



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF GJAKOVA FOR YEAR 2023

Prishtina, June 2024

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1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Gjakova for the year ended on 31 December 2023 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion on the financial statements and conclusion on compliance with authorities¹.

Qualified Opinion on Annual Financial Statements

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

In our opinion, except for the effects of the matter/s described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Municipality of Gjakova, give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for Qualified Opinion

B1 The municipality had misclassified expenses in the amount of €929,959 in inadequate economic categories. From capital investments, payments in the amount of €790,206 were executed from the treasury for court/enforcement decisions to be paid for jubilee salaries and meal allowances, as well as the amount of €77,187 was paid from goods and services for salaries and meal allowances. In addition, payments in the amount of €54,567 from capital investments belong to the category of goods and services.

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

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

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

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

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

Audit Conclusion on Compliance

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

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

Basis for the Conclusion

- A1 Incorrect application of construction fee.
- A2 Shortcomings in payments for the capital project.
- A3 Delay in completion of contracted works.
- B2 Weaknesses in the process of property inspection activities.
- B3 Weaknesses in the preparation of the technical specification in the tender files.
- B4 Delay in payment of bills.
- B5 Shortcomings in payment processing
- B6 Weaknesses in project management through the e-procurement electronic platform

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

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

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

The mayor is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, the mayor is responsible for establishing

internal controls which he determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

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

Management's Responsibility for Compliance

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

Auditor General's Responsibility for the audit of AFS

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting 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

³ Collectively referred to as compliance with authorities

opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Gjakova's internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

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

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

2 Findings and recommendations⁴

During the audit, we identified areas for improvement in financial management and internal control. The reporting process in the Municipality had shortcomings, this was also identified 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 funds. public sector. We will follow up (review) these recommendations during next year's audit.

This report resulted in 10 recommendations, of which 3 (three) are new recommendations and 7 (seven) are repeated.

From the samples tested, we identified that due to the collective contract with judicial enforcement procedure, the municipality paid the main debt totalling to €796,881 for wages and salaries, while the additional interest and procedural court/enforcement expenses were €237,662.

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 the audit opinion

Issue B1 – Inadequate classification of expenses

Finding Financial rule no. 01/2013/MF "On Public Funds Expenditure", Article 18.3 defines that the expenses must have adequate codes, defined by the Administrative Instruction for the chart of accounts. Consequently, Article 11 of the IA 19/2009 on the chart of accounts requires the CAO and the CFO to ensure that all transactions are registered in KFMS 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 decisions, the Treasury has made payments in the amount of €921,959.

- From the category of capital investments, €790,206 were paid for expenses belonging to the category of wages and salaries/meal allowances, as well as for goods and services in the amount of €54,567; and
- From the category of goods and services, €77,187 were paid for the expenses belonging to the category of wages and salaries/meal allowances.

It should be noted that the Municipality of Gjakova had requested from the Ministry of Finance, Labor, and Transfers (MFLT) to allow the transfer of funds from the capital investment category to the salary category. The ministry requested that this request be approved by the municipal assembly. Despite the fact that the municipality had obtained approval from the municipal assembly, in the subsequent letter, the ministry did not allow the transfer of funds as requested by the municipality.

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

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

Recommendation B1 The mayor should ensure that all actions are taken so that expenses are planned in the appropriate budget allocations (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 Issues with impact on compliance conclusion

Issue A1 - Incorrect application of the construction fee

Finding Regulation 2022 on municipal taxes for construction permits and demolition permits, Article 17, paragraph 2 determines that; for construction permits for construction works measured per square meter (m²) for category II, where the fee per square meter is €1.71.

During the audit of the sample/case which has to do with the income from construction permits, we identified that the municipality in one case had not applied this tax properly. The municipality had charged the applicant in the amount of €43,502, while it had to charge the same for the amount of €27,449.

Poor internal control system have resulted in an error in the correct application of the administrative fee as provided by the regulation.

Impact The lack of adequate controls in the application of the tariffs determined by the municipality led to damage to businesses and citizens who receive services from the municipality.

Recommendation A1 The mayor should ensure that the controls within the directorates are effective so that the established fees are applied fairly and accurately so as not to harm the recipients of these services.

Entity's management answer (Agree)

Issue A2 - Shortfall in payments for the capital project

Finding Based on paragraph 2 of Article 24 of the contract "Expansion of the road Martiret e Kombit/West Entrance of the City" between the Municipality of Gjakova and EO, which specifies that; "The contracting

authority must pay the contractor the amount certified by the project manager within 30 days from the date of each certificate”.

During the testing, we identified that in three (3) samples/payments related to the project "Expansion of the road Martiret e Kombit/West Entrance of the City, an amount of €6,077 more than the works for this project were paid, although still not all stages have been completed for this project.

This occurred due to the lack of internal controls and poor supervision by contract managers during the execution of the capital project.

Impact

The approval for payment of unexecuted works has led in damage to the budget and the failure to execute the contracts, as planned.

Recommendation A2 The mayor should increase control measures in the management of contracts and ensure that contract managers and their supervisors do not approve stages of unfinished work but instead review the payments of each stage with the aim of reconciliation before the execution of the last payment.

Entity's management answer (Agree)

Issue A3 - Delays in completion of contracted works

Finding

Rule no. 01/2022 on Public Procurement in Article 70.23 point b provides that the contract manager must ensure that the economic operator performs the contract in accordance with the terms and conditions specified in the contract. In the public contracts signed between the municipality and the contractors, the special contractual conditions and the time limit for the execution of the project are determined. Contract managers should monitor and ensure that contracts are completed properly and on time.

In two (2) cases, we have identified delays in the execution of projects, as follows:

- The contract "Construction of tennis courts" amounting to €241,552, signed on 01.09.2023, was not completed according to the dynamic plan of 90 days, resulting in a delay of about 2 months.
- The contract "Expansion of the road Martiret e Kombit-West Entrance of the City" amounting to €1,004,545, signed on

03.08.2023, was not completed according to the dynamic plan of 120 days, resulting in a delay of about 3 months.

During the audit (April 2024), these two projects had not yet been finalized.

The cause of the delays was the inadequate dynamics of the operators to complete the project.

Impact Delays in the implementation of projects may have budgetary implications for the following year's budget. This also directly affects the non-provision of infrastructure and services on time for citizens.

Recommendation A3 The mayor should ensure the establishment of controls in this area with a rigorous supervision in the management of contracts. Execution of contracts should be done in accordance with the dynamic plan/deadline for the performance of works/supplies and for unjustified delays, the measures/penalties foreseen in the contract should be applied.

Entity's management answer (Agree)

Issue B2 - Weaknesses in the process of property inspection activities

Finding Law no. 06/L-005 on Immovable Property Tax, Article 15.2 determines that; inspection activities are carried out every year for at least twenty percent (20%) of all facilities within the territory of the Municipality.

For the year 2023, the municipality did not manage to carry out the inspection of 20% of the registered properties. During 2023, out of 38,209 properties, it inspected only 4874 or 13% of them.

This occurred as a result of inefficient management of inspection activities and insufficient number of staff.

Impact Incomplete verification of properties for property tax purposes may result in incomplete information on taxable property as well as affect incorrect assessment of property tax revenues and their collection.

Recommendation B2 The mayor should ensure the improvement of the process of the organization of the inspection activities according to the legal criteria defined so that the eventual changes from the inspections are recorded, so that the notes about the property tax are complete.

Entity's management answer (Agree)

Issue B3 - Weaknesses in the preparation of the technical specification in the tender files

Finding Law no. 04/L-042 on Public Procurement, Article 28, paragraph 2 determines that "The contracting authority will compile the technical specifications in such a way that they are consistent with the purpose of the procurement and directed towards ensuring the best possible access for all interested economic operators and tenderers. The contracting authority is specifically prohibited from drawing up technical specifications that favour or discriminate against one or more economic operators."

In two cases of testing the procurement procedures (for the projects: Rehabilitation of asphalt roads, and Expansion of the road Martiret e Kombit and the western entrance) we identified that the contracting authority both in the contract notice and in the tender dossier, which are related with infrastructure projects, had asked the bidders to have a lead auditor licensed by the competent authorities.

This occurred due to the fact that the requesting unit had set such a request during the compilation of the request for the projects in question and the procurement office had no argument to remove it from the tender file because it was not competent.

Impact The preparation of technical specifications referring to an element which is not substantial for the intended project, harms competition and may affect the favouring of certain economic operators.

Recommendation B3 The mayor should ensure through the procurement office that there are proper controls to review whether the requesting units draft the technical specifications according to the legal requirements and the needs of the municipality, determining the standard of the quality of the work or supply.

Entity's management answer (Agree)

Issue B4 – Delays in payment of invoices

Finding Law no. 03 /L-048 on Public Financial Management and Accountability, 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 sample testing for the "Maintenance of highways and greenery" project, we identified delays in the payment of invoices exceeding the deadline set by the current law. In five (5) cases, invoices totalling to €163,292, payments were not made within the legal term of 30 days. Delays range from 14 to 191 calendar days.

Due to delays in the payment of invoices, economic operators have used enforcement/judicial procedures to collect funds. However, from the analysis of the expense report, we identified that the municipality paid the main debt of €160,832 and the interest expenses of €12,622 as a result of the non-proceeding of payments within the legal deadline.

The reason for not paying the liabilities on time is the lack of budget funds for the timely payment of invoices from the relevant departments.

Impact Entering into liabilities without securing the necessary funds leads to the increase of unpaid liabilities 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 B4 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 judicial/enforcement decisions.

Entity's management answer (Agree)

Issue B5 – Shortcomings in payments processing

Finding Financial rule no. 01/2013, Article 22 determines that; first, the purchase request must be made, then the funds must be pledged, the purchase order must be processed, then the goods or service must be accepted, and after receiving the invoice, the payment must be executed.

During the testing of the goods and services category in two cases, the invoices in the amount of €33,895, the commitment of funds was made after the acceptance of the goods or service/works and the acceptance of the invoice.

This occurred due to the fact that the rules for spending public money were not implemented by the responsible officials, as well as due to the lack of proper planning of the flow of money.

Impact Entering into liabilities without securing the necessary funds in advance, leads to delays in the payment of obligations, which burdens the following year's budget.

Recommendation B5 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 committed, then a purchase order is issued, and finally the goods/services are accepted and paid.

Entity's management answer (Agree)

Issue B6 - Weakness in project management through the electronic e-procurement platform

Finding Regulation no. 001/2022, on Public Procurement, Article 70, point 2, The evaluation of the performance of the contractors shall be done: i) in the e-Procurement System through the module for evaluation of the performance of contractors; ii) by the contract managers and the direct supervisor of the contract manager, and iii) in accordance with the manuals for using the contractor performance evaluation module.

From the testings, it was found that in five procurement procedures, the management of contracts and evaluation of the performance of the contractors was not maintained and archived through the electronic public procurement system (e-procurement).

Not using the contract management module in e-procurement was due to a lack of appropriate information/knowledge by contract managers

about the application of the contract management module in e-procurement.

Impact

Failure to maintain and archive contracts through the public procurement system may result in improper management of contracts. Failure to report on the physical progress of capital projects, and failure to update information about the implementation of contracts in the electronic module makes it impossible to analyse, monitor and evaluate the performance of the contract implementation in time.

Recommendation B6 The mayor should ensure the follow-up of trainings for project managers, to ensure that the management of contracts will be maintained and archived by the electronic public procurement system.

Entity's management answer (Agree)

2.3 Other financial management and compliance issues

2.3.1 Revenues

The municipality disclosed accounts receivable in the amount of €12,832,356 in the 2023 AFS. Revenues are related to property tax €11,490,548, business rents €49,933, land rents €267,727, market rents €10, parking lot rents €8,522 and company tax €1,015,614.

Issue B7 - Increase in accounts receivable

Finding

Law no. 08/L-176 on Amending and Supplementing the Laws Containing Special Administrative Procedures and their Harmonization with Law no. 05/L-031 on General Administrative Procedure entered into force on 21.07.2023 and aims to harmonize special administrative procedures with the general administrative procedure, which has supplemented and amended several laws and one of them is Law no. 06/L-005 on Immovable Property Tax. The Supreme Law noted through Article 112 has changed the procedure for executing the decision on unpaid tax liabilities, so that for the execution of these decisions (according to Article 30 of the Basic Law) the procedure of private enforcement will not be used, but the municipality itself will execute them using the same means that TAK can use to collect unpaid tax liabilities. However, the enforcement procedure can be used against the property tax bill. Since the entry into force of this law, the municipality should not initiate the enforcement procedure against the Decisions issued according to Article 30 of the Basic Law. Likewise, Article 16 of the Regulation on Taxes, Tariffs, Charges and Municipal Services, determines the collection of unpaid tax liabilities using mandatory collection measures.

Accounts receivable have increased, compared to 2022. At the end of 2023, receivables had increased by €1,325,662, this is observed in social enterprises (property tax and company tax), where the debt totalled to €4,198,250. The biggest increase in receivables is in property tax, compared to the previous year, this year property tax liabilities have increased in the amount of €949,465 or 9%.

The municipality had made efforts to collect uncollected funds from property tax, rents from land, shops, markets or company taxes, through letters and final remarks to debtors, but these measures were not effective enough and the trend of increasing liabilities towards the

municipality is negative, due to the fact of not sending the debtors to the bailiffs.

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

Impact

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

Recommendation B7 The mayor should analyse the effectiveness of the mechanisms available for the collection of receivables, including additional legal actions through bailiffs, to ensure their full collection.

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 ⁵	2023 Expenditures	2022 Expenditures	2021 Expenditures
Sources of funds	31,558,422	40,671,860	37,887,249	26,883,540	27,459,229
Government Grants - Budget	27,354,635	30,520,137	29,288,858	22,346,229	23,695,818
Funding through borrowing	0	0	0	264,489	96,003
Carried forward from previous year	0	3,418,527	2,846,991	1,677,526	621,817
Own source revenues	4,203,787	5,703,787	5,163,647	2,557,216	3,004,022
Domestic Donations	0	46,772	0	23,807	30,946
External donations	0	982,637	587,753	14,272	10,624

The final budget was higher than the initial budget by €9,113,438. This increase is the result of the acceptance of the budget from the revenues carried over from the previous year, the central level, donations, borrowing. In 2023, the municipality has spent 93% of the final budget, with an increase of 3% compared to 2022.

The 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
Spending of funds by economic categories	31,558,422	40,671,860	37,887,249	26,883,540	27,459,229
Wages and Salaries	15,120,092	18,297,786	18,295,920	14,345,541	15,812,416
Goods and Services	3,750,000	4,218,744	4,136,946	3,858,972	3,258,299
Utilities	628,700	694,245	687,330	565,968	561,203
Subsidies and Transfers	620,500	760,321	695,219	614,000	591,454
Capital Investments	11,439,130	16,700,762	14,071,834	7,499,060	7,235,857

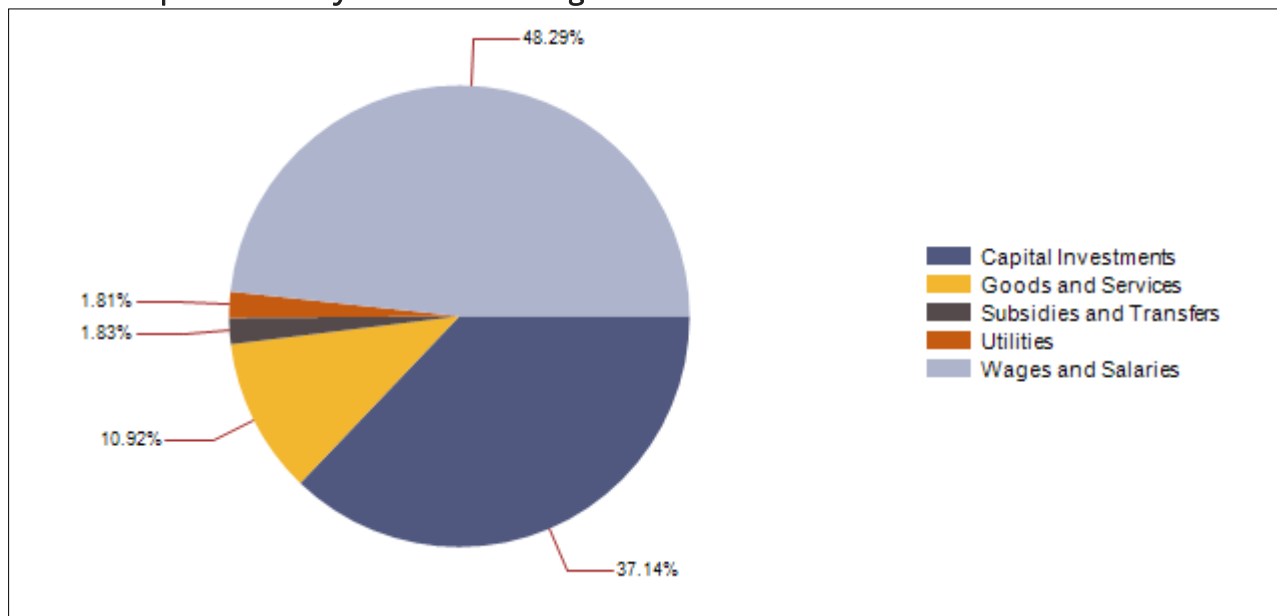
·The final budget for wages and salaries in relation to the initial budget in total was increased by the amount of €3,177,091. This increase was according to the budget review for the amount of €2,950,086, a result of the government's decision on salary increments, the fiscal package in the amount of €215,415, the designated donor grants in the amount of €12,193,

·The final budget for goods and services and the municipality was increased for the amount of €534,289, this increase was as a result of the income of the current year and carried over from the previous year for the amount of €516,273 and the designated donor grants in the amount of €18,016.

·The final budget for subsidies and transfers in relation to the initial budget had increased by €139,821, as a result of the current year's revenues and those carried over from the previous year €136,862 and the designated donor grants €2,959.

·The final budget for capital investments in relation to the initial budget was increased by €5,261,632, the increase was a result of the income of the current year as well as those carried over in the amount of €4,265,391 and the designated donor grants for €996,241.

Chart 1. Expenditures by economic categories in 2023



The revenues executed by the Municipality of Gjakova in 2023 totalled to €6,673,351. They are related to income from property tax, income from construction permits, administrative taxes, income from business activities, income from rent, participations, etc. In addition to these revenues, the municipality has also received indirect revenues collected from the central level in the amount of €840,912 (traffic fines of €741,712 and revenues from the court in the amount of €50,062) and revenues from donors in the amount of €969,564.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
Total of revenues	4,203,787	4,203,787	5,797,084	4,697,952	4,115,649
Tax revenues	2,703,682	2,703,682	2,742,878	2,296,134	2,313,597
Non-tax revenues	1,500,104	1,500,104	3,054,205	2,377,763	1,801,140
Other revenues	0	0		24,055	912

4 Progress in implementing recommendations

The audit report for the AFS of 2022 resulted in 15 recommendations. The municipality had prepared the Action Plan, which presents how it will implement the given recommendations. By the end of our 2023 audit, eight (8) recommendations have been implemented, and seven (7) recommendations have not yet been addressed, as shown in Chart 2, below. For a more complete 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

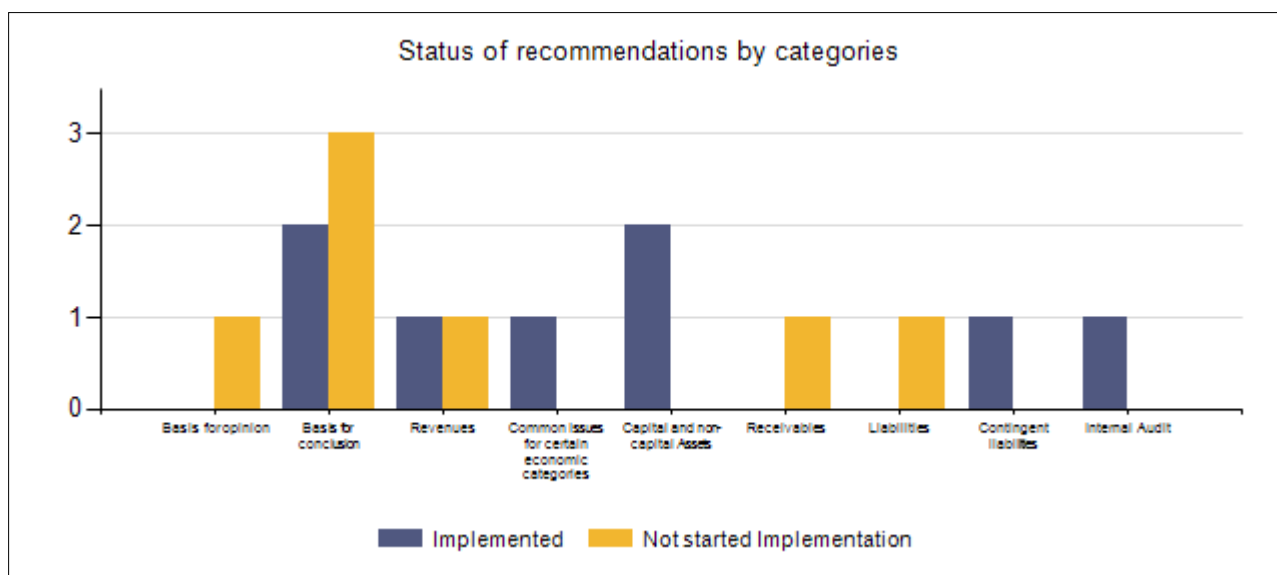


Table 4 Summary of the previous year's recommendations

No	Audit Area	Recommendations of the year 2022	Actions taken	Status
1.	Basis for opinion	The Mayor should ensure that cases of payment requests through court decisions are identified. Furthermore, in cooperation with the Treasury, it should be requested that the Municipality be notified in advance and that the payment be made from the appropriate economic category.	Necessary actions have not been taken.	Implementation has not started

2.	Basis for conclusion	The Mayor should ensure that the steps defined by the applicable regulations regarding the execution of payments are respected. During the payment process, funds must first be committed, followed by the issuance of a purchase order, and finally, the goods/services must be received before the payment is executed.	Necessary actions have not been taken.	Implementation has not started
3.	Basis for conclusion	The Mayor should ensure that the evaluation of tenders is completed within the 30-day deadline. Only in exceptional and justified cases, particularly for contracts of a complex nature, may this period be extended for an additional timeframe.	We have not come across such cases.	Implemented
4.	Basis for conclusion	The Mayor should ensure that project managers attend training to guarantee that contract management is maintained and archived through the electronic public procurement system.	Necessary actions have not been taken.	Implementation has not started
5.	Basis for conclusion	The Mayor should ensure that proper oversight is in place through the procurement office so that it reviews whether the requesting units draft technical specifications in accordance with legal requirements and the municipality's needs, while also defining the quality standards for the work or supply.	Necessary actions have not been taken.	Implementation has not started
6.	Basis for conclusion	The Mayor should ensure that the necessary conditions are created for the functionalization of the web application and that it becomes	The recommendation	Implemented

		available for citizen use as soon as possible.	has been addressed,	
7.	Revenues	The Mayor should ensure better coordination among the responsible officials so that the review of taxpayers' complaints is conducted within the legal deadlines.	Necessary measures have been taken to address the recommendation	Implemented
8.	Revenues	The Mayor should ensure the improvement of the process for organizing inspection activities according to the defined legal criteria so that any potential changes resulting from inspections are recorded, ensuring that property tax records are complete.	Necessary actions have not been taken	Implementation has not started
9.	Common issues for certain economic categories	The Mayor should ensure proper budget planning by strengthening financial discipline so that the payment execution process is carried out within the planned budget and the specified timeframes.	Necessary actions have not been taken.	Implemented
10.	Capital and non-capital Assets	The Mayor should ensure that the asset management process is carried out in accordance with the Regulation on the management of non-financial assets.	Necessary actions have not been taken.	Implemented
11.	Capital and non-capital Assets	The Mayor should ensure that the use of vehicles and the maintenance of their records are carried out in accordance with legal requirements, as well as initiate the	The recommendation has been implemented.	Implemented

		drafting of an internal regulation on the use of official vehicles.		
12.	Receivables	The Mayor should analyse the effectiveness of the available mechanisms for collecting receivables, including additional legal actions through bailiffs, to ensure their full collection.	No necessary actions have been taken.	Implementation has not started
13.	Liabilities	The Mayor should ensure adequate budget planning and that the initiation of expenditure procedures occurs only when funds are available, with the aim of eliminating obligations towards public enterprises. Additionally, the Mayor should ensure that all obligations from previous years are fulfilled.	No necessary actions have been taken.	Implementation has not started
14.	Contingent liabilities	The Mayor should ensure an effective control system to create and maintain a general register of contingent liabilities, ensuring that their reporting is accurate.	The necessary actions have been taken, and the contingent liabilities have been disclosed in the AFS.	Implemented
15.	Internal Audit	The Mayor should review the performance of the IAU and, based on needs and financial and budgetary possibilities, take actions to increase the human resources capacity within IAU.	The necessary actions have been taken to resolve this recommendation	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 statements⁵ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

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

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

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

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

Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

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

Adverse opinion

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

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

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

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

Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

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

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