



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 ISTOG MUNICIPALITY FOR YEAR 2021

Prishtina, Jun 2022

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

1 Audit Opinion

We have completed the audit of the financial statements of Istog Municipality for the year ended on 31 December 2021 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.

Adverse opinion on annual financial statements

We have audited the annual financial statements of the Municipality of Istog, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2021.

In our opinion, because of the significance of the matters described in the Basis for Adverse Opinion section of our report, the annual financial statements of the Municipality of Istog, do not give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for Adverse Opinion

Material issues with impact on the opinion are as follows:

- B1 Annual Financial Statements do not give a true and fair view, there are errors in reporting of accounting items in certain stages.
- B2 Capital and non-capital assets presented in the AFS were understated by €593,987.
- B3 Misclassification of expenditures amounting to €120,970 in economic categories.
- A1 Untrue presentation of Accounts Receivable in the AFS for €54,928.

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

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

Audit Conclusion on Compliance

We have also audited if the processes and accompanying 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 matters described in the Basis for Compliance Conclusion section of our report, transactions carried out in the process of execution of the Municipality of Istog'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

Material issues with impact on the opinion are as follows:

B4 Due to the delay in the payment of financial liabilities the Municipality had paid €24,015 additional expenses on behalf of the disputing procedure.

A2 During 2021 the Municipality had engaged 22 officials for special services, without conducting a procurement procedure.

B5 The Municipality did not prepare an annual plan for subsidizing NGOs.

A3 The Municipality did not manage to verify 20% of the taxable properties and did not review complaints within the deadline.

B6 Failure to implement the regulation for subsidies, including public call, granting and monitoring subsidies.

B7 Requesting units initiated procurement procedure preparing bill-of-quantities and estimates without drafting an executive project.

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 Istog's financial reporting process.

Management's Responsibility for Compliance

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

Auditor General's Responsibility for the audit of AFS

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

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

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

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

- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant 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

During the audit, we have identified areas of possible improvement on Financial Management and Control. Weaknesses were identified on important financial areas, such as: revenues, expenditures, receivables and recording of assets. The Municipality's reporting process had shortcomings as identified during the preparation of the Annual Financial Report (AFR). The AFR of the Municipality prepared on 31.01.2022 for the year ended as at 31.12.2021, was not in compliance with the Regulation No. 01/2017 on Financial Reporting. The AFR was untrue, therefore during the audit we required from the Municipality's management to correct it. After our request, the necessary corrections were made, the report was submitted to the NAO and the issues raised by us were rectified except for the matters of accurate reporting of accounts receivable, contingent liabilities, assets and misclassification of expenditures which have led to the qualification of the audit opinion. These findings and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in form of explanatory notes, and improve internal controls relevant to financial reporting and compliance with authorities in connection to the management of public sector funds. We will follow up these recommendations during next year's audit.

This report comprises fourteen (14) recommendations of which five (5) are new recommendations and nine (9) repeated.

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

2.1 Issues with impact on the audit opinion

Issue B1 - Untrue presentation of data in the AFS

Finding Regulation MoF – No. 01/2017, on Annual Financial Statements of Budget Organisations, Article 6 stipulates that budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information.

In reviewing the AFS we have found the following errors:

- Article 14 - Budget Execution Report – under cash inflow, initial budget and final budget columns, note 9, non-tax revenues, the presented amount was €606,000 whilst according to the budget law the amount of €638,553 should have been presented instead. This note was understated by €32,553;
- Article 14 – Budget Execution Report - under cash inflow, initial budget column, note 12, others, the amount of €33,000 was incorrectly presented, this amount should have been presented under the note 9, non-tax revenues;
- Article 14 – Budget Execution Report – under cash outflow, initial budget column, note 6, capital expenditures, the amount of €2,764,191 was presented as initial budget for this category, whilst according to the budget law the amount of €4,437,313 should have been presented instead. The investment clause of €1,673,122 was not included here, although it should have been presented under initial budget, as the investment clause is presented in the budget law. This was reflected on the total of the final budget because the Municipality presented the amount of €11,076,000 as initial budget, whilst according to the budget law it should have been €12,749,122;
- Article 14 - Budget Execution Report, under carried forward columns for years 2020 and 2019 notes of 2019 respectively 2018 have been presented;
- Article 14.6 – Disclosure of Initial and Final Budget allocations, Budget reconciliations have not been done as required in this table/column;
- Article 13 – Disclosures, third party payments – the Municipality presented the amount of €432,783, whilst it did not record any payment from third parties in the Treasury;
- Article 18 – Contingent Liabilities, the Municipality presented in the AFS the amount of €621,000 but the analytical register of contingent liabilities provided by the Municipality presents the amount of €435,602 with a difference of €185,398. Whilst in the tested samples we found that €210,836 were final decisions which were part of contingent liabilities registers presented in the AFS and were executed by the Treasury according to the enforcement decision. Contingent liabilities were overstated by €396,234; and

- Article 19.3.1 – Capital assets, the Municipality did not present accurately the total of capital assets for years 2020 and 2019. For the year 2020, instead of presenting the amount of €111,960,249 it presented €105,806,000, whilst for 2019 it presented the amount of 20,746,000 instead of €21,403,153.

Despite the suggestions for corrections from the conducted audit, weaknesses in regards to drafting the AFS are recurring. The Municipal officials did not provide any clarifications for the irregularities in the AFS. However, all this is due to the negligence of the Municipality's responsible person regarding the drafting of the AFS and dysfunctional controls.

Impact

Failure to present a true view of the AFS makes it impossible for the reader to understand the accurate state of the Municipality. In addition, lack of complete information in explanatory notes in financial statements leads to unfair and untrue view of the financial statements.

Recommendation B1

The Mayor should increase controls during the preparation of the AFS in order for the disclosures and tables for 2022 to be free of errors and undertake adequate measures towards the responsible people for untrue presentation of data in the AFS for two consecutive years. It should also be ensured that the statement issued by the Chief Administrative and Financial Officer is not signed, if all necessary controls have not been implemented according to the draft AFS.

Response of entity's management (Agree).

Issue B2 – Failure to record assets and their incomplete presentation in the AFS

Finding

Regulation MoF – No. 02/2013, on Management of Non-Financial Assets by Budget Organizations, Article 6.1 stipulates that capital assets should be recorded in KFMIS, while the non- capital assets and stocks in the “e- assets” system.

The Municipality did not record in the KFMIS accounting registers purchases of €593,987 on capital and non-capital assets for the year 2021 (including asphaltting of local roads, building of educational and health facilities, etc). In addition, the Municipality does not implement the E-assets system to record assets under €1,000, thus leading to untrue disclosure of capital and non-capital assets in the AFS.

Municipality officers did not provide any explanations regarding the failure to implement the legal requirement. However, although the recommendation is being repeated, the Municipality did not show interest in managing this situation and preventing such errors from being repeated.

Impact Failure to record all assets increases the risk for the Municipality not having control over all its assets and shortcomings in reporting thus leading to understatement of assets in the AFS.

Recommendation B2 The Mayor should ensure that all assets are recorded in the asset register in order to lower the risk of misuse or loss of assets. In addition, the e-assets system should be put to use to record assets under €1,000.

Response of entity's management (Agree).

Issue B3 – Inadequate classification of expenditures

Finding Article 18, section 3 of the Financial Rule No. 01/2013/MF – Public Funds Expenditure stipulates that expenditures should have the adequate codes, as defined under the Administrative Instruction for the chart of accounts. The Treasury Chart of Accounts defines the relevant codes and categories of expenditures that BOs should apply.

Misclassifications of expenditures on inadequate economic categories amounted to €120,970, such as:

- From the category of capital investments €65,892 were paid for goods and services and €7,470 for subsidies and transfers; and
- From the category of goods and services €47,608 were paid of wages and salaries for the employees not included in the payroll with whom the Municipality had regular work contracts according to the law on labour.

This occurred because the Municipality did not make adequate planning according to the needs and requirements of reporting expenditure according to the respective categories.

Impact Planning and execution of expenditures from inadequate economic categories leads to overstatement/understatement of the relevant categories of expenditures and assets. Thus leading to unfair presentation of expenditures in the Annual Financial Statements.

Recommendation B3 The Mayor should ensure that all necessary actions are taken in order for the expenditures to be planned in the adequate budget appropriations or that funds are redesignated and payment and recording of expenditures is done according to adequate economic codes defined by the chart of accounts.

Response of entity's management (Agree).

Issue A1 – Untrue presentation of accounts receivable in the AFS**Finding**

Article 6 of the Regulation MoF – No. 01/2017, on Annual Financial Statements of Budget Organisations provides that budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information.

The Municipality does not keep accurate, complete, up to date accounting registers of Accounts Receivable (AR) thus Accounts Receivable for the construction permits in the AFS are understated by €24,350, since in the register presented the amount of AR was €36,556, whilst in the AFS the Municipality presented the amount of €12,206.

In addition, the Accounts Receivable for the use of Municipal property in the AFS are understated by €23,276, as the Municipality has presented in the AFS the amount of €10,440, whilst in the Accounts Receivable register the amount of €12,206 is presented.

AR on property tax are overstated by €7,302 for a property which is owned by the institutions of the Republic of Kosovo which is exempt from property tax.

Untrue presentation of Accounts Receivable in the AFS was due to dysfunctional internal controls between the responsible people for keeping the Accounts Receivable records and the CFO on their presentation in the AFS.

Impact

Untrue presentation of Accounts Receivable leads to the disclosure of untrue and unfair information to the stakeholders or AFS users in regards to the AR.

Recommendation A1

The Mayor should ensure that Accounts Receivable are presented in the financial statements as required by the regulation for Annual Financial Reporting by Budget Organisations. In addition, it should ensure that responsible people for keeping the AR records and the CFO cooperate and present true data of Accounts Receivable in the AFS.

Response of entity's management (Agree).

2.2 Issues with impact on compliance conclusion

Issue B4 – Delays in payment of invoices and costs of enforcement procedures

Finding

Pursuant to Article 39.1 of the Law No. 03/L-048 LPFMA 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. Whilst according to Article 40 the Treasury shall directly pay the invoice having received the final decision of the court/bailiff.

In 10 tested cases, we found that the Municipality had not paid within the deadline the outstanding liabilities. Delays were up to six months.

According to court/enforcement decisions, the Treasury paid €554,647 from the Municipal budget for the year 2021. Out of which €530,632 were the Municipality's unpaid main debt, whilst €24,015 additional expenses on behalf of the litigation /enforcement procedure or interest.

This occurred due to entry into financial liabilities without having planned budgetary funds and poor control over management of liabilities.

Impact

Delays in execution of payments within the deadline led the Municipality to be subject to lawsuits from economic operators. Thus, incurring additional court/enforcement expenses to the Municipality.

Recommendation B4

The Mayor should ensure that all invoices and financial liabilities are paid within the legal deadline and works or supplies are not done unless the Municipality provides or allocates sufficient budget funds for payment.

Response of entity's management (Agree).**Issue A2 – Engagement for special services without conducting procurement procedures**

Finding Article 84 of Law No 06/L-114 on Public Officials stipulates that special service agreements, according to paragraph 4 of Article 12 of the Law on Civil Service No. 03/L-149 of the Republic of Kosovo, entered into before entry into force of this Law are valid until up to the deadline defined in those agreements in line with above stated provisions. Following this period, special service agreements are made according to the relevant public procurement legislation.

The Municipality engaged 22 officials with Special Service Agreements (SSA) during 2021. Out of which, 21 people were engaged also in 2020. These agreements were extended to 2021 but without procurement procedure. These officials were engaged on positions such as: property tax officer, IT security officer, firefighter, road traffic inspector, veterinary etc. On one case of an SSA engagement in 2021 for the position of subsidy officer, the recruitment procedures were applied according to the Law on Civil Services and not according to Article 84 of the Law on Public Officials No. 06/L-114.

According to the management the reason as to why they had not conducted procurement procedures was that these officials had been engaged before, therefore, simplified recruitment procedures were applied.

Impact Failure to implement the legal criteria for the engagement of people with special services agreements may violate the principle of competition, transparency and may lead to the discrimination of others.

Recommendation A2 The Mayor should ensure that all procurement procedures and steps have been followed in engaging individual contractors for special services making sure that the engaged staff will be for irregular job positions.

Response of entity's management (Agree).

Issue B5- Failure to prepare the annual plan for financial support/subsidy

Finding Regulation MF - 04/2017 on public funding of NGOs has set the procedures, requirements and criteria for subsidizing NGOs. Article 6, point 1 - Providers of financial support should prepare the annual plan of financial support for NGOs at the latest 30 days after the approval of the annual budget and should send it to respective office for good governance at the Prime Minister's Office.

Although the Municipality has subsidised NGOs, it did not prepare an annual plan for subsidizing NGOs, which should have been submitted at the Prime Minister's Office.

This occurred because the Chief Administrator Officer did not delegate responsibility for drafting the NGO funding plan to those in charge of programmes that grant subsidies.

Impact Lack of an annual subsidy plan undermines the timely information of stakeholders on the annual program and objectives intended to be achieved through project funding.

Recommendation B5 The Mayor should ensure that the legal requirements are met in drafting the annual financial support plan for NGOs and reporting the plan in the Prime Minister's Office within the set deadline.

Response of entity's management (Agree).

Issue A3 - Failure to verify 20% of the taxable properties

Finding Pursuant to Law No. 06/L-005 on Immovable Property Tax, Article 15, the Municipality shall carry out inspection activities each year for at least 20% of all property within the territory of the Municipality.

The Municipality of Istog had billed Property Tax for 26,612 objects and parcels from the Protax system. In 2021 the Municipality managed to carry out the inspection of about 4% of the properties.

Incomplete property inspection might be an indication (according to the Municipality) of insufficient staff and also due to the Covid-19 pandemic effect. However, the inspection percentage compared to last year is even lower.

Impact Low property inspection activities may lead to incomplete information on the current taxable property and to inaccurate evaluation of property tax revenues.

Recommendation A3 The Mayor should ensure the increase of immovable property inspection activities, according to legal requirements, so that eventual property changes are recorded in the database to show the correct tax liability.

Response of entity's management (Agree).**Issue B6 – Granting of subsidies, public call and subsidy monitoring in violation of the regulation****Finding**

Article 2.1 of the Regulation MF-No. 04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs stipulates that the provisions of this Regulation are implemented by each budgetary organization, which funds projects and programs for NGOs that are applicants or partner during the application according to a call for proposals for funding projects and programmes from NGOs, which meet the criteria according to this regulation. Article 13 sets forth the criteria that the public call should contain⁴ the following: Form 9 / the draft proposal, Form 10 / draft budget, tentative calendar data for the call etc. Moreover, according to Article 23.1 of the same regulation, Monitoring and reporting of projects and programs stipulates that for each concluded contract, the provider of financial support appoints a responsible official who should provide for the monitoring of the project implementation. Whilst point 2 requires from the beneficiary to report to the monitoring official on a regular basis regarding the implementation of the project / program as required by the contract.

In this regard we have found that:

- The payment from €5,315 was done according to the Mayor's decision for financial support of the women handball Club for participation in the EHF Cup by overlooking the Regulation MF No. 04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs where competition, transparency, equal treatment and no discrimination are required.
- In a public call for subsidizing sports activities we found that four NGOs, without a draft proposal, draft budget and tentative calendar data of the call were selected and received a subsidy in the amount of €33,493. These NGOs had not submitted financial and narrative return reports on how the funds were spent.
- The public call for subsidizing sports activities was not in compliance with the regulation as it did not contain: Form 9 / draft proposal, Form 10 / draft budget, and tentative calendar data of the call.

This occurred due to poor functioning of internal controls, lack of monitoring official and failure to set a reporting deadline in the contract.

Impact Failure to implement the criteria according to the public call as well as lack of subsidy monitoring increases the risk for the budget funds to be appropriated and spent contrary to the Municipality's objectives.

Recommendation B6 The Mayor should ensure that public calls for subsidies comprise all the requirements set out in the Regulation on Criteria, Standards and Procedures for Public Financing of NGOs, then ask NGOs to submit financial and narrative return reports as well as for each beneficiary of the subsidy to appoint a monitoring official.

Response of entity's management (Agree).

Issue B7 – Lack of the execution project

Finding Pursuant to the Law on Public Procurement, Article 28.10, Technical Specifications should include, as a substantial part of itself, an executive project. The Contracting Authority (CA) is responsible for drafting the Executive Project, which mandatorily should be attached (also in electronic equipment) to the Technical Specifications, which are part of the tender dossier. No CA is allowed to issue tender documentation without attaching a detailed project description.

In the contracts "Construction of locker rooms in the football stadium Demush Mavraj - Istog-second phase, €69,835", "Construction of roads Fushë Kuqe and Molla Kuqe in Kovrag (2 year project), €79,412", and "Construction of fecal sewerage and public lighting in the neighbourhood Arif Ademi in Banja, Carrallukë and asphaltting of roads in the Municipality of Istog €102,987", the Municipality had not drafted an executive project, but had initiated procurement procedures by preparing only the bill-of-quantities and estimates.

This occurred due to the negligence of the requesting units without prior drafting of executive implementation projects and inefficient functioning of controls at the procurement office by conducting procedures without meeting the legal requirements.

Impact Initiation of the procurement procedure in lack of an executive project, may lead to poor implementation of employment contracts and may affect unforeseen expenses or poor value for money spent.

Recommendation B7 The Mayor should ensure that proper control is in place through the procurement office, so as to review that the requesting units draft the executive project according to the legal requirements and needs of the Municipality by setting the standard of quality of work or supply.

Response of entity's management (Agree).

2.3 Findings on financial management and compliance issues

2.3.1 Revenues

Revenues generated by the Municipality in 2021 amounted to €1,072,090. An increase of €284,783 compared to 2020 when the revenues amounted to €787,307. They relate to property tax, construction permits tax, administrative fees, business tax, rent tax, etc. In addition to the direct revenues, the Municipality has also received indirect revenues €131,893 from traffic fines, €29,941 from the Court and €11,908 from Forestry Agency revenues.

Issue B8 – Shortcomings in meeting legal requirements of property tax

Finding

Article 11, paragraph 1 of the Law No. 06/L-005 on Immovable Property Tax stipulates that the natural person who, until 30 of November of the year before the tax year, establishes that the object unit serves as primary residence and declares this in the Municipality or during the inspection stage, shall be allowed a deduction of fifteen thousand €15,000 from the appraised value of the object unit, as well as paragraph 4 stipulates that the natural person who owns or possesses two (2) or more residential object units may declare in accordance with paragraph 1 of this Article only one of those objects as his primary residence, regardless of the fact that the object units may be located in different Municipalities.

While analysing the Protax database, we have found that there were 282 facilities pertaining to the Business category of property (valuation category: office), for which taxpayers incorrectly obtained tax deduction as they benefit from the primary residence deduction of €15,000. The total value recorded for the deduction is €4,230,000 and in calculating the tax deduction for this amount turns out that the Municipality has calculated €6,345 less taxes per year ($4,230,000 * 0.15\% = €6,345$).

Further on, based on the requirements of the Protax system, the taxpayer file should contain the following elements: ID, taxpayer, property and building number, photograph, etc. We have verified that 2,120 taxpayers have not entered the ID number of the Republic of Kosovo, instead only zeroes have been entered in order to pass this step.

This occurred due to the negligence of responsible officers for the completion of taxpayers' files.

Impact Shortcomings identified in the database and incomplete information in the taxpayers' file, including ID number, lead to the possibility of benefiting the primary residence tax deduction for more than one property which may result with the Municipality charging the taxpayers less than it should.

Recommendation B8 The Mayor should ensure that taxpayers' files are completed according to the Protax system requirements. Errors and defects occurring in the Protax system should be addressed and solved in cooperation with the Property Tax Department within the Ministry of Labour, Finance and Transfers.

Response of entity's management (Agree).

2.3.2 Goods and Services and Utilities

The final budget for Goods and services and utilities in 2021 was €1,550,850, of which €1,385,073 or 89% were spent. Those mainly relate to stationaries, fuels and other heating supplies, utilities, facility maintenance and contractual services, etc.

Issue A4 – Irregular payment through enforcement procedure

Finding Pursuant to the Financial Regulation No. 01/2013/MF-Spending of Public Funds, Article 24, all invoices should be accepted by applying the procedures of internal control for the circulation of documentation; paragraph 1.2-To ensure the report of acceptance of goods/services by the authorised officer/commission and paragraph 1.3-Invoice should be protocolled and registered in the invoice book.

According to the execution order, the Treasury had executed the payment in the amount of €5,107, together with the additional cost of €987. However, in this invoice there is no report that the works have been completed and accepted by the supervising officer or the contract manager. In addition, there is no evidence that the invoice was accepted and recorded by the Municipality. The responsible official representing the Municipality had returned the execution order after the statutory deadline was due, for which the court rejected the return and the payment had been executed by the Treasury.

According to the Municipality's legal representative, this occurred due to the lawyer's large volume of work.

Impact As a result of the failure to undertake adequate actions to protect the Municipality's interest of returning the execution order within the statutory deadline, the Municipal budget was damaged by €5,107.

Recommendation A4 The Mayor should ensure that the Municipality's legal representative undertakes necessary actions within deadlines at times when legal representation of the Municipality is needed to protect the Municipality's interest.

Response of entity's management (Agree).

2.3.3 Receivables

The Municipality in the 2021 AFS has disclosed receivables in the amount of €1,632,691. This value consists of property tax €1,424,174, construction permits €12,206, business charges €174,831 and others €21,480.

Issue B9 – Continuous increase of accounts receivable and lack of mechanisms for their collection**Finding**

Pursuant to Article 26 of the Law on Immovable Property Tax No. 06/L-005, 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 and Article 27, if a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor. According to Article 12.3 of Regulation no. 2/2021 - for Municipal taxes, fees and fines, it is determined that for non-payment of taxes and charges defined in the regulation, within the deadline defined by the relevant official body, for which there is an invoice, the execution procedure is initiated.

The Municipality has not managed to prepare an operational plan for the collection of accounts receivable (AR) and has not undertaken the actions required by the legislation. Compared to last year AR increased by 9%. The highest increase occurred in property tax, where uncollected debts were €1,424,174 and compared to 2020 were increased by €146,792 or 11%.

The Municipality did not have in place an effective management in the collection of AR in business tax, as it has not undertaken any action to collect the debts accumulated over the years. Their amount presented in the 2021 AFS was €174,831 and is the same as the amount presented in 2020.

Poor management of Accounts Receivable was as a result of the situation created by Covid-19 pandemic, although it has not been a good one in the previous years either.

Impact

The increase of AR over the years and failure to take actions for their collection, aggravates the collection performance of these accounts and on the other hand leads to the negative growth trend year after year risking their collection.

Recommendation B9

The Mayor should ensure that all possible options are being actively considered, establishing policies and regulations in order to increase the efficiency of debt collection by reviewing all measures against operators who do not fulfil their obligations in accordance with the law.

Response of entity's management (Agree).

2.3.4 Internal Audit Function

Internal Audit Unit (IAU) operates with one member. IAU for 2021 had planned four audits which by the end of the year had finalised two reports in the fields of property and revenues from urbanism.

Issue A5 – Incomplete and dysfunctional Audit Committee

Finding According to Article 6 of AI MF- No. 01/2019 on the Establishment and Functioning of the Audit Committee (AC) at the Public Sector Entity, the AC is appointed by the head of the public sector entity and consists three (3) or five (5) members, and according to Article 8, the AC must hold at least four meetings within the calendar year to review the recommendations from the Internal and External Audit reports.

The AC consists of only two members out of three, which is the required minimum, since September 2020 when the AC chairman's mandate ended, the Municipality had not taken any action to replace the chairman.

For 2021, the AC had held only two meetings out of the four required, undermining the support to the Municipal management in improving the internal control system, reviewing reports and providing support to the IAU.

The reasons of the dysfunctional Audit Committee have not been clarified by the Municipal officials. However, it is noted that the Municipality has not paid attention to this situation.

Impact Dysfunctional and incomplete Audit Committee negatively affects the effectiveness of the Municipality's internal controls and the functioning of internal audit.

Recommendation A5 The Mayor should ensure that the necessary actions are taken so that the AC is complete and functional in order for the committee to critically review the internal audit plans, confirm that they are risk-based and provide the management with the assurance required. The AC should also monitor the actions taken by the management in relation to the audit recommendations.

Response of entity's management (Agree).

3 Summary on budget planning and execution

We have considered the sources of budget funds, spending of funds and revenues collected by economic categories. This is highlighted in the following tables:

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

| Description | Initial Budget | Final Budget ⁵ | 2021 Outturn | 2020 Outturn | 2019 Outturn |
|--|-------------------|---------------------------|-------------------|-------------------|-------------------|
| Sources of Funds | 12,749,113 | 12,672,563 | 11,920,156 | 13,665,096 | 11,298,093 |
| Government Grant - Budget | 10,001,812 | 9,849,621 | 9,385,694 | 9,897,884 | 9,047,397 |
| Funding through borrowing | 0 | 25,035 | 25,031 | 92,580 | 0 |
| Funding through borrowing-investments clause | 1,673,122 | 1,673,122 | 1,528,317 | 2,402,275 | 1,018,849 |
| Carried forward from previous year | 0 | 0 | 0 | 426,373 | 357,316 |
| Own Source Revenues | 1,074,179 | 1,074,179 | 941,700 | 638,792 | 834,100 |
| Domestic Donations | 0 | 50,083 | 39,414 | 31,545 | 40,430 |
| External Donations | 0 | 523 | 0 | 175,649 | 0 |

The final budget was lower than the initial budget by €76,550. This is a result of the decrease of the Government Grant by €152,191, increase in funding from borrowing by €25,035 and increase of domestic and external donations by €50,606.

In 2021, the Municipality of Istog spent 94% or €11,920,156 of the final budget, an improvement of 5% compared to 2020 which was 89%. Budget execution is at a satisfactory level and explanations for the current position are detailed below.

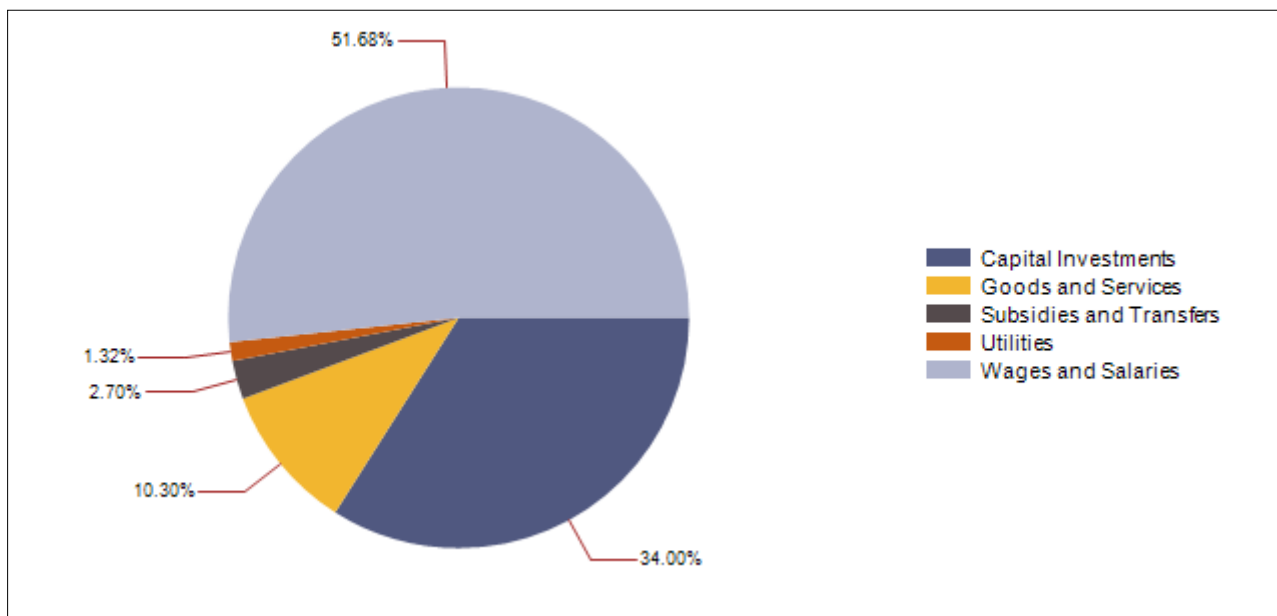
Table 2 – Spending of funds by economic categories - (in €)

| Description | Initial Budget | Final Budget | 2021 Outturn | 2020 Outturn | 2019 Outturn |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| Spending of funds by economic categories | 12,749,113 | 12,672,563 | 11,920,156 | 13,665,096 | 11,298,093 |
| Wages and Salaries | 6,309,800 | 6,166,854 | 6,160,659 | 6,211,773 | 5,932,592 |

| | | | | | |
|-------------------------|-----------|-----------|-----------|-----------|-----------|
| Goods and Services | 1,350,000 | 1,348,850 | 1,227,191 | 1,482,803 | 1,164,195 |
| Utilities | 202,000 | 202,000 | 157,882 | 174,280 | 154,686 |
| Subsidies and Transfers | 310,000 | 325,000 | 321,811 | 315,008 | 328,610 |
| Capital Investments | 4,437,313 | 4,629,859 | 4,052,614 | 5,481,234 | 3,718,008 |
| Reserves | 140,000 | 0 | 0 | 0 | 0 |

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries compared to the initial budget was decreased by €142,946. This is a result of the decrease of the Government Grant by €166,041 and increase of funding through borrowing by €23,095;
- The final budget for Goods and Services and Utilities compared to the initial budget was decreased by €1,150, whilst the budget outturn for this category was 91%. This budget change is due to the decrease of the Government Grant for the same amount.
- The final budget for Subsidies was increased by €15,000. This increase was from the Government Grant, whilst the budget outturn for this category was 99%;
- The final budget for Capital Investments compared to the initial budget was increased by €192,546. Despite the budget increase, the budget outturn was at 88%. This increase was by the grant reserve of €140,000, donation grant and borrowing of €52,546. By decision of the Municipal Assembly these funds were planned to be spent on the following projects: Asphaltting local roads; Building, reconstruction and maintenance of social housing. It is worth noted that the project "Building of Water Supply for Istog's Municipality" amounting to €5,094,246 is funded by the investments clause. For this project the Assembly of the Republic of Kosovo in 2019 adopted the Law No. 06/L-143 on ratification of the loan agreement between the Republic of Kosovo and Unicredit Bank Austria AG. From 2019 to 2021, €3,421,124 were spent, whilst only for 2021 €1,528,317 were spent. The funds spent in 2021 for Economic Recovery totalled to €208,112 which were mainly appropriated for allowances in education and health.

Chart 1. Expenditures by economic categories in 2021

Revenues collected by the Istog Municipality in 2021 amounted to €1,072,090 and had an increase of €284,782 compared to 2020. They relate to property tax, construction permits tax, administrative fees, business tax, rent tax, etc. In addition to the direct revenues, the Municipality has also received indirect revenues of €131,893 from traffic fines, €29,941 from the Court and €11,908 from Forestry Agency revenues.

Table 3. Revenues (in €)

| Description | Initial budget | Final budget | 2021 Receipts | 2020 Receipts | 2019 Receipts |
|--------------------------|------------------|------------------|------------------|----------------|------------------|
| Total of revenues | 1,074,179 | 1,074,179 | 1,072,090 | 787,307 | 1,083,543 |
| Tax revenues | 435,626 | 435,626 | 474,062 | 299,468 | 395,940 |
| Non-tax revenues | 638,553 | 638,553 | 598,028 | 487,840 | 687,602 |

4 Progress in implementing recommendations

Our audit report on 2020 AFS of Istog Municipality resulted in 11 key recommendations. The Municipality of Istog prepared an Action Plan stating how all recommendations will be implemented. The Municipality did not have any public hearing regarding the implementation of recommendations from the NAO report. The Municipality did not prepare any periodic reports on the implementation of recommendations as required by the NAO regulation for drafting evaluation reports related to the implementation of recommendations. By the end of our 2021 audit, two (2) recommendations have been implemented and nine (9) were not 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

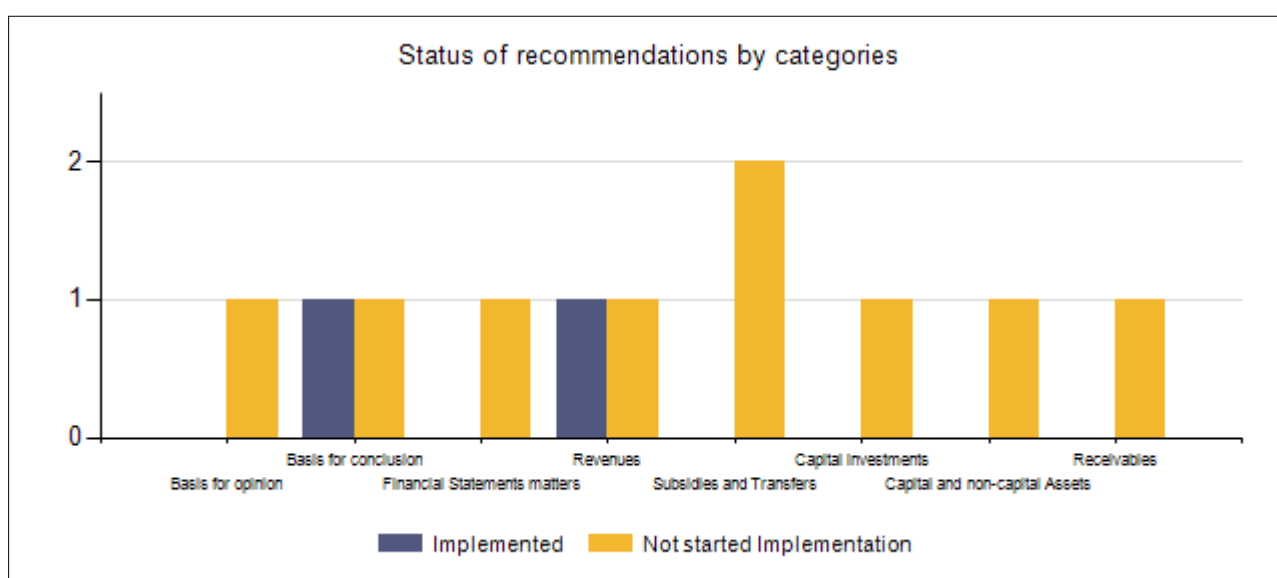


Table 4. Summary of prior year's recommendations and of 2020

| No. | Audit area | Recommendations of 2020 | Actions undertaken | Status |
|-----|----------------------|--|---|----------------------------|
| 1 | Basis for Opinion | The Mayor should increase controls during the preparation of the AFS in order for the disclosures and tables for 2022 to be free of errors and undertake adequate measures towards the responsible people for untrue presentation of data in the AFS for two consecutive years. It should also be ensured that the statement issued by the Chief Administrative and Financial Officer is not signed, if all necessary controls have not been implemented according to the draft AFS. | No actions have been taken to address this recommendation | Implementation not started |
| 2 | Basis for Conclusion | The Mayor should set up additional controls to ensure that all received invoices are paid | No actions have been taken to | Implementation not started |

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|----|-----------------------------|---|--|----------------------------|
| | | within the legal deadline in order to manage outstanding liabilities. | address this recommendation. | |
| 3 | Basis for Conclusion | The Mayor should ensure that the applicable regulations are complied with during the subsidy, and should also initiate procedures for establishing criteria for requests evaluation and subsidy allocation for damages caused by natural disasters. | In our tests we did not notice that the selection of the subsidies' beneficiaries was conducted without criteria | Implemented |
| 4 | Annual Financial Statements | The Mayor should ensure that expenditures are planned and carried out in compliance with the appropriate economic categories, to enable their fair reporting according to public sector accounting standards in accordance with the chart of accounts. | No actions have been taken to address this recommendation | Implementation not started |
| 5 | Revenues | The Mayor should ensure that taxpayers' files are completed according to the Protax system requirements. | No actions have been taken to address this recommendation | Implementation not started |
| 6 | Revenues | The Mayor should ensure that Municipal property is offered for use only through public auction procedures. It should also take legal action through bailiffs and the court for debt collection and establish a commission which will verify the cases of debt settlement. | We did not found that the public property has been put in use without auction | Implemented |
| 7 | Subsidies and Transfers | The Mayor should ensure that the directorates that financially support non-public entities have prepared the annual financial support plan prior to the approval of the annual budget. In support of this plan, the funds will be distributed according to certain priorities and objectives for activities in certain areas at a cost, in compliance with the principle of effectiveness and economy for the costs incurred. | No actions have been taken to address this recommendation | Implementation not started |
| 8 | Subsidies and Transfers | The Mayor should ensure that public calls for subsidies comprise all the requirements set out in the Regulation on Criteria, Standards and Procedures for Public Financing of NGOs, then ask NGOs to submit financial and narrative return reports as well as for each beneficiary of the subsidy to appoint a monitoring official. | No actions have been taken to address this recommendation | Implementation not started |
| 9 | Capital Investments | The Mayor should ensure controls and monitor the implementation of legal requirements so that in the case of contracting works, executive projects should be drafted in advance in accordance with the needs and requirements of the requesting unit. | No actions have been taken to address this recommendation | Implementation not started |
| 10 | Assets | The Mayor should ensure that all Municipal assets are correctly identified and recorded in the asset registers and also ensure the use of the e-assets system in all directorates | No actions have been taken to address this recommendation | Implementation not started |

| | | | | |
|----|---------------------|---|---|----------------------------|
| | | as well as draft internal regulations and procedures for asset management. | | |
| 11 | Accounts Receivable | The Mayor should provide an action plan for debt collection. Initially, activities should be intensified, including legal actions through bailiffs to increase collections. | No actions have been taken to address this recommendation | Implementation not started |

Vlora Spanca: Auditor General

Zukë Zuka: Assistant Auditor General

Lavdim Maxhuni: Head of Audit

Elvir Krasniqi: Team leader

Faik Thaqi: Team member

Senver Morina: Team member

Xhevat Seferi: Team member

Annex I: Letter of confirmation



Republika e Kosovës
Republika Kosova
Republic of Kosovo



REPUBLIKA E KOSOVËS KOMUNA E ISTOGUT
REPUBLIKA KOSOVA OPŠTINA ISTOK
DREJTORIA E ADMINISTRATËS PËR QËLITËSI
URRASA OPSTE ADMINISTRACIJE

Shkronja

Nr: 01/01/1693

Data: 01.07.2022

V.V.

Gatum

ISTOG/ISTOK



Komuna e Istogut
Opština Istok
Istog Municipality

KRYETARI I KOMUNËS

| | |
|------------------------|--|
| DATE/DANA: | 29.04.2022 |
| REFERENCË/PREPORUKA | 01 Nr.261/2022 |
| PËR/ZA/TO: | Zyrën e Kombëtare të Auditimit |
| CC/: | z. Lavdim Maxhuni, Drejtor i Departamentit për Auditim Financiar dhe Pajtueshmërisë |
| BCC/: | |
| NGA/OD/FROM: | Ilir Ferati, Kryetar i Komunës |
| TEMA/SUBJEKAT/SUBJECT: | Letër e Konfirmimit për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2021 dhe për zbatimin e rekomandimeve. |

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Istogut, për vitin 2021 (në tekstin e mëtejme "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Draft 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.

Data: 29,prill.2022, Istog,

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

Auditor's Report on the financial statements⁶ 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 authorities⁷. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

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

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.

End notes

- 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
- ³ Collectively referred to as compliance with authorities
- ⁴. Horizontal and vertical signaling 956.00, technology-printer equipment, scanner, photocopy 576.00, information technology equipment 1,360.00, sewage construction in Klerrine 30,000.00, renovation of school facilities 13,135.35, road construction in Istog, street 'Rinia', consortium Tech Vision 8,289.91, other equipment 7,470.00, Shkëmbi LTD 40,000.00 maintenance of the Istog football stadium 3,034.00, maintenance of Istog football stadium 270.00, construction of public lighting and sewerage 36,296.00, construction of public lighting Cerrce 19,000.00, concreting the irrigation canal from the school - the neighborhood of Zeqiraj Prigode 22,288.50, Menti LTD 27,086.93, Granit LTD 70,018.00, Granit LTD 29,982.00, fence construction and court yard rehabilitation in Cerkolez healthcare centre 15,272.00, Shkëmbi LLC, construction of the healthcare centre in Uçë village 3,988.00, medical equipment 19,110.00, asphaltting of "Regja Kastrati" street in Kashice 20,000.00, construction of public lighting Cerrce 19,000.00.
- ⁵. 1.1. Call instructions for applicants, including criteria for selecting beneficiaries; 1.2. Project / program description form; 1.3. Budget form; 1.4. Complete list of documents required to appear in the call; 1.5. The date of call opening and closing; 1.6. Data on how to submit applications; and 1.7. Data for the tentative call realization and contracting calendar.
- ⁶. Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance
- ⁷. Financial statements in the public sector include also the statement(s) of budget execution
- ⁸. Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices