



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

In our opinion, the annual financial statements of the Municipality of Istog 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 whether the processes and underlying transactions comply 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 Conclusion on Compliance section of our report, transactions carried out in the process of execution of Municipality of Istog's

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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

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**

- A1 Failure to adhere to the payment processing steps
- A2 Subsidy utilization is not in line with the given purpose, and failure in reporting
- B1 Failure to record assets under €1,000 in the e-asset programme.
- B2 The invoices had not been paid within the 30 day deadline, payment delays in these cases vary from 17 days to 60 days.

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

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

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

The mayor 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 monitoring of the Municipality of Istog's financial reporting process.

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

The management of the Municipality of Istog 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>

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

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

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

Our objective is also to express an audit opinion on compliance of respective Municipality of Istog'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 Istog'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 recommendations<sup>4</sup>

During the audit, we have identified areas of possible improvement on financial management and control. In particular, we have identified shortcomings in the area of accounts receivable, unpaid obligations, misclassification of expenditures, asset management, contract management and subsidies. These issues are presented as findings and recommendations for further consideration.

The recommendations presented below aim to improve internal control in relation to financial management and control, adhering to the authority related to the management of funds in the public sector. Our plan is to review and follow up on these recommendations during next year's audit process. Our report resulted in nine (9) recommendations, three (3) of which are new recommendations, five (5) repeated and one (1) partially repeated for the improvement of these aspects of financial management and controls.

The amount of payments from the category of wages and salaries made by the Treasury, based on judicial/executive decisions for the collective contract, was €681,592. Of which, the main debt was €557,030, while €124,562 were interest and court/enforcement procedural costs.

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

### 2.1 Issues with impact on the compliance conclusion

#### **Issue A1 – Failure to adhere to the payment processing steps**

**Finding** According to Financial Rule No. 01/2013 on Expenditure of Public Money, Article 22 Expenditure of public money, defines the steps for the payment process, where initially the Purchase Request is made, the Purchase Order is issued, the goods/service is accepted, then the Economic Operator brings the invoice for payment.

From the 29 samples tested in the category of goods and services, we noticed that in 11 cases in the amount of €215,745, the purchase order was processed after the date of the invoice and the receipt of the goods.

This phenomenon occurred as a result of ineffective controls, due to the fact that the legal procedures for the spending of public money by the responsible officials were not implemented.

**Impact** Failure to apply the appropriate control procedures during the payment process may lead to the municipality not fulfilling the invoiced liabilities on time, thus increasing the outstanding liabilities, which will be a burden for the following year's budget.

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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

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**Recommendation A1** The mayor should ensure that the steps defined by the rules in force for the payment processing by the responsible officials are adhered to, so that the funds are first committed, the purchase order is issued and then the goods/works are accepted.

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

**Issue A2 – Subsidy utilization is not in line with the given purpose, and failure in reporting**

**Finding** The Local Publicly Owned Enterprise "Bus Station", which is owned by the Municipality with 100% of the shares, has requested on 14.10.2022 from the municipality for the allocation of budget funds for the purpose of operationalizing the enterprise. By decision of the mayor, the municipality on 16.06.2023 allocated budget funds in the amount of €50,000. Point 3 of the decision determines that the Publicly Owned Enterprise is obliged to report on the expenditure of financial funds in order to prove that they have been spent according to the purpose for which they were given.

The Local Publicly Owned Enterprise has not submitted a financial report to the municipality. Also, based on the evidence received (bank report-transactions), we have identified that the enterprise has exceeded expenditures for certain positions.

- In the agreement, it is determined that from the subsidized funds, the enterprise should spend an amount of €20,382 on salaries. However, €33,445 have been spent, resulting in an overrun of €13,063.
- For the payment of taxes, such as value added tax, salary and pension contributions, the designated funds amounted to €13,447. However, €16,121 were spent, resulting in an overrun of €2,674.
- For licenses and damage remediation, the designated funds amounted to €6,150, whilst only €110 were spent.
- For operating expenditures, including utilities, the designated funds amounted to €6,950, but they were not spent at all.
- The funds requested to cover the expenditures of the private executor amounted to €1,060, while €944 were spent.

This occurred due to lack of controls in the area of monitoring subsidies.

**Impact** The use of subsidies by beneficiaries not in accordance with the given purpose, results in poor value for spent money.

**Recommendation A2**        The mayor should ensure the strengthening of controls in the area of granting and monitoring subsidies, so that the means and funds given by the municipality are used only for the subsidized purposes. If the beneficiaries fail to justify the use of the funds in accordance with the given purpose, measures should be taken to return the funds from the beneficiaries.

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

**Issue B1 - Failure to record assets under €1,000 in the e-asset programme****Finding**

Regulation MF-No. 02/2013 on Management of Non-Financial Assets in Budgetary Organizations, Article 6.1., stipulates that, "Each budget organization must create and update the register of non-financial assets under its management. The register must be kept separately for each asset and in aggregated form according to categories classified on the basis of the chart of accounts. Also, Article 6.3 stipulates that capital assets must be registered in KFMIS, while non-capital assets and stocks must be registered in the "e-assets" system.

From the testing of the samples, we noticed that the non-capital property in the amount of €81,440, purchased during the year 2023, was not registered in its entirety in the "e-assets" system

The purchased and unrecorded assets are related to inventories, cameras, furniture, traffic equipment, decorative lights, etc. for the administration and education sector. Although these assets are not registered in the "e-asset" system, the municipality has identified them during the inventory process and presented them in the AFS.

This occurred as a result of an ineffective system of controls and monitoring of officials responsible for the management of non-financial assets.

**Impact**

Failure to record non-financial assets according to the criteria defined in the regulation for the management of non-financial assets leads to the loss or possible alienation of assets.

**Recommendation B1** The mayor should strengthen the internal controls to ensure that assets officials will record non-capital assets in accounting registers in the e-assets system.

**Entity's management answer (Agree)****Issue B2 – Delays in payment of received invoices****Finding**

Law No. 03/L-048 on LPFMA, Article 39.1, stipulates that "the CFO of the budget organization is responsible for ensuring that every valid invoice and request for payment for goods and services supplied and/or work performed for the budget organization to be paid within thirty (30) calendar days after receipt of the invoice or request for payment from the relevant budget organization.

In reviewing liabilities, we noticed that five (5) invoices, in the amount of €13,601, were not paid within the 30-day deadline, payment delays for these cases range from 17 days to 60 days.

This occurred because the municipality did not have sufficient financial funds and entered into obligations without making any proper budget analysis.

**Impact**

Delays in the payment of invoices make it difficult to execute budget according to plans, as well as cause additional costs in the budget of the Municipality.

**Recommendation B2** The mayor should ensure a better planning of budget funds, as well as the initiation of spending procedures only when the funds are available in order to eliminate delays in invoice payments or to avoid possible lawsuits from economic operators.

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

## 2.2 Findings on financial management and compliance issues

### 2.2.1 Capital investments

The final budget for capital investments was €4,468,975 of which €4,030,006 or 90% were spent. They are related to construction of local roads, water supply, sewers, national parks, rehabilitation of rivers, etc.

#### **Issue A3 - Contract management not recorded through the e-procurement platform**

**Finding** Rule and Operational Guidelines for Public Procurement, point 61 sets forth that the Contract Management and Performance Evaluation of contractors ensure that all contract management records are prepared, kept and archived in the contract management module in the electronic procurement system.

The municipality has not maintained and archived the management of contracts and performance evaluation of contractors through the electronic public procurement system.

This occurred due to poor internal controls in the process of managing contracts through e-procurement.

**Impact** Failure to maintain and archive contracts through the public procurement system may affect a non-genuine management of contracts and does not provide sufficient opportunity for management to receive timely information regarding the progress and performance of contracts.

**Recommendation A3** The mayor should request all project managers to ensure that contract management will be maintained and archived by the electronic public procurement system.

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

### 2.2.2 Common issues for certain economic categories

Following are the common issues related to economic categories such as: goods and services, and capital investments:

**Issue B3 – Misclassification of expenditures****Finding**

According to Financial Rule No. 01/2013/MF "Expenditure of Public Money" expenditures should have the adequate codes, defined by the Administrative Instruction for the chart of accounts, as well as with the chart of accounts of the Treasury, the relevant codes and categories of expenditures that the OB must apply are defined.

Based on the tested payments, we noticed that payments were made from inadequate economic categories, in the amount of €28,394. As follows:

- From the category of goods and services, 9,000€ were paid for the category of capital investments, €5,001 for the category of subsidies and transfers, and €5,117 for the category of wages and salaries.
- From the category of capital investments, payments were made in the amount of €9,276, which belong to the category of subsidies and transfers.

Inadequate classification of expenditures was a result of dysfunctional internal controls for planning the budget and executing payments from the appropriate categories.

**Impact**

Payments made from inadequate expenditure categories affect unfair financial reporting, as well as overestimation/underestimation of expenditure categories.

**Recommendation B3** The mayor should ensure that the expenditures are planned in the appropriate allocations of the budget or that the funds are reallocated so that the payment and recording of expenditures is then done according to the appropriate economic codes.

**Entity's management answer (Agree)****2.2.3 Accounts Receivable**

Accounts receivable disclosed by the municipality in 2023 AFS were in the amount of €1,511,472. Property tax €1,245,358, charges for business and commerce in the amount of €174,831 and others in the amount of €91,284.

**Issue B4 – Poor management of accounts receivable****Finding**

According to Article 26 of the Law on Immovable Property Tax 06-L 005, the Municipality, the Ministry of Finance and the competent enforcement bodies have the authority and powers to collect unpaid tax liabilities that exceed the amount of ten (10) Euros and Article 27, If a taxpayer or debtor has not fully paid the tax and the fine, if any, or unpaid tax obligations, in accordance with the established deadlines, the municipality issues the final written notice within ten (10) working days after the last day for payment, where it requires full payment of unpaid tax obligations, no later than ten (10) calendar days after the day that the final notification is considered to have been received by the debtor.

Most of the AR belongs to property tax in the amount of €1,245,358, about 82%, municipal business tax in the amount of €174,831 (remaining debts from 2012) about 12%, the use of public property in the amount of €41,019 about 3% and other debts about 3%. Accounts receivable still remain high, even though we have a 20% reduction in 2023 compared to 2022, especially we have a reduction in property tax debt, and the reduction in property tax debt is as a result of the debt forgiven in 2023.

This occurred due to lack of continuous actions of the responsible departments in an attempt to collect receivables.

**Impact**

Failure to collect receivables reflects the lower level of the budget from own revenues. Consequently, this may also affect the achievement of the Municipality's objectives, making it impossible to invest in projects that are financed by these funds.

**Recommendation B4** The mayor should take appropriate actions on holding respective officers to account in order to increase the collection of debts and prevent the continuous increase of accounts receivables.

**Entity's management answer (Agree)****2.2.4 Internal Audit Function**

The Internal Audit Unit (IAU) had only one Auditor (Head of the Unit). In addition to the strategic plan, the IAU also drafted the annual work plan. In 2023, no audit was completed.

**Issue B5 - - Failure to complete the Internal Audit Unit**

**Finding** Regulation GRK- No 01/2019 on the establishment and implementation of the internal audit function in the public sector entity. Article 5.1.1 stipulates that every public sector entity with a budget over seven (7) million euros must have at least three auditors.

The Internal Audit Unit in the Municipality of Istog consists only of the Head of the Audit Unit. This Unit had not carried out any audit out of the four audits it had planned for 2023

The reason for not fulfilling the audit plan was that the Head of IAU retired on 28.05.2023 and the other auditor was transferred to this position on 11.10.2023. So, the Municipality has not taken appropriate actions to address the issue of the composition and function of the Internal Audit Unit to complete it with adequate staff.

**Impact** Failure to complete the IAU may affect that the internal audit does not cover all areas of risk and prevent management from taking actions to prevent possible errors at the earliest possible time.

**Recommendation B5** The mayor should ensure that the budget planning for the required positions will be done on time, and that the IAU will be filled with sufficient staff according to the regulation for its establishment, and that at the same time it would increase and strengthen internal controls.

**Entity's management answer (Agree)****Issue C1 - Non-functional audit committee**

**Finding** Administrative Instruction MF-No. 01/2019 for the establishment and functioning of the audit committee in the public sector entity, Article 6 The Audit Committee is appointed by the head of the public sector entity and consists of three (3) or five (5) members. The Mayor of the Audit Committee must not be in a leadership position, two-thirds (2/3) of the members must be external, and the rest from the internal staff of the public sector entity.

The Internal Audit Committee (IA) from March 2022 was without a quorum (two of them had withdrawn from the audit committee) until December 2022, when it was completed with a new composition, which has only two members.

Also, the audit committee did not hold four mandatory meetings, but only two.

The ineffective functioning of the AC occurred as a result of the mayor and member of the AC's leave after their mandate expired, and the municipality did not appoint new members on time.

**Impact**

The ineffective Audit Committee has an impact on providing security for the effectiveness of the municipality's internal controls, the functioning of the audit and the independence of the internal audit.

**Recommendation C1** The mayor should ensure the effective functioning of the Audit Committee, in order to review the internal audit plans, to confirm that they are based on risk and to provide the required assurance to the management on the operation of internal controls.

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

### 3 Summary on budget planning and execution

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

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

Description	Initial Budget	Final Budget <sup>5</sup>	2021 Outturn	2020 Outturn	2019 Outturn
<b>Sources of Funds</b>	<b>13,051,471</b>	<b>15,259,638</b>	<b>14,692,547</b>	<b>11,589,771</b>	<b>11,920,156</b>
Government Grant - Budget	11,806,883	13,352,625	13,009,403	9,897,405	9,385,694
Funding through borrowing	0	0	0	98,602	25,031
Funding through borrowing-investment clause	0	0	0	0	1,528,317
Carried forward from previous year	0	558,870	521,746	616,338	0
Own Source Revenues	1,244,588	1,244,588	1,103,098	945,931	941,700
Domestic Donations	0	91,128	45,876	31,495	39,414
External Donations	0	12,427	12,424	0	0

The final budget was higher than the initial budget by €2,208,167. This increase is the result of accepting the budget from donations, revenues carried over from the previous year and government decisions. In 2023, the Municipality has spent 96% of the final budget, with an increase of 5% compared to 2022.

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

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

Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
<b>Spending of funds by economic categories</b>	<b>13,051,471</b>	<b>15,259,638</b>	<b>14,692,547</b>	<b>11,589,771</b>	<b>11,920,156</b>
Wages and Salaries	6,565,231	8,110,973	8,088,978	6,638,555	6,160,659
Goods and Services	1,924,337	1,966,063	1,896,275	1,829,768	1,227,191
Utilities	200,000	200,000	198,874	188,599	157,882
Subsidies and Transfers	370,000	513,627	478,413	347,736	321,811
Capital Investments	3,991,903	4,468,975	4,030,006	2,585,113	4,052,614

<sup>5</sup> Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

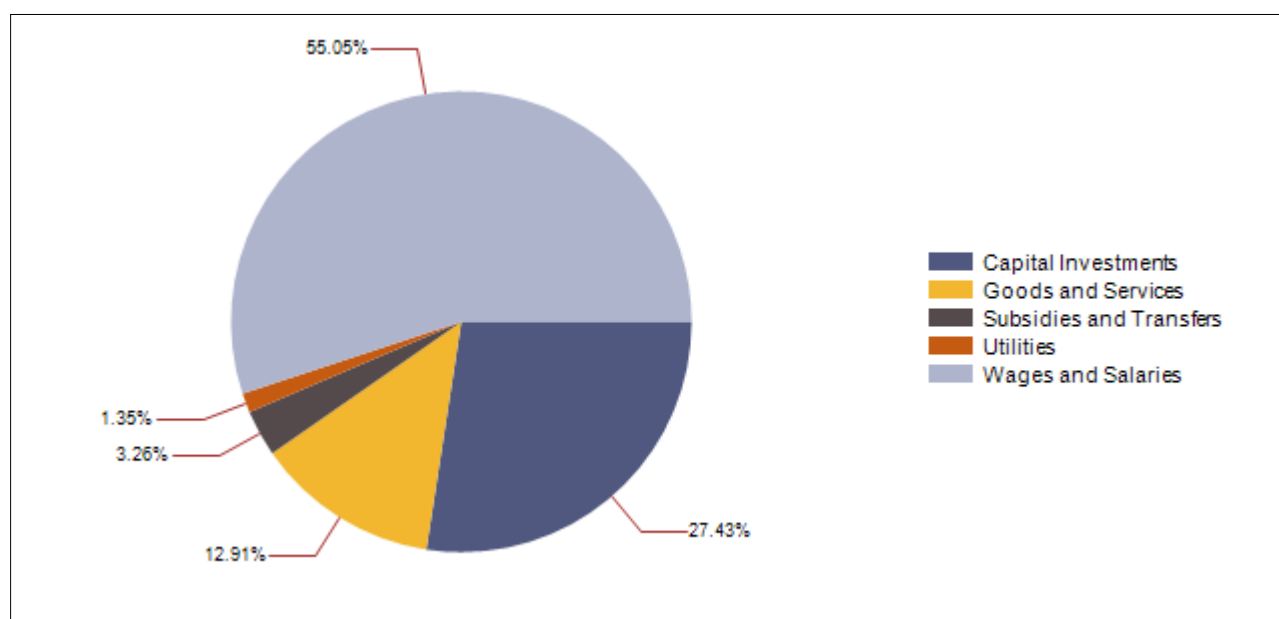
The final budget for wages and salaries increased by €1,545,742. The increase was due to the Decisions of the Government of Kosovo regarding salary increases.

The final budget for goods and services increased by €41,726. The increase was from the carried-over unspent own source revenues.

The final budget for subsidies increased by €143,627 from this amount: €103,260 increase from the carried over of unspent own source revenues from 2022 and €40,367 increase from donations.

The final budget for capital expenditures compared to the initial budget had increased by €477,072. This increase comes as a result of unspent own source revenues of €413,870 and the increase of €63,202 from donations.

**Chart 1. Expenditures by economic categories in 2023**



The own source revenues planned for 2023 were €1,244,588, while €1,339,018 were realized. They are related to revenues from property tax, revenues from construction permits, administrative taxes, revenues from business activities, revenues from rent, etc. Likewise, this year the municipality has received revenues from traffic fines and court fines in the total amount of €228,989, as well as revenues from the Kosovo Forestry Agency in the amount of €26,335. These revenues are not included in the table below because they are planned and implemented by line ministries.

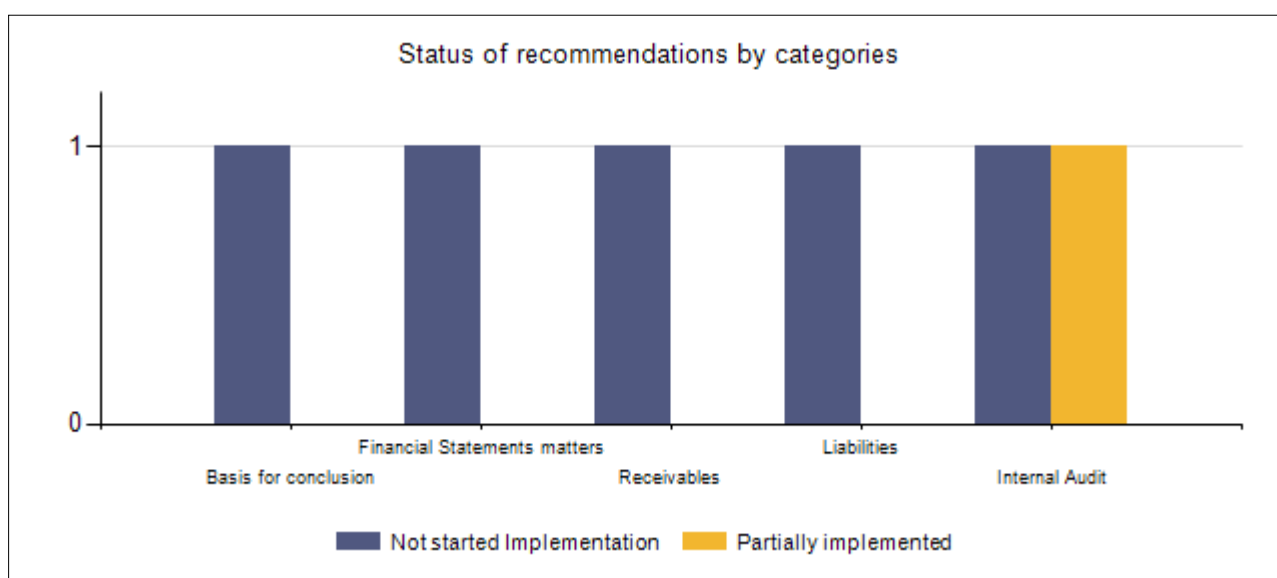
**Table 3. Revenues (in €)**

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
<b>Total of revenues</b>	<b>1,244,588</b>	<b>1,244,588</b>	<b>1,339,018</b>	<b>1,079,823</b>	<b>1,072,090</b>
Tax revenues	561,415	561,415	589,605	422,826	474,062
Non-tax revenues	683,173	683,173	749,413	656,667	598,028
Other revenues	0	0		330	

## 4 Progress in implementing recommendations

The audit report for the AFS of 2022 resulted in 6 recommendations. The municipality had prepared the Action Plan presenting how it will implement the given recommendations. By the end of our 2023 audit, 5 recommendations have not yet been addressed and 1 has been partially addressed, as shown in Chart 2, below. For a more complete description of the recommendations and how they were addressed, see Table of recommendations no. 4.

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



**Table 4. Summary of prior year's recommendations**

No.	Audit area	Recommendations of 2022	Actions undertaken	Status
1.	Basis for conclusion	The mayor must undertake the necessary actions to strengthen internal controls for the correction of the asset register, and in particular by verifying and correcting the values of the assets with the "Continuing Investments" statute and if the useful life of the assets is the one determined by regulations and that the value of assets is presented correctly.	No necessary actions have been taken	Implementation has not started

2.	Annual Financial Statements	The mayor must ensure that budget planning of expenditures is done according to adequate categories, including for contingent liabilities that are at the end of the dispute procedures, to avoid the need for execution of those payments from other economic categories. Then the same should be registered in the relevant economic categories in accordance with the accounting plan of the Treasury and presented correctly in the AFS.	No necessary actions have been taken	Implementation has not started
3.	Accounts receivable	The mayor must ensure that the collection of AR from the property tax is done according to the requirements and established legal methods. As for AR. from tax on business and rents, all possible options should be examined, establishing policies and regulations and even through legal means in order to increase the efficiency in debt collection.	No necessary actions have been taken	Implementation has not started
4.	Outstanding obligations	The mayor must ensure a better planning of the allocation and commitment of funds as well as the initiation of spending procedures only when the funds are available in order to eliminate delays in bill payments.	No necessary actions have been taken	Implementation has not started
5.	Internal audit	The mayor must ensure the effective functioning of the Audit Committee, in order to review the internal audit plans, to confirm that they are based on risk and to provide the required assurance to the management on the operation of internal controls.	Some actions have been taken.	Partially implemented
6.	Internal audit	The mayor must ensure that the budget planning for the required positions will be done on time, and that the IAU will be filled with sufficient staff according to the regulation for its establishment, and that at the same time it would increase and strengthen internal controls.	No necessary actions have been taken	Implementation has not started

This Report is a translation from the original version in the Albanian language. In case of inconsistency, the version in the Albanian language prevails

Vlora Spanca: Auditor General

Agron Fetiu: Assistant Auditor General

Blerim Kabashi: Audit Director

Fanol Hodolli: Team leader

Hysen Restelica, Team member

Fetah Osmani: Team member

## Annex I: Letter of confirmation



Komuna e Istogut  
Opština Istok  
Municipality of Istog

01 NR. 316 /2024

### LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2023 dhe për  
zbatimin e rekomandimeve

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Istogut, për vitin 2023 (në tekstin e mëtejme "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. Ilir Ferati

(Kryetar i Komunës)

Data: 05.Qershor.2024, Istog,



## 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>6</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>7</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).

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

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

<sup>7</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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

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

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

- Modified (qualified)
- Adverse, or
- Disclaimer

#### **Qualified opinion**

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

#### **Adverse opinion**

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

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

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

**Disclaimer of opinion**

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

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

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

An Emphasis of Matter paragraph should:

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

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