



Republika e Kosovës
Republika Kosova
Republic of Kosovo



ZKA

ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE
NATIONAL AUDIT OFFICE

AUDIT REPORT FOR THE ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF ISTOG FOR THE YEAR 2024

Prishtina, June 2025

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

1 Audit Opinion

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

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of 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 reports², for the year ended as at 31 December 2024.

In our opinion, except for the effects of the issues described in the Basis for Qualified Opinion section of our report, 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, the Law no.03/L-048 on Public Finance Management and Accountability (amended/supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

Basis for Qualified Opinion

- B1 Payments of €626,785, made based on court/enforcement decisions to cover the liabilities arising from collective contracts for jubilee salaries and allowances, were paid and recorded under inadequate economic categories; and
- B2 Assets of €24,543 were understated as a result of failure to record non-capital assets purchased during 2024 in the E-asset system.

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

Conclusion on compliance

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

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

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

In our conclusion, 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 budget execution of the Municipality of Istog 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 conclusion

- A1 In two (2) cases, municipal properties were used with expired contracts;
- A2 In two (2) cases, there were shortcomings in the granting subsidies procedures; and
- B3 In three (3) cases, the payment of invoices of €127,675 were delayed up to 30 days past due the allowed payment deadline.

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

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

Responsibilities of Management and those Charged with Governance for the 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 Istog's financial reporting process.

Management's Responsibility for Compliance

Management of the Municipality of Istog's 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 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 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.

³ Collectively referred to as compliance with authorities

2 Findings and recommendations⁴

During the audit, we have identified areas of possible improvement, including internal control, that are presented below for your consideration in the form of findings and recommendations. Internal controls related to financial reporting need to be improved and implemented regarding the classification of expenditures into relevant categories and the complete reporting of assets in the AFS. When it comes to compliance issues, the process of timely payment of invoices and strengthening of controls in the subsidy process need to be improved. Also, more enhanced controls are needed in other management issues such as: management of capital projects, management of receivables, the process of granting for use the municipal properties, as well as the fulfilment of the IAU plan. These findings and recommendations are intended to make the necessary corrections to the financial information presented in the financial statements, including disclosures in the form of explanatory notes, and to improve internal controls over financial reporting and compliance with authorities regarding the management of public sector funds. We will follow up (review) these recommendations during next year's audit.

This report has resulted in 10 recommendations, of which four (4) are new recommendations, five (5) are repeated and one (1) is partially repeated.

2.1 Issues with an impact on the audit opinion

Issue B1 - Inadequate classification of expenses

Finding

Article 18, point 3 of the Financial Rule No. 01/2013 Public Funds Expenditure, stipulates that expenditures must have adequate codes, as defined by the accounting plan. Also, the accounting plan of KFMIS accurately determines the economic categories of expenditures and the respective codes from which payments of expenditures should be made according to each type.

Through judicial enforcement decisions, payments in the amount of €626,785 were executed to cover obligations arising from collective contracts for jubilee salaries and allowances. Of this amount, €323,479 was executed from the category of capital investments, €242,306 from goods and services, and €61,000 from the category of subsidies and transfers.

This occurred as a result of poor functioning of internal controls over budget planning for expenses arising from collective agreements.

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

Impact Recording and payment of expenditures from inadequate economic categories prevents fair and accurate reporting of financial information on expenditures in the AFS. Using the budget of other categories for the payment of expenditures related to salaries and wages has a negative reflection, making it difficult or even impossible to achieve the objectives of the municipality.

Recommendation B1 The mayor should ensure proper budget planning according to the nature of the expenditures, or reallocation of funds, so that the expenditures are paid and recorded from the budget of the relevant categories, in accordance with the treasury Chart of Accounts, to enable their correct reporting in the AFS.

Auditee's Management Response (Agree)

For more, see Anexx I

Issue B2 - Failure to register assets under €1,000 in the e-asset system and loss of assets

Finding Article 6.3 of the Regulation MF - No. 02/2013 on management of non-financial assets by budget organizations, stipulates that capital assets must be registered in the KFMIS, while non-capital assets and stocks must be registered in the "e-assets" system. Also, Article 9 paragraph 10 of the same regulation specifies that for all decisions rendered, the non-financial assets alienation commission shall notify the assets officer and shall submit a copy of all documents related to the alienation process.

In three (3) cases which amount to €24,543, non-capital information technology assets purchased during 2024 were not registered in the "e-assets" system, understating the asset register in the annual financial report for this amount. Also, when verifying the existence of non-financial assets, we identified that three vehicles with a total initial value of €25,800 (net book value, zero), which still appear in the accounting register of the municipality's assets, did not physically exist. These vehicles were purchased one in 2006, and the other two in 2013, while further, the municipality has no documentation related to the process of sale, alienation or donation of these vehicles.

This occurred as a result of the lack of internal controls for asset registration and management.

Impact The lack of complete registration of non-capital assets and the inability to prove the physical existence of assets that are in the registers increases the possibility of asset misuse, loss or alienation. All of this affects the inaccurate and unfair reporting of assets in the municipality's annual financial report.

Recommendation B2 The mayor should enhance internal controls to ensure that assets officers record non-capital assets in the accounting records so that assets are accurately and completely reported in the annual financial report. Also, all assets held in records should be supported by documentation and physical existence, in order to avoid the possibility of loss or misuse of assets.

Auditee's Management Response (Agree)

For more, see Anexx I

2.2 Issues with an impact on compliance conclusion

Issue A1 - Use of municipal properties with no contracts

Finding According to Law No. 06/L-092 on allocation for use and exchange of immovable property of the municipality, Article 23 stipulates: 1. Upon the end of the period determined in the contract for allocation for use of immovable property of the municipality, the property shall be returned to the municipality.

In two (2) cases of use of municipal property, the contracts for the use of these properties had expired in 2007 and 2010, respectively. However, they continued to be in use and billed by the municipality. The users of these properties had unpaid rental obligations to the municipality in the amount of €25,800.

This occurred due to the lack of internal controls to formalize the process of contracting leased properties.

Impact The use of municipal properties in the absence of contracts causes uncertainty about the contractual terms between the municipality and the users of public properties, but also difficulties in collecting rental income. It can also result in misuse of the property by the tenants.

Recommendation A1 The mayor should ensure that, after the expiration of the term specified in the contract for the use of municipal immovable property, the property is returned to the municipality, or the contracts are extended based on market prices, according to the relevant procedures for the use of municipal properties.

Auditee's Management Response (Agree)

For more, see Annex I

Issue A2 - Shortcomings in subsidy awarding procedures

Finding Article 20, point 3.3 of Regulation MF 04/2017 on criteria, standards and procedures on public funding of NGOs states that, at the stage of Completion of evaluations and publication of results, the Evaluation Committee requires from the selected applicants in the list of preliminary results the proof that applicant NGO is not in the process of termination and deregistration.

In two cases of NGO subsidies in the amount of €6,800, the municipality had allocated subsidies in the field of culture, youth and sports, to beneficiaries who had not met the criteria required by the relevant regulation, as they lacked a court certificate as proof that

they were not in the process of termination and deregistration, which is required by the relevant regulation for NGO subsidies.

This occurred due to the failure of internal controls and the lack of accountability for implementing legal requirements regarding NGO subsidies.

Impact

The selection of beneficiaries who do not meet the requirements of the relevant regulation affects the lack of transparency of the process and increases the risk that the funds will not be used effectively and the purpose of the subsidy will not be achieved.

**Recommendation
A2**

The mayor should ensure that when subsidizing, only NGOs that meet the criteria of the regulation on subsidies will benefit, so that the funds are used effectively and the purpose of the subsidy is achieved.

Auditee's Management Response (Agree)

For more, see Annex I

Issue B3 – Delayed payment of invoices

Finding Article 39.1 of the LPFMA stipulates that the CFO of the budget organization is responsible for ensuring that every valid invoice and payment request for goods and services supplied and/or works performed for the budget organization are paid within thirty (30) calendar days after receipt of the invoice or payment request from the respective budget organization.

In three (3) cases, invoices which amount to €127,675 were not paid within the legally prescribed deadline. Delays in payment execution are up to 30 days after the allowed payment deadline.

This occurred due to entering into financial obligations without having planned budget funds and shortcomings in the management of obligations.

Impact Exceeding the legal deadline for paying invoices may make the municipality subject to lawsuits from economic operators, causing additional judicial/enforcement expenses or liabilities for the following year.

Recommendation B3 The mayor should improve the management of funds to ensure that financial obligations are fulfilled within 30 days, including the compilation of a detailed budget analysis to avoid delays in the payment of invoices.

Auditee's Management Response (Agree)

For more, see Anexx I

2.3 Other financial management and compliance issues

2.3.1 Capital investments

The final budget for capital investments was €4,593,987, of which €3,886,479 or 85% were spent. They relate to: the construction of local roads, water supply, sewerage, sidewalks, etc.

Issue A3 - Delays in project implementation

Finding According to Article 70.23 of the Rules 001-2022 on public procurement, the contract manager shall ensure that the Economic Operator performs the contract in accordance with the terms and conditions specified in the contract. In the contracts concluded between the municipality and the economic operators, the deadlines for the implementation of the contracts are determined.

In three (3) cases, we have identified delays in the implementation of projects, as follows:

- The contract for the project "Construction of a new water supply, greenery and lighting system in the centre of Istog" in the amount of €229,304, signed on 23.12.2022, according to the conditions foreseen in the dynamic plan should have been completed on 22.12.2023, but the technical acceptance for this project was made on 06.09.2024, resulting in a nine-month delay in the implementation of the works;
- The contract for the project "Construction of local roads/sewerage in Muzhevina" in the amount of €173,174, signed on 14.11.2023, according to the conditions foreseen in the dynamic plan should have been completed on 15.01.2024, but the technical acceptance for this project was made on 16.04.2024, resulting in a three-month delay in the implementation of the works; and
- The contract for the project "Construction of Idriz Nekaj Street in Shushicë" in the amount of €183,206, signed on 30.11.2022, according to the conditions foreseen in the dynamic plan, should have been completed on 30.04.2024, while the works were accepted by the commission on 29.07.2024, resulting in a three-month delay in the completion of the works.

The delays were caused by the lack of funds available to complete the contract due to improper project planning, as well as other problems in the expropriation of properties. These delays were justified by the respective contract managers.

Impact Delays in the completion of projects affect the increase in contractual obligations which may have budgetary implications for the following year's budget. This also leads to the failure to achieve the Municipality's objectives and the inability to utilize these projects which are in the service of the citizens of the municipality.

Recommendation A3 The mayor should ensure that before initiating work projects, the conditions for project implementation are met in the technical aspect, through proper project drafting, so that the work is carried out according to plan.

Auditee's Management Response (Agree)

For more, see Anexx I

Issue C1 - Lack of complete information on contract management through the electronic platform

Finding According to Article 70.2 of Regulation No. 001/2022 on Public Procurement: "The assessment of the performance of contractors will be carried out: i) in the electronic procurement system through the contractor performance assessment module; ii) by contract managers and the contract manager's direct supervisor, and iii) in accordance with the manuals for the use of the contractor performance assessment module". Further, according to Article 70.24: "The contract manager shall ensure that all contract management records are prepared, maintained and archived in the contract management module in the electronic procurement system".

In seven (7)⁵¹ contracts, contract/project managers did not maintain and archive complete contract management and contractor performance evaluation information in the relevant module in the electronic public procurement system.

This had occurred as a result of the failure to perform work responsibly by contract managers and their direct supervisors.

Impact The complete lack of contract management data through the public procurement system can impact on improper and non-transparent contract management, and does not provide sufficient opportunities for management to receive timely information regarding the progress and performance of contracts.

⁵ 1.Construction of Idriz Nekaj Street in Lower Shushicë. 2. Construction of the sports hall in Vrella - continued
3. Construction of the sewerage system in Muzhevina and construction of Arif Pepaj Street

Recommendation C1 The Mayor should ensure that contract managers maintain complete data on contract management in the relevant module in the public procurement system and performance evaluation according to relevant rules.

Auditee's Management Response (Agree)
For more, see Annex I

2.3.2 Capital and non-capital assets

The value presented in the AFS of capital assets is €124,021,656, of which capital assets amount to €123,390,929, non-capital assets amount to €557,939, and stocks amount to €72,788.

Issue A4 - Failure to close ongoing investments and record them as assets in use

Finding Regulation 02/2013 on Asset Management of Budgetary Organizations, determines the manner of registration, maintenance of asset registers, depreciation, inventory process, also according to Article 11 it is stated that after the completion of the investment process, non-financial capital assets will be classified as non-financial assets in use. From the moment the asset is ready for use, depreciation will also be applied.

While testing of assets, we noticed that in seven (7) cases of assets registered as "Investments in progress", the same are in use but have not been technically accepted. These assets were listed in the register as investments in progress, even though they are used by the municipality and should have been registered as assets in use and depreciation calculated for them. In the absence of accurate information on the time of the functionalization of these assets, we were unable to calculate the value of the depreciation error, namely the value of the overstatement of the assets in the AFS.

This had occurred due to the failure of internal controls in the management of non-financial assets over the years.

Impact The lack of technical acceptance for completed assets that are in use by the municipality leads to uncertainties about their status, causing their unfair valuation and untrue reporting.

Recommendation A4 The mayor should strengthen internal controls over the management of non-financial assets, ensuring the technical acceptance of completed projects and their registration as assets in use so that they are reported fairly and truly.

Auditee's Management Response (Agree)

For more, see Annex I

2.3.3 Receivables

The municipality disclosed receivables in the AFS in 2024 in the amount of €1,550,721. These related to property tax of €1,271,215, business and commercial charges in the amount of €174,831 and other in the amount of €104,675.

Issue B4 - Inefficient management of accounts receivable

Finding According to Article 27.1. if a taxpayer or debtor has not fully paid the tax and fine, if any, or unpaid tax obligations, in accordance with the established deadlines, the municipality shall issue a final written notice within ten (10) working days after the last day for payment, requesting full payment of the unpaid tax obligations, no later than ten (10) calendar days after the day the final notice is deemed to have been received by the debtor. Also, according to Law No. 03/L-049 on Local Government Finance, municipalities are responsible for collecting their own revenues and must have appropriate systems to ensure the recording, monitoring and collection of all municipal revenues.

Furthermore, according to contracts for the allocation of municipal property for use, the monthly rent shall be paid at the beginning of each month and no later than the fifth (5) of the following month,

The financial statements disclose receivables in the amount of €1,550,721. The majority of these accounts relate to property tax, amounting to €1,271,215 (approximately 82%), municipal business tax amounting to €174,831 (approximately 11%), rent for the use of municipal property amounting to €54,411 (approximately 3%), building permit tax amounting to €42,324 (approximately 3%), and other amounting to €7,940 (approximately 1%).

In three (3) cases in the amount of €15,710 of accounts receivable from property tax, in two (2) cases in the amount of €25,800, accounts receivable from the use of public space, and in one (1) case in the amount of €3,305, of accounts receivable from building permit taxes, the municipality had not taken legal action through the enforcement agent to collect these debts, even though the deadlines set in the contract and the deadlines in the letters for debt reminders had been exceeded. This has affected the increase in accounts receivable compared to the previous year by €39,249.

This occurred due to insufficient legal controls and actions in collecting revenues according to deadlines.

Impact Failure to collect revenues on time has a negative impact on the budget level, as it creates a shortage of collected funds, hindering the financing and implementation of municipal projects. It also leads

to the obsolescence of these accounts, making their collection impossible.

Recommendation B4 The mayor should ensure the strengthening of control mechanisms in debt collection, using all available means, including legal actions, with the aim of increasing efficiency in collecting revenues on time.

Auditee's Management Response (Agree)

For more, see Anexx I

2.3.4 Internal audit function

The Internal Audit Unit (IAU) operates with only one Auditor (the Director of IAU). The IAU had drafted the strategic plan and the annual work plan. During 2024, this unit had not completed any audits. The Audit Committee (AC), during 2024, had held only one meeting.

Issue B5 - Weaknesses in the work of the Internal Audit Unit and the Audit Committee

Finding Article 5.1.1 of the Regulation QRK-no. 01/2019 on establishment and implementation of the internal audit function at the public sector entity, stipulates that every public sector entity with a budget over seven (7) million euros should have at least three auditors. Also, the Annual Audit Plan of the IAU for 2024, envisaged the performance of four audits throughout the year. Furthermore, the Administrative Instruction MF-no. 01/2019 on establishment and functioning of the audit committee in a public sector entity, Article 6, specifies that the Audit Committee is appointed by the head of the public sector entity and consists of three (3) or five (5) members, while Article 8 specifies that the meetings of the Audit Committee are held at least four (4) times a year and are convened by the chairperson of the Audit Committee.

The Internal Audit Unit is not staffed according to legal requirements, as it consists of only one auditor, who is also the (acting) head of the IAU.

Furthermore, the Head of the IAU, who has held this position throughout the year, had not conducted any audit out of the four (4) planned audits for 2024.

Furthermore, the Audit Committee (AC) established in 2022 by decision of the President consisted of only two (2) members, thus neglecting the requirements of the instruction for a composition of three (3) or five (5) members. Also, during 2024, the AC held only one meeting,

instead of the mandatory four (4) meetings provided for by the instruction.

The understaffing of the IAU and the AC occurred due to the lack of sufficient management actions to implement the requirements of the relevant regulation. Meanwhile, the failure to conduct planned audits by the IAU resulted from the lack of responsibility of the manager for the implementation of the audit plan, the lack of supervision by the AC, as well as from the lack of management will to create an effective internal control system.

Impact

The identified shortcomings in the functioning of the IAU and the AC have made it impossible to prevent shortcomings in internal controls and maximize the municipality's benefit from the work of the IAU and the AC in creating an effective system of financial management and internal control.

**Recommendation
B5**

The mayor should ensure that the IAU and the Audit Committee are staffed with the necessary staff, in accordance with legal requirements. He should also ensure the implementation of audits foreseen in the annual audit plan of the IAU and the effective functioning of the Audit Committee.

Auditee's Management Response (Agree)

For more, see Anexx I

3 Summary information on budget planning and execution

This chapter gives a summary of information on the sources of budgetary funds, the expenditure of funds and the revenues collected, by economic categories. This is illustrated through the following tables and graphs:

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

Description	Initial budget	Final budget ⁶	2024 Expenditures	2023 Expenditures	2022 Expenditures
Sources of funds	15,141,743	16,672,895	15,872,565	14,692,547	11,589,771
Government Grants – Budget	13,690,716	14,391,514	13,970,835	13,009,403	9,897,405
Funding through borrowing	0	0	0	0	98,602
Funding through borrowing – investments clause	144,804	144,804	0	0	0
Carried forward from previous year	0	528,369	440,085	521,746	616,338
Own source revenues	1,306,223	1,507,053	1,379,642	1,103,098	945,931
Domestic Donations	0	101,152	82,004	45,876	31,495
External donations	0	3	0	12,424	0

The final budget is higher than the initial budget by €1,531,152, which is the result of the increase in the government grant based on the government decision of €700,798, revenue carried forward from the previous year of €528,369, the increase in own revenues for 2024 of €200,830 and donations of €101,155.

In 2024, the Municipality has spent 95% of the final budget or €15,872,565, with a decrease of 1% compared to the previous year (2023 – 96%). The budget execution is at a satisfactory level and the explanations for the current position are detailed below.

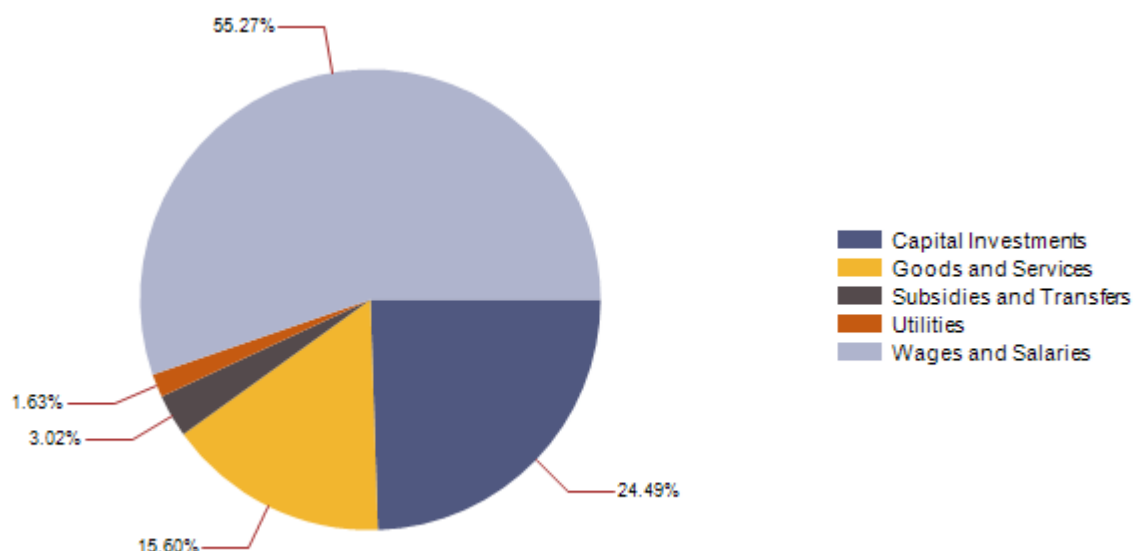
⁶ Final budget – budget approved by the Assembly and subsequently adapted by the Ministry of Finance

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

Description	Initial budget	Final budget	2024 Spending	2023 Spending	2022 Spending
Spending of funds by economic categories	15,141,743	16,672,895	15,872,565	14,692,547	11,589,771
Wages and Salaries	7,982,237	8,773,812	8,772,730	8,088,978	6,638,555
Goods and Services	2,435,230	2,545,242	2,475,628	1,896,275	1,829,768
Utilities	232,000	262,000	259,149	198,874	188,599
Subsidies and Transfers	382,000	497,854	478,580	478,413	347,736
Capital Investments	4,110,276	4,593,988	3,886,479	4,030,006	2,585,113

- The final budget compared to the initial budget in the category of wages and salaries was increased by €791,575. The increase was from the government grant based on the Government's decisions to cover liabilities arising from the collective agreement;
- The final budget compared to the initial budget in the category of goods and services was increased by €110,012. The implementation of the final budget in this category was 97%. The implementation of this category was also affected by payments through court decisions of jubilee salaries in the amount of €242,306;
- The final budget compared to the initial budget for municipal expenditures was increased by €30,000, while the execution was 99% of the final budget;
- The final budget compared to the initial budget for subsidies and transfers was increased by €115,854, while the implementation was at the rate of 96% of the final budget. The implementation of this category was also affected by payments through court decisions of jubilee salaries in the amount of €61,000; and
- The final budget compared to the initial budget in the capital investment category had increased by €483,711, while the implementation was 85% of the budget because some projects had remained unimplemented as a result of court decisions. The implementation of this category was also affected by the payments through court decisions of jubilee salaries in the amount of €323,479.

Chart 2. Expenditures by economic categories for year 2024



The planned revenues for 2024 were €1,306,223, while €1,927,367 were realized, exceeding the plan by 48%. They relate to revenues from property tax, revenues from construction permits, environmental permits, administrative taxes, participations, rental revenues, etc.

Also, in 2024, the Municipality of Istog benefited from revenues from traffic and court fines in the amount of €299,324, as well as revenues from the Forestry Agency in the amount of €15,019. These revenues are not included in the table below as they are planned and implemented by the Ministry of Internal Affairs, and allocated to the municipality for expenses.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2024 Receipts	2023 Receipts	2022 Receipts
Total of revenues	1,306,223	1,306,223	1,983,267	1,375,118	1,079,823
Tax revenues	655,268	655,268	492,113	589,605	422,826
Non-tax revenues	650,955	650,955	1,491,154	785,513	656,667
Other revenues	0	0			330

4 Progress in implementing recommendations

The audit report for the 2023 AFS for the Municipality of Istog resulted in nine (9) recommendations. The Municipality had prepared an Action Plan outlining how it will implement the recommendations given. The audit report for 2023 as well as the action plan to address the recommendations was discussed in the Municipal Assembly of Istog.

By the end of our audit for 2024, five recommendations had not been implemented, one recommendation had been implemented, one recommendation had been partially implemented, and two recommendations were no longer applicable, 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 in implementing prior year's recommendations

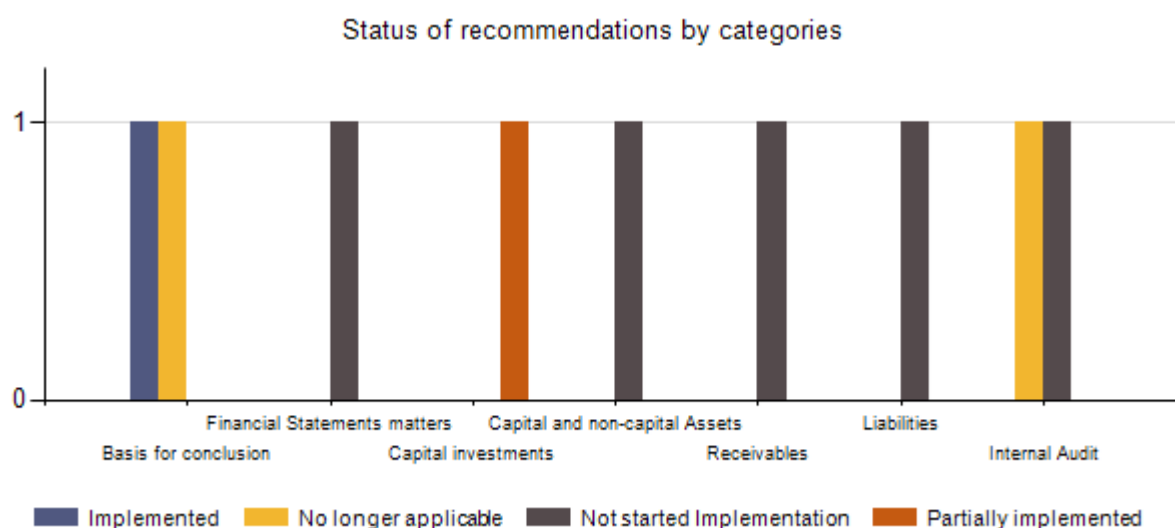


Table 4 Summary of previous year's recommendations

No.	Audit area	Recommendations for 2023	Actions taken	Status
1.	Basis for conclusion	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	Due to the importance and nature of these expenses, the Recommendation has been closed.	No longer applicable
2.	Basis for conclusion	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	Necessary actions have been taken and this issue has not resulted in 2024.	Implemented

		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		
3.	Financial Statements matters	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	This issue was also reflected in 2024, as no necessary actions were taken.	Implementation has not started
4.	Capital investments	The mayor should request all project managers to ensure that contract management will be maintained and archived by the electronic public procurement system	The monitoring report was partially completed as the received stages were not recorded in the required form.	Partially implemented
5	Capital and non-capital Assets	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	This issue was also reflected in 2024, as no necessary actions were taken.	Implementation has not started
6.	Receivables	The Mayor should ensure better planning of budgetary funds, and that expenditure procedures are initiated only when funds are available, in order to eliminate delays in invoice payments and to avoid potential lawsuits from economic operators	This issue was also reflected in 2024, as no necessary actions were taken.	Implementation has not started
7.	Liabilities	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	This issue was also reflected in 2024, as no necessary actions were taken.	Implementation has not started
8.	Internal Audit	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	The CA's finding has been merged with the IAU's finding, after the findings have been merged.	No longer applicable

9.	Internal Audit	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	This issue was also reflected in 2024, as no necessary actions were taken.	Implementation has not started
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Vlora Spanca, Auditor General

Blerina Krasniqi, Audit Director

Florim Maliqi, Team leader

Astrit Bllaca, Team member

Lumni Mazreku, Team member

Annex I: Confirmation Letter



Komuna e Istogut
Opština Istok
Istog Municipality

LETËR E KONFIRMIMIT

01. Nr. 516/2025

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

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

z. Ilir Ferati

Kryetar i Komunës së Istogut,

Data: 09.06.2025, 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 ⁷ 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 authorities⁸. 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.

⁷ Financial statements in the public sector include also the statement(s) of budget execution

⁸ 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.