



Republika e Kosovës
Republika Kosova
Republic of Kosovo



ZKA

ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE
NATIONAL AUDIT OFFICE

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF VITIA FOR YEAR 2024

Prishtina, May 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 Vitia 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 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 Vitia, 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 2024.

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 Vitia, 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 Misclassification of expenditures amounting to €252,212 in economic categories;
- A1 Incorrect presentation of accounts receivable amounting to €85,327 in the annual financial report;
- A2 Purchase of non-capital assets amounting to €8,089 were not recorded in the e-assets system leading to understatement of assets in the annual financial report.

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.

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

NAO is independent from the auditee in accordance with INTOSAI-P-10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit Conclusion on Compliance

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

In our opinion, except for the effects of the matter/s described in the Basis for Compliance Conclusion section of our report, transactions carried out in the process of execution of Municipality of Vitia'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

- A3 In two (2) cases, the municipality had entered into contractual obligations amounting to €524,870 without sufficient financial funds;
- B2 Delays ranging from 4 to 114 days after the allowed deadline for payment were identified in 13 cases of liabilities amounting to €220,621;
- A4 In six (6) cases amounting to €158,972, subsidies were granted to NGOs and farmers not in accordance with the criteria set out in the Public Call for Subsidies;
- B3 In three (3) payments amounting to €64,896, changes were made to the allocated budget amounts for capital projects without the approval of the Municipal Assembly;
- B4 The municipality had not applied procurement procedures when engaging five (5) employees through special service contracts.

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 Vitia's financial reporting process.

Management's Responsibility for Compliance

The Management of Municipality of Vitia 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 Vitia's authorities with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

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

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

³ Collectively referred to as compliance with authorities

from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality of Vitia's internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

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

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

2 Findings and recommendations⁴

During the audit, we identified areas for potential improvement, including internal control, which are presented below for your consideration in the form of findings and recommendations. The areas in which shortcomings were noted regarding financial reporting include: the incorrect presentation of expenditures, as well as assets and receivables due to inaccurate records. Regarding non-compliance with laws, weaknesses were found in the subsidy process, service contracting, redesignation of capital projects, contractual obligations without coverage, and delays in invoice payments.

These findings and recommendations aim to correct the necessary 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 in the management of public sector funds. We will follow up on these recommendations during the next year's audit.

This report resulted in 12 recommendations, of which six (6) are new recommendations and six (6) are repeated.

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 – Misclassification of expenditures in the economic category

Finding According to Financial Rule No. 01/2013/MF on Public Funds Expenditure, Article 18, point 3, it is stipulated that: "Expenditures must have the appropriate codes, as determined by the chart of accounts." Additionally, the Treasury's chart of accounts defines the relevant codes and categories of expenditures that Budget Organizations (BOs) must apply.

In eight (8)⁵ payments totalling €252,212, we identified that the municipality had executed payments under inappropriate economic categories, as detailed below:

- Expenditures in the amount of €175,754, which by nature belonged to the category of Wages and Salaries, were paid from the category of Capital Investments (€172,542) and Subsidies and Transfers (€3,212). These payments were executed by the Treasury based on court decisions related to jubilee salaries and meal allowances for the Education and Health sectors.
- From the Goods and Services category, payments amounting to €76,458 were made for expropriations and sewage works—expenditures which belong to the Capital Investments category.

The inadequate classification of expenditures was due to poor internal controls regarding budget planning and delays in the payment of obligations.

Impact The planning and execution of expenditures from inadequate economic categories lead to overstatement/understatement of the respective expenditure categories, thus resulting in inaccurate presentation of expenses in the annual financial report.

Recommendation B1 The Mayor should ensure the planning and execution of expenditures in the appropriate budget allocation in accordance with the chart of accounts, to enable accurate reporting of them in the annual financial report.

⁵ 65717533 Specification €55,616, 65717533 Court Decisions specification €100,000, Correction of court decisions, expenditure .2024-210273, €16,926, 65774950 Agron Ahmeti €34,000, 65716033 Specification €23,458, 65774950 Agron Ahmeti €19,000, 65716033 Office of Prime Minister Musa KM €14,724, V.GJ for specification €3,212.

Recommendation B2 Entity management response (Has not been confirmed by the Municipality)

Issue A1 – Incorrect presentation of accounts receivable in the annual financial report

Finding Regulation 01/2017 on Annual Financial Reporting for Budget Organizations, Article 6, stipulates that: “Budget organizations maintain accurate, complete, updated accounting records in accordance with the applicable legislation, for all financial and other non-financial information.” Furthermore, Law No. 06/L-005 on Property Tax, Article 10, paragraph 1, specifically point 1.1, stipulates that: “Property tax shall not be imposed on real property that is owned or possessed by public institutions of the Republic of Kosovo.” Additionally, Law No. 08/L-137 on Forests, Article 8, paragraph 2, stipulates that: “State-owned forests and forest land are registered under the ownership of the Government of the Republic of Kosovo.”

The Municipality had presented accounts receivable incorrectly in the annual financial report, overstating the accounts receivable register by €85,327, as it had charged property tax on four (4) properties and ten (10) parcels that are in the possession of the Kosovo Forest Agency, a public institution.

This occurred due to the improper application of the legal framework regarding property tax billing for properties owned by public institutions.

Impact The property tax charges on public institutions have led to the overstatement of the accounts receivable register, causing inaccurate presentation of the information in the municipality's annual financial report.

Recommendation A1 The Mayor should ensure that property tax is not applied to the properties of public institutions, in order to enable accurate reporting of accounts receivable in the annual financial report.

Entity management response (Has not been confirmed by the Municipality)

Issue A2 - Failure to register the purchases of non-capital assets in the e-Assets system

Finding Regulation MF No. 02/2013 on the Management of Non-Financial Assets in Budget Organizations, Article 6, paragraph 3, stipulates that: "Capital assets should be registered in KFMIS, while non-capital assets and stocks should be registered in the e-assets system."

The non-capital assets presented in the AFS were understated by €8,089⁶ due to the fact that some of the purchases from 2024 were not recorded in the asset register, specifically in the e-assets system.

This occurred due to lack of internal controls during the asset registration process and poor communication between departments regarding the transfer of information related to the purchases of the year.

Impact Failure to register non-capital assets leads in understated assets presented in the annual financial report.

Recommendation A2 The mayor should ensure effective controls and communication between the directorates so that non-capital assets are registered and reported accurately and completely in the annual financial report.

Entity management response (Has not been confirmed by the Municipality)

2.2 Issues with impact on compliance conclusion

Issue A3 - Entering into contractual obligations without sufficient funds

Finding Law No. 03/L-221 on Amending and Supplementing Law No. 03/L-048 on Public Financial Management and Accountability, Article 37.1 stipulates that: "A budget organization shall not undertake any commitment during the current fiscal year in an amount that exceeds the allocated funds." The Law on Public Procurement, Article 9.2, states that: "The Chief Financial Officer (CFO) shall ensure that financial means are available for the respective procurement. If the contracting authority is a public authority or a budget organization, the CFO, in accordance with the applicable provisions of the Law on Public Financial Management and Accountability and Financial Rules, shall ensure that sufficient financial means are allocated for the respective procurement in an amount adequate to cover the obligations that may arise from such procurement during the current fiscal year." Furthermore, Article

⁶ 1. 4 Properties of the Forestry Economy, 2. 10 plots of the Wood Combine-Viti Forestry Section

9.3 of the same law specifies that: "If the contracting authority is a budget organization and the respective procurement will create financial obligations to be met from budget allocations expected to be made in future fiscal years, the CFO shall: (i) ensure that the tables attached to the Law on Budget Allocations provide a reasonable basis to expect that sufficient funds will be allocated in future fiscal years to meet such obligations."

The municipality had entered into contractual obligations without sufficient financial funds, in violation of the Law on Budget Allocations, as follows:

- The municipality signed a three (3) year contract "Construction of Water Supply Systems, LOT I – Water Supply System in Ramjan" in the amount of €307,541, and LOT II – Water Supply System in Fshati i Ri (Novosellë) in the amount of €285,622, while only €260,000 had been budgeted for this project over three years under the budget law. As a result, the value of unfunded contractual obligations was €333,163.
- The municipality signed a three (3) year contract "Construction of the School Sports Hall (Primary School Sllatinë e Epërme)" in the amount of €468,902 and "Construction of the School Sports Hall Kuvendi Lezhës in Viti" in the amount of €362,805, while only €640,000 had been budgeted for this project over three years under the budget law. As a result, the value of unfunded contractual obligations was €191,707.

This occurred due to the lack of accountability by budget holders in adhering to the budget allocation limits of specific projects when signing contracts.

Impact

Entering into financial obligations without securing the necessary funds leads to an increase in liabilities or the potential for enforcement-related expenditures, thereby adversely affecting the budget of the current and subsequent years.

Recommendation A3 The Mayor should ensure that, prior to initiating procurement procedures for capital projects, sufficient budget funds for such projects are foreseen in the budget law and the medium-term expenditure framework.

Entity management response (Has not been confirmed by the Municipality)

Issue B2 – Delays in payment of invoices

Finding Law No. 03/L-048 on Public Financial Management and Accountability (PFMA), Article 39.1 stipulates that: “The Chief Financial Officer (CFO) of a budget organization shall be responsible for ensuring that every valid invoice and request for payment for goods and services supplied and/or works performed for the budget organization is paid within thirty (30) calendar days from the receipt of the invoice or payment request by the respective budget organization.”

In 13⁷ cases, amounting to €220,621, invoices were not paid on time. The delays ranged from 4 to 114 days beyond the permitted 30-day payment period.

This occurred due to a lack of financial means, as some contracts had been signed without sufficient funding or due to delays in the completion of case files.

Impact Exceeding the legal deadline for invoice payments may expose the municipality to lawsuits from economic operators, resulting in additional court/enforcement expenses or obligations for the following year.

Recommendation B3 The Mayor should ensure that sufficient funds are available so that all received invoices are paid within 30 days of their receipt.

Entity management response (Has not been confirmed by the Municipality)

⁷ “Electricity Services” worth €100,134.00, “Electricity Services” worth €50,000.00, “City Decoration” worth €14,600.00, “Medical Supplies” worth €12,580.50, “Vehicle Maintenance” worth €7,534.00, “Heating Oil” worth €7,093.90, ‘Medical Supplies’ worth €6,963.50, “Inventory Supplies” worth €5,700.00, “Curtain Supplies” worth €5,307.00, “Building Maintenance” worth €4,266.30, ,Cleaning Supplies” worth €2,305.70, “Public Information” worth €2,183.20, ‘Public information’ worth €2,001.14,

Issue A4 - Subsidizing NGOs and farmers not in compliance with the criteria of the Public Call**Finding**

Regulation No. 01-013/1706 on the conditions, criteria, and procedure for the allocation of subsidies, Article 12, paragraph 2, stipulates that: The announcement shall clearly define the criteria and procedures for applying for the allocation of subsidies, as determined by this regulation.” Furthermore, Article 8, paragraph 5, of the same regulation specifies that: “The Evaluation Committee shall recommend to the Mayor of the Municipality the list of subsidy beneficiaries in accordance with the criteria defined in the public call for subsidy allocation and in compliance with the provisions of this regulation and shall also recommend the issuance of a decision on the allocation of subsidies.” Also, according to the Public Call dated 01.03.2024 for financial support to NGOs in the Municipality of Viti, criterion No. 5 specifies that: “Prior to signing the contract, the NGO must submit proof that the responsible person within the NGO and the project manager are not under investigation for criminal offenses.”

In the process of subsidizing NGOs and farmers, the municipality did not apply the criteria set out in the public call for subsidies, as follows:

- In three (3) cases, amounting to €128,072, regarding subsidies for farmers with agricultural machinery “Power tiller with rotavator and mower 4.4kw, 1.8m rotavator and 16-row wheat seeder”, the Evaluation Committee applied additional scoring criteria—such as land area and annual income from agricultural production—which were not included in the criteria set out in the public call dated 15.05.2024.
- In three (3) cases, amounting to €30,900, the subsidy beneficiaries failed to provide evidence that the responsible person within the NGO and the project manager were not under investigation for criminal offenses, as required by the relevant public call.

This occurred due to dysfunctional internal controls and the lack of accountability in implementing the criteria set out in the public calls during the subsidy process.

Impact

Failure to fully comply with the criteria set out in the public call during the subsidy process risks undermining the transparency of the process and may result in the unfair selection of beneficiaries.

Recommendation A4 The Mayor should ensure full compliance with the criteria set out in the public call for subsidies during the evaluation of beneficiaries, and that subsidy agreements are signed only after all such criteria have been met.

Entity management response (Has not been confirmed by the Municipality)

Issue B3 - Changes to the allocated budget amounts for capital projects without the approval of the Municipal Assembly

Finding Law No. 08/L-260 on Budget Allocations for the year 2024, Article 16, point 11, stipulates that: “Changes to the allocated budget amounts for existing projects as a result of transfers and/or reallocations, presented in Table 4.2, including carried forward own source revenues, and as recorded in KFMIS, must be approved in advance by the Municipal Assembly.”

In three (3)⁸ capital project payments amounting to €64,896, funds were taken from other projects approved in the budget law. These changes in the allocated budget amounts were made by decision of the Mayor without obtaining prior approval from the Municipal Assembly for the reallocation of funds.

This occurred as a result of the municipal management’s failure to take responsibility for implementing the legal requirements regarding budget changes.

Impact Changes to budget amounts without the approval of the Municipal Assembly may reduce transparency and accountability in decisions regarding the use of public funds. This may also have a negative impact on the implementation of existing projects by preventing adequate funding for them.

Recommendation B4 The Mayor should ensure that for any change in the budget amounts of projects approved in the budget law, prior approval is obtained from the Municipal Assembly.

Entity management response (Has not been confirmed by the Municipality)

⁸ Asphaltting of rural roads in the Municipality of Viti €31,140, Construction of the primary school annex in the village of Ramnishte €20,000, Asphaltting of Agim Ramadani road in Viti €13,756.

Issue B4 - Engaging employees under contracts for special services without legal procedures**Finding**

The Law on Public Officials No. 08/L-197, Article 101, stipulates that: “Agreements for special services are concluded in accordance with the applicable Public Procurement legislation.” Meanwhile, Regulation No. 001/2022 on Public Procurement, Article 57, paragraph 57.3, states that: “Special services which cannot be provided through recruitment procedures are professional services that the Contracting Authority needs but cannot fulfill with its existing staff.”

In five (5) cases, the municipality had not applied procurement procedures when engaging employees under contracts for special services. For these employees, no recruitment procedure with selection criteria was applied, despite the fact that they were engaged in work typically performed in regular positions, such as: Economist in the Finance Directorate, Legal Officer in the Agriculture Directorate, Local Development Coordinator, School Psychologist, or Security Guard for the Administrative Building. Even though this issue was reflected in previous audit reports of the municipality, the municipality continued the same practice this year.

This occurred due to a lack of responsibility for implementing the legal requirements related to the engagement of these employees.

Impact

Non-compliance with procurement procedures or other relevant procedures for staff engagement affects the transparency of the process by eliminating competition and may result in poor work quality due to the engagement of individuals who are not eligible for specific positions and tasks.

Recommendation B5 The Mayor should ensure that when engaging staff for special services, the criteria set forth in the relevant public procurement legislation are adhered to.

Entity management response (Has not been confirmed by the Municipality)

2.3 Other financial management and compliance issues

2.3.1 Capital Investments

The final budget for capital investments was €3,950,162, of which €3,840,342, or approximately 97% of the final budget, was spent. The capital investment expenditures are related to the asphaltting of local roads, water supply and sewage networks, and administrative, educational, and healthcare facilities.

Issue A5 – Delays in the execution of capital projects

Finding Regulation 001-2022 on public procurement, Article 70.23, stipulates: "The contract manager shall ensure that the economic operator performs the contract in accordance with the terms and conditions set in the contract." In the contracts signed between the municipality and economic operators, the deadlines for contract execution have been defined. The special conditions of the contracts, Article 10.2, state that all work should be completed within two (2) years. We have identified that in the following contracts, there were delays in completing the work beyond the set deadline:

- Contract "Asphaltting of rural roads" valued at €1,299,973, signed on 26.08.2022, with a two-year execution period, should have been completed by 25.08.2024. However, by the end of 2024, the contract was only 74% completed.
- Contract "Regulation of sports fields," valued at €752,125, two-year contract, identification number 657-22-3698-5-1-1, signed on 12.08.2022, should have been completed by 13.08.2024. However, by the end of the audit, it was only 65% completed, amounting to €489,463.
- Contract "Construction of the Fire Brigade Unit building" valued at €175,175, identification number 657-23-1832-5-2-1, signed on 24.04.2023, with a one-year execution period, should have been completed by 24.04.2024. However, by the end of 2024, only €155,786 or 89% of the work had been completed.
- Contract "Regulation of the sewage system in the municipality of Viti" valued at €410,587, identification number 657-22-7442-5-2-1, signed on 05.10.2022, with a two-year execution period, should have been completed by 04.10.2024. However, by that time, only 76% of the work had been completed.

- Contract "Regulation of the business incubator building" valued at €521,755, signed on 06.09.2022, with a one-year execution period, should have been completed by 06.09.2024. However, by the end of 2024, only 70% of the work had been completed.

The delays in project completion occurred due to poor planning of the projects before signing the contracts, as well as due to a lack of funds to complete them according to the planned schedule.

Impact

Delays in project implementation affect the municipality's ability to achieve its objectives and hinder the utilization of these projects, which are intended to serve the citizens of the municipality.

Recommendation A5 The Mayor should ensure that before initiating projects, both the technical and financial conditions for project implementation are met by properly designing the projects and securing sufficient funding to ensure that the work is completed according to the plan.

Entity management response (Has not been confirmed by the Municipality)

Issue B5 - Failure to utilize the module in the public procurement system for contract management and performance evaluation

Finding According to Regulation No. 001/2022 on Public Procurement, Article 70.2 stipulates that: "The performance evaluation of contractors will be done: i) in the electronic procurement system through the module for contractor performance evaluation; 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." Furthermore, according to Article 70.24: "The contract manager must ensure that all contract management records are prepared, maintained, and archived in the contract management module in the electronic procurement system."

In six (6)⁹ contracts, contract/project managers failed to maintain and archive contract management and contractor performance evaluation through the respective module in the public procurement electronic system.

This occurred as a result of the lack of responsibility in the work carried out by contract managers and their direct supervisors.

Impact The failure to maintain and archive contracts through the public procurement system may lead to poor and non-transparent contract management, as well as insufficient opportunities for management to receive timely information regarding the progress and performance of contracts.

Recommendation B6 The Mayor should ensure that contract managers use the appropriate module in the public procurement system for contract management and performance evaluation in accordance with the relevant regulations.

Entity management response (Has not been confirmed by the Municipality)

⁹ 1. Construction of the school sports hall (Sh.f Sllatinë e Epërme), 2. Construction of the gravel road Stubel - Stançiq, 3. Construction of sidewalks and public lighting in the Municipality of Viti, 4. Asphaltting of the Vërnakollë road, 5. Asphaltting of rural roads in the Municipality of Viti, 6. Repair of schools (Regulation of the annex to the Ahmet Hajdari Secondary School, Ramnishte parallel)

2.3.2 Capital and non-capital assets

The value presented in the financial statements for capital assets is €89,541,585, for non-capital assets is €404,702, and for inventory is €6,148.

Issue B6 - Failure to close ongoing investments and register them as assets in use

Finding Regulation no. 02/2013 on the management of non-financial assets, article 11, stipulates: "Upon completion of the investment process, non-financial capital assets shall be classified as non-financial assets in use. From the moment the asset is ready for use, the valuation shall also apply."

14 samples, totalling €1,298,642, assets purchased (constructed) between 2013 and 2020, for which technical acceptance has not yet been conducted, are listed in the register as ongoing investments, even though they are being utilized by the municipality and should have been registered as assets in use, with depreciation calculated for them. Due to the inability to obtain accurate information on the operationalization time of these assets, we were unable to calculate the depreciation error value or the overstatement of assets in the AFS.

This occurred due to poor internal controls in managing non-financial assets over the years.

Impact The lack of technical acceptance for completed assets that are in use by the municipality leads to ambiguity regarding their status, resulting in inaccurate evaluation and incorrect reporting of these assets.

Recommendation B7 The Mayor should strengthen internal controls in 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 accurately and correctly.

Entity management response (Has not been confirmed by the Municipality)

2.3.3 Receivables

The Municipality of Vitia, in its 2024 annual financial report, disclosed receivables amounting to €3,251,647. This amount consists of property tax of €2,876,361, business licenses of €314,157, and public space usage of €61,129.

Issue A6 - Inefficient management of receivables**Finding**

The Law No. 06/L-005 on Immovable Property Tax, Article 26, stipulates that: "The Municipality, the Ministry of Finance, and competent enforcement bodies have the authority and competencies as provided in this chapter to collect unpaid tax liabilities exceeding the amount of ten (10) Euros." Furthermore, according to Article 27, "If a taxpayer or debtor has not paid the full tax and penalty, if applicable, or any unpaid tax liabilities in accordance with the established deadlines, the municipality shall issue a final written notice within ten (10) working days after the last payment date, requesting full payment of the outstanding tax liabilities, no later than ten (10) calendar days after the date the final notice is deemed to be received by the debtor." Additionally, the contract for the lease of municipal property specifies that "the Buyer shall make the full payment to the Contracting Authority, as defined in the contract form, within two weeks from the contract date."

The receivables for the year 2024 amounted to a total of 3,251,647€, of which 2,876,361€ (or 89%) were related to property tax. The municipality had initiated enforcement procedures against debtors to collect unpaid property tax liabilities; however, no results had been achieved in collecting these debts, considering the increase in property tax liabilities compared to the previous year. Furthermore, the municipality had not taken any further actions to collect the property tax debts.

Moreover, in thirteen (13) cases of receivables from the use of public space totaling 6,116€, and in six (6) cases from rental income of municipal property totaling 54,801€, the municipality had not taken legal action through an enforcement officer to collect these debts, even though the deadline specified in the contract and the reminders for debt payment had been exceeded.

This occurred due to the lack of continuous actions by the municipality in attempting to collect the receivables.

Impact

The failure to collect receivables results in a lower level of revenue from own-source income. Consequently, this can affect the achievement of the Municipality's objectives, hindering investments in projects that are financed by these funds.

Recommendation A6 The mayor should ensure the strengthening of control mechanisms in the collection of debts from taxpayers, utilizing all available means, including legal actions.

Entity management response (Has not been confirmed by the Municipality)

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 by economic categories. This is highlighted in the following tables:

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

Description	Initial budget	Final budget ⁶	2024 Expenditures	2023 Expenditures	2022 Expenditures
Sources of funds	16,653,192	19,945,563	19,775,753	17,059,276	14,093,620
Government Grants – Budget	15,623,690	17,948,029	17,912,607	15,257,344	12,238,786
Funding through borrowing	0	0	0	0	89,866
Carried forward from previous year	0	454,270	449,095	340,713	643,369
Own source revenues	1,029,502	1,029,502	1,008,013	990,630	871,328
Domestic Donations	0	85,875	85,860	74,181	31,153
External donations	0	427,887	320,179	396,408	219,120

The final budget is higher than the initial budget by €3,292,371. This increase is the result of additional funds from the Government Grant amounting to €2,324,339, carried-over revenues from the previous year of €454,270, and donations of €513,762.

In 2024, the Municipality of Viti has spent 99% of the final budget, showing a 3% improvement compared to 2023, where the realization was 96%. Explanations for the current position are detailed below.

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

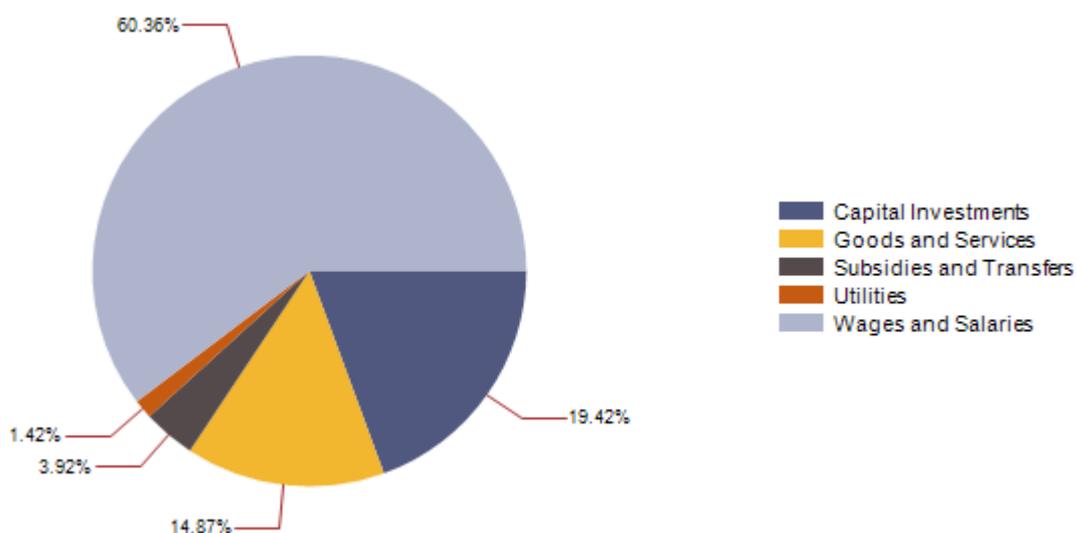
Description	Initial budget	Final budget	2024 Spending	2023 Spending	2022 Spending
Spending of funds by economic categories	16,653,192	19,945,563	19,775,753	17,059,276	14,093,620
Wages and Salaries	9,592,934	11,942,554	11,936,439	9,096,106	7,938,162
Goods and Services	2,632,919	2,972,848	2,941,435	2,569,043	2,230,790
Utilities	295,000	295,000	281,606	317,043	271,625

Subsidies and Transfers	570,000	784,999	775,930	769,962	458,713
Capital Investments	3,562,339	3,950,162	3,840,342	4,307,122	3,194,330

Explanations for the changes in the budget categories are provided below:

- The final budget for wages and salaries compared to the initial budget increased by €2,349,620. This increase is to cover obligations arising from the collective agreement.
- The final budget for goods and services also increased by €339,929 compared to the initial budget. This increase was due to carried over own-source revenues and donations to cover the municipality's needs for expenditures in the goods and services category. The budget execution in this category was 99%.
- The final budget for utilities was the same as the initial budget. The expenditure in this category at the end of the year was over 95%.
- The final budget for subsidies and transfers increased by €214,999 compared to the initial budget. This increase is for the subsidization of farmers, culture, education, and sports, funded by carried over revenues from the previous year and donations. The budget execution in this category was around 99% of the final budget.
- The final budget for capital investments increased by €387,823 compared to the initial budget. This increase was for funding capital projects that will improve the municipality's infrastructure. The budget in this category was spent at approximately 97%

Chart 1. Expenditures by economic categories in 2024



The revenues generated by the municipality for the year 2024 amounted to €937,285. These include revenues from property taxes, construction permit fees, administrative taxes, revenues from licenses, participation fees, revenues from rental and public property use. For the year 2024, the municipality had planned revenues amounting to €1,029,502, with a shortfall in execution of €92,217. Compared to the previous year, the level of revenue collection has decreased by €295,568, mainly related to property tax revenues. This amount does not include revenues from traffic fines and fines from the courts, which total €296,507 and are collected by the Ministry of Internal Affairs (MIA) and the Kosovo Judicial Council (KJC) and allocated to the municipality for expenditure. These revenues are not included in the table below, as they are planned and realized by the relevant ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2024 Receipts	2023 Receipts	2022 Receipts
Total of revenues	1,029,502	1,029,502	1,015,485	1,299,658	946,309
Tax revenues	620,411	620,411	450,548	746,135	527,963
Non-tax revenues	409,091	409,091	564,503	553,523	418,346
Other revenues	0	0	434		

4 Progress in implementing recommendations

The audit report for the 2023 AFS of the Municipality of Viti resulted in nine (9) key recommendations. The Municipality of Viti had prepared an Action Plan outlining how the recommendations would be implemented. By the end of our audit for 2024, two (2) recommendations have been implemented, one (1) recommendation is no longer applicable, while six (6) recommendations have not been implemented, as shown in Chart 2 below. For a more detailed description of the recommendations and how they have been addressed, see Table 4 (or the Recommendations Table).

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

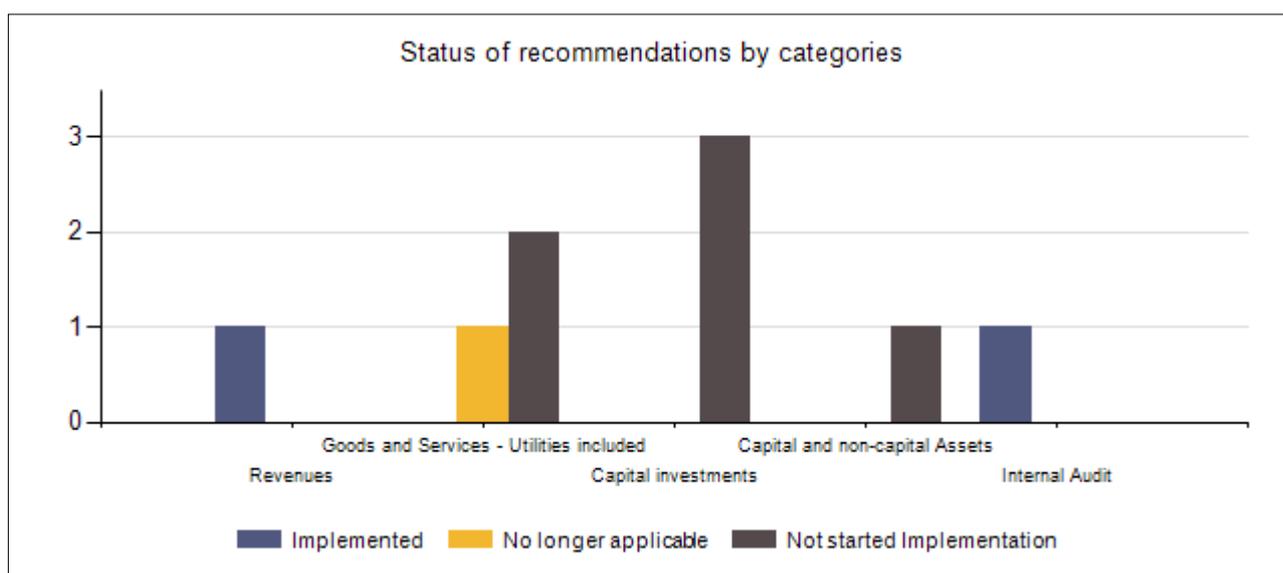


Table 4 Summary of the previous year's recommendations

No	Audit Area	Recommendations of the year 2022	Actions taken	Status
1.	Revenues	The Mayor should take additional actions to ensure that the necessary corrections are made in the property tax database, so that the primary residence deduction is applied only to individuals who are registered with a personal identification number and have declared to the municipality that the property is used as their primary residence.	This year, we did not encounter any cases as described in the recommendation from the previous year.	Implemented
2.	Goods and Services and Utilities	The Mayor should ensure that obligations are planned/budgeted and paid within the legal timeframes in order to prevent additional enforcement costs that could harm the Municipality's budget.	The Municipality has not taken measures to address this recommendation, as we have encountered cases of delayed invoice payments again this year.	Implementation not started
3.	Goods and Services and Utilities	The Mayor should ensure that appropriate legal procedures are followed when hiring staff, so that the individuals hired meet all the criteria for the respective positions, either through Special Service Agreements, or in the case of regular positions, planning is done according to the budget law, followed by a regular recruitment process.	The Municipality had not taken measures to address this recommendation, as the same issue has been reflected again in 2024.	Implementation not started

4.	Goods and Services and Utilities	The Mayor should ensure that internal controls are strengthened in the payment execution process. Payments should be processed in accordance with the chronological order of events and in full compliance with the steps defined by the financial regulations for public funds expenditure.	This recommendation is no longer applicable.	No longer applicable
5.	Capital Investments	The Mayor should continue efforts in collaboration with the Ministry of Finance to resolve the issue of planning and execution of the budget for payments stipulated in the collective contract, ensuring that payments and expense recording are done according to the appropriate economic codes defined in the chart of accounts, enabling accurate reporting of these in the Financial Statements in accordance with accounting standards and the chart of accounts.	This recommendation was not implemented due to the lack of budget.	Implementation not started
6.	Capital Investments	The mayor should ensure that during the execution of capital investment payments, the amounts and project codes as approved in the budget allocation law are adhered to. If there is a need to modify the amounts or projects, prior approval from the Municipal Assembly should be sought.	The municipality had not taken measures to address this recommendation, as similar cases were identified in 2024 as well.	Implementation not started
7.	Capital Investments	The Mayor should request all project managers to ensure that contract management is maintained and archived through the public procurement electronic system.	The municipality has not taken measures to address this recommendation, as the contract management	Implementation not started

			module through e-procurement continues to be non-applicable.	
8.	Assets	The Mayor should ensure the functioning of internal controls in the management of non-financial assets, by ensuring the technical acceptance of completed projects and the proper handling of projects that are in process or suspended.	The municipality had not taken measures to address this recommendation, as we have similar cases this year as well.	Implementation not started
9.	Internal Audit	The Mayor should ensure that the audit plan is fully implemented and that audits include activities for the current year.	The Municipality had taken measures to implement this recommendation. The NJAB for the year 2024 had fulfilled the audit plan by including activities for the current year 2024 in the audit reports.	Implemented

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

Vlora Spanca: Auditor General

Blerina Krasniqi: Audit Director

Elvir Krasniqi: Team leader

Albana Sahiti: Team member

Donjeta Rama, Team member

Annex I: Clarification regarding the Letter of Confirmation

Pas përcjelljes së draft raportit të auditimit të Komunës së Vitisë për komente, e njëjta nuk ka kthyer përgjigje brenda afatit ligjor prej 15 ditëve për komente. Ekipi i auditimit të ZKA-së në vazhdimësi ka komunikuar me personat përgjegjës në kuadër të komunës për ta njoftuar në lidhje me tejkalimin e afatit, e madje duke i dhënë kohë shtesë për dërgim të letër konfirmimit apo edhe komenteve të mundshme, por Komuna nuk është përgjigjur edhe më tutje.

Në mungesë të përgjigjes, ZKA ka publikuar raportin e auditimit të Komunës së Vitisë për vitin 2024 pa letër konfirmim apo komente.

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 statements¹⁰ 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 authorities¹¹. 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).

¹⁰ Financial statements in the public sector include also the statement(s) of budget execution

¹¹ 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.