



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 SUHAREKA FOR YEAR 2023

Prishtina, June 2024

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# 1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Suhareka for the year ended on 31 December 2023 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion on the financial statements and conclusion on compliance with authorities<sup>1</sup>.

## Unmodified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Suhareka, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports<sup>2</sup>, for the year ended as of 31 December 2023.

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

## Basis for Opinion

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

## 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 Suhareka's budget have been, in all material respects, in compliance with

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

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

the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

### **Basis for the Conclusion**

- A1 Inaccuracy in the registration of capital assets.
- A2 Granting of subsidies not in accordance with the public call
- B1 Commitment of funds not according to financial rules.
- B2 Lack of executive project
- B3 Delay in the execution of projects.
- B4 Shortcomings in the management of property tax revenues.
- C1 Delay in the execution of invoice payments.
- C2 Shortcomings on regular reporting on the use of municipal properties.

*For more details, see sub-chapter 2.1 Issues with impact on the compliance conclusion*

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

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

The mayor 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 Suhareka's financial reporting process.

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

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

## **Auditor General's Responsibility for the audit of AFS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective Municipality of Suhareka's authorities with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Suhareka's internal control.

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

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

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

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

## 2 Findings and recommendations<sup>4</sup>

During the audit, we identified areas where improvement is needed for financial management and internal control. The reporting process in the municipality had shortcomings, this was also observed during the preparation of the Annual Financial Statements (AFS). Following our request, some issues raised in the AFS have been corrected and submitted to the MF. However, during the audit process, we identified shortcomings in the management of assets, revenues, accounts receivable, classification of expenses, management of capital projects, as well as in public procurement procedures, which are presented below in the form of findings and recommendations. These findings and recommendations are intended to make the necessary correction of the financial information presented in the financial statements, including disclosures in the form of explanatory notes, and to improve internal controls related to financial reporting and compliance with authorities related to the management of public sector funds. We will follow up (review) these recommendations during next year's audit.

This report resulted in ten (10) recommendations, of which three (3) are new recommendations, five (5) repeated recommendations, and two (2) partially repeated.

As a result of the collective contract with court/enforcement procedure, the municipality has paid the main debt in the amount of €409,284 for wages and salaries, while the additional costs (interest) of the court /enforcement procedure were €63,961.

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

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<sup>4</sup> Issue A and recommendation A means new issue and recommendation  
Issue B and recommendation B means repeated issue and recommendation  
Issue C and recommendation C means partly repeated issue and recommendation

## 2.1 Issues with impact on the compliance conclusion

### Issue A1 - Inaccuracy in the registration of capital assets

**Finding** Regulation No. 02/2013- On the management of non-financial assets in budgetary organizations, Article 6 defines that; capital assets must be registered in SIMFK, while non-capital assets and stocks must be registered in the e-property system.

Based on the review, we noticed in two cases that the registration of capital assets was not done correctly:

- The municipality had registered the payment of €17,015 from the capital transfer to public entities for the project Co-financing agreement for the construction of the Zekolli neighborhood facility in Bllace as its asset and had put it to use, while ownership was not defined in the agreement. The total value of project is €37,891;
- In addition, the payment made of €18,844, for the project Cooperation agreement and co-financing for the limitation of cemeteries in the village of Shiroke, had been registered as an asset in use even though it was co-financing with the Islamic community and this project had not yet been completed, therefore it is known how much is the part invested by the Islamic community and has this part been transferred to the municipality.

The reason for the erroneous registration of assets was the lack of adequate internal controls and the lack of responsibility of the responsible official.

**Impact** The lack of accurate and complete registers lead to a lack of information for the management regarding the property owned by the municipality, thus causing an over/understatement of the assets that may result in the incorrect presentation of information in the financial statements.

**Recommendation A1** The mayor should ensure that all the assets of the municipality are correctly registered in the relevant registers of municipal assets, according to the requirements of Regulation 02/2013 for the management of non-financial assets in budget organizations.



**Entity's management answer (Agree)**

**Issue A2 - Granting of subsidies not in accordance with the public call**

**Finding** Based on the call for application no. 08-41 dated 21.02.2023 from the Directorate of Agriculture for subsidizing the construction of greenhouses in the Municipality of Suhareka, among the criteria required for the application was the requirement that the applicants should have a minimum land fund of 0.50 ha in their ownership.

In two (2) cases, we noticed that the beneficiaries of the subsidy did not meet the criteria according to the public call, because they did not meet the required amount of available land (0.50ha).

This occurred as a result of the irresponsibility of the evaluation committee which had decided to approve the request not in accordance with the call criteria.

**Impact** Subsidies not in accordance with the public call, have a negative impact on other applicants regarding the transparency of the subsidy allocation process.

**Recommendation A2** The mayor should improve the evaluation process for granting subsidies, ensuring that only applicants who meet the criteria benefit from the subsidy.

**Entity's management answer (Agree)**

**Issue B1 – Commitment of funds not in line with financial rules**

**Finding** Financial rule No. 01/2013 Article 12 stipulates that first the request for purchase must be made, then the allocation of funds, the purchase order must be processed, then the goods or service must be accepted, and after receiving the invoice, the payment must be executed.

In 13 cases with a total value of €127,090, the invoice was first received, then the pledge of funds and the purchase order were made.

The cause of such a phenomenon is the inadequate planning of the budget and the initiation of procedures ignoring the implementation of the rules in force.

**Impact** Entering into obligations without securing the necessary funds and not following the expenditure process, create financial management difficulties or even lead to non-fulfilment of obligations from which they may have additional costs.

**Recommendation B1** The mayor should ensure that the steps defined by the rules in force regarding the execution of payments are respected, so that during the payment process, funds are first pledged, then a purchase order is issued, and finally the work/service is accepted, and the payment should be completed.

**Entity's management answer (Agree)**

### **Issue B2 - Lack of executive project**

**Finding** The Operative Guidelines for Public Procurement (OGPP), article 20 point 10, requires that the technical specifications for the work contract must include an executive project as a substantial part of it.

During the testing, we identified that for three (3) capital projects, the executive project had not been prepared, but the municipality had initiated the procurement procedures only with bill-of-quantities and estimates. Such cases were as follows:

- The project "Construction of tourist campsites in Mushtisht village and hiking trails" in the amount of €52,650;
- The project "Construction and arrangement of cemeteries in the city" in the amount of €179,452; and
- The project "Construction of infrastructure for tourism in the mountain of Vraniq village" in the amount of €28,510.

The reasons for not drafting the executive project were the delays during the procurement procedures, as well as the lack of controls when the procurement process was initiated.

**Impact** The development of procurement procedures without an executive project may influence the works executed in these projects to deviate from the standard construction requirements and not reach the appropriate quality.

**Recommendation B2** The mayor should ensure the drafting of executive infrastructural projects before the initiation of procurement procedures.

**Entity's management answer (Agree)**

### Issue B3 - Delay in the execution of projects

#### Finding

According to Article 81 of the Law on Public Procurement as well as the Operational Rules and Guidelines for Public Procurement points 61.6, 61.19 and 61.20, contract managers are responsible for managing the contract and must ensure that the EO performs the contract in accordance with the terms and conditions specified in contract. Each public contract has a defined implementation deadline.

In (6) six cases, the municipality had not completed the works according to the dynamic plan, as follows:

- The project Construction of local roads in Sopiye-Vraniq and Reqan -Bukosh contract signed on 22.05.2023, in the amount of €318,064, was valid for 79 calendar days. The payment of the first situation was made in October and constituted only 30% of the completed works. For this project, the delays are over 120 days.
- The Construction of local roads in Mushtisht project, the contract was signed on 04.05.2023 in the amount of €109,615 with a deadline of 41 calendar days. The payment made in the amount of €40,000 is only the first situation where the term of the signed contract has been exceeded by more than 90 days.
- The Regulation of the Collector project, the contract was signed on 21.07.2023 with a deadline of 53 calendar days until the payment of €35,284 was made on 27.12.2023, which constitutes only 24% of the value of the signed contract, for this project the delays are over 60 days.
- Regarding the project Construction of local roads in Ternje village, the contract was signed on 02.06.2023 and was planned to be completed within 35 days, while the final payment was made in December 2023. For this project, the delays were 120 days.
- Regarding the project Construction of local roads in Javor village, the contract was signed on 08.07.2022, in the amount of €34,885, and was planned to be completed within 90 days, while the payment of the last situation in the amount of €11,458 was made in December, so, 90 days late.

- Regarding the project Construction of local roads in Gjinovc and Topliqan vilages, the contract was signed on 21.12.2022 in the amount of €68,432 and was planned to be completed within 30 days. The last payment in the amount of €12,503 was made on 21.12.2023 and no explanations were given for the non-realization of this project in a duration of 1 year.

Delays in the execution of the projects as a result of the lack of budget funds and the low dynamics during the execution of the works were the reason for the non-realization of the projects according to the deadlines set in the contracts.

#### **Impact**

Failure to execute projects according to the terms of the contract has affected the municipality not to reach the defined objectives and may cause budgetary difficulties for the following years.

**Recommendation B3** The mayor should provide adequate mechanisms to strengthen the controls in the supervision of the implementation of the projects, so that they are completed on time according to the dynamic plan.

#### **Entity's management answer (Agree)**

#### **Issue B4 - Shortcomings in the management of property tax revenues**

#### **Finding**

Law no. 06/L-005 on Immovable property Tax, article 11.1 determines that the natural person who decides that the object unit serves as a primary residence (for which he declares it in the Municipality), is allowed a deduction of €15,000 from the assessed value of the object unit.

In addition, the Ministry of Finance, namely the Property Tax Department, has notified the municipalities of the decision taken to register the personal number in the case of the implementation of Article 11 of Law no. 06/L-005, in order to avoid duplications/or irregularities and ensure the effective implementation of this article.

After the analysis, in relation to the implementation of the deduction allowed for the primary residence and the implementation of the Decision on the registration of the personal number, the following shortcomings have been identified:

For 141 taxpayers, a deduction of €15,000 was applied from the estimated value of the building unit, based on the request for Primary residence deduction, but this deduction was made for the building units for which the personal number was not recorded. which results in less income from property tax.

While for 147 taxpayers, a deduction of €15,000 was applied from the estimated value of the object's unit, Deductions for primary residence, we noticed that this deduction was applied to objects intended for office and business.

This occurred as a result of not revising/updating the base date and not inspecting the units of taxable facilities by the municipality.

#### **Impact**

The application of deductions allowed for taxpayers without a personal number and without declaring that the taxpayer's residence serves as a primary residence, results in incorrect calculations of deductions for property tax and consequently less revenue for the municipality.

**Recommendation B4** The mayor should ensure better cooperation and communication between the Department of Municipal Property Tax and the Ministry of Finance in updating the database, in order to eliminate possible errors in the data on the assessed tax, or any other eventual error.

#### **Entity's management answer (Agree)**

#### **Issue C1 - Delay in the execution of invoice payments**

#### **Finding**

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

From the samples tested for the category of goods and services, we have identified five (5) cases with a total value of €24,220, where the payments of received invoices were not executed according to the legal time limit of 30 days. The delays for these invoices ranged from 42 days to 102 days. From the samples tested, we did not notice that there were requests for the collection of funds from EO through executive/judicial procedures.

Due to delays in the payment of invoices, economic operators have used the executive/judicial procedure to collect funds. From the analysis of the expense report, we noticed that the Municipality paid €52,093 in principal debt as well as €2,960 in interest expenses as a result of the non-payment of salaries within the legal deadline.

Failure to pay the liabilities on time is due to poor budget planning and delayed payment of invoices by the relevant departments.

#### **Impact**

Entering into liabilities without securing the necessary funds affects the increase in unpaid obligations or budget implications for the current year, as well as financial costs as a result of additional burdens in the name of interest and enforcement services.

**Recommendation C1** The mayor should ensure that entering into liabilities is done only after the budget funds have been committed in advance, as well as 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.

#### **Entity's management answer (Agree)**

#### **Issue C2 – Shortcomings in regular reporting on the use of municipal properties**

#### **Finding**

Law no. 06/L-092 on the provision for use and exchange of immovable property of the municipality, article 22 paragraph 2 determines that; The Mayor of the Municipality is obliged to submit to the Municipal Assembly in his regular six (6) monthly reports the special report for monitoring the execution of contracts and the fulfilment of the purpose of providing immovable property for use, until the start of implementation and achieving the goal of providing the property for use.

The municipality had prepared regular six (6) monthly reports, but these reports did not contain information regarding the monitoring and reporting of the implementation of contracts related to the granting of use of municipal properties. Even in the current year 2023, the municipality had signed four (4) new contracts for the use of municipal immovable property but had not reported on the purpose of their use and supervision.

The cause of the occurrence is the circumvention of legal requirements regarding the reporting and supervision of contracts for the use of municipal immovable property.

**Impact** The lack of reporting for the monitoring of contracts for municipal properties given in use, in addition to creating non-compliance with the law and affecting the full execution of revenues.

**Recommendation C2**The mayor should ensure that the regular six (6) monthly reports also contain the special report for monitoring the implementation of contracts and the fulfilment of the purpose of providing immovable property for use.

**Entity's management answer (Agree)**

## 2.2 Other financial management and compliance issues

### 2.2.1 Capital Investments

The final budget for capital investments was €7,315,275, of which €6,258,627, or 86%, was spent. These expenditures relate to the construction of local roads, water supply systems, sewage systems, national parks, river regulation, etc.

#### Issue A3 – Misclassification of expenditures

**Finding** Financial rule no. 01/2013/MF On the expenditure of public money, article 18 point 3 specifies that the expenses must have adequate codes, defined by the Administrative Instruction for the chart of accounts. Consequently, Article 11 of AI 19/2009 on the chart of accounts requires the CAO and the CFO to ensure that all transactions are registered in KFMIS according to the structure of the chart of accounts and the classifications defined by this AI.

From the audit of payments, as well as the disclosures in the annual financial report, as a result of court/enforcement decisions, the Treasury made payments in the amount of €168,368.

- From the category of capital investments, €88,443 were paid for the expenses that belong to the category of wages and salaries/meal allowances.
- From the category of goods and services, €46,225 were paid for the expenses that belong to the category of wages and salaries/meal allowances.
- From the category of wages and salaries, €21,461 were paid for enforcement expenses which belong to the category of goods and services; and
- From the goods and services category, €12,240 were paid and belong to the capital investment category.

Payments for jubilee salaries and meal allowances occurred as a result of the collective contract, the expenses of which were not planned in the budget and as the registration of expenses not according to the relevant economic categories.



**Impact** Misclassification of expenses results in incomplete and inaccurate presentation of expenses in the AFS, therefore it can lead to misunderstanding of the financial position of the municipality with overstatement/understatement of economic categories.

**Recommendation A3** The mayor should ensure that all actions are taken so that expenses are planned in the appropriate divisions of the budget (or funds are reassigned when necessary and possible), that the payment and recording of expenses is made according to the appropriate economic codes.

**Entity's management answer (Agree)**

## 2.2.2 Receivables

In the 2023 AFS the municipality disclosed accounts receivable amounting to €7,657,555. This amount consists of property tax €3,740,343, shop rental fees €394,262, land rental fees €275,746, market rental fees €10, land tax (immovable property) €998,439, and business tax €2,228,764.

### Issue B5 - Overstatement of Accounts Receivable

**Finding** Law no. 06/L-005 on Immovable Property Tax, Article 10.1.1, stipulates that immovable property tax will not be imposed on immovable property owned by the institutions of the Republic of Kosovo.

From the testing of the immovable property tax, in one case we noticed that the municipality had charged with this tax the property/parcel which was under municipal property. The value of the charge for 2023 was €20,562, and therefore the accounts receivable reported in the AFS were overstated by this amount.

The lack of an adequate review by the municipality for the application of the municipal immovable property tax charge has caused the accounts receivable to be overstated.

**Impact** The application of the charge for immovable property, which is the property of the municipality, has directly led to the increase in accounts receivable.

**Recommendation B5** The mayor should ensure the strengthening of internal controls during the invoicing of property tax and in cases where property tax is charged to properties that are exempted by law from paying off their obligations.

**Entity's management answer (Agree)**

### 3 Summary on budget planning and execution

In this chapter, we have presented a summary of information on the sources of budget funds, expenditure of funds and collected revenues, according to economic categories. This is illustrated through the tables and graphs below:

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

Description	Initial budget	Final budget <sup>5</sup>	2023 Expenditures	2022 Expenditures	2021 Expenditures
<b>Sources of funds</b>	<b>19,807,625</b>	<b>22,677,570</b>	<b>21,129,662</b>	<b>18,020,858</b>	<b>16,922,197</b>
Government Grants – Budget	17,613,956	19,178,886	18,726,949	15,517,044	14,568,168
Funding through borrowing	0	0	0	107,682	93,813
Carried forward from previous year	0	917,179	631,930	494,061	623,022
Own source revenues	2,193,669	2,193,669	1,386,174	1,750,633	1,418,764
Domestic Donations	0	1,656	0	4,540	2,143
External donations	0	386,180	384,609	146,898	216,286

The final budget was higher than the initial budget by €2,869,946. This increase is the result of the budget's acceptance of revenues carried over from the previous year, from central level allocations, as well as from donations. In 2023, the municipality has spent 93% of the final budget, with a lower level of 3% compared to 2022.

Explanations for the current position are detailed below.

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

Description	Initial budget	Final budget	2023 Spending	2022 Spending	2021 Spending
<b>Spending of funds by economic categories</b>	<b>19,807,625</b>	<b>22,677,570</b>	<b>21,129,662</b>	<b>18,020,858</b>	<b>16,922,197</b>
Wages and Salaries	9,098,162	10,663,092	10,612,785	9,303,713	8,868,913
Goods and Services	3,184,213	3,201,410	3,019,067	2,470,247	2,160,895
Utilities	551,919	566,623	339,610	382,760	331,882
Subsidies and Transfers	930,000	931,171	899,574	676,958	608,298
Capital Investments	6,043,331	7,315,275	6,258,627	5,187,180	4,952,209

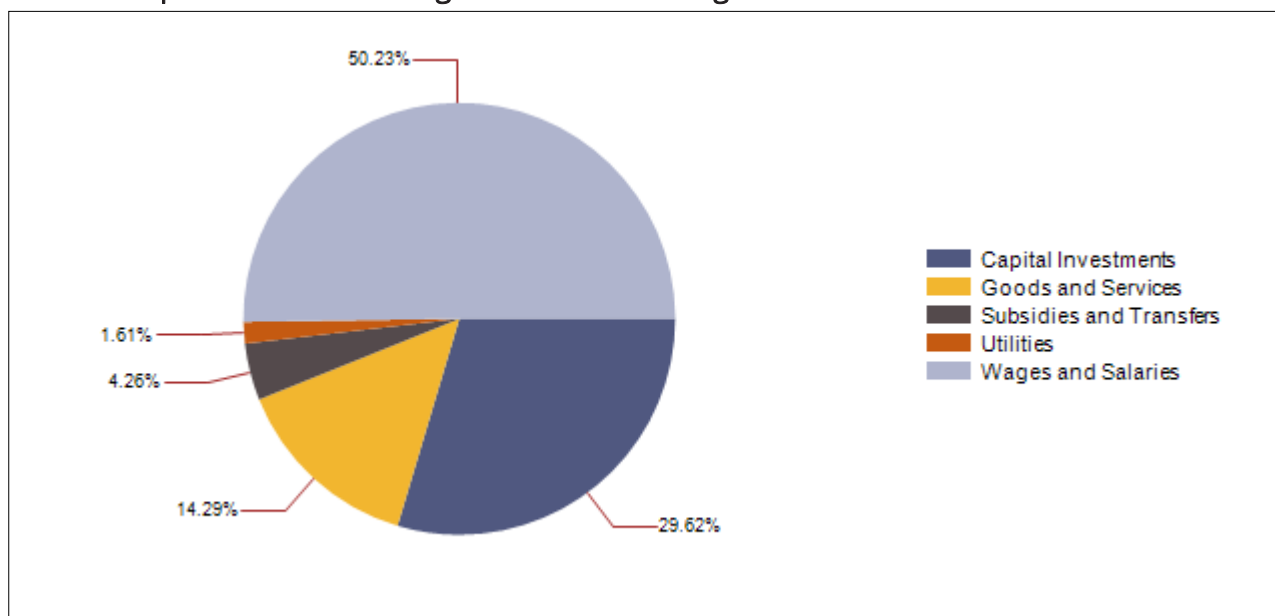
·The final budget for wages and salaries in relation to the initial budget was increased by €1,564,930. This increase was according to the revision of the budget for the amount of €1,514,930, and the rest was influenced by the revenues carried over from the previous year of €50,000.

·The final budget for goods and services and the municipality was increased for the amount of €31,900, this increase was a result of the current year revenues and carried over from the previous year for the amount of €29,744 and the designated grants of donors in the amount of €2,156.

·The final budget for subsidies and transfers in relation to the initial budget was increased by €1,171, as a result of the current year's revenues and those carried over from the previous year.

·The final budget for capital investments in relation to the initial budget had increased by €1,271,944, the increase was influenced by the current year's revenues as well as those carried over in the amount of €886,264 and the determined grants of donors for €385,680.

**Chart 1. Expenditures according to economic categories for 2023**



The revenues executed by the Municipality in 2023 totalled to €2,397,442. They are related to income from property tax, income from construction permits, administrative taxes, income from business activities, income from rent, participations, etc. As well as income from donors in the amount of €207,431.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
<b>Total of revenues</b>	<b>2,193,669</b>	<b>2,193,669</b>	<b>2,397,438</b>	<b>1,834,297</b>	<b>1,863,618</b>
Tax revenues	1,285,452	1,285,452	1,023,369	884,224	968,556
Non-tax revenues	908,217	908,217	1,374,069	950,073	895,063

## 4 Progress in implementing recommendations

The audit report for the 2022 AFS resulted in 17 recommendations. The municipality had prepared the Action Plan, which presents how it will implement the given recommendations. By the end of our 2023 audit, nine (9) recommendations have been implemented, and eight (8) recommendations have not yet been addressed, as shown in Chart 2, below.

For a more thorough description of the recommendations and how they were handled, see Table of recommendations no. 4.

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

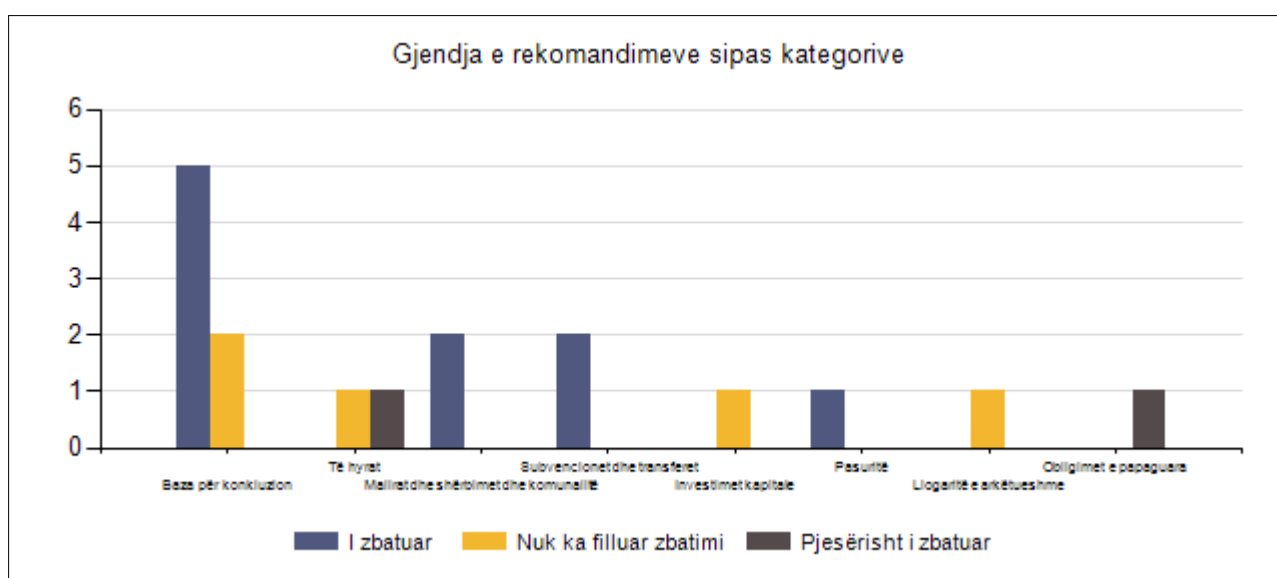


Table 4 Summary of the previous year's recommendations

No	Audit Area	Recommendations of the year 2022	Actions taken	Status
1.	Basis for conclusion	The mayor should ensure that the steps defined by the applicable regulations regarding payment execution are followed so that, during the payment process, funds are first committed, then a purchase order is issued, and finally, the work/service is received and the payment is executed.	No actions have been taken	Implementation not started

2.	Basis for conclusion	The mayor should strengthen controls to ensure that, through the contract manager, proper oversight of framework public contracts with unit prices is carried out to prevent their exceeding.	Necessary measures have been taken	Implemented
3.	Basis for conclusion	The mayor should ensure that projects are not initiated without a concrete project plan and budget and that controls over project implementation oversight are strengthened to ensure their timely completion according to the dynamic plan.	No actions have been taken	Implementation has not started
4.	Basis for conclusion	The mayor should ensure that additional work is carried out only if the extra work hours have been justified in advance by the direct supervisor and that records are kept for the hours and days of engagement in the additional work.	Necessary measures have been taken	Implemented
5.	Basis for conclusion	The mayor should ensure that the causes leading to the delayed payment of obligations, which have resulted in lawsuits and judicial/enforcement procedures against the municipality, are analyzed. Before entering into obligations, the necessary funds should be secured, and controls should be strengthened in monitoring project implementation and ensuring the timely payment of obligations.	Necessary measures have been taken	Implemented

6.	Basis for conclusion	The mayor should ensure that project managers contribute to the contract management plan being signed by the contracting parties to ensure the fulfillment of contractual obligations.	Necessary measures have been taken	Implemented
7.	Basis for conclusion	The mayor should ensure that the necessary actions are taken for approved projects to be implemented according to the plan. If there is a need for fund reallocation for projects, this should be done through the procedures defined by reallocation in accordance with the Budgetary Allocations Law.	Necessary measures have been taken	Implemented
8.	Revenues	The Mayor should ensure better cooperation and communication between the Municipal Property Tax Department and the Ministry of Finance, in order to eliminate possible errors in the assessed tax data, or any other potential mistakes.	No actions have been taken	Implementation not started
9	Revenues	The Mayor should ensure that regular six (6) month reports include a separate report on the monitoring of contract implementation and the achievement of the goal of making immovable property properties available for use. Furthermore, the Mayor should ensure that the renewal of contracts specified in leasing agreements is carried out.	The recommendation is partially implemented	Partially implemented

10	Goods and Services - Utilities included	The Mayor should ensure that necessary measures are taken so that the planning of procurement activities includes requirements from all units, ensuring that as few activities as possible are carried out outside the procurement plan. If any activity occurs outside the plan, the AQP should be notified in advance in accordance with legal requirements.	Necessary measures have been taken	Implemented
11	Goods and Services - Utilities	The Mayor should ensure proper control through the procurement office, so that the tender evaluation committees make fair assessments and comparisons of the offers. Additionally, the process should be reviewed to ensure that the responsible winners are selected, taking into account all legal requirements.	Necessary measures have been taken	Implemented
12	Subsidies and Transfers	The Mayor should ensure that all beneficiaries report regularly on the implementation/realization of projects, and for those who do not report on time, a decision should be made to exclude them from being beneficiaries of subsidies in subsequent public calls.	Necessary actions have been taken.	Implemented
13	Subsidies and Transfers	The Mayor of the Municipality should ensure that the members of the evaluation committees respect all the criteria set out in the relevant Regulation. He should also ensure that the public announcement is made in accordance with legal rules to provide an opportunity for all NGOs, ensuring equality in application and	The necessary actions have been taken	Implemented



		fair evaluation, as well as transparency for public funds.		
14	Capital investments	The Mayor should ensure that the development of executive projects is carried out in accordance with legal requirements, specifically ensuring their preparation before initiating procurement procedures.	No action has been taken.	Implementation has not started
15	Assets	The Mayor should ensure that all entries/exits of movable assets with values under €1,000 are recorded in the e-asset system. Additionally, they should ensure that the process of inventory and asset valuation is carried out on time, and that these reports are aligned with the asset records to precede the preparation of the financial statements, ensuring that the asset value is accurately presented.	The necessary actions have been taken	Implemented
16	Accounts Receivable	The Mayor should ensure the strengthening of internal controls during the billing of property tax and, in cases where property tax is charged to properties that are exempt by law, ensure the settlement of their obligations.	No action has been taken.	Implementation has not started
17	Outstanding Liabilities	The Mayor should ensure that obligations are planned/budgeted and paid within the legal timeframes to prevent any damage to the Municipal budget due to additional costs.	The recommendation has been partially implemented	Partially implemented

Vlora Spanca: Auditor General

Agron Fetiu: Assistant Auditor General

Ramadan Gashi: Audit Director

Fejzullah Fejza: Team leader

Astrit Bllaca: Team member

Arbresha Breznica Rama: Team member

## Annex I: Letter of confirmation/ Comments of BO regarding the audit report

Issue	Comments from the BO	KNAO view

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

Auditor's Report on the financial statements<sup>5</sup> should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities<sup>6</sup>. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

### *Forms of opinion*

#### **Unmodified opinion**

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

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

<sup>6</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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

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

#### Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

#### **Qualified opinion**

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

#### **Adverse opinion**

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

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

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

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

### Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

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

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