



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 KAÇANIK FOR YEAR 2023

Prishtina, Jun 2024

## TABLE OF CONTENT

1	Audit Opinion .....	3
2	Findings and recommendations.....	7
3	Summary on budget planning and execution.....	20
4	Progress in implementing recommendations.....	23
	Annex I: Letter of confirmation.....	27
	Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report.....	28

# 1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Kaçanik 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 authorities<sup>1</sup>.

## Unmodified Opinion on Annual Financial Statements

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

In our opinion, the annual financial statements of the Municipality of Kaçanik, 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 Kaçanik's budget have been, in all material respects, in compliance with the

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

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

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

### **Basis for the Conclusion**

- A1 For payments in the amount of €273,674, failure to comply with the steps for processing payments.
- A2 The unit price specified in public contract framework was exceeded by €29,309.
- A3 The brand was specified by the procurement office in the tender dossier.
- B1 The municipality issued the tender documentation without preparing the executive project.
- A4 Despite the Economic Operator withdrawing from providing eligibility documents, the Municipality did not confiscate the tender security.
- A5 Failure to comply with legal requirements regarding compensation for overtime, official holidays, and weekends.
- A6 Compensation of two officials for the position of head nurse, even though only one of them holds this position.
- B2 Delay in depositing the collected funds into the bank account.
- A7 Failure to meet obligations within the 30-day legal deadline.

*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 Kaçanik's financial reporting process.

## Management's Responsibility for Compliance

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

## 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 Kaçanik'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 Kaçanik's internal control.

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

- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

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

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

## 2 Findings and recommendations<sup>4</sup>

During the audit, we identified areas that require possible improvements in financial management and control. Some clear weaknesses were observed in key financial areas such as: in the category of wages and salaries, lack of executive projects, delays in depositing collected funds under €10, inadequacies in utilizing the public procurement e-platform, issues with asset registrations, delays in collecting accounts receivable, and weaknesses in the procurement processes.

The findings and recommendations aim to enhance the financial information presented in the Annual Financial Report. This includes improving disclosures through explanatory notes, strengthening internal controls related to financial reporting, and ensuring compliance with authorities regarding the management of public sector funds. We will follow up on these recommendations during next year's audit.

This report resulted in 14 recommendations, eight (8) of which are new, and six (6) are 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 A1 – 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, outlines the steps of the payment process, where first a request for purchase is made, then a purchase order is issued, and once the goods/services are accepted, the Economic Operator submits the invoice for payment.

From the 21 samples tested in the goods and services category, we noticed that in 19 cases totaling €273,674, the steps for processing payments were not followed correctly. Initially, the acceptance of the goods and services/supplies was made, followed by the commitment and purchase order.

This was due to the failure of controls by the finance and procurement office, as the commitment officer and the procurement office had not followed the steps for processing payments according to the financial rules.

**Impact** Failure to comply with the payment processing steps can result in an increase in municipal obligations towards economic operators.

**Recommendation A1** The mayor should ensure that internal controls are enhanced in the payment execution process. Payments should be processed in accordance with the chronological order of events and fully comply with the steps outlined in the Financial Rule for Public Funds Expenditure.

**Response of entity's management (Agree).**

#### Issue A2 - Exceeding of the contract price

**Finding** Article 54.15 of Regulation No. 001/2022 on Public Procurement states that "Whenever the Contracting Authority does not know the indicative quantities, or unit price contracts, the CA must determine the weights based on the importance of each "service category" or each "item" in order for the Contracting Authority to determine what is the lowest bid. In these cases, the threshold or ceiling plus/minus thirty per cent (30%) is not applicable, such as car maintenance, generator maintenance, etc. In these cases, the public opening of bids reads the total weighted price which serves only for the purpose of evaluating the bids while the contract relates to unit prices and can be realized up to the estimated value". Similarly, Article 25 paragraph 1.2 of Financial Rule No. 01/2013/MF – Public Funds Expenditure states that the "Certification Officer to ensure that the implementable conditions of a public contract are met prior to registering the expenditure in KFMIS and the authorisation of payment".

On 31.12.2021, the municipality signed a public framework contract for the "Summer and Winter Maintenance of Local Roads" with a unit price of €475,000. According to the report from the contract manager, the work completed under this contract amounted to €504,309, resulting in an excess of €29,309.

This happened due to inadequate contract management and payment certification that did not comply with legal requirements.

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<sup>4</sup> Issue A and Recommendation A - means new issue and recommendation  
 Issue B and Recommendation B - means repeated issue and recommendation  
 Issue C and Recommendation C - means partly repeated issue and recommendation

**Impact** Exceeding the contracts leads to an increase in unreasonable and unplanned additional expenses of public funds, which can also result in an increase in municipal liabilities.

**Recommendation A2** The mayor should enhance controls to ensure that through the contract manager, thorough supervision of contract will be carried out, and payments will not be made without ensuring that the contract is being implemented in a way that avoids their exceeding.

**Response of entity's management (Agree).**

### Issue A3 - Brand specification in the tender dossier

**Finding** Article 17 paragraph 2 of Regulation No. 001/2022 on Public Procurement states that that "No specification shall be issued with reference to a particular trademark, brand name, patent, design, type, specific origin, producer, manufacturer, catalogue or numbered item. Where there is no other sufficiently precise or adequate way of characterizing a requirement except by the use of a reference the description shall be used followed by the words "or equivalent".

In the project "Renovation of the museum in Kaçanik" worth €61,999, the procurement office issued a tender file specifying a brand name (specific brand) in the bill of quantities. The brand was specified under position 5 Supply, transport and assembly of Samsung LED TV.

This happened because the procurement office failed to prevent the brand from being used in the tender dossier.

**Impact** Specifying the brand in the tender dossier may impact competition and lead to unequal treatment of economic operators.

**Recommendation A3** The mayor should ensure that the procurement office does not release the tender dossier if the brand is specified in the bill of quantities.

**Response of entity's management (Agree).**

### Issue B1 - Lack of executive projects

**Finding** Paragraph 19.17 of Regulation No. 001/2022 on Public Procurement states, among other things, that the "The Contracting Authority is responsible for drawing up the Executive Project which shall be attached (also on electronic devices) to the Technical Specifications, which are part of the Tender Dossier. No Contracting Authority is allowed to issue Tender Documentation without attaching the detailed project description".

In three (3) cases, the municipality initiated the procurement procedures and signed a contract without drafting an executive project. The cases were related to the projects "Construction of sidewalk, cycling path and public lighting on Murat Lika street in Strazha" worth €122,852, "Regulation and renovation of health and social infrastructure" worth €110,777, and "Regulation of Kaçanik museum" worth €61,999.

This occurred due to a lack of proper planning prior the initiation of procurement procedures, also including the failure to draft an executive project for specific projects.

**Impact** The absence of an executive project can lead to challenges in carrying out projects during the execution phase, increasing likelihood of encountering various obstacles, both professionally and in terms of delays or increased project costs.

**Recommendation B1** The mayor should ensure the control and monitoring of the implementation of legal requirements. This is to ensure that when initiating procurement procedures for contracting certain works, the drafting of projects is done in accordance with the anticipated needs and requirements beforehand.

**Response of entity's management (Agree).**

#### **Issue A4 - Failure to confiscate the tender security**

**Finding** Article 28.8 of Regulation No. 001/2022 on Public Procurement states that "The CA shall forfeit the tender security under the following circumstances: 1. The CA determines that the EO has submitted false or misleading information; 2. EO withdraws its tender after the deadline for submission of tenders, but before the expiration of the tender validity period; and 3. The EO is awarded the contract but refuses or fails: a. To provide the performance security, as specified in the TD; b. To comply with other conditions preceding the signing of the contract, as specified in the TD; or c. To execute the contract, as specified in the TD."

In the procurement procedure for the "Construction and regulation of public spaces" project, the municipality had proposed to award the contract to the Economic Operator (EO) who was deemed responsible. The municipality requested the EO to provide proof of eligibility (certificate from TAK and from the court) to meet the contract requirements. However, the EO failed to submit the requested documents. Consequently, the contract was not awarded to the EO, yet the municipality did not confiscate the tender's security as required.

This happened because the procurement office circumvented the rules to confiscate the tender security from the EO.

#### **Impact**

Failure to confiscate the tender security leads to decreased municipal revenues, and on the other hand, this may cause the Economic Operator to disregard rules in future bidding processes.

**Recommendation A4** The mayor should enhance oversight of the procurement office and, in cases where the Economic Operator withdraws during the tendering process, the tender security (deposit) should be confiscated.

#### **Response of entity's management (Agree).**

**Issue A5 - Failure to comply with legal requirements regarding compensation for overtime,, official holidays, and weekends**

#### **Finding**

Article 7 of Regulation (GRK) No. 07/2023 on Compensation for On Call, Night Work and Overtime Hours among other things states that "Overtime work, official holidays and weekend days can only be done when the employee has the consent of the direct supervisor and has a prior, reasoned authorization from the highest leader of the institution". Also Law No. 03/L-212 on Labor stipulates that "In extraordinary cases, with the increase of volume of works and other necessary cases, on request of the employer, an employee shall work extended working hours (overtime) for a maximum of eight (8) hours per week."

During 2023, the director of MCFC regularly engaged a portion of the staff to work 12-hours shifts every Sunday without proper analysis, a real plan for the needs of the institution, or authorization from senior management of the institution. This additional work outside regular hours exceeded the legal limit of 8 hours per week and was not related to exceptional circumstance or an increase in workload.

This occurred due to inadequate management control at the MCFC, as well as poor coordination between the MCFC Director and the Mayor of the Municipality regarding prior authorizations for extra hours (overtime).

**Impact** Engaging the staff to work outside of regular hours, without prior authorization from the mayor and without exceptional circumstances or an increase in workload, may have a negative impact on the municipality's budget.

**Recommendation A5** The mayor should enhance controls to ensure that staff engagement in regular overtime work only occurs after proper planning and analysis have been conducted for exceptional circumstances or when work volume increases. This should be authorized in advance by the Mayor of the Municipality. When there is a need for staff to work outside regular hours, their weekly overtime should not exceed 8 hours.

**Response of entity's management (Agree).**

**Issue A6 - Compensation of two officials for the position of head nurse, even though only one of them holds this position**

**Finding** The organization chart of the Directorate of Health in the Municipality of Kaçanik includes a position for a head nurse.

In the MCFC, there are two employees working as head nurses under a contract, even though the organizational chart only allows one position. Furthermore, after discussing this issue, the MCFC has confirmed that one of the head nurses in 2023 had been working as a warehouse worker instead of a head nurse. We also noticed that the payment was made for the head nurse position.

This occurred due to poor controls implemented by the municipality's management in regard to managing this position.

**Impact** Receiving payment for the position of head nurse without actually performing the duties of head nurse may influence the occurrence of irregular payments.

**Recommendation A6** The mayor should take actions to regulate the position of the head nurse at the MCFC in accordance with the health directorate's organizational chart.

**Response of entity's management (Agree).**

## Issue B2 - Delay in handing over the money collected to the cashier

**Finding** Article 11 paragraph 2 of Financial Rule 03/2010 on Revenues states that "At the end of the day, the money collected in the cashboxes of Budget Organizations shall, through the collecting agency, be deposited in total for each type of revenue accompanied by a summarizing invoice containing the UNIREF identification number."

The testing of the revenues revealed that municipality officials withheld the funds (revenues) collected from issuing birth certificates and extracts for periods ranging from one week to six months before delivering them to the municipal treasurer/cashier.

This occurred due to the lack of responsibility of the officials working in the civil registry to deliver the money collected from birth certificates and extracts on time to the treasurer/cashier.

**Impact** Failure to deposit the cash into the bank account on the same day as the certificates are issued may result in the loss or misappropriation of the collected money.

**Recommendation B2** The mayor should make sure that the funds collected from issuing certificates are delivered promptly to the cashier/treasurer, ensuring that they are deposited to the municipality's bank account by the end of the day.

**Response of entity's management (Agree).**

## Issue A7 - Delay in executing the unpaid obligations

**Finding** Article 39.1 of the Law on Public Financial Management and Accountability states 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 five (5) cases totaling €55,991, we noticed that the municipality had not fulfilled its financial obligations within the 30-day deadline. The delays were up to six months from the invoice acceptance date.

This occurred because the municipality did not have sufficient financial resources and entered into obligations without conducting a thorough budget analysis.

**Impact** Failure to fulfill obligations can result in additional costs for the municipality, as it may be subject to lawsuits where, it must pay not only the invoice amount, but also additional costs such as interest, fees, and court expenses.

**Recommendation A7** The mayor should enhance fund management to ensure that financial obligations are met promptly and within a 30-day deadline, including conducting a thorough budget analysis to prevent delays in invoice payments.

**Response of entity's management (Agree).**

## 2.2 Findings on financial management and compliance issues

### 2.2.1 Goods and Services and Utilities

The final budget for goods, services, and utilities in 2023 was €1,754,000, out of which €1,688,554 has already been spent. These expenses mainly cover costs for fuel, repairs and maintenance, fuel supply, utilities, etc.

#### Issue A8 - Misclassification of expenses

**Finding** Article 18, paragraph 3 of the Financial Rule No. 01/2013/MF on Public Funds Expenditure, provides that " Expenditures should have the adequate codes, as defined under the Administrative Instruction for the accounting plan." The Treasury's accounting plan defines the corresponding codes and expense categories that Business Organizations must apply.

The municipality had misclassified expenses (incorrectly categorized) by paying €65,128 from the goods and services category, which actually by their economic nature belong to capital investments category. These payments were for the to regulation of squares with concrete domes at social housing facilities, the family medicine center in Doganaj, the city museum, and sewage works.

This occurred due to improper planning of expenses during the budget drafting process by the municipality.

**Impact** Misclassification of expenses results in either overestimating / underestimating expenses in various categories, as well as presenting expenses incorrectly in the Annual Financial Statements (AFS).

**Recommendation A8** The mayor should ensure that expenses are planned and executed according to the appropriate economic categories, in order to enable their proper reporting in accordance with the accounting standards of public sector accounting in line with the accounting plan.

**Response of entity's management (Agree).**

### Issue B3 - Contract management records not processed through the e-procurement platform

**Finding** Paragraph 70.24.f. of Regulation No. 001/2022 on Public Procurement states 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 failed to maintain and archive the contracts management and evaluation of contractors' performance through the electronic public procurement system.

This occurred due to a lack of proper control of the management of contracts and performance evaluations through the e-procurement platform by project managers.

**Impact** Failure to properly maintain and archive contracts in the public procurement system can result in ineffective contract management and a lack of timely information for management regarding the progress and performance of contracts.

**Recommendation B3** The mayor should request all project managers to ensure that contract management is maintained and archived through the electronic public procurement system.

**Response of entity's management (Agree).**

### Issue B4 - Lack of documents related to eligibility requirements on the public procurement electronic platform

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

We observed that the required documents for the contract winners to meet eligibility requirements, such as certification from the appropriate court and TAK, were not uploaded to the electronic e-procurement platform. This issue was observed in two contracts: "Physical security services for municipal facilities" in the amount of €94,676, and in the "Supply of medical equipment" for €15,896.

This occurred after the procurement office instructed the contract winners to submit the required documents directly to the municipality's procurement office in their original form, rather than through the electronic platform.

**Impact** The absence of eligibility documents on the electronic platform hinders transparency in the procurement process and prevents authorized users from receiving information electronically.

**Recommendation B4** The mayor should enhance oversight at the procurement office to guarantee that all necessary documents are uploaded to the public procurement electronic platform.

**Response of entity's management (Agree).**

## 2.2.2 Receivables

Accounts receivable disclosed by the municipality in 2023 AFS were in the amount of €1,973,138.

**Issue B5 - Overstatement of Accounts Receivable in the Financial Statements**

**Finding** Article 16 of the Regulation MoF No. 01/2017 on Annual Financial Statement of Budget Organization states that " Budget organizations that collect revenue are required to keep registers of the revenues collected and invoiced amounts of the uncollected. Receivables shall be disclosed in the annual financial report in the relevant table by type of revenues".

The accounts receivable reported in Article 16 of the AFS, totalling €1,973,138, were incorrect, because €10,218 were listed as accounts receivable for the use of public property, which should not have been included as the court determined that these to be time-barred. Furthermore, the register maintained by the official managing these receivables shows a value of €49,037, whereas in the AFS €58,927 have been reported, resulting in a difference of €9,890.

In addition, the municipality was unable to provide us with records (data) such as invoices or financial documents related to three samples totalling €4,860 for accounts receivable for business taxes.

This occurred because the officials in charge of managing accounts receivable did not properly maintain and update the accounts receivable files and registers.

**Impact** Failure to maintain records and files according to legal requirements affects the accurate reporting of accounts receivable in the Annual Financial Statement and creates confusion for its users.

**Recommendation B5** The mayor should ensure that the officials in charge of managing accounts receivable will update and maintain accurate records of accounts receivable

**Response of entity's management (Agree).**

## Issue B6 - Weakness in accounts receivable management

**Finding** Article 26 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 granted by this Chapter to collect outstanding tax liabilities which exceed the amount of ten (10) Euros.

Despite the fact that during the year 2023, the municipality took steps to collect debts by sending invoices for the use of public property to enforcement, the total accounts receivable increased from €1,830,089 to €1,973,138 compared to the previous year, showing a difference of €143,049, or approximately 7%. The largest increase was seen in property tax.

The weaknesses identified related in accounts receivable are as a result of ineffective internal controls in their management and collection.

**Impact** Failure to collect the revenue charged on time affects the amount of funds collected for the municipal budget and has a negative impact on the financing and implementation of projects funded by own revenues.

**Recommendation B6** The mayor should ensure that officials in the respective departments intensify efforts and take all necessary measures to collect accounts receivable and reduce the 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 <sup>a</sup>	2023 Expenditures	2022 Expenditures	2021 Expenditures
<b>Sources of funds</b>	<b>10,674,689</b>	<b>12,035,894</b>	<b>11,159,685</b>	<b>8,975,661</b>	<b>8,653,621</b>
Government Grants – Budget	9,812,111	10,348,479	10,345,461	8,111,286	7,839,535
Funding through borrowing	0	0	0	73,968	22,929
Carried forward from previous year	0	814,723	440,514	386,278	365,273
Own source revenues	862,578	862,578	368,928	395,449	404,714
Domestic Donations	0	10,115	4,781	8,680	21,169

The final budget is higher than the initial budget by €1,361,205. This increase is the result of Government Decisions, the own source revenues carried forward from the previous year, funding through borrowing, and donations.

In 2023, the municipality spent about 93% of the final budget. This 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
<b>Spending of funds by economic categories</b>	<b>10,674,689</b>	<b>12,035,894</b>	<b>11,159,685</b>	<b>8,975,661</b>	<b>8,653,621</b>
Wages and Salaries	5,621,607	6,157,975	6,157,975	5,069,788	5,058,048
Goods and Services	1,498,269	1,554,000	1,540,810	969,418	826,344
Utilities	193,500	200,000	147,744	176,626	188,597
Subsidies and Transfers	390,000	413,874	360,285	322,604	300,804
Capital Investments	2,851,313	3,710,045	2,952,871	2,437,225	2,279,828
Reserves	120,000	0	0	0	0

The explanations for the changes in the budget categories are as follows:

·The final budget for salaries and wages increased by €536,368 compared to the initial budget. This increase was due to a government grant (fund 10) to cover the additional costs of salaries resulting from the entry into force and implementation of the new Law on Salaries in the public sector.

·The final budget for goods and services increased by €55,731. This increase was a result of funds being transferred by decision of the Municipal Assembly from capital investments (€34,003), utilities (€10,000), and subsidies and transfers (€8,500) to the goods and services category. Additionally, there was an increase of €2,400 from donations and €828 from own source revenues carried forward from 2022.

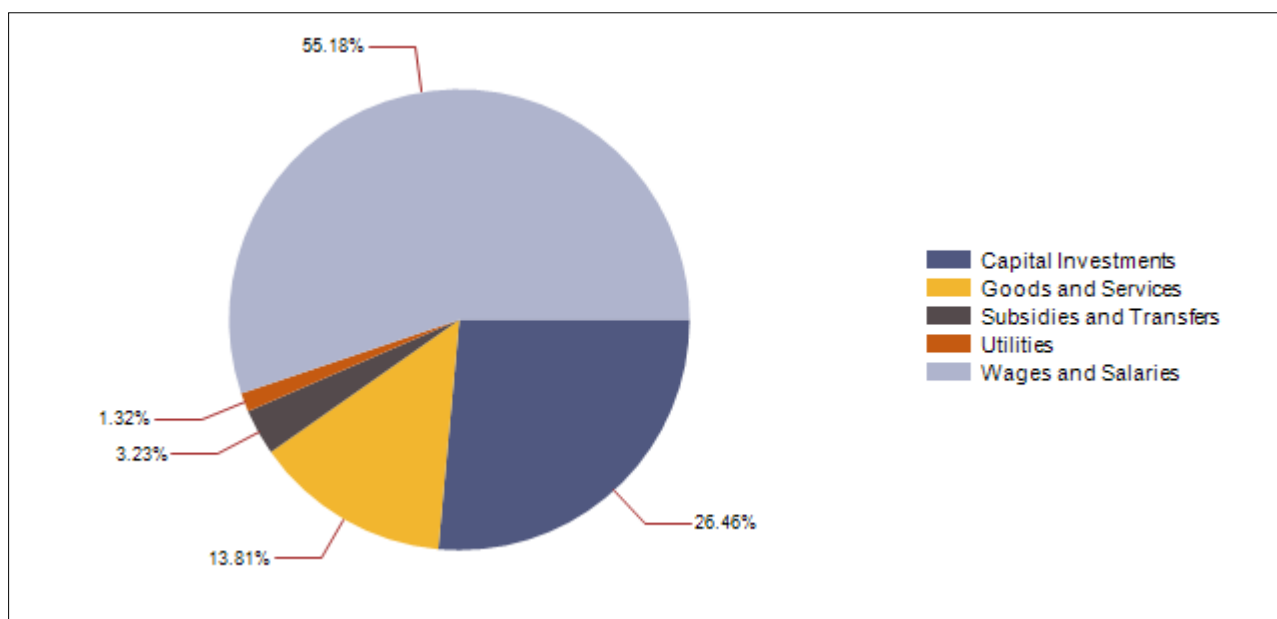
·The final budget for municipal expenses increased by €6,500 compared to the initial budget. This increase was due to own source revenues carried forward from 2022 in the amount of €16,500, and by decision of the Municipal Assembly €10,000 was transferred from the government grant from the utilities to the goods and services category.

·The final budget for subsidies increased by €23,874 compared to the initial budget, of which: €24,806 were an increase from own source revenues carried forward, an increase from the donor grant of €7,568, and a decrease of €8,500, where by decision of the Municipal Assembly the funds from this category were transferred to the goods and services category.

·The final budget for capital expenditures increased by €858,732 compared to the initial budget. This increase was due to not spending the own source revenues carried forward from 2022 in the amount of €772,588, an increase from the transfer of reserves by decision of the Municipal Assembly in the amount of €120,000 for financing capital projects, an increase from donations in the amount of €147, as well as a reduction of €34,003. This reduction occurred because, by decision of the Municipal Assembly, the funds from this category were transferred to the goods and services category.

The funds spent in 2023 for Economic Recovery were €6,285, and they were mainly allocated for health sector allowances.

Chart 1. Expenditures by economic categories in 2023



In 2023, the planned revenues were €862,578, but €884,219 were actually realized. These relate to revenues from property tax, from construction permits, administrative fees, business activities, rent, etc. Additionally, the municipality this year received revenues from traffic fines and court fines in the total amount of €166,542, as well as revenues from the Kosovo Forestry Agency in the amount of €41,986. These revenues are not included in the table below as they are planned and managed by line ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
<b>Total of revenues</b>	<b>862,578</b>	<b>862,578</b>	<b>891,773</b>	<b>682,981</b>	<b>802,799</b>
Tax revenues	410,966	410,966	443,998	380,303	374,793
Non-tax revenues	451,612	451,612	447,716	302,678	428,006
Other revenues	0	0	59		

## 4 Progress in implementing recommendations

Our audit report for 2022 AFSs resulted in 10 recommendations. The municipality prepared an Action Plan stating how all recommendations will be implemented. The 2022 audit report was discussed in the Municipal Assembly. By the end of our audit, four (4) recommendations have been implemented, and six (6) recommendations have not yet been implemented, 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

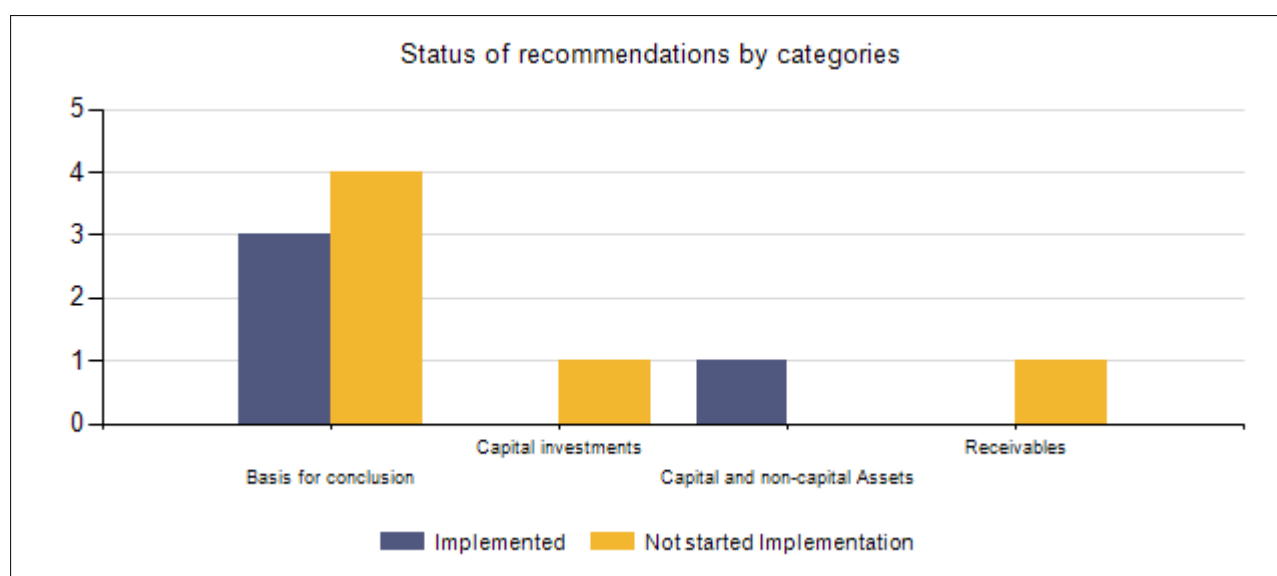


Table 4. Summary of prior year's recommendations

No.	Audit Area	Recommendations of 2022	Actions taken	Status
1.	Basis for conclusion	The Mayor should make sure that the funds collected from the vehicle registration tax and certificates are deposited by the end of the day.	Even in 2023, there were delays in depositing funds collected under €10.	Implementation not started
2.	Basis for conclusion	The Mayor should request all project managers to ensure that contract management is maintained and archived through the electronic public procurement system.	Even in 2023, project managers were still not managing contracts through the electronic platform.	Implementation not started

3.	Basis for conclusion	The Mayor should ensure that when preparing the AFS, proper internal control procedures are in place to verify the accuracy and completeness of the data for accounts receivable.	The municipality is still experiencing issues with its accounts receivable records.	Implementation not started
4.	Basis for conclusion	The Mayor should ensure that advance payments is not allowed unless specified in the special conditions of the tender dossier and the contract concluded between the municipality and the economic operator.	We have not come across any issues like this.	Implemented
5.	Basis for conclusion	The Mayor should make sure that contracts are terminated where there are material changes in both the realized positions and contracted positions.	We have not come across any issues like this.	Implemented
6.	Basis for conclusion	The Mayor should enhance oversight at the procurement office to guarantee that all necessary documents are uploaded to the public procurement electronic platform.	In 2023, there were still instances when the eligibility documents were not uploaded on the platform	Implementation not started
7.	Basis for conclusion	The Mayor should ensure that the project managers report in writing on the implementation of the contract by the economic operator. The payment certification will only be done after receiving the written report from the project managers.	We did not encounter any issues during the testing of the samples.	Implemented
8.	Capital investments	The Mayor should ensure the control and monitoring of the implementation of legal requirements. This is to ensure that when initiating procurement procedures for contracting certain works, the drafting of projects is done in accordance with the anticipated needs and requirements beforehand.	Even in 2023 there was a shortage of executive projects.	Implementation not started
9.	Assets	The Mayor should ensure that internal controls are properly implemented for the accurate registration of non-financial capital assets, in accordance with the criteria outlined in the regulation for managing non-financial assets.	The municipality had followed the recommendation and registered the assets in compliance with	Implemented

			legal requirements.	
10.	Accounts receivable	The Mayor should ensure the improvement of the accounts receivable management process in order to increase efficiency in their collection.	There was an increase in accounts receivable, particularly in property taxes.	Implementation 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

**Komuna e Kaçanikut**

Opština Kačanik/ Municipality of Kačanik

**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 Kaçanikut, 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. Besim Ilazi- Kryetar i Komunës

Data: 29. maj. 2024, Kaçanik



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

Auditor's Report on the financial statements<sup>5</sup> should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities<sup>6</sup>. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

### Forms of opinion

#### **Unmodified opinion**

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

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

<sup>6</sup> 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.