



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

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

Prishtina, May 2024

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1 Audit Opinion

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

Unmodified Opinion on Annual Financial Statements

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

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

Basis for Opinion

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

Audit Conclusion on Compliance

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

In our opinion, except for the effects of matter/s described in the Basis for Conclusion on Compliance section of our report, transactions carried out in the process of execution of Municipality of Klina's budget have been, in all material respects, in compliance with the

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

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

Basis for the Conclusion

- B1 The evaluation committee did not evaluate the farmers' applications according to the criteria announced by the public call.
- B2 The steps for processing of payments in the amount of €189,179, were not respected.
- B3 Failure to pay liabilities within the legal term of 30 days.

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

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

Responsibilities of Management and Those Charged with Governance for the AFS

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 Klina's financial reporting process.

Management's Responsibility for Compliance

The management of the Municipality of Klina 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

³ Collectively referred to as compliance with authorities

Auditor General's Responsibility for the audit of AFS

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

Our objective is also to express an audit opinion on compliance of respective Municipality of Klina'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 Klina'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 have noticed areas related to financial management and control where significant improvements are needed. Apparent weaknesses have been noticed in important financial areas such as misclassification of expenses, evaluation of farmers' applications contrary to the public call, deficiencies in asset registers, and delays in payment of invoices, which are presented below for your consideration in the form of findings and recommendations. 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 related to financial reporting and compliance with authorities related to the management of public sector funds. We will follow up on and review these recommendations during next year's audit.

This report resulted in nine (9) recommendations, of which three (3) are new recommendations, five (5) repeated and one (1) partially repeated.

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

2.1 Issues with impact on compliance conclusion

Issue B1 – Failure to evaluate the farmers' applications according to the criteria established by the public call

Finding According to two public calls for subsidizing farmers with corn seed planting machines (€11,985) and wheat seed planting machines (€12,190), among other things, it was required that the beneficiary be a resident of the municipality, own land, possess a tractor, and be ready to participate with 30% of the cost in the agricultural mechanism. Priority will be given to farmers who in the last three years have not benefited from any project of the municipality and donors in cooperation with the municipality, have not been beneficiaries of more than one project within the year, and come from a family community where not more than one member is a beneficiary.

During the review of the evaluation process of two public calls for subsidizing farmers with planting machines, we noticed that the evaluation committee in the scoring form has used criteria that were not included in any of the public calls, such as: the number of family members, employment status, economic situation, rural and urban division, and possession of a well.

This happened as a result of the failure to have the public announcement criteria respected by the evaluation committee.

Impact

Subsidizing farmers by using criteria that were not announced in the call may harm transparency since the criteria that were used were not announced in the public calls and the applicants were not notified about them.

Recommendation B1 The mayor must ensure that the evaluation commission will evaluate the applications of farmers in accordance with the criteria defined by the Public Call.

Response of entity's management (Agree).

Issue B2 - Failure to comply with the steps for processing payments as required by the Financial Rule

Finding

Article 22 of Financial Rule No. 01/2013/MF, Public Funds Expenditure, defines the steps for processing payments, where initially the purchase request is made, the purchase order is issued, the goods or services are received, and then the economic operator brings the invoice for payment.

Out of the 24 samples tested as part of the substantial testing in the category of goods and services, we noticed that in nine (9) cases, which involved the amount of €189,179, steps for processing payments were not complied with, namely the goods and services/supplies were initially received, and thereupon the invoice and the commitment as well as the purchase order were issued.

This was as a result of the failure of controls by the finance and procurement office since the contracting officer and the procurement office had not respected the steps for processing payments according to the financial rule.

Impact

Failure to comply with the steps for processing payments may cause an increase in municipal liabilities to economic operators.

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

Recommendation B2 The mayor must ensure that internal controls in the payment execution process are strengthened. Payments must be processed according to the chronology of events and in full compliance with the steps defined by the financial rule on public funds expenditure.

Response of entity's management (Agree).

Issue B3 - Late payment of invoices

Finding Article 39.1 of the Law on Public Financial Management and Accountability envisages that "the CFO of a budget organization shall be responsible for ensuring that every valid invoice and demand for payment for goods, services and/or Works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment".

In four (4) cases that involve the amount of €19,997, we noticed that the municipality had not fulfilled its financial liabilities within the deadline of 30 days. The delays were up to three months from the date when the invoice was received.

The failure to pay liabilities on time, has occurred due to entering into financial liabilities without having planned budget funds and deficiencies in the management of liabilities.

Impact Delays in the performance of liabilities may cause additional costs to the municipality because it may face lawsuits where, in addition to the value of the invoice, it must pay additional costs, including interest and court expenses.

Recommendation B3 The mayor should improve the management of funds to ensure that financial liabilities are met on time and within the 30-day deadline, including the drafting of a detailed budget analysis to avoid delays in the payment of invoices.

Response of entity's management (Agree).

2.2 Findings on financial management and compliance issues

2.2.1 Revenues

The revenues realized by the Municipality of Klina in 2023 amounted to a total of €1,385,801. They are related to revenue from property taxes, revenues from construction permits, administrative taxes, revenues from business activities, revenues from rent, etc. In addition to the revenues realized by the Municipality, which are presented in the table below, the Municipality has also received indirect revenues that have been realized from the central level (court fines and traffic penalties) in the total amount of €411,942.

Issue C1 - Deficiencies in the database of property taxpayers

Finding Article 12 of Law No. 06/L-005 on Real Estate Tax states that the municipality is responsible for registering and managing property tax data in the property tax registers as defined in the sub-legal act.

From the audit of the property tax data for the year 2022, there were identified 528 taxpayers of buildings whose personal number was missing in the database and who, based on their first names, surnames, and the name of the parent, could potentially be beneficiaries who have benefited several times from allowed lawful deduction. Out of this number, referring to the year 2023, the municipality has managed to identify and register 123 taxpayers with a personal number.

This happened as a result of improper controls and monitoring of the property tax sector to verify all taxpayers of buildings by personal numbers.

Impact The lack of data in the database concerning the personal numbers of taxpayers may enable some earlier taxpayers to illegally benefit from the allowed primary residence deduction.

Recommendation C1 The mayor must take the necessary actions to ensure that the property tax database is supplemented with all personal numbers of taxpayers, so as to enable the verification of all potential cases that may be found to benefit several times for primary residence.

Response of entity's management (Agree).

2.2.2 Goods and Services and Utilities

The final budget for goods and services, and utilities in 2023 was €2,017,996, of which €1,952,127 have been spent. They are mainly related to expenses for derivatives, repair and maintenance, fuel supply, utilities, etc.

Issue A1 - Lack of documents related to eligibility requirements in the electronic public procurement platform

Finding Point 47.16 of Regulation No. 001/2022 on Public Procurement provides that “Verification of eligibility and qualifications of bidders shall be made through the standard Letter B47 “Request for clarification of tender/application” through the electronic platform.

We noticed that the documents required as per the eligibility requirements for the contract winner, such as certificate by the competent court and TAK certificate, were not uploaded on the electronic e-procurement platform. This case was noticed in 13 contracts.

This happened because the procurement office requested from the contract winners that the documents in question be submitted in original form to the procurement office in the municipality and not on the electronic platform.

Impact The lack of eligibility documents on the electronic platform affects the lack of transparency in the procurement process and the failure to receive information electronically from authorized users.

Recommendation A1 The mayor should increase controls at the procurement office to ensure that all required documents are uploaded on the public procurement electronic platform.

Response of entity’s management (Agree).

Issue A2 - Contract management records not kept through the e-procurement platform

Finding Paragraph 70.24.f. of Regulation No. 001/2022 on Public Procurement provides that “The contract manager shall ensure that all contract management records are prepared, kept and archived in the contract management module in the e- procurement system”.

The contract/project managers have not maintained and archived through the electronic public procurement system the contract management records and records on the evaluation of contractors' performance.

This happened as a result of improper controls on the part of project managers to manage contracts and carry out performance evaluations through the e-procurement platform.

Impact Failure to maintain and archive contracts through the public procurement system may affect the ineffective management of contracts and does not provide sufficient opportunities for the management to receive timely information regarding the progress and performance of contracts.

Recommendation A2 The mayor should require all project managers to ensure that contract management records are maintained and archived through the electronic public procurement system.

Response of entity's management (Agree).

2.2.3 Capital Investments

The final budget for capital investments in 2023 was €5,652,958, of which €4,911,241 were spent. They are mainly related to the regulation of road infrastructure, the construction of sewerage systems, the construction of buildings, etc.

Issue B4 - Misclassification of expenses

Finding Article 18, paragraph 3 of Financial Rule No. 01/2013/MF on the Expenditure of Public Money, provides that “expenditures should have the adequate codes, as defined under Administrative Instruction for the accounting plan. The corresponding codes and categories of expenses that the BOs must apply are defined in the accounting plan of the Treasury.

The municipality had misclassified expenses by having paid €30,000 from the economic category of capital investments, which by nature belong to subsidies and transfers. The expenses paid relate to the supply of construction material for communities and the construction of houses for social cases.

This happened as a result of the wrong planning of expenses during the drafting of the budget by the Municipality and the approval of the budget by the Ministry of Finance.

Impact Inadequate classification of expenses affects the overestimation/underestimation of expenses in different categories as well as the incorrect presentation of expenses in the AFS.

Recommendation B4 The mayor must ensure that the expenses are planned and realized in conformity with the adequate economic categories, to enable their fair reporting pursuant to the accounting standards of the public sector and in accordance with the accounting plan.

Response of entity's management (Agree).

2.2.4 Capital and non-capital assets

The value of capital assets presented in the Annual Financial Report is €70,764,064, that of non-capital assets is €193,124, and that of stocks is €4,920.

Issue A3 – Understatement of assets over €1,000

Finding Regulation MF-No. 02/2013 on Management of Non-Financial Assets by Budget Organizations, Article 6.1. determines that, "Each budget organization shall put in place and update a register of non-financial assets under its management. The register must be maintained separately for each asset individually and in aggregate form pursuant to categories classified according to the accounting plan. Also Article 6.3 determines that: Capital assets must be registered in KFMIS, while the non-capital assets and stocks must be registered in the "e-assets" system.

The capital assets reported in Article 19.3.1 in the Annual Financial Report were underestimated, because the payments (purchases of the year) in the amount of €129,587 were not registered in KFMIS.

This had happened due to the lack of sufficient internal controls with regard to the management of non-financial assets.

Impact Failure to register assets, according to the criteria defined in the regulation on management of non-financial assets, may affect the loss or alienation of assets and the presentation of incomplete information in the financial statements.

Recommendation A3 The Mayor must ensure the correct implementation of internal controls with regard to the correct registration of non-financial capital assets in accordance with the criteria of the regulation on management of non-financial assets.

Response of entity's management (Agree).

2.2.5 Accounts receivable

In 2023, the municipality disclosed in the AFR accounts receivable in the amount of €3,740,688.

Issue B5 - Weaknesses in the management of accounts receivable

Finding

Article 26 of Law No. 06/L-005 on Immovable Property Tax stipulates that the Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competences to collect outstanding tax liabilities which exceed the amount of €10. Likewise, in the Decisions on the Exercise of Business or Professional Activity, it is determined that the payment of the assigned charge is made in two installments: the first installment is paid by 15.06 of the current year, while the second installment is paid by 15.12 of the current year.

Despite the fact that during 2023 the municipality had taken actions to collect debts by sending final notices to debtors, total accounts receivable compared to the previous year (€3,199,211), have increased to €3,740,688, with a difference of €541,477 or around 17%. The biggest increase occurred in the property tax as well as in the taxes on the exercise of the activity.

Weaknesses identified related to accounts receivable are due to inefficient internal controls in their management and collection.

Impact

Failure to collect the charged revenues on time affects the level of funds collected for the municipal budget and reflects negatively on the funding and implementation of projects funded from its own revenues.

Recommendation B5 The Mayor of the Municipality must ensure that officials in the relevant departments intensify actions and take all measures to collect accounts receivable and reduce their increasing trend over the years.

Response of entity's management (Agree).

3 Summary on budget planning and execution

We have taken into consideration the sources of budget funds, expenditures of funds, and revenues collected by economic categories. This is highlighted in the following tables:

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

Description	Initial budget	Final budget ⁵	2023 Expenditures	2022 Expenditures	2021 Expenditures
Sources of funds	13,051,595	15,568,207	14,691,283	11,547,857	11,134,682

Government Grants – Budget	11,677,821	12,337,344	12,048,247	9,910,436	10,065,557
Funding through borrowing	0	0	0	97,023	23,911
Carried forward from previous year	0	1,322,988	1,227,234	850,471	482,004
Own source revenues	1,373,774	1,373,774	951,375	663,127	542,080
Domestic Donations	0	104,122	37,023	21,362	16,130
External donations	0	429,979	427,403	5,438	5,000

The final budget, in relation to the initial budget, had increased by €2,516,612. This increase is a result of government decisions, the carryover of own revenues from the previous year, as well as donations.

The municipality has spent around 94% of the final budget, which represents a good budget performance.

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

Description	Initial budget	Final budget	2023 Spending	2022 Spending	2021 Spending
Spending of funds by economic categories	13,051,595	15,568,207	14,691,283	11,547,857	11,134,682
Wages and Salaries	6,753,688	7,416,450	7,406,952	6,441,464	6,700,218
Goods and Services	1,660,000	1,782,812	1,716,951	1,340,624	1,211,429
Utilities	200,000	235,184	235,176	166,972	179,399
Subsidies and Transfers	400,000	480,803	420,963	401,429	345,109
Capital Investments	4,037,907	5,652,958	4,911,241	3,197,368	2,698,527

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

The final budget for salaries and wages was increased by €662,763, compared to the initial budget. This increase comes from the Decisions of the Government of Kosovo for the implementation of the new law on salaries in the amount of €659,524, as well as an increase of €3,239, from the donors' grant.

The final budget for goods and services had increased by €122,812. This increase came from the carryover of unspent own revenues from 2022.

The final budget for the municipality was increased by €35,184. This increase resulted from own revenues carried over to cover unpaid liabilities.

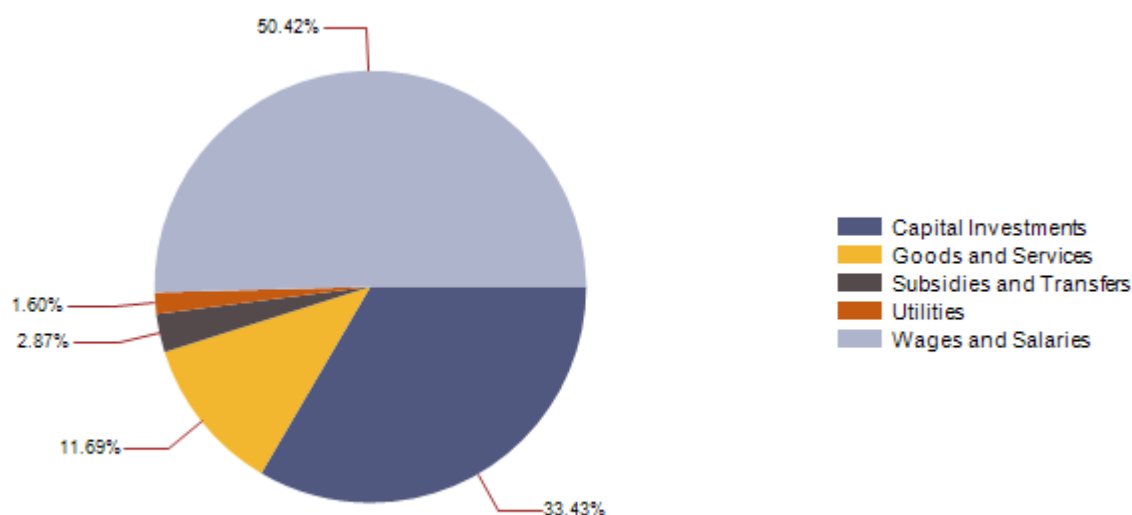
The final budget for subsidies was increased by €80,803 of this value: €55,884, are an increase coming from internal donations (citizen participations) as well as an increase of 24,919 €, from the carryover of unspent own revenues from 2022.

The final budget for capital expenditures compared to the initial budget had increased by €1,615,051.

This increase comes as a result of the carryover of unspent own revenue from 2022 in the amount of €1,140,073, and an increase from donations in the amount of €474,978.

The funds spent in 2023, for the Economic Recovery were in the amount of €8,172, they were mainly allocated for healthcare allowances.

Chart 1. Expenditures by economic categories in 2023



The own revenues planned for 2023 were in the amount of €1,373,774, while €1,385,801 were realized. They are related to income from property tax, revenues from construction permits, administrative taxes, revenues from business activities, revenues from rent, etc. Also, for the year 2023, the municipality has received revenues from traffic fines and court fines amounting to a total of €411,942. These revenues are not included in the below table because they are planned and implemented by line ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
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Total of revenues	1,373,774	1,373,774	1,385,801	1,208,535	1,365,338
Tax revenues	603,604	603,604	621,791	453,281	488,481
Non-tax revenues	770,170	770,170	764,010	755,254	876,857

4 Progress in implementing recommendations

Our audit report on 2022 AFS of Municipality of Klina resulted in 12 key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. The audit report of 2022 was deliberated in the Municipal Assembly. By the end of our audit, five (5) recommendations have been implemented, one (1) was partially implemented, one (1) is no longer applicable and five (5) recommendations have not been implemented yet, as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

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

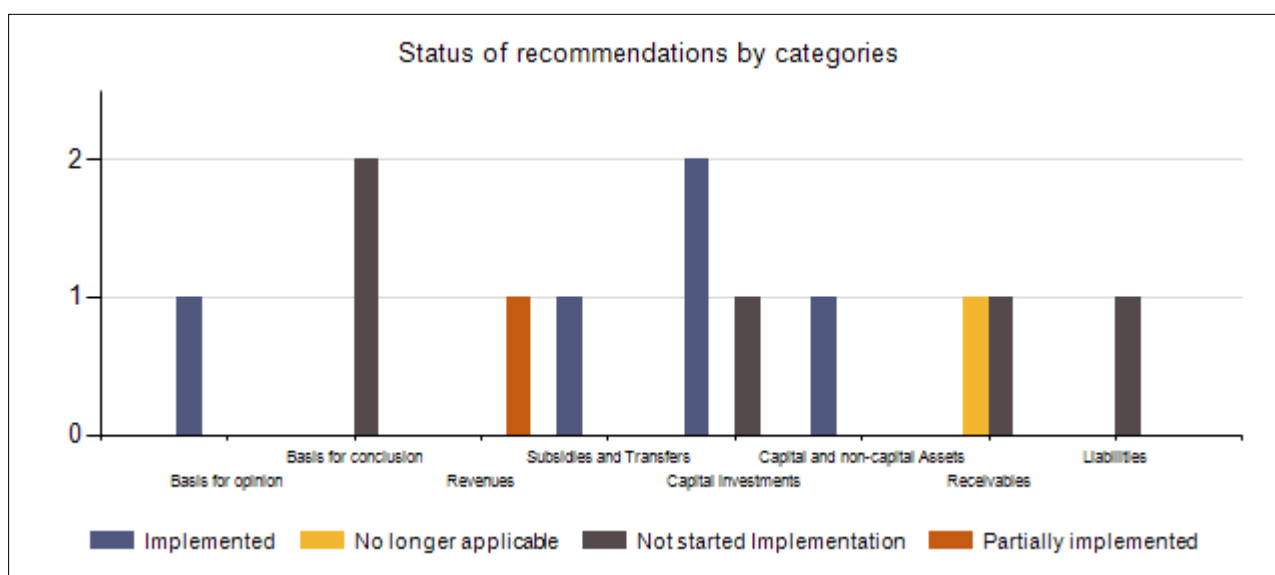


Table 4. Summary of prior year's recommendations

No.	Audit Area	Recommendations of 2022	Actions taken	Status
1.	Basis for opinion	The mayor must ensure that the asset register is updated so that it contains only the assets in the ownership of the municipality. Also, to ensure that the value of the assets presented in the AFSs of the municipality is correct.	The municipality had taken action and removed the assets from the municipal register by transferring them to the beneficiaries.	Implemented
2.	Basis for conclusion	The mayor must ensure that prior to the public calls for farmers' subsidies being announced, a proper analysis of the criteria is carried out so that	Even in 2023, there were cases when the evaluation	Implementation has not started

		they are announced and thoroughly evaluated by the Evaluation Committees.	committee of farmers' applications during the evaluation had changed the evaluation criteria. The criteria established by the commission were not the same as the criteria foreseen in the public call.	
3.	Basis for conclusion	The mayor must ensure that internal controls in the payment execution process are strengthened. Payments must be processed according to the chronology of events and in full compliance with the steps defined by the financial rule on public funds expenditure.	We have identified same cases as we did last year.	Implementation has not started
4.	Revenues	The mayor must take the necessary actions to ensure that the property tax database is supplemented with all personal numbers of taxpayers, so as to enable the verification of all cases of beneficiaries who have benefited several times from primary residence.	The recommendation has been partially implemented and there are still deficiencies in the personal numbers of taxpayers in the protax system.	Partially implemented
5.	Subsidies and transfers	The mayor should increase controls to ensure that the officials who are involved in the processes of granting subsidies are better informed about the requirements of the Regulation, so that the aforementioned omissions are not repeated, and the requirements are applied with full precision.	The municipality has taken measures in respect of compliance with the criteria of the Public Call, and we have not come across any issues to report.	Implemented
6.	Capital investments	The mayor must ensure that the expenditures are planned and realized in accordance with the adequate economic categories, to enable their fair reporting pursuant to the	Even in 2023, misclassification of expenses had taken place.	Implementation has not started

		accounting standards of the public sector and in accordance with the accounting plan.		
7.	Capital investments	The mayor must ensure that when appointing the contract managers, immediately after the signing of the contracts, the contract management plan is signed by both parties in accordance with the legal requirements.	Based on the testing of our samples, it has appeared that there is a contract management plan for all contracts.	Implemented
8.	Capital investments	The mayor must ensure that the relevant departments, before signing the contract, agree on the establishment of a dynamic plan for the completion of the works in order to avoid delays.	We did not encounter any issues in our samples.	Implemented
9.	Assets	The mayor must ensure that the asset registers are reviewed in order to have all the assets registered as investments in the future, have them finalized as projects, and be technically accepted. Also, changes should be made in the accounting register so that the class of those assets is changed, and depreciation is applied according to the norms determined by the regulation.	The municipality has implemented the recommendation by registering the assets according to legal requirements.	Implemented
10.	Accounts receivable	The mayor must ensure that officials take action to complete debtors' files so that there is evidence that provides assurance that the submitted amounts of ARs are correct.	The Municipal Assembly had decided to forgive these receivables.	It is no longer applicable
11.	Accounts receivable	The mayor must ensure that officials in the relevant departments intensify actions and take all measures to collect accounts receivable and reduce their increasing trend over the years.	Although the entity had taken actions to collect receivables, during 2023 the increasing trend for ARs continued.	Implementation has not started
12.	Outstanding liabilities	The Mayor must ensure that all invoices and liabilities are paid within the legal time limits in order not to harm the municipal budget with additional enforcement costs.	The necessary actions to address this recommendation have not been undertaken.	Implementation has not started

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

Vlora Spanca: Auditor General

Agron Feti: Assistant Auditor General

Lavdim Maxhuni: Head of Audit

Florim Beqiri: Team leader

Mexhit Ferati: Team member

Muharrem Qyqalla: Team member

Annex I: Letter of confirmation



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MUNICIPALITY OF KLINA
OPŠTINA KLINA



LETËR E KONFIRMIMIT

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

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Klinës, për vitin 2023 (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. Zenun Elezaj,

Kryetar i Komunës së Klinës,

Data: 04.04.2024 Klina



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

Auditor's Report on the financial statements⁵ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

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

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

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

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

Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

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

Adverse opinion

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

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

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

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

Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

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

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