



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 2022

Prishtina, Jun 2023

TABLE OF CONTENT

1	Audit Opinion.....	3
2	Findings and recommendations.....	7
3	Summary on budget planning and execution.....	18
4	Progress in implementing recommendations.....	21
	Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor’s Report.....	26

1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Kaçanik for the year ended on 31 December 2022 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities¹.

Unmodified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of 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 reports², for the year ended as at 31 December 2022.

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 matters described in the Basis for Compliance Conclusion 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

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

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

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

Basis for the Conclusion

- A1 Allowing the payment as an advance of €40,676, even though it was not foreseen by the contract and in the tender file under the special conditions of the contract.
- A2 Exceeding the quantities in the contracted positions in the contract "Construction of faecal and atmospheric sewers".
- A3 Delay in depositing the funds collected in the bank account.
- B1 The municipality had issued the tender documentation without drawing up the executive project.
- A4 The municipality had not uploaded the documents related to the eligibility requirements on the public procurement electronic platform.
- A5 Payment certification is made in the absence of the project manager's report.
- A6 In 2022, the municipality did not prepare and maintain contract management through the electronic procurement system.
- A7 Accounts receivable presented in the Annual Financial Report (AFR) were overstated by €22,631.
- B2 The car, worth €24,850, was registered in the wrong class.

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

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.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 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.

³ 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 recommendations⁴

During the audit, we have identified areas of possible improvement on Financial Management and Control. Weaknesses were identified as the following: lack of executive project, failure to deposit collected funds under €10 on time, contract managers' failure in reporting, shortcomings regarding the use of the public procurement e-platform, weaknesses in assets' recording, delays in collecting accounts receivable. 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 resulted in 10 recommendations, of which eight (8) are new recommendations and two (2) 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 – Advance payment of 10% of the contract value for capital investments without being foreseen in the contract and with special conditions

Finding

Article 13 of Law no. 08/l-066 on Budgetary Allocations for the Budget of the Republic of Kosovo for 2022 provides that "budgetary organizations can pay advance payments to contractors for capital projects and for goods and services up to 15% of the contract value. Such advance payment can only be made on the basis of a legally concluded contract, with a value higher than ten thousand euros (€10,000), which has been reached in accordance with the Law on Public Procurement. For advance payments for capital projects, the contract must contain a performance bond and a clearly defined payment schedule, which also provides for the work to be done before each payment is made. In November, the advance payment is limited to ten percent (10%) and in December 2022 to five percent (5%) of the contract value".

⁴ Issue A and Recommendation A - means new issue and recommendation

Issue B and Recommendation B - means repeated issue and recommendation

Issue C and Recommendation C - means partly repeated issue and recommendation

In the project "Construction of the facility for social housing" in the amount of €406,747, concluded on 19.10.2022, the procurement office in the tender file in the special conditions of the contract as well as in the contract related to the economic operator did not foresee the advance payment. The project manager and the economic operator in November 2022 had requested permission for an advance payment of 10% of the contract value, in which case the Mayor on 15.11.2022 allows the payment to be made in advance in the amount of €40,676, even though it is not it was foreseen.

This happened due to the reason of the economic operator regarding the price increase in the construction material market.

Impact

The advance payment, which was not provided for in the tender file and the contract between the parties, may affect the municipality's lack of equal and transparent treatment with other operators.

Recommendation A1 The mayor should ensure that he will not allow payment in advance if such a thing is not foreseen by special conditions of the tender file and by the contract concluded between the municipality and the economic operator.

Response of entity's management (Agree).

Issue A2 - Exceeding quantities in contracted positions

Finding The municipality had drawn up the pre-measurement and pre-calculation for the "Construction of faecal and atmospheric sewage" project. In this measure, the quantities that must be carried out for each position expected to be carried out were foreseen.

In the contract "Construction of faecal and atmospheric sewers" related to the date 22.10.2021 in the amount of €92,414, we have observed an excess of quantities in the contracted positions. The excesses were in the position of preliminary works, the contracted value was €900, while the realized €1,453, the position of excavation works, the contracted value of €16,969, realized €27,368, the position of contracted cutting works €200, realized €1,036, the assembly works of €43,665 contracted, €45,462 realized. While the positions that were not carried out according to the contract were: atmospheric sewerage works contracted €17,834 realized €4,409, concrete works contracted €10,635 realized €8,800. Although there were material changes in the contract. The municipality had not changed or is terminating the contract. It is worth noting that the total contract has not been exceeded.

The change of the contracted positions occurred as a result of the drafting of the pre-measure and pre-calculation in the absence of the executive project.

Impact Exceeding the contracted positions on the one hand and not realizing the positions on the other hand, affects the contract not being realized and not reaching the intended goal.

Recommendation A2 The mayor should ensure that in cases where there are material changes in the realized positions in addition to the contracted positions, such contracts are terminated.

Response of entity's management (Agree).

Issue A3 - Delay in depositing funds in the bank account

Finding Article 11 paragraph 2 of the Financial Rule 03/2010 on revenues provides that "At the end of the day, the money collected in the OB's coffers must be deposited in total for each type of revenue through collection agencies with a summary invoice determined by the number UNIREF identifier".

The funds in the amount of €4,080, collected during the month of January (05-28.01.2022) from the vehicle registration tax, were deposited almost a month late in the bank (deposit date 31.01.2022), also, the funds in €839 worth, collected from the tax for other certificates during the month of November (01-25.11.2022) were deposited one month late in the bank (date of deposit 30.11.2022).

This happened due to the carelessness of the official responsible for depositing the funds in the municipality's bank account.

Impact Keeping funds in the municipality's treasury without depositing them in a bank account for a period of one month, may affect the loss or misappropriation of the collected funds.

Recommendation A3 The mayor should ensure that the funds collected from the vehicle registration tax and certificates will be deposited at the end of the day.

Response of entity's management (Agree).

Issue B1 - Lack of executive projects

Finding The Rules and Operative Guide for Public Procurement respectively point 20.13 provides, among other things, that "The Contracting Authority is responsible for the drafting of the executive project and which must be attached (also in electronic equipment) to the Technical Specifications, which are part of the file of the tender. No Contracting Authority is allowed to issue the tender documentation without attaching the detailed description of the project".

In two (2) cases, we noticed that the Municipality issued the tender documentation without drawing up executive projects. The cases were for the contracts: "Construction of Sports hall at Primary/Low secondary school Nazim Osmani" in the value of €315,916 and "Regulation and asphaltting of urban and rural roads" in the value of €275,843.

This happened due to the negligence of the Municipality to draw up executive projects as required by legal requirements.

Impact The lack of an executive project can cause difficulties in the realization of projects during the execution phase, and increases the risk that during the process of project execution various obstacles will be presented, both in the professional aspect, as well as in the delays of the works or even in the increase of the costs of projects.

Recommendation B1 The mayor ensures checks and monitors the implementation of legal requirements, so that when initiating the procurement procedures for the contracting of works, the drafting of projects in accordance with the anticipated needs and requirements is ensured in advance.

Response of entity's management (Agree).

Issue A4 - Lack of documents related to eligibility requirements in the electronic public procurement platform

Finding Point 49.18 of the Rule and Operational Guide for Public Procurement provides that "Verification of the suitability and qualifications of bidders is done through the standard Letter B47 Request for clarification of the tender/application through the electronic platform".

We noticed that the documents required according to the eligibility requirements for the contract winner, such as certification by the competent court, certification by TAK, were not placed on the electronic e-procurement platform. The observed cases are in the contract "Renovation of the building at the palace of culture" contract value €28,577, "Sound services" contract value €22,590 and "Pellet fuel supply" contract value €78,090.

According to the explanations of the procurement officer, this happened on the grounds that the documents in question were requested to be original.

Impact The lack of eligibility documents on the electronic platform affects the non-compliance with the legal requirement, and the non-receipt of information electronically by the authorized users.

Recommendation A4 The Mayor should increase controls at the procurement office to ensure that all required documents are uploaded to the public procurement electronic platform.

Response of entity's management (Agree).

Issue A5 - Certification of payment in absence of project manager's report

Finding Point 61.20 a and k of the Rules and Operational Guidelines for Public Procurement provides that one of the functions of the project manager is to "Ensure that the Economic Operator fulfils all performance or delivery obligations in accordance with the terms and conditions of the contract and submit reports on the progress or completion of a contract as required by the Procurement Department or the SAO". Likewise, the decision issued by the Mayor of the Municipality for the appointment of the contract manager foresees "The project manager will be responsible for the management of the project and will report in writing to the procurement office and the office of the Mayor of the Municipality for the realization of the works". Further, article 25 paragraph 1.2 of Financial Rule no. 01/2013 MF spending of public money foresees "The certifier shall ensure that the applicable conditions of a public contract have been fulfilled before the registration of the expenditure in SIMFK and the authorization of payments".

In the payment for the supply of medical equipment in the amount of €11,000 and the payment in the amount of €7,492, for the supply of clothing for health workers, the project managers had not drawn up reports on the progress or completion of the contract. The payment was certified without the report of the project manager, only with the report of the commission for the acceptance of the goods.

This happened as a result of the ignorance of the contract managers to draw up the report on the progress of the contract.

Impact Failure to report in writing to project managers increases the risk that payment will be executed until the works/goods and services are accepted according to the terms and conditions of the contract.

Recommendation A5 The mayor should ensure that the project managers will report in writing regarding the fulfilment of the contract by the economic operator, and the payment certification will be done only after the written report from the project managers has been provided.

Response of entity's management (Agree).

Issue A6 - Contract management records not through the e-procurement platform

Finding Item 61. Contract Management and Performance Evaluation of Contractors paragraph 20.f. of the Rule and Operational Guide for Public Procurement provides "Ensure that all contract management records are prepared, kept and archived in the contract management module in the electronic procurement system"

The municipality of Kaçanik did not maintain and archive the contract management and performance evaluation of the contractors through the electronic public procurement system.

This happened as a result of the negligence of the project managers.

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

Recommendation A6 The Mayor should ask all project managers to ensure that contract management will be maintained and archived by the electronic public procurement system.

Response of entity's management (Agree).

Issue A7 – Overstatement of Accounts Receivable in AFR

Finding Article 16 of the regulation 01/2017 for annual reporting by the Budgetary Organization defines "Budgetary organizations that collect revenues are obliged to keep records of collected revenues and invoiced and uncollected amounts. Receivables are disclosed in the annual financial report in the corresponding table according to the type of income".

We noticed that accounts receivable were overstated by €22,631. This value was paid in 2022, by the parties as property tax, but the official who keeps the AR (accounts receivable) registers had not paid it off from the receivables register

The reason for the incorrect presentation of the value of accounts receivable was the carelessness of the official to update the accounts receivable register.

Impact The overestimation of accounts receivable affects the values presented AFR does not present a fair picture and creates uncertainty for its users.

Recommendation A7 The mayor should ensure that when preparing the AFR, adequate internal control procedures are implemented by verifying the accuracy and completeness of data for accounts receivable.

Response of entity's management (Agree).

Issue B2 - Registration of property in the wrong class

Finding Regulation MF-No. 02/2013 on the Management of Non-Financial Assets in Budgetary Organizations, Article 6 paragraph 1 stipulates that "Each budgetary organization must create and update the register of non-financial assets under its management. The register must be kept separately for each asset and in aggregated form according to categories classified on the basis of the accounting plan".

In 2022, the municipality did not register the car purchased for €24,850 in the transport vehicle class where the depreciation period is 7 years, but it registered it in the medical equipment class where the depreciation period is 5 years.

This happened as a result of the negligence of the property officer to register the property in the correct class.

Impact Failure to register the asset in the correct class affects the rate of depreciation to be incorrect and in which case the asset is undervalued.

Recommendation B2 The Mayor should ensure the correct implementation of internal controls related to the correct registration of non-financial capital assets in accordance with the criteria of the regulation for the management of non-financial assets.

Response of entity's management (Agree).

2.2 Findings on financial management and compliance issues

2.2.1 Receivables

Accounts receivables disclosed by the Municipality in 2022 AFS were in the amount of €1,830,089. In comparison to the previous year, they have increased by €118,492.

Issue A8 - Weaknesses in accounts receivable management**Finding**

According to Article 26 of the Law on Tax on Immovable Property 06-L 005, the Municipality, the Ministry of Finance and the competent executive bodies have the authority and powers to collect unpaid tax liabilities that exceed the amount of ten (10) Euros and Article 27 If a the taxpayer or debtor has not fully paid the tax and the fine, if any, or unpaid tax obligations, in accordance with the established deadlines, the municipality issues the final written notice within ten (10) working days after the last day for payment, where it requires full payment of unpaid tax obligations, no later than ten (10) calendar days after the day that the final notification is considered to have been received by the debtor.

The collection of other revenues must be done according to the time limits specified in the invoice for each type of revenues.

The municipality did not have effective management in the collection of Accounts Receivable (AR) as their growth continues over the years. For our samples, we have not noticed that the Municipality has taken any concrete action for the year 2022 for the collection of AR. The largest share of receivables is property tax with €1,557,227, business tax €222,020, rent from buildings (parcels) €50,841.

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

Impact

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

Recommendation A8The Mayor should ensure the improvement of the accounts receivable management process in order to increase the efficiency in their collection.

Response of entity's management (Agree).

3 Summary on budget planning and execution

This Chapter gives a summary on 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 budget funds (in €)

Description	Initial budget	Final budget ⁵	2022 Expenditures	2021 Expenditures	2020 Expenditures
Sources of funds	9,193,167	9,994,256	8,975,661	8,653,621	9,025,466
Government Grants – Budget	8,503,737	8,510,211	8,111,286	7,839,535	8,499,061
Funding through borrowing	0	77,104	73,968	22,929	66,825
Carried forward from previous year	0	706,271	386,278	365,273	145,987
Own source revenues	689,430	689,430	395,449	404,714	302,734
Domestic Donations	0	11,241	8,680	21,169	10,859

The final budget in relation to the initial budget had increased by €801,089. This increase is the result of Government Decisions, the transfer of personal income from the previous year, financing from borrowing as well as donations.

In 2022, the Municipality has spent about 90% of the final budget. This represents a good budget performance.

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

Description	Initial budget	Final budget	2022 Spending	2021 Spending	2020 Spending
Spending of funds by economic categories	9,193,167	9,994,256	8,975,661	8,653,621	9,025,466
Wages and Salaries	5,289,743	5,373,320	5,069,788	5,058,048	5,232,500
Goods and Services	909,423	973,120	969,418	826,344	1,725,418
Utilities	221,000	197,805	176,626	188,597	183,233
Subsidies and Transfers	300,000	347,424	322,604	300,804	230,235
Capital Investments	2,203,001	3,092,587	2,437,225	2,279,828	1,654,079
Reserves	270,000	10,000	0	0	0

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

The final budget for wages and salaries was increased by €83,577, compared to the initial budget. This increase was from the borrowing fund according to the government's decisions for health supplements in the amount of 77,103 and with the government's decision an increase of €6,474.

The final budget for goods and services was increased by €63,697. The increase was the result of the transfer of funds by decision of the Municipal Assembly from capital investments to goods for €66,832, decrease as a result of the transfer from goods to subsidies in the amount of €5,535, increase from donations for €2,400.

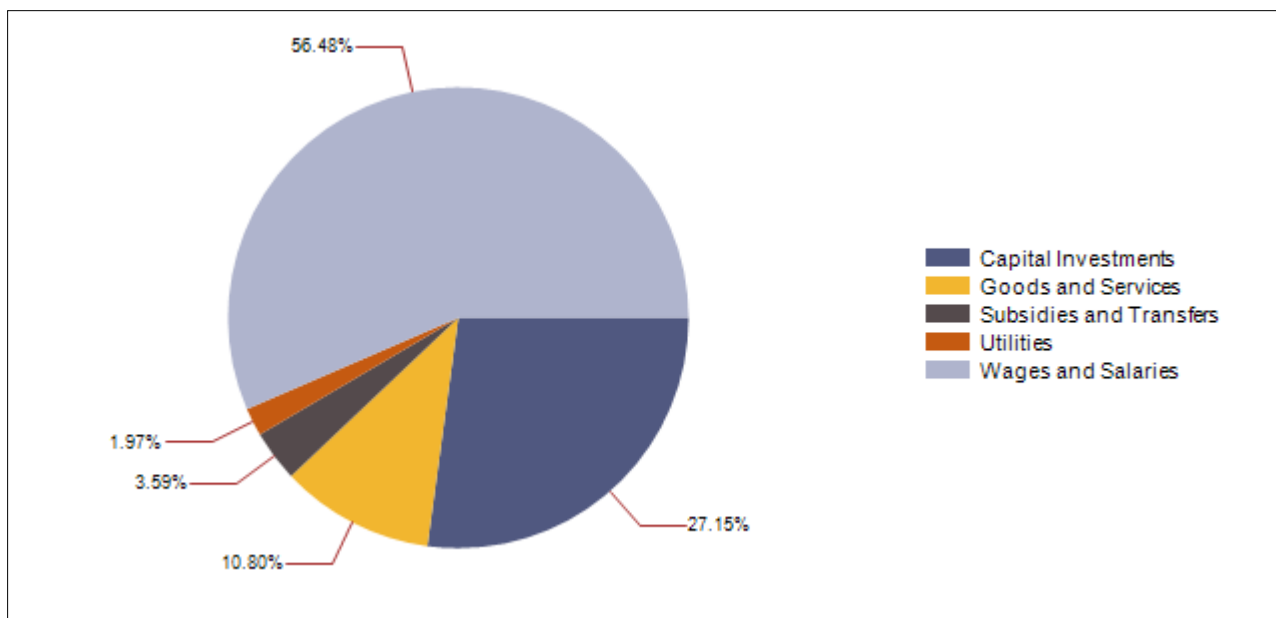
The final budget for utilities was reduced by €23,195, compared to the initial budget. The decrease was due to a decision by the Municipal Assembly for the transfer of budget funds from the government grant to the category of subsidies and transfers.

The final budget compared to the initial budget for subsidies was increased by €47,424, from this value: €23,195 was increased as a result of the transfer from the category of utilities and 5,535€ from goods in subsidies, 10,000€, an increase from personal income carried over and 8,694€ are an increase from the grant of donors. The funds were planned to be spent mainly on subsidizing farmers, financing NGOs and individual beneficiaries.

The final budget for capital expenditures compared to the initial budget was increased by €889,586. The increase was as a result of unspent own revenues from 2021 in the amount of €696,271, increase from the transfer of the reserve by decision of the Municipal Assembly in fund 10 in the amount of €210,000, and in fund 22 in the amount of €50,000, a decrease of €66,832, where, by decision of the Municipal Assembly, capital investments were transferred to goods and services and an increase of €147 from the donor grant.

The funds spent in 2022 for the Economic Recovery were €77,103, they were mainly allocated for health supplements.

Chart 1. Expenditures by economic categories in 2021



The own source revenues planned for 2022 were €689,430, while €682,981 were realized. They are related to income from property tax, income from construction permits, administrative taxes, income from business activities, income from rent, etc. Likewise, this year the municipality has received revenues from traffic fines and court fines in the total amount of €196,378, as well as revenues from the Kosovo Forestry Agency in the amount of €12,720. These revenues are not included in the table below because they are planned and implemented by line ministries.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2022 Receipts	2021 Receipts	2020 Receipts
Total of revenues	689,430	689,430	682,981	802,799	561,138
Tax revenues	410,955	410,955	380,303	374,793	263,487
Non-tax revenues	278,475	278,475	302,678	428,006	297,651

4 Progress in implementing recommendations

Our audit report on 2021 AFS of Municipality of Kaçanik resulted in 7 key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. The audit report of 2021 was discussed in the Municipal Assembly. By the end of our 2022 audit, five (5) recommendations have been implemented and two (2) recommendations have not been implemented yet, as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

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

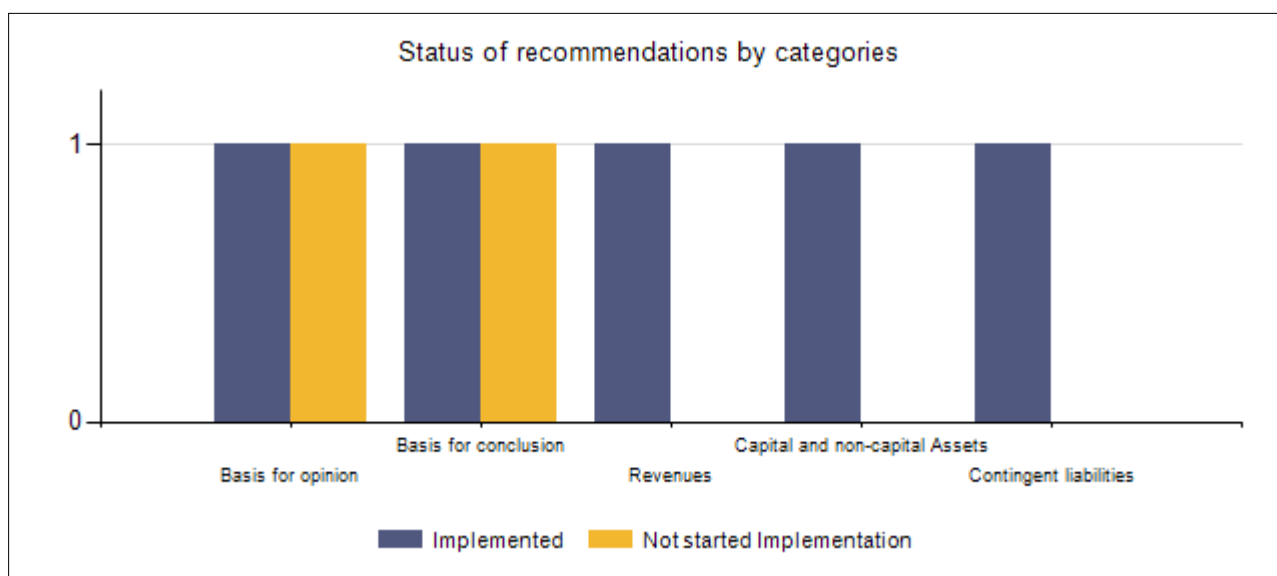


Table 4. Summary of prior year's recommendations

No.	Audit area	Recommendations of 2021	Actions undertaken	Status
1	Basis for Opinion	The Mayor should ensure the correct implementation of internal controls related to the correct registration of non-financial capital assets in accordance with the criteria of the regulation for the management of non-financial assets.	Even in 2022, there are cases of assets not being recorded under the right category	Implementation not started

2	Basis for Opinion	The mayor should ensure that all the necessary actions are taken so that the expenses are planned in the appropriate budget allocations or the funds are reallocated so that the payment and registration of the expenses are then made according to the appropriate economic codes.	We have found no such cases.	Implemented
3	Basis for Conclusion	The mayor should ensure controls and monitors the implementation of legal requirements, so that when initiating the procurement procedures for the contracting of works, the drafting of projects in accordance with the anticipated needs and requirements is ensured in advance.	There was lack of executive projects in 2022 too.	Implementation not started
4	Basis for Conclusion	The mayor should ensure that the procurement office, when drawing up contracts, will respect the legal criteria, so that the value of the contracts is not exceeded in any case.	From the testing of our samples, there have been no cases where public framework contracts were exceeded.	Implemented
5	Revenues	The mayor should ensure that the verification of 20% of real estate is achieved so that eventual property changes are integrated into the database to reflect the correct tax liability.	In 2022, the municipality managed to verify 20% of municipal properties.	Implemented
6	Assets	The mayor should ensure the undertaking of the necessary actions for the registration and reporting of non-capital assets in accordance with the criteria of the regulation for the management of non-financial assets.	The municipality has taken actions by recording the non-capital assets in the	Implemented

			e-property system.	
7	Contingent Liabilities	The Mayor should ensure that the legal representative of the Municipality, when preparing the AFR, will provide the finance department with the complete records of contingent liabilities.	The municipality had reported the contingent liabilities in accordance with the register. We haven't noticed any issues.	Implemented

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

Vlora Spanca: Auditor General

Zukë Zuka: Assistant Auditor General

Lavdim Maxhuni: Head of Audit

Florim Beqiri: Team leader

Muharrem Qyqalla: Team member

Mexhit Ferati: Team member

Annex I: Letter of confirmation



Komuna e Kaçanikut

Opština Kacanik

Municipal Kacanik

LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2022 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 2022 (në tekstin e mëtejme "Raport");
- 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. Z. Besim Ilazi-Kryetar i Komunes,

Data: 25, prill 2023, 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 statements⁵ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

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

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

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

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

Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

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

Adverse opinion

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

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

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

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

Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

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

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