



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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

Prishtina, May 2025

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1 Audit Opinion

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

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Gjakova, 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 of 31 December 2024.

In our opinion, except for the effects of the matter/s described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Municipality of Gjakova, give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting, the Law no.03/L-048 on Public Finance Management and Accountability (amended/supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

Basis for Qualified Opinion

- A1 The presented revenues in the amount of €5,844,817 in the Annual Financial Statements were understated by €17,954.
- B1 During 2024, transactions in the amount of €1,341,947 were made for jubilee salaries and meal allowances through direct payments from the Treasury based on court decisions, from the inadequate economic category.
- A2 Accounts receivable were understated by €222,984.

For more details, see sub-chapter 2.1 Issues with impact on the audit opinion

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

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

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

Audit Conclusion on Compliance

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

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

Basis for the Conclusion

- A3 In two (2) cases of public framework contracts for supplies with unit prices, the allowed values for expenditure were exceeded by weighing from 9% to 17%.
- B2 The contracts signed between the Municipality and economic operators specify the timeframe for the completion of the works. In three cases, we noticed that the works were not completed according to the dynamic plan as foreseen in the contract, the delays were over 90 days.
- B3 From the testing of three (3) samples in total value of €227,894, for unpaid obligations we noticed that payments were not made within the legal deadline of 30 days. The delays were from 14 to 150 calendar days.
- A4 In five (5) cases during the purchase of goods, the Municipality did not establish a committee for their acceptance as required by Regulation No. 02/2013 on the Management of Non-Financial Government Assets.
- A5 Invoicing for positions that were not clearly specified in the contract's preliminary estimate and preliminary calculation.

For more details, see sub-chapter 2.2 Issues with impact on the compliance conclusion

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

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

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

The mayor is responsible to ensure the oversight of the Municipality of Gjakova's financial reporting process.

Management's Responsibility for Compliance

The Management of Municipality of Gjakova 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

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 Gjakova'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

³ Collectively referred to as compliance with authorities

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Gjakova's internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

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

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

2 Findings and recommendations⁴

During the audit, we identified areas of possible improvement for financial management and internal control. The reporting process in the Municipality had shortcomings as identified in the preparation of the Annual Financial Statements (AFS), which contained errors in the presentation and disclosure of information. Following our request, some issues raised in the AFS were corrected and submitted to the MF. However, during the audit process, we identified shortcomings in the management of revenues, accounts receivable, classification of expenditures, 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 aim to make the necessary corrections to 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 regarding the management of public sector funds. We will follow up (review) these recommendations during next year's audit.

This report resulted in 13 recommendations, of which eight (8) are new recommendations and 5 (five) are repeated.

From the samples tested, we noted that as a result of the collective agreement with a court enforcement procedure, the municipality paid the principal debt in the amount of €3,277,015 for salaries and wages, while the additional interest and court/enforcement procedural costs were €385,756.

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

2.1 Issues with impact on the audit opinion

Issue A1 – Improper application of the municipal tax by the Directorate of Urbanism

Finding Administrative Instruction MESPI No. 02/18 on Construction Permit, Demolition Permit and Administrative Fees and Infrastructure Regulatory Charges, Article 11, paragraph 1 stipulates that “The regulatory fee for increasing infrastructure density is determined by dividing the net area of the new residential unit by the assumed number of residents per each new residential unit, multiplied by the fee per resident”. Also, paragraph 3 defines that “only the new housing space should be used during the calculation. The amount of current housing space or that which existed before should be excluded” as provided in paragraph 4 which defines that “any construction space not used for housing should be excluded from the calculation”.

In three (3) cases, we noticed that the Municipality had made an error when calculating the density fee by including existing surfaces in the calculation and not new surfaces as provided for in Administrative Instruction no. 02/18 and as a result this has caused the municipality's collected revenues to be lower by €17,954.

This had occurred due to the poor internal controls during the calculation of the density fee.

Impact Poor controls by the municipality on the application of the infrastructure tax for increasing density has resulted in a lower level of revenues that should have been generated.

Recommendation A1 The Mayor should analyse the causes of the unfair application of the infrastructure and density increase fee and immediately take corrective measures so that the revenues from this fee are complete and accurate.

Management's Response: Agree

Issue B1 - Inadequate classification of expenses

Finding Financial Rule No. 01/2013/MF on the Expenditure of Public Money, Article 18, point 3 stipulates that expenditures must have adequate codes, as determined by the Administrative Instruction on the Chart of Accounts.

Through direct payments from the Treasury based on court decisions during 2024, transactions in the amount of €1,341,947 were made for jubilee salaries and meal allowances from the inadequate economic category. Of these, €1,219,223 were made from capital investments, €106,622 from goods and services, and €16,102 from subsidies. Of this amount, additional enforcement/court expenses amount to €411,456.

Payments for jubilee salaries and meal allowances occurred as a result of the collective agreement, the expenses of which were not planned in the budget.

Impact Planning and executing expenditures from inadequate economic categories lead to overstatement/understatement of the relevant categories of expenditures and assets. Consequently, leads to unfair presentation of expenditures in the AFS.

Recommendation B1 The mayor should ensure that all actions are taken to plan expenditures in the appropriate budget allocations (or reallocate funds when necessary and possible), and that payments and recording of expenditures are made according to appropriate economic codes.

Management's Response: Agree

Issue A2 - Understatement of accounts receivable

Finding Regulation No. 01/2017 on Annual Financial Reporting, Article 16, stipulates that Budget Organizations that collect revenues are obliged to keep records of revenues collected and amounts invoiced and not collected. Receivables are disclosed in the annual financial report in the relevant table according to the type of revenue.

The Municipality has reported in the AFS accounts receivable in the amount of €14,359,438. We have identified that in four (4) cases agreements were concluded with the applicants for the payment of construction permits in instalments based on the municipal tax regulation. At the end of 2024, permit users had a remaining obligation to the Municipality in the amount of €222,984, which were not reported in the AFS as accounts receivable.

This occurred due to dysfunctional controls in the management of the accounts receivable register, where agreements for the payment of construction permits in instalments were not included in the accounts receivable register.

Impact Failure to properly present accounts receivable leads to the disclosure of inaccurate information to stakeholders, namely users of financial statements.

Recommendation A2 The mayor should ensure the strengthening of internal controls, in order to improve the process of management and fair presentation of accounts receivable in the AFS.

Management's Response: Agree

2.2 Issues with impact on compliance conclusion

Issue A3 - Excess implementation of quantities under framework public contracts, not in accordance with the weightings specified in the tender dossier

Finding Regulation No. 001/2022 on Public Procurement, Article 17.35, stipulates that "Whenever the Contracting Authority does not know the indicative quantity, unit price contracts, the CA must determine weighting based on the importance of each "category of service" so that the contracting authority can determine the bid with the lowest price based on scoring. Consequently, the weighting of the items must be done based on the weight and importance of the respective category, which means that the quantity spent cannot and should not differ from the ratios according to the weight given in the Tender Dossier. The contract manager remains responsible for clearly demonstrating that the quantity ordered and spent is in harmony with the weight given and with the real needs of the contracting authority".

In two public framework contracts with unit prices, the value spent in a certain category exceeded the value allowed for expenditure according to the weighting. These are the following contracts:

- In the contract "Professional supervision of projects" with an estimated value of €170,000, which by 31.12.2024 had been implemented for a value of €91,758 item 1 "supervision and acceptance of road works and road facilities" in the tender dossier was given a weight of 30% based on importance. This item was the most invoiced. From the analysis of the implementation so far, €68,706 has been paid for this item, so we have an excess of 28% or €14,302.
- In the contract "Design of low-rise construction projects" with an estimated value of €180,000, which by 31.12.2024 had been implemented for a value of €122,316, item B "roads and road facilities" in the tender dossier was given a weight of 60% based on importance. This item was the most invoiced. From the analysis of the implementation so far, €84,398 has been paid for this item, so we have an excess of 9% or €11,008.

These occurred as a result of poor planning of needs and improper determination of the weighting of categories based on the importance of the works/services in the tender dossier.

Impact Exceeding the permitted quantities according to the weight assigned in the tender dossier and in the contract, leads to lack of transparency in the decision-making for selecting the bid with the lowest price. This may also affect the increase in planned budget expenditures.

Recommendation A3 The mayor should ensure, through the requesting units, an active role in determining the real needs of the municipality during the preparation of requests and tender dossiers for weighted public framework contracts, so that these contracts are implemented in full compliance with the weights specified in the tender dossier.

Management's Response: Agree

Issue B2 - Delays in completion of contracted works

Finding Rule No. 01/2022 on Public Procurement specifically in Article 70.23, point b, provides that the contract manager shall ensure that the economic operator performs the contract in accordance with the terms and conditions specified in the contract. In public contracts signed between the municipality and contractors, specific contractual conditions are determined as well as the time limit for the implementation of the project. Contract managers must monitor and ensure that contracts are being implemented properly and within the specified deadline.

The contracts signed between the Municipality and economic operators specify the timeframe for the completion of the works. In three (3) cases, we identified that the works were not completed according to the dynamic plan as foreseen in the contract. The identified cases are:

- The contract "Construction of the Exit to Peja road - part of the City Ring Road", second segment - second phase", in the amount of €1,111,154.72 was signed on 07.06.2023. According to the contract, the start date of the works was immediately after the signing of the contract, and the completion within 215 working days. The value of the works completed by 31.12.2024, including the annex of €110,762 signed on 31.07.2024, was €993,809, or 81% of the value of the basic contract and the annex. Considering that the dynamic work execution plan in this project was scored with 30% during the evaluation of this tender.

- The contract "Construction of the Exit to Peja road - part of the City Ring Road", in the amount of €2,985,382, was signed on 13.07.2023. According to the contract, the start date of the works was immediately after the signing of the contract, and the completion within 200 working days. The value of the works completed by 31.12.2024, including the annex of €293,643, signed on 19.07.2024, was €2,641,044, or 81% of the value of the basic contract and the annex. Considering that the dynamic work execution plan in this project was scored with 30% during the evaluation of this tender.
- Contract "Construction and asphaltting of roads in the village of Meqë" in the amount of €127,000, signed on 21.08.2024. According to the contract, the start date of the works was immediately after the signing of the contract, and the completion within 90 working days. The value of the works completed by 31.12.2024 was €80,600.72, or 63% of the value of the basic contract.

Therefore, in the three projects, delays in completing the work according to the dynamic plan foreseen in the contract are evident, for which the municipality did not impose any punitive measures.

The reasons or causes of the delays were the lack of a proper analysis before initiating capital projects, as well as the estimated time for the implementation of these projects, but also weaknesses in the drafting of projects, where during the implementation of the works, a mismatch with the terrain conditions was identified.

Impact

Delays in the completion of projects affect the municipality's failure to achieve the objectives set in the current year and may also cause budgetary difficulties for subsequent years. Failure to apply penalties for delays caused represents a deviation from legal requirements and contract terms.

Recommendation B2 The mayor should ensure that controls are established in this area with rigorous supervision in contract management. The implementation of contracts should be carried out in accordance with the dynamic plan/deadline for the performance of works/supplies and for unjustified delays, the measures/penalties foreseen in the contract should be applied.

Management's Response: Agree

Issue B3 - Delays in payment of invoices

Finding Law No. 03 /L-048 on Public Financial Management and Accountability, Article 39.1 stipulates that every valid invoice and demand for payment for goods and services supplied to the budget organisation is paid within thirty (30) calendar days after the budget organisation receives such an invoice. According to Article 40, the invoice may be executed directly by the Treasury upon receipt of a final judgement from the court/enforcement agent.

Compared to last year, we have an increase in outstanding liabilities by the municipality in the amount of €211,918, or a percentage of 21%. From the testing of three (3) samples in the total amount of €227,893, for outstanding liabilities we noticed that payments were not made within the legal deadline of 30 days. The delays were from 14 to 150 calendar days.

The reason for not paying obligations on time is entering into contractual obligations without sufficient funds.

Impact Entering into obligations without securing the necessary funds leads to an increase in outstanding liabilities or budget implications for the current year, as well as financial costs as a result of additional charges in the name of interest and enforcement services.

Recommendation B3 The mayor should ensure that obligations are entered into only after 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 in order to avoid additional interest payments from court/enforcement decisions.

Management's Response: Agree

Issue A4 - Commission-free acceptance of goods and other capital supplies

Finding Regulation No. 02/2013 on the Management of Non-Financial Assets, paragraph 4 of Article 8, stipulates that "Chief Administrative Officer with the decision establishes a Commission for Receipt of Non-Financial Assets responsible to verify the quality, quantity, type and value of received non-financial assets and documented with minutes and that are in compliance with the contract or purchase order".

In five (5) tested samples in the amount of €298,116, for the supply of official vehicles, supply of equipment for a music school, supply of inventory for a new facility, we noticed that the Chief Administrative Officer had not established an acceptance commission. Furthermore, the receipt of medical supplies totalling €13,948 and other supplies for hygiene materials totalling €4,185 were not received by the commission and were not recorded through the warehouse according to the requirements of the regulation. Likewise, the supply of decorative wood in the amount of €32,370 was not made by the commission in the municipality.

In these identified cases, we identified that goods and services were accepted only by contract project managers and not by acceptance commissions as required by Regulation No. 02/2013 on the Management of Non-Financial Assets.

This happened because municipal officials, when accepting goods or supplies, did not take into account the requirements of the appropriate regulation, but based their decisions on the public procurement regulation.

Impact

Acceptance of goods and supplies in the absence of acceptance commissions increases the risk that the goods or supplies may not be accepted according to the quality, conditions and other elements specified in the contract.

Recommendation A4 The mayor should ensure that for every supply of goods and equipment that the municipality purchases or acquires, a commission is established in accordance with Regulation 02/2013, in order to provide assurance that the supplies received are in accordance with the terms of the contract.

Management's Response: Agree

Issue A5 - Invoicing of positions not in accordance with the contract's pre-measurement and preliminary calculation

Finding

Financial Regulation No. 01/2013 MoF-Expenditure of Public Money, Article 25 paragraph 1.2 stipulates that the certifying officer must "Ensure that the applicable conditions of a public contract have been met before recording the expenditure in KFMIS and authorizing payments".

In the payment/invoice in the amount of €42,991, made for the contract “Design of low-rise construction projects”, we noticed that the invoice was issued for the “Lake Project on the Erenik River”. When comparing the invoiced items and the items in the contract’s preliminary estimate and budget, we noticed that the item for designing lakes was missing. The municipality had used other water and public space items to carry out the project in question. This item was not specifically provided for in the contract and consequently this invoice was not adequate with the items in the contract.

This occurred due to the lack of internal controls in project supervision as well as the lack of relevant controls during certification.

Impact

Invoicing items that are not in the contract specification results in the municipality paying higher prices than those offered on the market, and this practice has no clear legal basis.

Recommendation A5 The Mayor should increase control measures in contract management and ensure that contract managers and their supervisors do not approve work situations not clearly specified in the contract, and that no payments are certified outside the contract limits.

Management’s Response: Agree

2.3 Other financial management and compliance issues

2.3.1 Revenues

Own revenues generated in 2024 amounted to €5,844,817. They relate to revenues from property tax, revenues from construction permits, administrative taxes, revenues from business activities, revenues from rent, etc. In addition to own revenues, this year the municipality has received revenues from traffic fines in a total amount of €1,284,021, as well as revenues from court fines in the amount of €63,154.

Issue A6 - Shortcomings in regular reporting on the use of municipal properties

Finding

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

In 2024, the Municipality of Gjakova concluded (32) new contracts for the use of municipal immovable property and terminated seven (7) of them. Municipal officials failed to provide us with evidence that the mayor had reported to the Municipal Assembly (which is a mandatory requirement) a special report on monitoring the implementation of contracts and the fulfilment of the purpose of allocation for use of immovable properties, until the start of implementation and achievement of the purpose of allocation for use of the property.

This happened as a result of neglecting the legal requirements regarding reporting and supervision of contracts for the use of municipal immovable property.

Impact

The lack of reporting on the monitoring of contracts for municipal properties allocated for use, in addition to creating legal non-compliance, results in the contracts not being implemented in accordance with legal requirements.

Recommendation A6 The mayor should ensure that the (6) monthly reports to the Municipal Assembly also contain a separate report on monitoring the implementation of contracts and the fulfilment of the purpose of allocation for use of immovable properties.

Management's Response: Agree

2.3.2 Capital investments

The final budget for capital investments in 2024 was €15,836,936, of which €14,767,031 was spent. They relate to expenses for the regulation of road infrastructure, construction of sewerage, construction of water supply, etc.

Issue B4 - Shortcomings in payments for capital project

Finding Financial Rule No. 01/2013 MF Public Funds Expenditure, Article 41, Paragraph 2, stipulates that “The budgetary organization is obliged to take all necessary steps to ensure that the ordered goods and services are received in accordance with the terms of the contract and purchase order. Any potential discrepancies must be reconciled with the supplier within the deadline specified in point 1 of this article so that the invoice is paid within the legally specified deadline.”

During the testing of the payment in the amount of €86,178 for the project "Expansion of the Martirët e Kombit street/Western Entrance of the City", an amount of €2,250 it was found that €2,250 was overpaid compared to the works actually completed for this project, even though not all interim payment certificates have been finalized yet.

This occurred due to a lack of internal controls and poor oversight by contract managers during the implementation of the capital project.

Impact Payment for uncompleted work prevents the contract from being implemented according to the stipulated conditions and also damages the municipal budget.

Recommendation B4 The mayor should increase control measures in contract management and ensure that contract managers and their supervisors do not approve situations of unfinished work, and that work outside the contract's bill of quantities is not paid.

Management's Response: Agree

Issue A7 - Frequent use of annex contracts**Finding**

Regulation 001/2022 on public procurement, Article 13, paragraph 4 provides that “A contract cannot be extended, renewed or transferred by a subsequent contract without the administration of the new procedure. However, within an amount of 10% of the contract value, a contract for supplies/services/additional works, which were neither included nor performed in the original contract, but which, for unforeseen reasons, have become necessary for the execution of the contract, can be realized as an annex contract through the negotiated procedure without publication of the contract notice. Where such an additional contract is relatively foreseeable, such value should be included in the original estimated value of the contract” and Article 48 paragraph 4 states that “However, the requirements of Article 35.3 of LPP shall be considered by the Contracting Authority: The conduct of a negotiated procedure without publication of a contract notice shall, in no way, relieve a Contracting Authority of its obligations to: a. Play an active role in determining the terms of the contract, with special reference to prices, delivery deadlines, quantities, technical characteristics and guarantees; b. Ensure that the contracted price is not higher than the concerned market price; and c. Carefully assess the quality of the concerned product, service or works”.

During 2024, the municipality had concluded 24 annex contracts for additional work in the amount of €1,118,290, (according to the report of signed regular non-annex contracts for work during 2024 a total of 36 contracts were concluded). The annex contracts were mainly for asphaltting roads, construction of sewage and renovation of various facilities. The additional works were justified by the contract managers and were approved by the Chief Administrative Officer and are also permitted by law. However, it is clearly identified that this had become a frequent occurrence during 2024, and the main causes for this were the poor drafting of basic projects, where as a result of their implementation, almost the vast majority of them are accompanied by additional costs - annexes to be concluded. It is worth noting that the municipality had contracted through the procurement procedure a company for the drafting of low-rise construction projects as well as the supervision of the projects and had selected the same operator in both cases.

This occurred due to the lack of supervision by the municipality over the projects that the company designs, and this has then resulted in many annex contracts during the execution of the works.

Impact The high number of annex contracts highlights shortcomings in their planning and consequently their poor drafting, creating additional costs for current projects. Also, additional work jeopardizes funds allocated for other projects, making it impossible to finance new projects.

Recommendation A7 The mayor should ensure that all capital projects are well planned, drafted and detailed before initiating the procurement process in order to effectively manage the funds for these projects. He should also ensure that the annex contract is used in exceptional cases and only after meeting the conditions set out in the public procurement law.

Management's Response: Agree

2.3.3 Capital and non-capital assets

The presented value in the AFS of capital assets is €102,250,471, of non-capital assets €1,654,272, and of stocks €196,947.

Issue A8 - Failure to close ongoing investments and record them as assets in use

Finding Regulation 02/2013 on Management of Assets by Budget Organizations, determines the method of registration, maintenance of asset registers, depreciation, inventory process, and according to Article 11 "Upon completion of the investment process capital non-financial assets will be classified as non-financial assets in use. Depreciation shall apply from the moment of utilizing the asset".

In the register of assets valued over €1,000, we identified that the municipality has 511 assets registered in the amount of €12,837,483 as ongoing investments. This includes assets purchased (constructed) during the years 2011-2019, 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 and that are in process over the years or suspended. Furthermore, the depreciation of these assets cannot be calculated, as they are still registered as ongoing investments. We have noted the expenses for the municipal zoning map in the amount of €190,000, which was approved in the first half of the year by the municipal assembly and is now a document in force, but the expenses incurred for the zoning map were still listed as ongoing investments.

This had occurred 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 uncertainty of their status and reporting. The incorrect recording of capital assets affects the value of non-financial assets presented in the annual financial report to be overstated.

Recommendation A8 The mayor should ensure the functioning of internal controls in the management of non-financial assets, ensuring the technical acceptance of completed projects, and the registration of assets in use.

Management's Response: Agree

2.3.4 Receivables

The Municipality of Gjakova has submitted requests to the AFS for Accounts Receivable for 2024 in the amount of €14,359,438. They relate to property tax of €12,646,414, for the allocation of property for use €326,893 and business tax €1,386,131. The increase in receivables can be seen continuously over the years compared to 2023. In 2024, the requests have increased by €1,527,083 or 11%.

Issue B5 - Increase in accounts receivable

Finding Law No. 08/L-176 on Amending and supplementing the laws containing special administrative procedures and their harmonization with Law No. 05/L-031 on General Administrative Procedure entered into force on 04.07.2023 and aims to harmonize special administrative procedures with the general administrative procedure, which has supplemented and amended several laws, including Law No. 06/L-005 on Immovable Property Tax. The above-mentioned law, through Article 112, has changed the procedure for executing decisions on unpaid tax liabilities, so that for the execution of these decisions (according to Article 30 of the Basic Law) the private enforcement procedure will not be used, but the municipality itself will execute them using the same means that TAK can use to collect unpaid tax liabilities. However, the enforcement procedure may be used against the property tax invoice. Since the entry into force of this law, the municipality should not initiate enforcement proceedings against Decisions issued under Article 30 of the Basic Law. Also, Article 16 of the Regulation on Municipal Taxes, Fees and Services, determines the collection of unpaid tax liabilities using compulsory collection measures.

Accounts receivable have increased, compared to 2023. At the end of 2024, receivables had increased by €1,527,083. This is identified in socially owned enterprises (property tax and company tax), where the debt amounts to €4,296,930. The largest increase in receivables is in property tax. Compared to the previous year, this year the liabilities towards property tax have increased by €1,155,865 or 10%.

The municipality had made efforts to collect uncollected funds from property taxes, land rents, shops, markets or company taxes, through reminder letters and final remarks to debtors, but these measures were not effective enough and the trend of increasing obligations to the municipality is negative, due to the fact that debtors are not sent to enforcement agents.

This occurred due to insufficient controls and actions in revenue collection.

Impact

Failure to collect assigned revenues on time affects the level of funds collected for the municipal budget and negatively reflects on the financing and implementation of municipal projects.

Recommendation B5 The mayor should analyse the effectiveness of the mechanisms available for collecting receivables, including additional legal actions through enforcement agents, to ensure their full collection.

Management's Response: Agree

3 Summary on budget planning and execution

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

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

Description	Initial budget	Final budget ⁵	2024 Expenditures	2023 Expenditures	2022 Expenditures
Sources of funds	37,483,964	42,915,318	41,635,481	37,887,249	26,883,540
Government Grants – Budget	32,392,306	33,774,899	33,241,582	29,288,858	22,346,229
Funding through borrowing	0	0	0	0	264,489
Carried forward from previous year	0	1,996,746	1,814,808	2,846,991	1,677,526
Own source revenues	5,091,658	6,687,658	6,228,203	5,163,647	2,557,216

Domestic Donations	0	46,772	0	0	23,807
External donations	0	409,243	350,888	587,753	14,272

The final budget compared to the initial budget increased by €5,431,354. This increase is the result of Government Decisions, the own revenues carried over from the previous year, as well as donations.

The municipality has spent 97% of the final budget or €41,635,481, but we should emphasize that during 2024, through court/enforcement decisions the municipality has executed around €3.2 million from various economic categories.

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

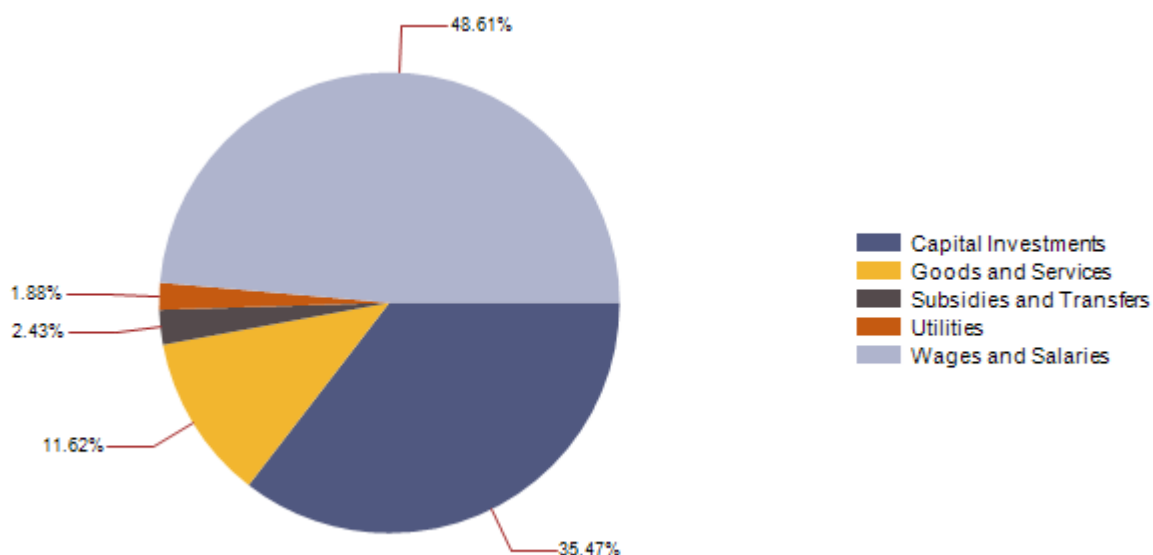
Description	Initial budget	Final budget	2024 Spending	2023 Spending	2022 Spending
Spending of funds by economic categories	37,483,964	42,915,318	41,635,481	37,887,249	26,883,540
Wages and Salaries	18,843,800	20,242,618	20,237,271	18,295,920	14,345,541
Goods and Services	4,337,556	4,966,889	4,836,558	4,136,946	3,858,972
Utilities	680,000	814,899	784,057	687,330	565,968
Subsidies and Transfers	980,000	1,053,976	1,010,565	695,219	614,000
Capital Investments	12,642,608	15,836,936	14,767,031	14,071,834	7,499,060

The explanations for the budget changes in the economic categories are provided below:

- The final budget for wages and salaries was increased by €1,398,818, compared to the initial budget. This increase is a result of the Government's Decisions totalling to €1,382,593, as well as from donations in the amount of €16,225.
- The final budget for goods and services was increased by €629,333. This increase is a result of the transfer of unspent own source revenues from 2023 in the amount of €364,377, the increase in the exceeding of the planning for revenues in the amount of €250,000, as well as an increase from donations in the amount of €14,956.
- The final budget for utilities was increased by €134,899. This increase is a result of the increase in the exceeding of planning for revenues in the amount of €130,000, as well as the own revenues carried over from 2023 in the amount of €4,899.
- The final budget for subsidies was increased by €73,976, of which €71,016 was an increase from the unspent own revenues carried over from 2023, and €2,960 from donations.

- The final budget for capital expenditures compared to the initial budget was increased by €3,194,328. This increase comes as a result of the unspent own revenues carried over from 2023 for €1,556,453, the increase in the exceeding of planning for revenues in the amount of €1,216,000, as well as an increase from donations in the amount of €421,875.

Chart 1. Expenditures by economic categories in 2024



The own revenues planned for 2024 were €5,091,658, while €5,844,817 were generated. They relate to revenues from property tax, revenues from construction permits, administrative taxes, revenues from business activities, revenues from rent, etc. Also, for 2024, the municipality has received revenues from traffic fines and court fines in a total amount of €1,347,176. These revenues are not included in the table below because they are planned and generated by line ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2024 Receipts	2023 Receipts	2022 Receipts
Total of revenues	5,091,658	5,091,658	5,844,817	5,797,084	4,697,952
Tax revenues	3,138,147	3,138,147	2,308,540	2,742,878	2,296,134
Non-tax revenues	1,953,511	1,953,511	3,536,069	3,054,205	2,377,763
Other revenues	0	0	208		24,055

4 Progress in implementing recommendations

The audit report on the 2023 AFS resulted in 10 recommendations. The municipality had prepared an action plan outlining how the given recommendations would be implemented. By the end of our 2024 audit, five (5) recommendations had been implemented, while five (5) recommendations had not yet been implemented, as presented in Chart 2 below. For a more detailed description of the recommendations and how they have been addressed, see Table 4 (or the Table of Recommendations).

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

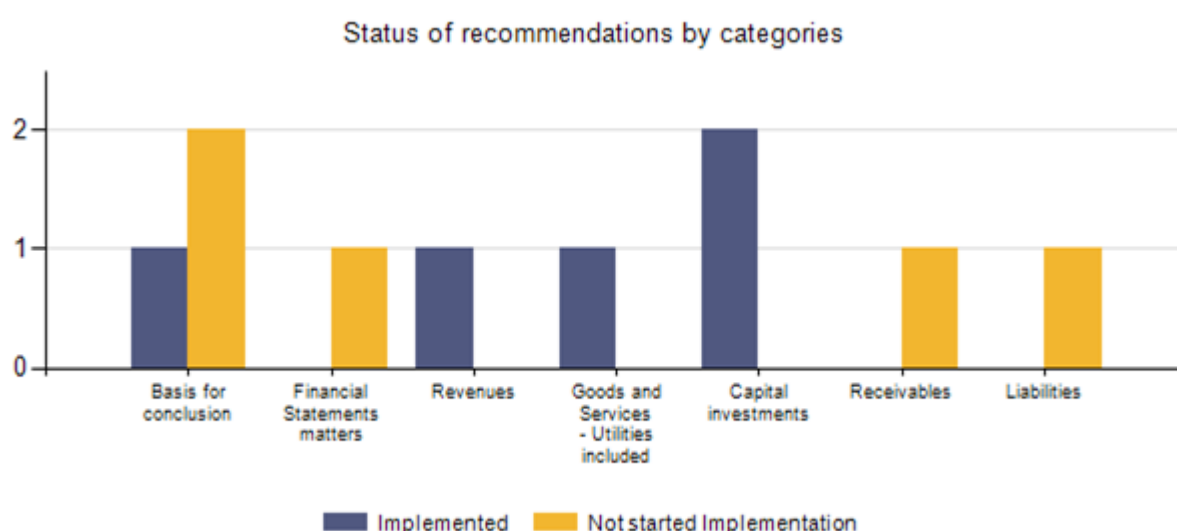


Table 4 Summary of the previous year's recommendations

No	Audit Area	Recommendations of the year 2023	Actions taken	Status
1.	Basis for Conclusion	The Mayor should strengthen control measures in contract management and ensure that contract managers and their supervisors do not approve unfinished work stages. Otherwise, they should review the payments of each stage to ensure reconciliation	Despite the actions taken by the municipality, we have noted that the recommendation has not yet been implemented.	Implementation not started

		before the execution of the final payment.		
2.	Basis for Conclusion	The Mayor should ensure the establishment of controls in this area through rigorous oversight of contract management. Contract implementation should be carried out in accordance with the dynamic plan/deadlines for the completion of works/supplies, and in cases of unjustified delays, the measures/penalties foreseen in the contract should be applied.	Despite the actions taken by the municipality, we have identified that the recommendation has not yet been implemented.	Implementation not started
3.	Basis for Conclusion	The Mayor should ensure that internal controls within the directorates are effective so that the established fees are applied correctly and accurately, in order to avoid causing harm to the recipients of these services.	The necessary actions have been taken, and we have identified that the recommendation has been implemented.	Implemented
4.	Annual Financial Statements	The Mayor should ensure that all necessary actions are taken for expenditures to be planned under the appropriate budget allocations (or for funds to be reallocated when necessary and feasible), and that the payment and recording of expenditures are carried out under the appropriate economic codes.	Despite the actions taken by the municipality, we have identified that the recommendation has not yet been implemented.	Implementation not started

5.	Revenues	The Mayor should ensure the improvement of the process for organizing inspection activities in accordance with the established legal criteria, so that any changes resulting from inspections are properly recorded, thereby ensuring that property tax records are complete.	The necessary actions have been taken, and we have identified that the recommendation has been implemented.	Implemented
6.	Goods and Services and Utilities	The Mayor should ensure that the steps outlined in the applicable regulations regarding payment procedures are followed. Specifically, the commitment of funds should be made first, followed by the issuance of a purchase order, and finally, the acceptance of goods/services and the execution of payment.	The necessary actions have been taken, and we have identified that the recommendation has been implemented.	Implemented
7.	Capital Investments	The Mayor should ensure that training is provided for project managers to ensure that contract management is maintained and archived through the electronic public procurement system.	The necessary actions have been taken, and it has been identified that the recommendation has been implemented.	Implemented
8.	Capital Investments	The Mayor should ensure that proper control is in place through the procurement office, so that the requesting units review and prepare technical specifications in accordance with legal requirements and the municipality's needs,	The necessary actions have been taken, and we have identified that the recommendation has been implemented.	Implemented

		while defining the quality standards for works or supplies.		
9.	Accounts Receivable	The Mayor should analyse the effectiveness of the available mechanisms for collecting receivables, including additional legal actions through bailiffs, to ensure their full collection.	Despite the actions taken by the municipality, we have identified that the recommendation has not yet been implemented.	Implementation not started
10.	Outstanding liabilities	The Mayor should ensure that obligations are incurred only after the budgetary funds have been pre-committed, and that financial obligations to contractors are paid within 30 days of the invoice receipt date, in order to avoid additional interest payments resulting from court/enforcement decisions.	Despite the actions taken by the municipality, we have noted that the recommendation has still not been implemented.	Implementation not started

* This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Vlora Spanca: Auditor General

Lavdim Maxhuni: Audit Director

Fejzullah Fejza: Team leader

Ejup Simnica: Team member

Nebojsha Ristić: Team member

Muharrem Qyqalla, Team member



LETËR E KONFIRMIMIT

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

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Gjakovës, për vitin 2024 (në tekstin e mëtejshëm “Raporti”);
- pajtohem me gjetjet dhe rekomandimet;
- 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.

Ardian Gjini

Zyrtari Kryesor Administrativ

Data: 23 maj 2025

Gjakovë



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 statements⁵ 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 authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

⁵ Financial statements in the public sector include also the statement(s) of budget execution

⁶ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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

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

Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

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

Adverse opinion

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

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

- a) Are not confined to specific elements, accounts or items of the financial statements

- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

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

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