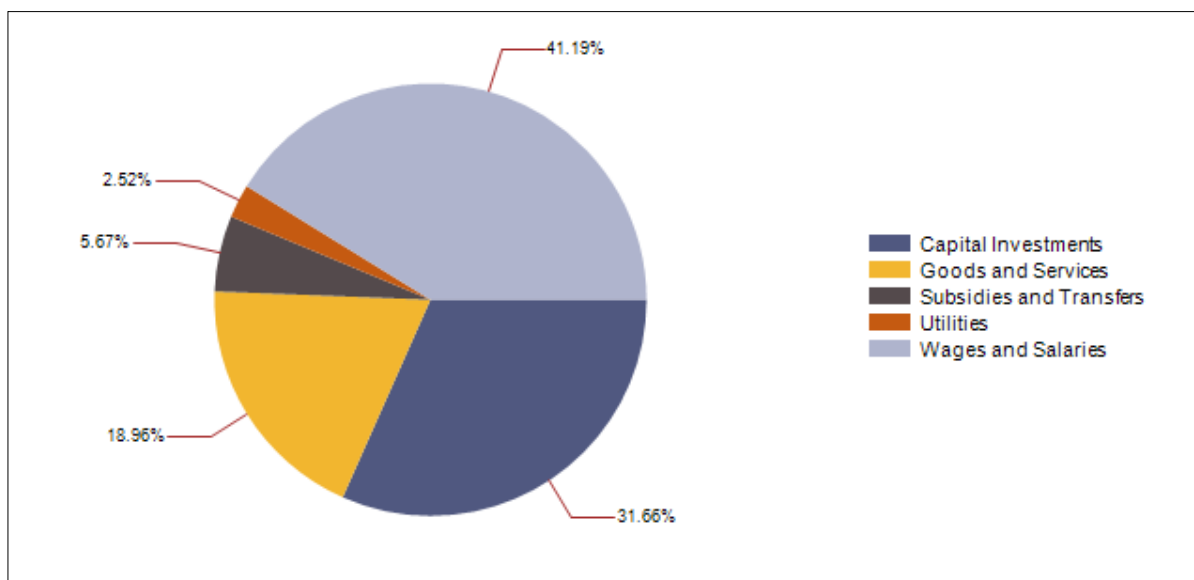
Description	Initial budget	Final budget	2023 Spending	2022 Spending	2021 Spending
Spending of funds by economic categories	60,491,944	69,387,339	62,409,458	46,266,941	50,185,605
Wages and Salaries	22,108,383	25,767,591	25,709,009	21,098,714	24,546,533
Goods and Services	12,000,408	12,282,490	11,829,897	10,135,739	8,170,451
Utilities	1,220,785	1,644,219	1,570,749	818,129	741,445
Subsidies and Transfers	3,500,000	3,618,201	3,537,966	2,562,388	2,562,240
Capital Investments	21,432,368	25,844,839	19,761,836	11,651,971	14,164,936
Reserves	230,000	230,000	0	0	0

The explanations for the changes in the budget categories are given below:

- The final budget with the initial budget of the wage and salary category was increased by €3,659,208, from the additional grant from the Government as a result of the application of the new Law on wages and salaries from court decisions;
- The final budget in the goods and services category was increased by €282,082, or 96% of the budget was spent, while the municipal ones increased by 423.4 34 compared to the initial budget;
- The final budget for subsidies and transfers compared to the initial budget was increased by €118,201, while the realization was at the level of 98% of the final budget;
- The final budget in the category of capital investments compared to the initial budget was increased by €4,412,471, or 76% of the budget was spent. Also, the dynamics of realization for 19 out of 214 planned projects in the value of 3,660,000 had no expenditures at all for the following year. It is important to note that the payments of €2,087,859 in the name of court decisions contributed to the dynamics of capital investments; and

As a result of the pandemic situation with COVID-19, the Municipality of Prizren spent €31,088, of which salaries and wages in the health sector were paid.

Chart 1. Expenditures by economic categories for year 2023



The planned revenues for 2023 were €8,403,558, while €9,579,478 were collected, exceeding the plan by 14%. They are related to income from property tax, income from construction permits, environmental permits, administrative taxes, participations, income from rent, etc.

In 2023, the Municipality of Prizren has generated revenues of €1,113,117 from traffic fines and courts. These revenues are not included in the table below because they are planned and collected by the Ministry of Internal Affairs, while they are allocated to the municipality for spending.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
Total of revenues	8,403,558	8,403,558	9,676,080	7,538,665	7,952,471
Tax revenues	3,497,307	3,497,307	3,580,180	2,572,438	3,168,586
Non-tax revenues	4,906,251	4,906,251	6,095,900	4,944,441	4,774,606
Other revenues	0	0		21,785	9,279

4 Progress in implementation of recommendations

The audit report for the 2022 AFS for the Municipality of Prizren resulted in 14 main recommendations. The municipality had prepared an Action Plan where it is presented how it will implement the given recommendations. The audit report for 2022 as well as the action plan for addressing the recommendations was discussed in the Municipal Assembly of Prizren.

By the end of our 2023 audit, seven (7) recommendations have been implemented and six (6) have not yet been addressed with one in the process of implementation and one not applicable, as shown in Chart 2, below. For a more complete description of the recommendations and how they were addressed, see Table of recommendations no. 4.

Chart 4. Progress in implementing prior year's recommendations

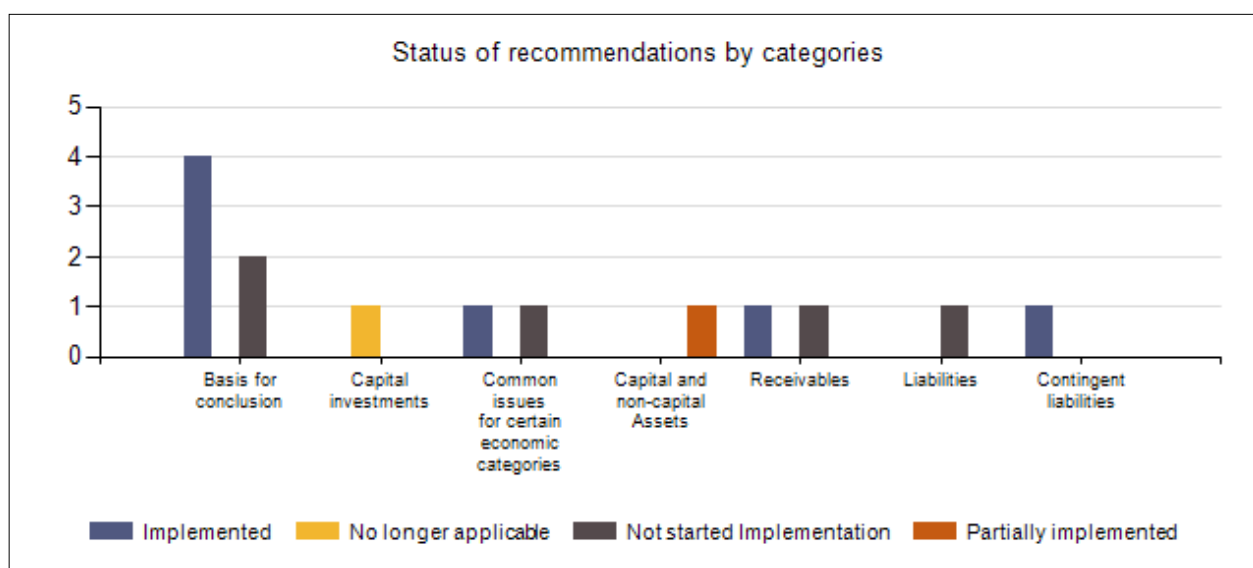


Table 4 Summary of the previous year's recommendations

No.	Audit Field	2022 Recommendations	Actions taken	Status
1	Basis for conclusion	The mayor should ensure that the evaluation committees review the applications in accordance with the criteria set out in the public call, and that they use the official forms of the NGO subsidy process as defined by regulation. Members of the applications evaluation committee should not supervise the implementation of subsidized projects. It should also be ensured that project monitors supervise the	Necessary actions have been taken.	Implemented

		implementation of subsidised projects and that beneficiaries submit narrative and financial reports upon completion of the projects.		
2	Basis for conclusion	The mayor should ensure that employees with a fixed-term contract are engaged only for the term specified in the contract. In case the need for regular employees arises, the recruitment procedure should be developed through a public competition.	Necessary actions have been taken	Implemented
3	Basis for conclusion	The mayor should ensure that the capital projects are implemented within the dynamic plan defined by the contract, and for unjustified delays, the penalties provided for in the contract are applied. The security of the execution of the contract and the guarantee of the works to be done in the value and term determined by the special conditions of the contract. In cases where the projects exceed the dynamic implementation plan, the contract execution insurance must continue and cover the time period until the implementation	No necessary actions have been taken	Implementation has not started
4	Basis for conclusion	The mayor should ensure that at least 20% immovable property is verified, in order to integrate all eventual changes into the database of municipality's existing properties.	Necessary actions are taken.	Implemented
5	Basis for conclusion	The mayor should ensure that the tenders evaluation commissions comply with the requirements defined in the contract notice and the tender dossier. Technical specifications should be prepared fully in compliance with legal requirements, not using a trademark or model name that favours or discriminates against any EO. He should also ensure that the contract performance security is done for the amount and period determined in the contract notice.	Necessary actions have been taken	Implemented
6	Basis for conclusion	The mayor should ensure that funds are committed in KFMIS before the public contracts are signed. In cases when the procurement procedures for objective reasons are not finalised in	No necessary actions have been taken.	Implementation has not started

		the fiscal year when the contracting process was started, the re-commitment of funds to KFMIS should be done in the following year		
7	Capital investments	The mayor should ensure that the causes that have resulted in non-payment of obligations to contractors on time, and which have resulted in lawsuits and court/enforcement procedures against the municipality, have been analysed. Before entering into the obligations, secure the necessary funds, as well as strengthen the controls in the supervision of the implementation of the projects and in the timely payment of the obligations.	It is not applicable.	It is no longer applicable
8	Common issues for certain economic categories	The mayor should ensure that all actions to plan expenditures in the appropriate divisions/categories of the budget (or reallocate funds when necessary and possible) are taken, and that expenditures are truly and fairly paid from and recorded in the appropriate economic codes.	No necessary actions have been taken.	Implementation has not started
9	Common issues for certain economic categories	The mayor must ensure that in public contracts contracted through the weighted price procedure, the ratio of the weighting or the percentage determined for the categories is the same even during the execution, namely payments	Necessary actions have been taken.	Implemented
10	Capital and non-capital Assets	The mayor should ensure that necessary actions for the application of the e-assets system are undertaken in order to have the non-capital assets registered, managed and reported in accordance with the criteria of the Regulation on the Management of non-Financial Assets	Partial actions have been taken.	Partially implemented
11	Receivables	The mayor should ensure that the relevant departments keep accurate records of accounts receivable so that their presentation in the financial statements is true and fair.	Necessary actions have been taken.	Implemented
12	Receivables	The mayor should ensure the improvement of the accounts receivable management process, by undertaking the necessary actions in order to increase the efficiency in the collection of revenues.	No necessary actions have been taken.	Implementation has not started

13	Receivables	The mayor should ensure that entering into obligations is done only after the budget funds have been committed in advance, and that financial obligations to contractors are paid within 30 days from the date of receipt of invoices.	No necessary actions have been taken.	Implementation has not started
14	Contingent liabilities	The mayor should ensure a proper coordination of information and improved communication between departments, in order to ensure accurate and complete evidence of contingent liabilities for presentation in the annual financial statements	Necessary actions have been taken	Implemented

Vlora Spanca, The Auditor General

Agron Fetiu, Assistant Auditor General

Ramadan Gashi, Audit Director

Florim Maliqi, Team leader

Luljeta Morina, Team member

Edon Kabashi, Team member

Annex I: Letter of confirmation

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

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

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

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

(extract from ISSAI 200)

Forms of 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.

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

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

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

Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

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

Adverse opinion

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

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

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

Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

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

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