



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 MITROVICA SOUTH FOR YEAR 2024

Prishtina, June 2025

TABLE OF CONTENT

1	Audit Opinion.....	3
2	Findings and recommendations.....	7
3	Summary on budget planning and execution.....	28
4	Progress in implementing recommendations.....	28
	Annex I: Letter of confirmation.....	36
	Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor’s Report.....	36

1 Audit Opinion

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

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the annual financial statements of the Municipality of Mitrovica South, 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 (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

Basis for Opinion

- A1 Contingent liabilities in the AFS were overstated by €101,944;
- A2 Accounts receivable in the AFS were understated by €18,852;
- A3 Assets register in the AFS was understated by €2,824,090 as a result of misclassification of assets in the ledger;
- B1 Payment of €593,680 were made by Treasury, through enforcement and court rulings, from the inadequate economic categories, thus resulting in misclassification of expenses.

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

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

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

We 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.

Audit Conclusion on Compliance

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

In our opinion, except for the effects of matters described in the *Basis for Compliance Conclusion* section of our report, transactions carried out in the process of execution of Municipality of Mitrovica South'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

- A4 In five (5) cases, we found shortcomings in the bids' evaluation process.
- B2 The Municipality had failed to carry out the inspection of properties within the territory of the Municipality.
- B3 In nine (9) payments, invoices in a total of €327,325 were not paid within the legal time limit of 30 days.
- C1 In two (2) public framework contracts with unit prices, the expenses for a specific category exceeded the permitted spending threshold defined by the weighting.

For more, 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 AFS

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 Mitrovica South's financial reporting process.

Management's Responsibility for Compliance

The Management of the Municipality of Mitrovica South 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 Mitrovica South'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 Mitrovica South'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 have found areas for possible improvements in financial management and control, which are presented below for your consideration in the form of findings and recommendations.

The key matters that have had an impact on the financial audit opinion relate to the misclassification of expenses and the untrue and unfair presentation of contingent liabilities, non-financial assets, and accounts receivable.

Areas for further improvement are the ineffective management of public contracts as well as the addressing of deficiencies in the bids' evaluation process during the procurement procedures

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 the authorities regarding the management of the public sector funds. We will follow up these recommendations during next year's audit.

Based on the tested samples, Treasury has made payments in the amount of €593,680, following court/enforcement rulings related to the Collective Agreement and jubilee salaries. Out of this, €323,403 represented the principal debt, whilst €270,277 related to the interest and procedural costs arising from the enforcement and court proceedings.

This report resulted in 13 recommendations, of which seven (7) are new recommendations, five (5) are repeated and one (1) is partially repeated. We will follow up these recommendations during next year's audit.

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

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

2.1 Issues with impact on compliance conclusion

Issue A1 – Overstatement of contingent liabilities in the AFS

Finding According to Regulation No. 01/2017 on the Annual Financial Statements, budget organisations shall report all contingent liabilities in accordance with the LPFMA.

While auditing the contingent liabilities reported in the AFS, we found two cases that the reported amounts were not accurate. More specifically, the contingent liabilities were overstated by €101,944, exceeding the real value.

This occurred due to technical errors by the municipal attorney during the process of calculating and preparing the list of contingent liabilities that should have been included in the financial statements.

Impact The incorrect presentation of contingent liabilities leads to untrue disclosure of liabilities for the stakeholders or users of the AFSs.

Recommendation A1 The mayor should ensure that when preparing the AFSs, contingent liabilities are scrutinised, evaluated in line with the supporting documentation and reported with accurate values.

Auditee's Management Response (Agree)

Issue A2 – Unfair presentation of the accounts receivable in the AFS

Finding MoF Regulation no.01/2017 on Annual Financial Statements of Budget Organisations, Article 16, stipulates that the revenue collecting BOs are required to keep records of the amounts uncollected.

While testing the accounts receivable, we found incorrect presentation of data in AFS, namely:

In (3) cases, we found understatements in the accounts receivable from rent by €18,582. In two (2) cases, there was an understatement of €16,999 as a result of the lack of evidence of individual financial cards since 2019. Meanwhile, in the third case, the understatement of €1,583 occurred due to the economic operator's failure to fully pay the rent on the grounds that the withholding tax had been withheld for a certain period. This difference was neither found nor presented in the AFS.

These deficiencies occurred as a result of dysfunctional internal controls. This indicates that the necessary actions were not taken to ensure the updating and accuracy of the reported data.

Impact Incorrect disclosure of accounts receivable leads to untrue and unfair financial reporting, thus resulting in their understatement in the AFS.

Recommendation A2 The mayor should ensure that internal controls over reconciliation of internal records with the reported data are strengthened, in order to improve the management of accounts receivable and to have them truly and fairly reported in the AFS.

Auditee's Management Response (Agree)

Issue A3 – Overstatement/understatement of the assets register in the AFS

Finding MoF Regulation on Management of Non-Financial Assets by Budget Organizations, Article 11, paragraphs 1 and 3, stipulate that capital non-financial assets that are in the ongoing investment stage or in the construction stage shall be recorded in the accounting register under the ongoing investments category. Upon completion of the investment process, the capital non-financial assets will be classified as non-financial assets in use. Depreciation shall apply from the moment of utilising the asset. Whereas, Article 10 stipulates that all non-financial assets, after being owned and supervised by the budget organisation, regardless whether they are paid or partially paid, shall be recorded in the accounting registers and are subject to inventory and evaluation.

During the audit, we found that the asset register was overstated by €360,671, as a result of the following shortcomings:

- Three (3) assets of capital projects completed in previous years, in the amount of €91,808, were incorrectly classified as ongoing investments. They should have been classified as assets in use with a net value of €50,494 after having applied depreciation of €41,314. As a result, the assets were overstated by €41,314;
- Three invoices with a net value of €43,650 were incorrectly recorded as assets in use, although they do not constitute capital assets. These payments were misclassified payments that did not meet the criteria for capital assets. As a result, the assets were overstated by €43,650;

- One (1) asset, related to the reconstruction of houses in the *Kroi i Vitakut* in the north of Mitrovica, was included in the asset ledgers with a net effect of €158,623. According to the evidence provided by the Municipality, this asset does not belong to the Municipality and as such should not have been part of the accounting register. This has caused an overstatement of the register by €158,623;
- One (1) asset with a net value of €117,084 had overstated the asset register by the same value, as a result of being incorrectly recorded; and
- One (1) asset worth €110,232 was recorded as an ongoing investment while it should have been classified as an asset in use. In this case, depreciation was not applied, however, due to the timing of the recording, the effects therefrom are expected to be reflected in the following year.

On the other hand, the asset register was understated by the net value of €3,184,761 due to the fact that:

- Our tests have found that the Municipality of Mitrovica has not fully recorded the assets for the "Construction of waste recycling plant", a project implemented upon co-funding by the Ministry of Environment and Spatial Planning. The value of the basic contract for this project was €3,395,070, whilst an additional €339,270 was allocated through an Annex Contract. The Ministry contributed with €3,500,000, whilst the Municipality, according to the Memorandum of Understanding, contributed with providing the land and the fulfilment of additional liabilities related to the project implementation. The works and project implementation were completed upon technical acceptance by the relevant Commission on 19 December 2019. Further, on 29 July 2020, the defects found during the final inspection were completed, whereby, the project manager and the supervisory body confirmed that the works were fully completed. However, despite the completion of the project and the plant becoming operational, this asset has been recorded in the asset register in the amount of €100,000 as an ongoing investment since 2020. This incomplete recording has resulted in a net understatement of municipal assets for €3,167,548; and
- In 13 cases, assets were understated by €17,213 as a result of incorrect recording of assets in the category of assets in use, whilst the projects had not yet been completed and their technical acceptance had not been carried out.

The identified shortcomings were as a result of dysfunctional internal controls over asset management; lack of cooperation between relevant departments; and lack of complete documentation for co-financed projects. Problems were also found in the proper application of asset classification and depreciation rules.

Impact Errors in recording assets, failure to record them in the appropriate asset classes, and capitalisation of assets that do not qualify as capital expenses have resulted in overstatement/understatement of asset registers and lead to untrue and unfair presentation of assets in the AFS.

Recommendation A3 The mayor should ensure that the assets' accounting register is thoroughly reviewed and that necessary corrections are made for the overstatements and understatements. He should also ensure that completed assets are classified as assets in use and depreciation is applied in accordance with relevant rules.

Auditee's Management Response (Agree)

Issue B1 - Misclassification of expenditures

Finding According to the Financial Rule no. 01/2013, Article 18.3, expenses must be registered in adequate codes, as defined by the Chart of Accounts. In addition, Article 11 of AI 19/2009 on the Chart of Accounts stipulates that the CAO and the CFO shall ensure that all transactions are entered in KFMIS according to the structure of the Chart of Accounts and the classifications set out in this AI.

In seven (7) cases, we found misclassification of expenses totalling to €593,680, where payments were made from an inappropriate economic category. For the tested samples within this amount, we found that the Treasury executed payments from the capital investments category based on court enforcement rulings for jubilee salaries and teachers' allowances.

This happened due to the execution of payments from the treasury without agreement with the municipality, especially payments related to the obligations from the Collective Agreement.

Impact Misclassification of expenditures leads to overstatement/understatement of expenses in the relevant categories of expenditures and unfair presentation of expenditures in the AFS.

Recommendation B1 The mayor should ensure that the necessary actions are taken in cooperation with the Ministry of Finance so that all payments are made according to the appropriate economic categories, in order to enable the fair reporting of expenses in the AFS, in accordance with the Treasury's Chart of Accounts.

Auditee's Management Response (Agree)

2.2 Issues with impact on the compliance conclusion

Issue A4 – Deficiencies in the bids' evaluation process during procurement procedures

Finding

According to Article 59.4 of the LPP, the contracting authority will consider a tender as responsive only if the tender in question complies with all the requirements set out in the tender dossier and in the contract notice.

Law no.05/L-068 on Amending and Supplementing the Law no 04/l-042 on Public Procurement of the Republic of Kosovo, amended and supplemented with the Law no.04/L-237, Article 4, paragraph 3, stipulates that a new paragraph with ordinal number 1.75 is added to Article 4 of the Basic Law with the following text: conflicts of interest - any situation where staff members of either a contracting authority or procurement service provider acting on behalf of the contracting authority are involved in performing a procurement procedure or who can influence the outcome of that procedure could have, directly or indirectly, a personal financial benefit, economic or any other interest that could be perceived as a compromise to their impartiality and independence in the context of the procurement procedure.

In five (5) procurement procedures, we found shortcomings in the bid evaluation process, as follows:

- In the tender dossier for the project “*Rehabilitation of Health Facilities - MFC Bare and AMF Bajgorë*”, the signed contract worth €110,231 the requirement in the technical and professional capacities for one (1) graduate engineer or master of construction (construction department), one (1) graduate engineer or master of electrical engineering and one (1) graduate engineer or master of hydrotechnical construction was for them to have at least five (5) years of work experience after graduation. The tender dossier required that the list of professional staff be accompanied by evidence of qualifications and work experience. While examining the documentation, we found that work experience was not proven as required in the TD, as the economic operator has submitted only the CVs of the professional staff with no proof of professional experience;

- In the tender dossier for the project "*Construction of a kindergarten in Shipol – Final phase*", the signed contract in the amount of €147,838, the requirement in the technical and professional capacities was that the EO must have one (1) engineer or master of geodesy with work experience at least four (4) years after graduation, as evidenced by CV, notarized diploma, proof of work experience and employment contract. While examining the documentation, we found that work experience was not proven in accordance with the requirements of the TD, as the economic operator has submitted only the CVs of the professional staff, not proving professional experience as required and specified in the tender documents;
- In the tender dossier for the project "*Maintenance of medical equipment for MFMC - MFC - AMF*", the contract worth €74,906, among the essential criteria for qualification was that the economic operator proves possession of technical and professional capacities, specifically: for one (1) authorized servicer for GMM mammography and one (1) authorized servicer for the Dry view Carestream printer. To prove these capacities, a list of professional staff was required, including licenses, diplomas, contracts, CVs or pre-contracts for the provision of these services. While examining the documentation, we found that the EO had not presented the required list of staff, and the CVs and contracts were missing for the personnel responsible for these devices. As a result, the fulfilment of the requirements set out in the tender dossier was not fully proven;

- In the tender dossier "*Physical security and alarm system security services for the municipality and other municipal institutions*", with a contracted value of €391,420, the requirement in the tender dossier for technical and professional capacities was that the economic operator must provide evidence that it has a minimum of 20 employees and sufficient staff to implement the project, as well as to have a minimum of five (5) employees certified for occupational safety and health by a company licensed for the training and certification of employees in this field. The evaluation committee had selected as the winner an EO who in the list of technical staff has proven that a staff employee with a certificate for safety and health at work, whose role in the company is manager, while the same is simultaneously an active employee of the Municipality in the position of (Camera Monitoring Officer) within the Administration Directorate. The involvement of this official in the beneficiary company poses a risk of conflict of interest, as he is simultaneously engaged as part of the contracting authority and as part of the economic entity that has won the public contract. Such a situation violates the principles of transparency and integrity in the procurement process; and
- In the tender dossier for the contract "*Supply of cabinets for schools*", with a contracted value of €169,979, among the requirements for technical and professional capacity was that the economic operator engage at least one (1) electrical engineer with proven experience of a minimum of five (5) years after graduation. The evidence required for this purpose included: a copy of the relevant diploma, a CV signed by the engineer, references of previous experience, and a valid and original employment contract with the bidder. While examining the winning bid's documentation, we found that work experience after graduation was not proven as required in the tender dossier. The experience was presented only through a CV, without supporting evidence such as references or previous employment contracts.

These shortcomings occurred due to dysfunctional and lack of effective internal controls to ensure the integrity of the assessment process.

Impact The qualification of operators without complete and valid evidence increases the risk that contracts will be awarded to companies that do not meet the minimum legal and technical criteria, which may have an adverse impact on the quality of project implementation, jeopardize the integrity of the procurement process, and undermine the credibility and accountability of the Municipality.

Recommendation A4 The mayor should ensure that the bid evaluation committees fully and in a documented manner verify the fulfilment of all eligibility criteria as required in the tender documents. In addition, internal controls and supervision during the evaluation phase should be strengthened in order to prevent operators that do not meet the legal criteria in the tender dossier from being selected.

Auditee's Management Response (Agree)

Issue B2 – Failure to inspect the current situation of municipal properties

Finding Law No. 06/L-005 on Immovable Property Tax, Article 15, stipulates that each year the Municipality shall carry out inspection (verification) activities for at least 20% of all objects within the territory of the Municipality.

During the audit we found that the Property Tax Department has not conducted inspections on the immovable properties for property tax purposes, thus undermining the completeness and accuracy of data which serve as a basis for calculating the property tax liability.

Lack of sufficient human resources and inefficient arrangement of inspection processes have led to incomplete implementation of the property inspection plan.

Impact Incomplete inspection of properties results with incomplete information on the current situation of taxable properties and leads to incorrect evaluation of revenues from the property tax.

Recommendation B2 The mayor should ensure that 20% of immovable properties are inspected so that eventual changes of properties are integrated into the database to reflect the correct tax liability.

Auditee's Management Response (Agree)

Issue B3 – Delayed payment of invoices

Finding According to Law No. 03/L-048 on Public Financial Management and Accountability (PFMA), Article 39, stipulates that the CFO of the budget organisation shall ensure that any valid invoice and request for payment for goods and services supplied and/or works performed for the budget organization must be paid within thirty (30) calendar days upon receipt of the invoice.

From the samples tested, we found that in nine (9) cases of a total of €327,325, the payments for goods and services were not paid within the statutory deadline. Delays ranged from 11 to 95 days past the deadline.

Payment delays occurred as a result of inadequate controls over the payment execution process, lack of funds for the concluded contracts, and delays in completing the required documentation.

Impact Delayed payment of invoices hampers the planned budget spending and may lead to additional costs for the Municipality from the interest and enforcement procedures.

Recommendation B3 The mayor should take measure for strengthening the internal control over payment execution and ensure that all the valid invoices are paid within the 30-day deadline.

Auditee's Management Response (Agree)

Issue C1 – Quantities in the public framework contracts not implemented according to the weighting determined in the tender dossier

Finding

According to the Regulation no.001/2022, Article 17.35, 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 weighing of items must be carried out based on the weight and importance of the respective category, which means that the quantity collected (spent) cannot and should not differ from the weight ratios given in the Tender Dossier.

The contract manager remains responsible for clearly demonstrating that the quantity ordered and spent is in line with the weight given and with the real needs of the CA.

In the two unit-price public framework contracts, cases were found where the value spent for a certain category exceeded the permitted value based on the contract weighting. These are the following contracts:

- In the contract “*Maintenance, development and revitalization of green areas and parks in the city*”, with a planned value of €1,200,000, items 1 and 2 were weighted with 5% of the total value (maximum €60,000). However, for these positions, expenses in the amount of €1,098,681 were incurred, exceeding the allowed limit of €1,038,681; and
- In the contract “*Emergency interventions for natural disasters and other extreme disasters*”, with a planned value of €450,000, items 2.1 to 2.4 were weighted with 25% of the contract (maximum €112,500). However, €167,387 were spent for these items, thus exceeding the allowed threshold by €54,887.

The overruns occurred due to insufficient planning of needs during the tender preparation phase, inaccurate determination of weights in relation to the real importance of the works or services, as well as due to the lack of adequate controls by contract managers during the implementation phase.

Impact The exceeding of the permitted quantities according to the weight assigned to them in the tender dossier and in the contract leads to lack of transparency in the decision-making for the selection of the bid with the lowest price. This has also led to exceeding the expenses on items.

Recommendation C1 The mayor should ensure, through the requesting units, that an accurate assessment of the municipality's real needs is made during the preparation of tender requirements and that the weights specified in the tender dossiers reflect the importance and expected volume of the services to be performed in practice. During contract implementation, contract managers should monitor implementation according to the approved weights, in order to guarantee full compliance with legal requirements and budget objectives.

Auditee's Management Response (Agree)

2.3 Findings on financial management and compliance issues

2.3.1 Wages and Salaries

The final budget for Wages and Salaries was €17,504,585, whilst €17,487,299 was spent, or 99% of the budget. The number of job positions approved with the budget law was 2,007 employees. By the end of the year, the number of employees was 1,843.

Issue A5 – Job positions covered with acting staff beyond the statutory deadlines

Finding Law No. 08/L-197 on Public Officials, Article 35.3, stipulates that a public official cannot be appointed as an acting officer for longer than six (6) months. When the position cannot be filled within the six (6) month deadline, this deadline can be extended for a maximum of six (6) more months.

During the audit, we found that in five (5) cases the legal term for holding acting positions was exceeded. The exceedances ranged from nine (9) months to four (4.7) years and seven months more than permitted by law.

In the health directorate, recruitment procedures for these positions have not been announced at all, while in the education directorate, attempts have been made to announce vacancies for two positions, but they have failed due to not interested candidates.

The extension of the term of office in management positions beyond the legal deadline has resulted from the failure of management to take sufficient measures to address the situation and the lack of proper commitment to filling these positions.

Impact Covering executive positions with acting officers beyond the period specified by law constitutes a violation of legal provisions and risks that these positions will be held by persons who do not meet the necessary criteria for that position.

Recommendation A5 The mayor should take all necessary actions to ensure regular recruitment for positions currently filled by acting officials, in order to adhere to the statutory deadlines.

Auditee's Management Response (Agree)

Issue A6 – Employment contracts not updated as stipulated in the Law on Public Officials

Finding Law no.08/L-197 on Public Officials, Article 102, stipulates that upon the entry into force of this Law, all institutions shall be obliged to prepare and offer the current official for signature the new appointment letters and/or employment contracts.

Out of 51 contracts tested, in 42 cases the contracts were not updated regarding coefficients and other elements determined by the Law on Public Officials. As a result, public officials continue to have contracts that are not harmonized with the law and regulations in force.

The failure to update contracts has resulted from the negligence of officials in updating them, which is a prerequisite for the implementation of the Law on Public Officials in terms of contracts and new multipliers.

Impact Failure to update employment contracts and non-compliance with the new coefficient system has caused non-compliance with legal requirements and at the same time affects the incorrect inclusion of positions in the salary structure.

Recommendation A6 The mayor should ensure that all employment/staff contracts are updated and in compliance with the requirements of the Law on Public Officials.

Auditee's Management Response (Agree)

2.3.2 Goods and Services and Utilities

The final budget for Goods and Services, including utilities, was €4,825,351, while €4,247,629 or approximately 88% of the budget was spent. These expenditures mainly relate to project design, repair and maintenance, equipment purchases, transportation costs and others.

Issue A7 – Poor contract management through the e-procurement platform

Finding Regulation no.001/2022 on Public Procurement, Article 70.24 point (f), stipulates that contract managers should ensure that all contract management records are prepared, kept and archived in the contract management module in the e-procurement system.

In eight (8)⁵ cases, shortcomings were found in contract management and contractor performance evaluation, which were not updated through the E-procurement platform.

The failure to manage contracts through the E-procurement system occurred as a result of overlooking the procedure set out in the regulation due to the lack of administrative responsibility of the officials responsible for contracts management.

Impact Failure to update contract management through the e-procurement system does not provide sufficient opportunities for management or other authorised users to receive real-time information regarding the progress and contracts management performance.

Auditee’s Management Response (Agree)

⁵ 1. “Maintenance of medical equipment for MFMC - FMC – FMA” contract signed on 11.07.2024, worth €74,906; 2. “Supply of sports equipment, doors and windows, school inventory, materials and other equipment in educational institutions” contract signed on 07.11.2024, estimated value €124,500; 3. “Physical security services and equipping the municipality and other municipal institutions with security alarm system” contract signed on 12.09.2024, worth €391,420; 4. “Technical maintenance of educational institutions” contract signed on 05.11.2024, estimated value €295,000; 5. “Supply of awareness boards, baskets for squares and sidewalks, ecological bags and design and printing service of environmental awareness materials” contract signed on 24.10.2024, worth €17,788; 6. “Renovation of the PLSS Migjeni – Ilirida”, contract signed on 10.10.24, worth €363,882; 7. “Renovation of health facilities – FMC Bare and FMA Bajgorë”, contract signed on 21.10.2024, worth €110,231; and 8. “Renovation of the building of SHSM (Secondary and High School of Medicine) Xheladin Deda” contract signed on 29.07.2024, worth €49,983

Recommendation A7 The mayor should ensure that controls over contract management are strengthened in order to ensure that all contracts are managed and documented through the contract management module in the e-procurement system in accordance with legal requirements.

Auditee's Management Response (Agree)

2.3.3 Accounts receivable

The Municipality of Mitrovica South has reported accounts receivable in the amount of €16,229,041 in the 2024 AFS. This amount mainly consists of property tax by €10,594,602, business fees by €2,074,052, urban planning taxes and fees by €1,364,138, households waste collection fees by €2,150,532, and others. During 2024, accounts receivable from property tax increased by €1,630,619, or 19%, compared to 2023.

Issue B4 – No actions taken to collect debts

Finding According to the Law 06-L 005 on Immovable Property Tax, Article 26, the Ministry of Finance and the competent executive bodies have the authority and powers to collect outstanding tax liabilities that exceed the amount of €10.

Article 27 stipulates that if a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor.

Article 22 of Regulation No. 02/2019 on Taxes, Fees and Fines of the Municipality of South Mitrovica, which regulates taxes and fees for the exercise of business activity, determines that all natural and legal persons who do not respond to the payment of the foreseen municipal taxes and fees, their execution shall be required through the competent courts, eventually private enforcement agents in cases where the intervention of private enforcement agents is allowed.

During 2024, the total value of the municipality's receivables was €16,299,041, of which €10,594,602 (65%) related to property tax, while €2,074,052 (12%) related to fees for exercising economic business. Despite this significant amount of accumulated debts, the municipality had not taken any concrete legal action to collect them during 2024, contrary to the provisions of the relevant municipal law and regulations.

The lack of action has resulted from the continued disengagement of the units responsible for revenue collection, as well as the lack of a coordinated plan for dealing with uncollected debts.

Impact Failure to collect the accumulated debts directly leads to the decline in the level of own revenues, limiting the financial capacity of the municipality to achieve its development objectives, including investments in public services and capital projects that depend on own funds.

Recommendation B4 The mayor should take concrete measures to implement the legal provisions regulating revenue collection, including initiating enforcement proceedings against debtors in accordance with the deadlines and conditions set out in the legislation.

Auditee's Management Response (Agree)

2.3.4 Internal Audit Function

The Internal Audit Unit (IAU) of the Municipality of Mitrovica South operates with three staff members - the Director of the IAU and two auditors. For 2024, this Unit had drafted an annual work plan based on the strategic plan where it had planned six (6) regular audits and one (1) audit upon request, of which all regular audits were finalized, which were related to the Directorate of Education, Culture, Security and Emergencies, Health, Directorate for Development, Tourism and European Integration and the audit of procurement procedures. A total of 32 recommendations were given in these reports. Of these, 12 were implemented, 10 were in process and 10 were not implemented. The period covered in the IAU reports mainly included the previous year until the completion of the respective audit. The Audit Committee held four meetings during 2024, where minutes were also compiled, where it reviewed the IAU reports, findings.

Issue B4 - Low implementation of IAU recommendations

Finding GRK Regulation 01/2019 on Establishment and Implementation of Internal Audit Function at the Public Sector Entity, Article 9.2, determines that the Director of the Internal Audit Unit shall discuss with the head of the public sector entity and audit committee in relation to the action plan for the implementation of the recommendations, in order to facilitate effective correction actions.

Whereas, Article 9.7 stipulates that the internal auditors monitor the implementation of recommendations systematically according to the action plan approved by the head of the public sector entity.

In the internal audit reports drafted by the IAU during the reporting period, a total of 32 recommendations were given, of which only 12 were implemented, ten (10) recommendations were not addressed at all, while another ten (10) were ongoing implementation.

On 30.09.2024, the Director of the IAU in cooperation with the budget units prepared an action plan for the implementation of the recommendations. Further, on 14.10.2024, another action plan was prepared by the mayor in cooperation with the directorates and the IAU.

It is not clear how the IAU has monitored the recommendations implementation process, as we were unable to inspect the data reported by the CHUIA regarding the number of recommendations implemented. This creates uncertainty about the reliability of the progress reporting.

The situation is a result of the lack of commitment of the audited units to address the recommendations and improve the internal control system. Moreover, the lack of a documented and systematized mechanism for monitoring and reporting the progress of the recommendations has contributed to the lack of an accurate and verifiable overview.

Impact

Poor implementation of recommendations undermines the credibility of the internal audit system and limits the ability to assess the effectiveness of measures taken by management. This prevents informed decision-making and increases the risk that the same shortcomings be repeated year after year without being effectively addressed.

Recommendation B5 The mayor should ensure that all relevant directorates prepare and submit concrete action plans to address the IAU recommendations. At the same time, the IAU should develop and implement a clear and documented procedure for monitoring and reporting on the progress of implementing recommendations, based on accurate and verifiable information.

Auditee's Management Response (Agree)

3 Summary on budget planning and execution

This Chapter gives a summary on the sources of budget funds, spending of funds and collected revenues by economic categories. This is highlighted in the following tables and charts:

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

Description	Initial budget	Final budget ⁵	2024 Expenditures	2023 Expenditures	2022 Expenditures
Sources of funds	28,408,510	30,921,061	28,939,149	26,800,882	21,820,579
Government Grants – Budget	25,120,336	26,333,046	25,409,606	22,142,266	18,275,865
Funding through borrowing	0	0	0	0	179,614
Carried forward from previous year	0	1,179,238	1,066,226	1,345,468	1,326,326
Own source revenues	3,288,174	3,288,174	2,431,929	2,897,727	1,886,661
Domestic Donations	0	94,154	21,943	29,237	10,687
External donations	0	26,449	9,446	386,186	141,426

The final budget of Mitrovica South was higher than the initial budget by €2,512,551 or 9%. The increase was as a result of Government’s decision on budget allocation of €1,212,710, and inclusion in the final budget of the carried-forward revenues of €1,179,238 and donations of €120,603.

In 2024 the Municipality of Mitrovica South spent 94% of the final budget or €28,939,149, a decrease of 2% compared to the previous year. However, explanations on the current position are presented below in details.

It is worth noting that Treasury has, based on enforcement/court rulings, executed payments of €5,042,056 from different economic categories to economic operators and for obligations arising from the Collective Agreement.

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

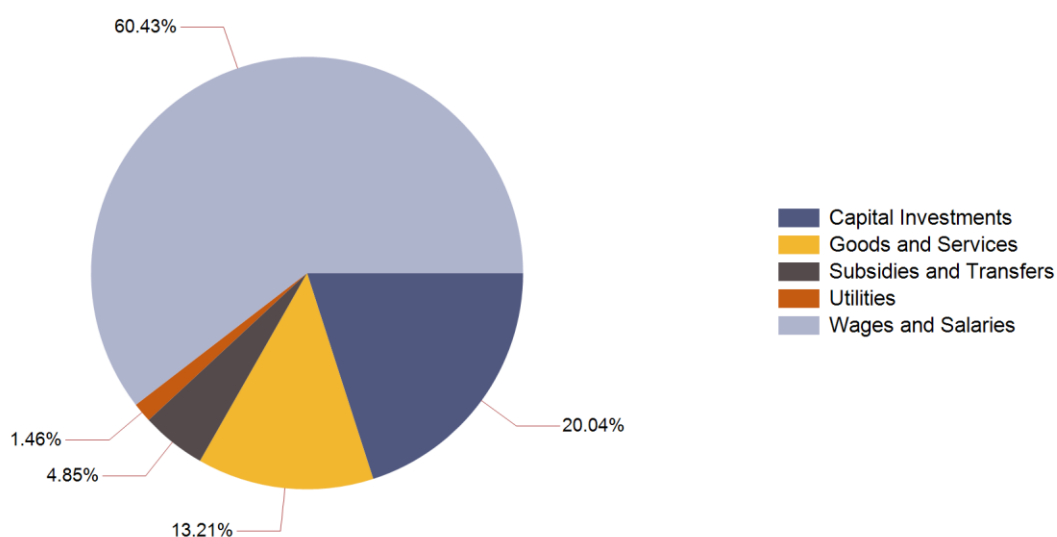
Description	Initial budget	Final budget	2024 Expenditures	2023 Expenditures	2022 Expenditures
Spending of funds by economic categories	28,408,510	30,921,061	28,939,149	26,800,882	21,820,579
Wages and Salaries	15,833,082	17,504,585	17,487,299	14,583,138	12,230,685
Goods and Services	4,120,909	4,208,550	3,824,127	3,894,431	3,480,368
Utilities	616,000	616,801	423,502	487,812	486,757
Subsidies and Transfers	1,209,150	1,446,256	1,403,498	2,004,864	1,153,132
Capital Investments	6,629,369	7,144,869	5,800,723	5,830,637	4,469,637

The Municipality has made budget transfers across categories. However, the budget transfers/adjustments have been supported with the respective decisions from the Ministry of Finance and the Government. Explanations for the changes in the budget categories are provided below:

- The final budget for Salaries and Wages was increased by €1,671,503 compared to the initial budget. The final budget consists of the government grant in the amount of €17,374,113, carried-forward own-source revenues of €73,000, current year own-source revenues of €41,141, and external donations of €16,331. For the January – December 2024 period, the budget spending was €17,487,299, or 99.9% of the final budget;
- The final budget for Goods and Services was increased by €87,641 compared to the initial budget. The lion share of this budget consists of the government grant in the amount of €3,379,894, own-source revenues of €741,015, carried-forward revenues of €60,345, and donations of €27,296. By the end of 2024, the budget spending was €3,824,127 or 91% of the final budget;
- The final budget for Utilities was increased by €801 compared to the initial budget as a result of carried-forward revenues. This budget consists of the government grant in the amount of €616,000 and carried-forward own-source revenues of €801. By the end of the year, the budget spending was €423,501 or 69% of the final budget;
- The final budget for Subsidies and Transfers was increased by €237,106 compared to the initial budget. This budget consists of the government fund in the amount of €24,991, own-source revenues of €1,184,159, carried-forward own-source revenues of €204,587 and domestic donations grant of €32,519. By the end of the year, the budget spending was €1,403,498 or 97% of the final budget; and
- The final budget for Capital Investments was increased by €515,500 compared to the initial budget. This budget consists of the government fund in the amount of €4,938,048,

own-source revenues of €1,290,000, carried-forward own-source revenues of €872,365, and donations of €44,456. By the end of the year, the budget spending was €5,800,723 or 81% of the budget. It is worth noting that the amount of €2,262,124 was paid through court rulings to the Collective Agreement, jubilee salaries and economic operators from the capital investments category.

Chart 1. Expenditures by economic categories over the years 2022-2024



The revenues generated by the Municipality of Mitrovica South for 2024 were in the amount of €2,704,990. They are related to the income from the property tax, construction permit fees, co-payments, business receipts, receipts from use of public property etc. The Municipality planned to collect revenues of €3,288,174 for year 2024. Compared to the previous year, the revenue collection level has decreased by €993,361 or around 26%.

In addition, receipts from traffic fines and court fines amounted to €484,982. These are collected by the Ministry of Internal Affairs (MIA) and the Kosovo Judicial Council (KJC), and are allocated to the Municipality to spend. These receipts are not included in the table below, as they are planned and collected by the respective line ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
Total of revenues	3,288,174	3,288,174	2,704,990	3,698,351	2,996,807
Tax revenues	1,222,019	1,222,019	1,174,381	1,567,884	1,073,382

Non-tax revenues	2,066,155	2,066,155	1,527,109	2,129,999	1,923,352
Other revenues	0	0	3,500	468	72

4 Progress in implementing recommendations

Our audit report on 2023 AFS of Municipality of Mitrovica South resulted in nine (9) key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2024 audit, three (3) recommendations have been implemented, one (1) was under implementation and implementation of five (5) recommendations had not started yet, as shown in following Chart 2.

For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

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

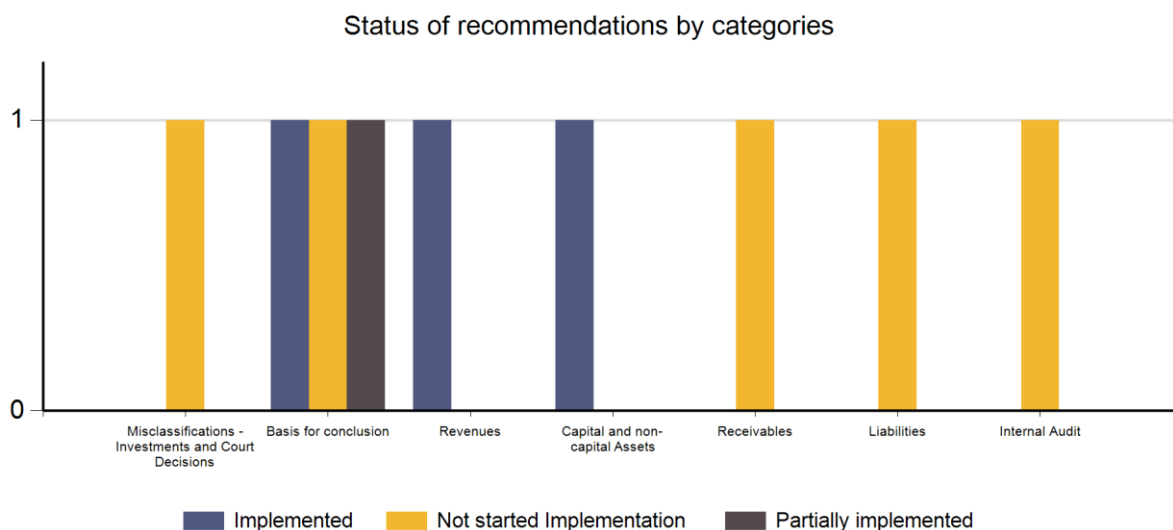


Table 4. Summary of prior year’s recommendations

No	Audit Area	Recommendations of 2023	Actions taken	Status
1.	Misclassification - Investments and Court rulings	The mayor should ensure that the necessary actions are taken in cooperation with the Ministry of Finance so that all payments are made	Also, this year expenses were processed through inadequate categories, through court	Implementation not started

		according to the appropriate economic categories, to enable the correct reporting of expenditures in the AFS, in accordance with the Treasury's Chart of Accounts.	decisions, thus causing misclassification of expenses.	
2.	Basis for conclusion	The mayor should ensure that for the payments made in advance, to require the provision of the performance guarantee and the payment schedule, which at the same time foresees the work to be performed.	During the testing of samples in 2024, we have not noticed any such cases.	Implemented
3.	Basis for conclusion	The mayor should ensure that the verification of 20% of immovable properties is achieved so that eventual changes of properties are integrated into the database to reflect the correct tax liability.	Also, this year, the Municipality failed to carry out the verification of immovable properties.	Implementation not started
4.	Basis for conclusion	The mayor should improve controls to ensure that through the contract manager there will be real oversight of the contracts, and that payments are not made by the certifying officer without ensuring that all the terms of the contract have been adhered to.	This year too, we have encountered exceeding of specified quantities in public framework contracts.	Partly implemented
5.	Revenues	The mayor should take additional actions to ensure that the necessary corrections are made to the property tax database, so that the deduction for primary residence is made only for natural persons who are registered with a personal number and have declared to the municipality that the object unit serves as a primary residence.	Based on the tested samples, we did not encounter cases where the deduction was applied to unregistered properties and taxpayers without a personal number.	Implemented
6.	Assets	The mayor should ensure that the commissions appointed for inventorying include all the assets of the municipality.	During 2024, inventory committees were formed, including all municipal directorates.	Implemented

7.	Accounts receivable	The mayor should address the above-mentioned issues by taking legal measures against the debtors according to the agreed terms, and deal with the expired contracts according to the procedures provided.	Also in 2024, we noticed that the Municipality had not created effective mechanisms for reducing accounts receivable, mainly related to property tax.	Implementation not started
8.	Outstanding liabilities	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 payment of invoices.	Also, this year, we have encountered delays in carrying out payments beyond the legal deadline.	Implementation not started
9.	Internal audit	The mayor should ensure that the recommendations issued by the internal audit will be followed up with an action plan for their implementation as well as a formal process of monitoring and reporting by the responsible units and the same are reviewed periodically to see the progress of their implementation.	Insufficient actions have been taken for formal monitoring of the implementation of recommendations issued by the IAU.	Implementation not started

Vlora Spanca: the Auditor General

Blerim Kabashi: Audit Director

Nora Rashiti Nishefci: Team leader

Kushtrim Leci: Team member

Ajtene Llapashtica: Team member

Endrita Gjyrevci: Team member

Annex I: Letter of confirmation



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 Mitrovicës së Jugut, për vitin 2024 (në tekstin e mëtejshëm "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

z. Bedri HAMZA

(Kryetar i Komunës)

Data: 29.maj.2025, Mitrovica



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

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

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

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

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

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.

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.