



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 MITROVICA SOUTH FOR YEAR 2022

Prishtina, May 2023

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1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Mitrovica South 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 on the financial statements and conclusion on compliance with authorities¹.

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Mitrovica South, 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, except for the effects of matters described in the Basis for Qualified Opinion section of our report, the annual financial statements of the Municipality of Mitrovica South, give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for Qualified Opinion

C1 The capital assets that are under the management of the municipality (land, plots, premises, and various business facilities, school, health, sports and cultural facilities), the Municipality has not registered them in the KFMIS, which are therefore not reported in Article 19 of the AFS. (Report on non-financial assets). Although, the municipality has disclosed in an annex of the financial statements a special list of assets, some with a value of €12,088,860 and other unassessed assets which are considered material (land and various objects), however, these have not been registered in KFMIS and were not reported correctly in the AFS. Likewise, the capital assets (purchases of the year) with a total value of €72,580 have not been registered in KFMIS. Furthermore, non-capital assets (under €1,000) with a total value of €102,290 are not registered in the e-property system.

C2 The municipality had made a misclassification of expenses where, from the economic category of capital investments, it had paid for the category that by its nature is classified as goods and services in the amount of €79,416, and €32,892 for salaries and wages.

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

C3 The obligations for the salaries of 62 employees of the Directorate of Education for salaries carried over from the previous year 2021, the Municipality had not presented and disclosed in the AFS.

For more, 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 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 Conclusion on Compliance section of our report, transactions carried out in the process of execution of Municipality of Mitrovica South'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

A1 The municipality had made the purchase of items for the servicing of vehicles outside the Contract with a value of €3,760.

A2 The municipality had subsidized NGOs in violation of the criteria of the Public Invitation and the Regulation of Public Financing of NGOs.

A3 The asset inventory commission did not manage to carry out this process for all its subordinate institutions such as health and education.

B1 During the year 2022, the municipality made payments in the amount of €5,229,080 or 1,735 payments which have exceeded the legal deadline for payment, the delays are from 1 to 662 days. As a result of the delays, €3,615,609 were paid by the Treasury through enforcement procedures.

A4 In four (4) cases we noticed that the contract managers had not prepared the contract management plan.

For more, 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 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 Mitrovica South's financial reporting process.

Management's Responsibility for Compliance

Management of the Municipality of Mitrovica South 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.

³ Collectively referred to as compliance with authorities

Our objective is also to express an audit opinion on compliance of respective Municipality of Mitrovica South'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 Mitrovica South's internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

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

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

2 Findings and recommendations⁴

During the audit, we have identified areas of possible improvement on Financial Management and Control. Identified weaknesses are the following: failure to implement proper procurement procedures, delays in paying the outstanding liabilities, management of receivables, misclassification of expenditures as well as weaknesses in assets management, including internal control, which are presented for your consideration below in the form of findings and recommendations. 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 11 recommendations, of which four (4) are new recommendations, three (3) repeated and four (4) partly 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 C1 – Poor management of asset registers

Finding Regulation MF No. 02/2013 on the Management of Non-Financial Assets of Budgetary Organizations, Article 6, clearly defines that each budgetary organization must create and update the register of non-financial assets that it has in its management. Further, it is emphasized that the asset register must include capital assets over €1,000 which must be registered in KFMIS, while non-capital assets under €1,000 and stocks in the E-asset system.

Capital assets that are managed by the municipality (land, plots, premises, and various business facilities, school, health, sports and cultural facilities). The municipality has not registered them in KFMIS, which consequently have not been reported in Article 19 of the Financial Statements (Report on non-financial assets). Although, the municipality has disclosed in an annex of the financial statements a special list of assets, some with a value of €12,088,860 and other unassessed assets which are considered material (land and various objects), however, these have not been registered in KFMIS and were not reported correctly in the AFS.

In addition, from the tested samples (including purchases of the year) we found that in five (5) cases, capital assets (over €1,000) with a total value of €72,580 were not registered in KFMIS. Furthermore, in seven (7) other cases, non-capital assets (under €1,000) with a total value of €102,290 were not registered in the e-property system. The latter in the statements are reported based on the notes kept in Excel format.

The reason for the improper management of asset registers is the insufficient actions of the municipality in terms of the proper management of assets, including the lack of evidence and evaluation of assets and updating of the registers.

Impact

Failure to record all assets of the Municipality in the asset registers affects the lack of management information regarding the assets owned by the municipality, and represents non-fulfilment of the legal requirements regarding the evidence of assets. This also affects the incorrect disclosure of information about assets in the AFS.

Recommendation C1 The mayor should ensure that all necessary actions have been taken to ensure that all municipality's assets have been assessed and recorded in the respective registers, in order to present true and complete information of assets in the AFS. In addition, the e-assets system should be put into operation and assets under €1,000 should be recorded.

Auditee management response (Do not agree)

For more details see Annex I

Issue C2 - Misclassification of expenditures

Finding

According to Article 18 paragraph 3 of Financial Rule no. 01/2013, expenditures must be registered in adequate codes, determined by the accounting plan. Likewise, Article 11 of AI 19/2009 on the accounting plan requires the CAO and the CFO to ensure that all transactions are registered in KFMIS according to the structure of the accounting plan and the classifications defined by this AI.

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

Of the payments made directly by the Treasury through enforcement and judicial decisions, which during 2022 were worth €3,615,609, the amount of €32,892 was made from Capital Investments as they were related to salary compensation. Also, from the payments made by the Municipality, the sum of €79,416 was paid by Capital Investments, for the purchase of items belonging to the category of goods and services.

With regard to wages and salaries, this occurred because the municipality did not have accurate records of how much can be spent on this category. While the rest is a consequence of not planning the expenditures well.

Impact Misclassification of expenditures leads to the overstatement / understatement of expenditures in the relevant expenditure categories as well as untrue presentation of expenditures in the AFS.

Recommendation C2 The Mayor should ensure that the necessary actions are taken so that all payments are made according to the appropriate economic categories, to enable the correct reporting of expenses in the AFS, in accordance with the accounting plan of the Treasury.

Auditee management response (Do not agree)

For more details see Annex I

Issue C3 - Failure to report and disclose obligations for the salaries of education employees

Finding Regulation MF 01/2017, Article 8, states that the financial statements must contain a report on unpaid obligations.

The obligations for the salaries of 62 employees of the Directorate of Education for salaries carried over from the previous year 2021, the Municipality had not presented and disclosed in its AFS who were engaged with temporary contracts and without recruitment procedures, by the Municipal Education Directorate (MDE). For these employees, the Municipality has not offered financial values.

According to the confirmation received by the MDE, there cannot be an accurate database for these obligations, therefore the exact amount cannot be declared/reported in the AFS.

Impact Failure to report obligations affects the quality and accuracy of the information disclosed in the AFS.

Recommendation C3 The Mayor should ensure that unpaid obligations to workers are recognized and reported to the AFS.

Auditee management response (Do not agree)

For more details see Annex I

2.2 Issues with impact on compliance conclusion

Issue A1 – Purchase of items for vehicle servicing outside the Contract

Finding Rules and Operative Guidelines for Public Procurement, point 61.20 stipulates that the Contract Manager will ensure that the Economic Operator fulfils all performance obligations or delivery in accordance with the terms and conditions of the contract;

During the testing of six (6) payments for the three-year framework contract "Maintenance and Servicing of Vehicles of the Municipality and other Municipal Institutions" worth €150,000, we found that in each invoice items were paid which were not included in the contract, where from the total value of six invoices of €5,614, the amount of €3,760 or 67% was made for items that were not included in the contract, while the billing is claimed to have been made according to market prices.

This situation has come as a result of the actions of the contract manager, the insufficient preparation of the initial contract, as well as the non-implementation of general procedures for processing payments, as defined by legal requirements.

Impact The purchase of items outside the contract, except as prohibited, presents a risk of unnecessary losses of the Municipality's funds as a result of potential over-invoicing that can be done by the economic operator.

Recommendation A1 The Mayor should ensure that the responsible officials will prepare adequate contracts which will also be strictly respected by the contract managers. As well as, to ensure the implementation of general procedures for the processing of payments, which prevent the aforementioned irregularities.

Auditee management response (Do not agree)

For more details see Annex I

Issue A2 - Subsidising NGOs contrary to the criteria of the Public Invitation and the Regulation of Public Financing of NGOs

Finding

In the "Public Invitation for Projects for NGOs for Youth for 2022" dated 04.07.2022, and in the "Public Invitation for Cultural-Artistic Projects for NGOs, second call for 2022" dated 21.10.2022, some of criteria were: Declaration on projects financed by public funding sources, Declaration on double financing, Certification that the NGO has no tax obligations, and the presentation of evidence that the responsible person/manager in the NGO is not under investigation for criminal offenses.

Whereas, the Manual of the Regulation of the Ministry of Finance - No - 04/2017 on the Criteria, Standards and Procedures of Public Financing of NGOs, defines the form to assess the quality of applications (Form F15).

During the testing of the three (3) beneficiaries of the subsidies, we found that the Trepça Basketball Club (amount benefited €27,000) had submitted the Tax Certification, after 70 days from the closing of the Public Invitation, and had not provided evidence that the responsible person/manager in the NGO is not under criminal investigation; Trepça Football Club (amount benefited €17,000) had not provided the statement on double funding, the statement on projects financed by public funding sources, and the evidence that the responsible person/manager in the NGO is not under investigation for criminal offences. Also, NGO Ad Libitum (amount benefited €15,000) had not provided evidence that the responsible person/manager in the NGO is not under investigation for criminal offenses.

In addition, the Evaluation Committee had not used the mandatory form for the evaluation of the quality of the applications (F15) in any of the above Invitations, by means of which the correct scoring of the applications would be done in order to make the ranking and qualification/elimination of the applicants for subsidy, and as a result we could not conclude with certainty how the qualification/elimination of applicants was reached.

This occurred as a result of disregarding the criteria of Public Invitations by the Evaluation Committee and bypassing the procedures of the Regulation.

Impact The above-mentioned issues, apart from being contrary to the Public Invitation and Regulation, also do not guarantee that the assessment has been properly conducted and the funds have been given to the deserving beneficiaries.

Recommendation A2 The Mayor should take immediate measures to ensure that the officials who are involved in the processes of granting subsidies respect the criteria of Public Invitations and the Regulation, so that the deviations mentioned above do not repeat.

Auditee management response (Agree)

Issue A3 - Incomplete assets stocktaking

Finding Regulation MF No. 02/2013 on the Management of Non-Financial Assets of Budgetary Organizations clearly defines the way in which the asset inventory should be done. The same regulation also determines the manner and procedure of removal/alienation of assets.

The municipality had established the assets stocktaking committee and the same has drawn up a stocktaking report which includes assets under €1,000 of municipal directorates and some municipal institutions, but not those of schools and health institutions. Likewise, assets over €1,000 are not included in the stocktaking report.

This occurred as a result of failure to fully implement the requirements of the asset management regulation and lack of internal controls.

Impact Failure to include all assets in the stocktaking process prevents the asset officer from comparing/harmonizing the asset registers with the stocktaking report and as a result may lead to the lack of eventual corrections of the registers.

Recommendation A3 The mayor should ensure that the committees appointed for the inventory include all the municipality's assets.

Auditee management response (Do not agree)

For more details see Annex I

Issue B1 - Delay in payment of invoices and extra expenditures on enforcement proceedings

Finding According to Article 39.1 of the Law No. 03/L-048 on Public Financial Management and Accountability (LPFMA), every valid invoice and request for payment for goods and services supplied and/or works performed for the budget organization must be paid within thirty (30) calendar days after receipt of the invoice.

Whereas, according to Article 40, the bill can be executed directly by the Treasury after receiving the order from the court/executor.

From the analysis of the base date of the suppliers, we noticed that during the year 2022 the municipality had made payments in the amount of €5,229,080 or 1,735 payments which exceeded the legal deadline for payment. Delays range from 1 to 662 days. These payments mainly relate to Capital Investments, Goods and Services, and Salaries and Wages. As a result of the delays, €3,615,609 were paid by the Treasury through enforcement procedures. The municipality has no information on how much the debt was and how much money was paid for enforcement/court expenses.

This occurred as a result of improper planning, entering into obligations without having enough funds, as well as the negligence of the officials responsible for completing the cases for payment.

Impact Failure to pay invoices and obligations on time exposes the Municipality to lawsuits from economic operators, causing additional court/enforcement and interest costs. This also disrupts the spending plan and makes it impossible to achieve the set objectives.

Recommendation B1 The Mayor should ensure that all invoices and obligations are paid within the legal time limits and that no obligations are incurred without having sufficient means, in order not to further damage the Municipality's budget with additional enforcement costs.

Auditee management response (Do not agree)

Issue A4 - Lack of Contract Management Plans

Finding The Rules and Operational Guideline for Public Procurement, items 61.7 and 61.8 define that "The contract management plan shall be prepared before the initiation of the implementation of the contract and shall be agreed between the parties of the contract. This shall be documented with the signatures of both parties, respectively the Project Manager and the Economic Operator."

During the testing of five subjects for compliance with procedures, we found that in four cases the Contract Management Plan was not prepared, while in one case there was a plan, but it was not signed by the Economic Operator. The cases are for the following contracts: (Supply of Pellet Fuel for Municipal Institutions; Summer Maintenance of Roads in the City and Suburbs-Lot I; Hygienic-Sanitary Maintenance [Cleaning] of the Municipality and other Institutions; Provision of Health Contracting Services- three years or 36 months, and Providing Legal Services for the Needs of the Municipality of Mitrovica).

The reason why this happened is that the contract managers did not invite the Economic Operators to agree and sign the plan.

Impact As a result of the lack of plans, the contracting authority will not have information regarding the notification of the start of the works, the deadline for completion, and the progress of the contract in general.

Recommendation A4 The Mayor should ensure that all appointed contract managers agree with the economic operators regarding the progress of the contract, where the contract management plan is signed by both parties.

Auditee management response (Agree)

2.3 Findings on financial management and compliance issues

2.3.1 Revenues

Revenues generated by the Municipality of Mitrovica South in 2022 totalled to €2,996,807. These relate to revenues from property tax, construction permits, administrative fees, business activities, rent, etc. Funds amounting to €324,073 were returned from last year revenues. In addition to the above-mentioned revenues, the municipality has also had indirect revenues amounting to €303,495, collected by the central level (traffic fines, €245,491, Forestry Agency fines, €1,179 and Court €56,825).

Issue C4 - Shortcomings in the database of property tax payers

Finding Law No. 06/L-005 on Immovable Property Tax, Article 12, states that the municipality is responsible for recording and managing property tax data in the property tax registers as defined in the by-law.

During the analysis of the property tax database, it was identified that more than 4,000 taxpayers presented in this database, have not presented their personal numbers, who, based on their first names, surnames and parents' names, may be beneficiaries of some early from the allowable statutory deduction.

This occurred as a result of not verifying the properties in question and not updating the entries in the property tax system.

Impact The lack of data on the basic dates for personal numbers of taxpayers may affect the illegal benefit of some early taxpayers, the deduction allowed for primary residence

Recommendation C4 The mayor should take the necessary actions to ensure that the property tax database is filled with all personal numbers of taxpayers, so as to enable the verification of all potential cases that may have a temporary benefit for primary residence.

Auditee management response (Agree)

2.3.2 Accounts receivable

Accounts receivable disclosed by the Municipality in 2022 AFS were in the amount of €13,556,875. This is made of accounts receivable for property tax, uncollected municipal fees, receivables from waste collection, receivables from rent, etc. In comparison to the previous year, the AR have increased by €806,154.

Issue B2 - Shortcomings in the management of AR files

Finding The back of the municipal business tax invoice states that the business tax is calculated on an annual basis based on the Municipal Regulation on Taxes, Fees and Fines and payment can be made in 4 instalments without interest and fines, but after the legal deadlines have passed provided for payment, the Municipality will apply mandatory collection. Whereas the lease contracts for municipal properties specify that the rent amounts are paid on a monthly basis.

We have tested 70 samples for AR, where during the testing of these samples we have found that almost none of the tested subjects do not contain the invoices paid and unpaid by the landlords, where the invoices are issued by the Municipality only at the request of the debtor. Deficiencies have also been shown in other AR tested. Therefore, it cannot be confirmed that the accounts payable and the disclosed amount of accounts receivable are correct.

This happened as a result of the negligence of the staff and not correctly defining the persons/departments responsible for managing the receivables files.

Impact Failure to complete the files/cards of debtors does not guarantee that the debt is correct and complete.

Recommendation B2 The mayor should ensure that officials take action to complete debtors' files so that there is evidence that provides assurance that the AR amounts submitted are correct.

Auditee management response (Agree)

2.3.3 Internal Audit Function

Internal Audit Unit (IAU) operates with three staff members, the IAU director and two auditors. The municipality has also established the audit committee which is operational and held 5 meetings during the year. In addition to the strategic plan, the IAU had prepared the Annual Plan for 2022 and by the end of the year it had finalised six audit reports, as many as were planned. The audits covered the areas of procurement, allocation for use of public property, department of administration etc. The focus of two of the audits was the year 2022, whilst the previous years for the others.

Issue B3 - Low implementation of IAU recommendations

Finding According to administrative instruction no. 01/2019 on the establishment and functioning of the audit committee for the public sector, article 7, paragraph 1.7 states that the audit committee examines the summary reports, findings, recommendations of the internal audit and ensures that they are properly addressed by the head of the public sector entity.

From the evaluation of the implementation of the recommendations given by the IAU, a low implementation of the recommendations was observed. of the recommendations given from 2019 onwards, 31 recommendations were implemented, 35 were in process and 26 were not implemented.

The reason for not implementing the recommendations is the lack of action plans and the lack of a formal process of monitoring them by management.

Impact Failure to implement the recommendations of the IAU affects the repetition of errors and weaknesses identified by the internal audit.

Recommendation B3 The mayor should ensure that the recommendations issued by the internal audit will be forwarded with an action plan for their implementation as well as a formal process of monitoring and reporting by the responsible units and the same are reviewed periodically to see the progress of their implementation.

Auditee management response (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 ^a	2022 Expenditures	2021 Expenditures	2020 Expenditures
Sources of funds	21,526,713	23,596,277	21,820,579	22,394,096	21,203,738
Government Grants – Budget	19,000,947	19,017,305	18,275,865	19,306,154	18,874,382
Funding through borrowing	0	179,614	179,614	60,955	115,801
Carried forward from previous year	0	1,332,225	1,326,326	715,326	441,740
Own source revenues	2,525,766	2,525,766	1,886,661	2,248,778	1,316,604
Domestic Donations	0	73,105	10,687	45,555	49,084
External donations	0	468,261	141,426	17,328	406,127

The final budget is higher than the initial budget by €2,870,458. The increase was mainly as a result of the revenues carried over from the previous year in the amount of €1,332,225, from the government grant in the amount of €627,343, from borrowing financing in the amount of €179,614, from the revision of the revenue plan in the amount of €189,910, as well as from donations €541,366.

In 2022, the Municipality of Mitrovica South has spent about 92% of the final budget or €21,820,579, with a percentage decrease of 6% compared to 2021.

As for the budget for 2022, we must emphasize that the Municipal Assembly of the Municipality of Mitrovica did not succeed in approving the budget within the legal capacity, whereupon the Government issued a Decision and sent it to the Assembly of the Republic of Kosovo for approval and budget approval for the municipality.

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	21,526,713	23,596,277	21,820,579	22,394,096	21,203,738
Wages and Salaries	12,482,357	12,686,535	12,230,685	13,614,018	12,187,045
Goods and Services	3,330,842	3,657,902	3,480,368	3,047,293	3,338,650

Utilities	488,008	488,008	486,757	466,332	382,851
Subsidies and Transfers	636,500	1,192,273	1,153,132	956,418	718,371
Capital Investments	4,589,006	5,571,560	4,469,637	4,310,034	4,576,821

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

·The final budget for salaries and wages in relation to the initial budget had increased by €204,178 as a result of the transferred income, loan, and government grant. The realization of the budget in this category was 96%.

·The final budget for goods and services was also increased by €327,060 compared to the initial budget as a result of own-carried income and donations. While the execution of the budget is relatively high in this area with about 95%.

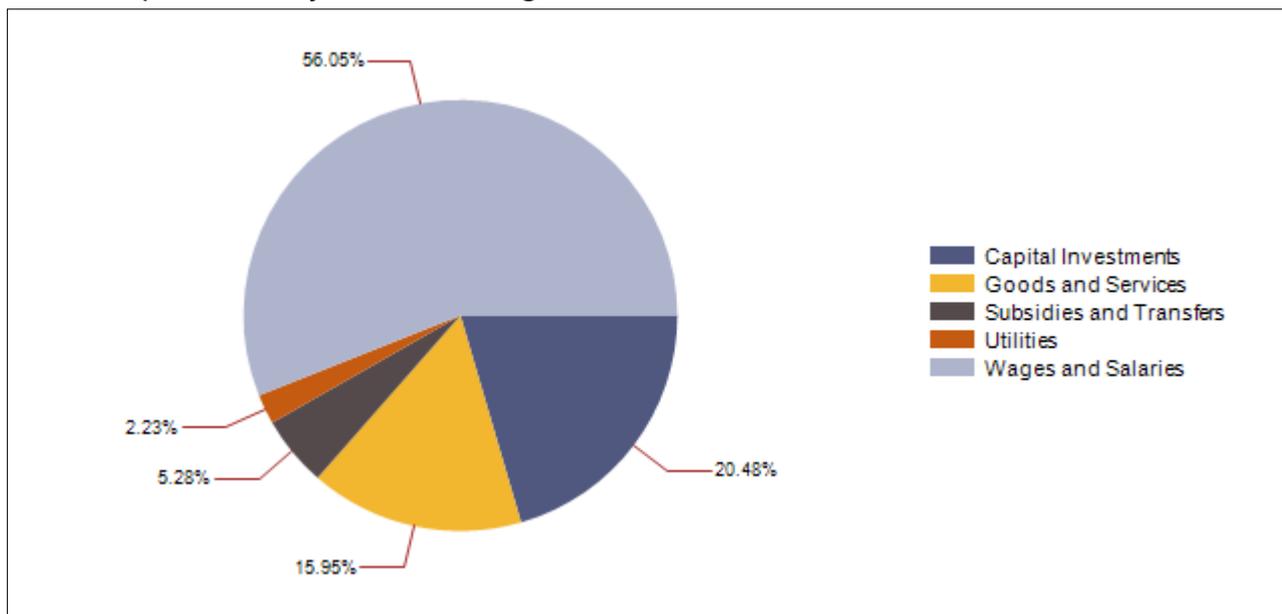
·The final budget for municipal services was the same as the initial budget. The budget expenditure in this category at the end of the year had reached over 99%.

·The final budget for Subsidies and transfers was increased by 555,773€ compared to the initial budget, as a result of carried over own revenues and donor grants. The realization in this category was about 97% of the final budget.

·The final budget for capital investments had increased to €982,554. This increase was the result of retained earnings and donations. About 80% of the budget in this category has been spent.

·The funds spent in 2022 for Economic Recovery were €179,614. They were mainly allocated for additions to education and health.

Chart 1. Expenditures by economic categories in 2021



The revenues collected by the Municipality of Mitrovica South in 2022 were worth €2,996,807. They are related to income from property tax, income from construction permits, administrative taxes, income from business activities, income from rent, etc. There was also a return of funds from last year's revenues in the amount of €324,073. In addition to the aforementioned revenues, the Municipality has also received indirect revenues collected from the central level in the amount of €303,495 (traffic fines €245,491, fines from the Forestry Agency €1,179, as well as from the Court €56,825).

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2022 Receipts	2021 Receipts	2020 Receipts
Total of revenues	2,335,857	2,335,857	2,996,807	3,271,712	1,766,659
Tax revenues	934,702	934,702	1,073,382	1,002,543	645,927
Non-tax revenues	1,401,155	1,401,155	1,923,352	2,207,385	1,120,732
Other revenues	0	0	72	61,784	

4 Progress in implementing recommendations

Our audit report on 2021 AFS of Municipality of Mitrovica South resulted in 17 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, ten (10) recommendations have been implemented, three (3) are under implementation and four (4) 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

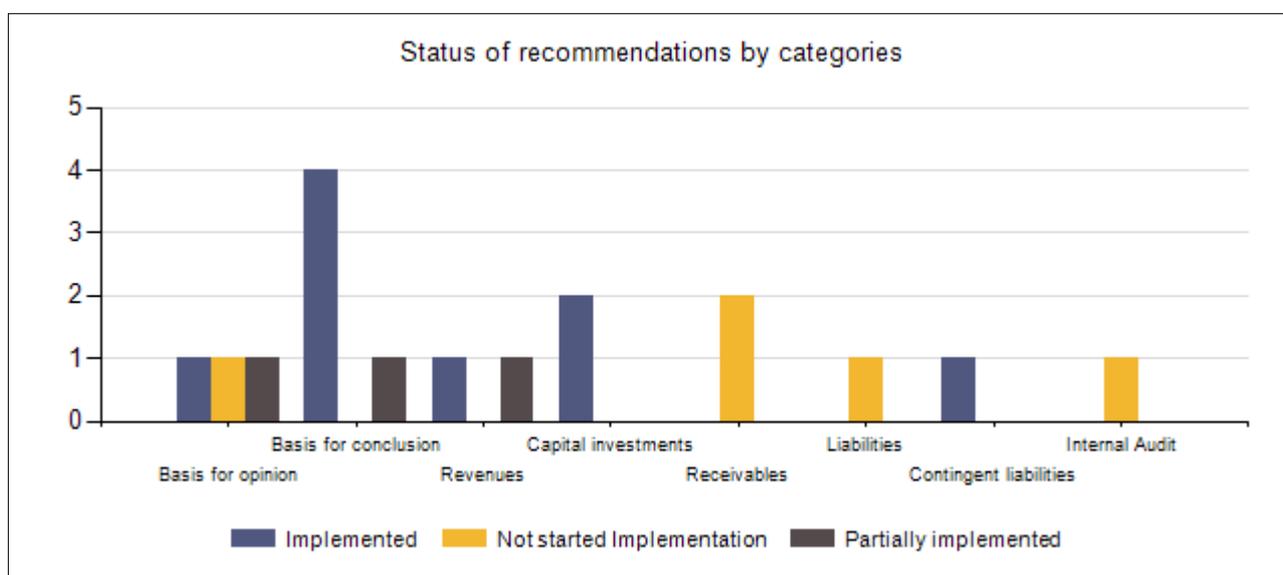


Table 4. Summary of prior year's recommendations and of 2020

No.	Audit area	Recommendations of 2021	Actions undertaken	Status
1	Basis for Opinion	The mayor should ensure that necessary actions are taken in order to ensure that all assets of the municipality are identified, evaluated, and recorded in the respective registers and that the presentation of information on assets in the AFS is true and complete. In addition, the e-assets system should be operationalised and assets	The capital assets that are under the management of the municipality (land, plots, premises, and various business facilities, school, health, sports and cultural	Implementation not started

		under €1,000 should be recorded.	facilities), the Municipality has not registered them in the KFMIS, which are therefore not reported in Article 19 of the AFS.	
2	Basis for Opinion	The Mayor should ensure that all necessary actions are taken so that the payments are made from the adequate economic categories, in order to enable their fair presentation in the AFS in line with the Treasury's Chart of Accounts.	The value of misclassifications has been significantly reduced; however, it has not yet been completely eliminated as a phenomenon.	Partly implemented
3	Basis for Opinion	The Mayor should ensure that the responsible officers are provided with the information on assets, so that the assets recording process for the completed projects is finalised.	The municipality had taken measures to address this recommendation.	Implemented
4	Basis for Conclusion	The Mayor should ensure that vacancies are staffed by conducting regular recruitment procedures through public announcement and that employees are included in the payroll. In addition, if the Municipality is left with outstanding liabilities, those should be reported in the AFS.	The engagement of the staff during 2022 was done through competitions and regular recruitment procedures, but the obligations for the employees who were engaged without a competition in 2021 were not	Partly implemented

			recognized and were not disclosed in the financial statements.	
5	Basis for Conclusion	The Mayor should ensure that such error is corrected by attempting to dissolve the agreement and request that the contracted amount be corrected and signed by both parties.	During the testing of the samples in the Goods and Services category, we did not encounter any problems with the estimated value of the contract, the management had taken measures to address this recommendation.	Implemented
6	Basis for Conclusion	The Mayor should ensure that during the development of procurement procedures and establishment of contract prices/values, the requirements set forth in the Law on Public Procurement and underlying rules and instructions are strictly adhered to.	We have not found such cases; thus, this recommendation has been implemented.	Implemented
7	Basis for Conclusion	The Mayor should ensure that public calls on subsidising of farmers contain clear criteria that can be met with the required documents and that the evaluation commissions evaluate the applications fully in compliance with the criteria set forth in the public call.	During the testing of public calls for subsidies in the field of agriculture, we did not find cases where the call criteria were not respected, the management	Implemented

			had taken measures to address this recommendation.	
8	Basis for Conclusion	The Mayor should ensure that all subsidies to NGOs qualified to be handled according to the abovementioned regulation are announced in public calls and that all requirements arising from this Regulation are applied thereon.	As part of the sample, we did not encounter such cases, the management had taken measures to address this recommendation	Implemented
9	Revenues	The Mayor should take immediate actions to identify all multiple beneficiaries of the primary residence deduction and initiate legal procedures and that the database is completed with all the personal numbers of taxpayers so that all cases could be verified.	Double beneficiaries who were registered based on their personal number in the system have been identified and eliminated, however there are many cases when taxpayers do not have their personal number registered and they have the opportunity to benefit more than once from the discount for primary residence.	Partly implemented
10	Revenues	The Mayor should undertake all necessary measures to ensure that the Property Tax Department is staffed with	The municipality has managed to inspect over	Implemented

		sufficient human resources, or engage private inspectors to assist in inspecting activities, in order to meet such legal requirement.	20% of taxpayers' properties in 2022 and this recommendation is considered to have been addressed	
11	Capital Investments	The Mayor should ensure that the Procurement Unit carries out proper planning in due time, in order to prevent the accelerated time limits from being applied, or applied as little as possible, and to prevent the municipal budget and competitiveness for delivery of goods/works/services from being undermined. He should also ensure that contracts are signed as soon as the bids evaluation process is finished, in order to gain time to implement the projects.	During the audit for the year 2022, we did not find that there are such problems with the timelines in the procurement processes, therefore we consider that the recommendation has been implemented.	Implemented
12	Capital Investments	The Mayor should ensure that legal requirements are strictly applied and that contract are concluded in accordance with the approved/planned budget, in order to enable a timely implementation of projects and prevent the Municipality from suffering financial difficulties.	The municipality had taken measures to address this recommendation and we do not have such cases.	Implemented
13	Accounts Receivable	The Mayor should provide for strengthened controls over the management and collection of receivables as well as increased efficiency. To this end, the reasons behind the increase in accounts receivable should be analysed and legal	No actions have been taken to implement this recommendation.	Implementation not started

		actions to collect them should be undertaken		
14	Accounts Receivable	The Mayor should address the abovementioned problems by undertaking legal measures towards the debtors under the agreed terms; handling the expired contracts according to the established procedures; and sending the invoices to the debtors to remind or warn them about the amount due to be paid. In addition, officers should take actions to complete the debtors' files in order to ensure that evidence proving the truthfulness of the presented amounts of AR is in place.	The municipality has not taken measures to reduce the accounts receivable.	Implementation not started
15	Outstanding liabilities	The Mayor should ensure that all payments and liabilities are paid within the statutory deadlines in order to prevent damages to the municipal budget and extra spending on enforcement.	Even in 2022 there were delays in the payment of bills.	Implementation not started
16	Contingent Liabilities	The Mayor should ensure that the information on contingent liabilities is updated on regular basis and that the same are fairly presented in the AFS, including the financial impact of each lawsuit.	The lawyer of the municipality has drawn up the register of contingent liabilities and has included in it all lawsuits for which he had information and documents to report.	Implemented
17	Internal Audit	The Mayor should ensure that an action plan on	It does not appear that	Implementation not started

		implementation of internal audit recommendations is prepared and that a formal monitoring and reporting process is put in place. The same should be reviewed periodically in order to follow up the progress in their implementation.	measures have been taken as the level of implementation is still weak.	
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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

Bujar Bajraktari: Team leader

Gazmend Namani: Team member

Jetmira Isufi, Team member

Annex I: Letter of confirmation/ Comments of BO regarding the audit report (if any)

Issue	Comments from the BO	KNAO view
Poor management of asset registers	Evaluating the inadequate situation of the property registers and the recommendations of the National Audit Office for 2021, the Mayor has established a commission for the evaluation of the non-financial assets of the Municipality of Mitrovica. The commission is professional and represents the key directorates involved in the issue of Non-Financial Assets of the Municipality.	The auditor's finding remains as such because the Municipality has not recorded in KFMIS the capital assets under the municipality's management (lands, plots, premises and various business facilities, school, health, sports and culture facilities) and consequently they have not been reported neither under Article 19 of the AFS.

	<p>Following the establishment of this commission, the evaluation of a total of 192 plots worth €43,836,833.00 has been made. As soon as access to KFMIS was allowed (the system was non-functional until April 2023), the Assets Officer started with the recording of plots evaluated by the Commission and so far, a total of €12,088,860.00 have been recorded in KFMIS. Assets recording by a professional commission has never occurred so far in the Municipality of Mitrovica (from 1999 onwards) and the National Audit Office has addressed this issue almost every year and have always given recommendations based on their findings.</p> <p>Having in mind the sensitivity of this issue, we will take actions to increase the number of members in this commission to increase the work dynamics.</p> <p>In addition, based on the recommendations of the National Audit Office, the Municipality of Mitrovica has recently added assets officers, following the recruitment procedures in the Directorate of Health (MFHC) an assets officer has been hired.</p>	
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	<p>We also inform you that we have contacted the ASH officials to start the recording of non-capital assets (under €1,000), but they have informed us that the E-Assets system is not operational and that the procedure to put it into operation is under the procurement process. However, the official in question has recommended us to continue working in the same way (without recording them in E-Assets) until further notice.</p>	
<p>Misclassification of expenditures</p>	<p>Misclassification of expenditures in the auditor's findings is in the amount of €79,000, which compared to the total budget spent in 2022, the misclassification is at 0.36%.</p> <p>Compared to the previous year findings, the misclassification was over €580,000. We believe that this year's misclassification of 1% does not serve as a basis for the NAO's Qualified Opinion and the progress which the Municipality of Mitrovica has made based on the NAO's recommendations should be taken into account.</p>	<p>The municipality has undertaken actions by reducing misclassifications if we draw a comparison with 2021. However, there were misclassifications this year too for the amount stated in the report.</p>

	<p>However, these payments are not executed by the Municipality of Mitrovica but by the Ministry of Finance, Labour and Transfers, Treasury Department, which have made the payments through court decisions.</p>	
<p>Failure to report and disclose obligations for the salaries of education employees</p>	<p>Employees (62) with employment contracts who have not been subject to the competition's procedures, consequently may be considered as not regular employees because as it was mentioned in the Audit Report of the Municipality of Mitrovica for the year 2021 – Issue A3, such process may lead to the selection of ineligible candidates for teaching.</p>	<p>The auditor's finding remains as such. Same as in the previous audit year the liabilities for employees' salaries have not been presented nor disclosed in the AFS.</p>

	<p>The Directorate of Education has no information as on what legal basis have the contracts for these 62 employees been signed because the competitions were cancelled and consequently, they were not officially signed (through public competition and fair assessment of teachers – potential candidates) and as such they cannot be considered as legal regular employees of the Municipality of Mitrovica. As stated under Issue A3 of the 2021 NAO report, a public competition should be announced for each establishment of an employment relationship.</p> <p>Citation “Issue A3 for 2021 AFS (Finding): Based on Law on Labour no. 03/L-212, Article 8, the employer at public sector, shall be obliged to announce public competition every time when it employs an employee and establishes an employment relationship.”</p>	
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	<p>Recommendation A3 for 2021 AFS: The mayor should ensure that vacant positions are staffed through regular recruitment procedures through public competition and employees are included in the payroll. The Directorate of Education cannot have an accurate database on the financial liabilities arising from these contracts because some of these employees may have potentially executed those through Courts, may have terminated those contracts beforehand or may have established employment relationship with the Municipality of Mitrovica or other institution that the Directorate of Education has no information on. Therefore, an amount that is not 100% correct cannot be declared in the AFS. However, acceptance of these liabilities would be legitimation of employment contracts (62) which have been signed without any open competition procedure and which the Directorate of Education and also the NAO report for the Municipality of Mitrovica for 2021 have considered as not regular and with a negative impact.</p>	
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	<p>When communicating with the Division of Salaries in the Ministry of Finance, for each listing of new employees in the payroll, the competition is required as the main basis for establishing the employment relationship for their listing in the payroll. We have received several requests from some beneficiaries of these contracts (62) for their compensation according to these contracts and in response the Directorate of Education has required from the applicants to attach to the request the competition or the procedure through which they were selected (because the Directorate of Education did not have such a procedure in its archive).</p>	
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	<p>Moreover, on 15.03.2022, the Director of Education addressed an official letter to the Minister of Education Mrs. Arberie Nagavci and the entire management of MESTI (attached you can find the letter), requesting their engagement in executing those salaries, but she did not receive any response. Consequently, after the Ministry of Finance refusal and no response from the Ministry of Education, these employees were considered as not regular. Their inclusion in the AFS would be understood as their legitimization.</p>	
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<p>Purchase of items for vehicle servicing outside the Contract</p>	<p>The payments made for six (6) invoices from the contract "Maintenance and Servicing of Vehicles of the Municipality and other Municipal Institutions" in the amount of €150,000, are invoices that we found in the list of liabilities from the years 2020 and 2021. The invoices are completed with all the necessary documents and based on the Contract Items (Part III of the Contract with special conditions - Article 24.1). The Contract was signed in 2020 and was subject to two audits by NAO before this Draft Report (Report on year 2020 and 2021). Therefore, the liabilities were not created during the year 2022 and consequently we cannot accept this finding because these payments were executed from the list of liabilities from previous years.</p> <p>The contract signed on 17.07.2023 with Protocol no. 642-20-920-211 and Internal number 642/20/007/211 in the amount of €150,000.00. Based on the special conditions, the Commission has evaluated the items that were not in the technical specifications of the prices.</p>	<p>The auditor's finding remains as such. Out scope includes the transactions of the year 2022, not exclusively the year when the liability was created. Whilst, regarding the market prices for the equipment that were not included in the contract, they are not verified as nothing has been documented and the 3-members Committee has not been established for this issue, as provided in the contract.</p>
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	<p>However, for the contractual obligations and the list of liabilities that we have inherited, we have received a recommendation from NAO for the writing off of liabilities.</p> <p>In the future we will not process invoices for items that are not included in the technical price specification. Also, this contract ends this year and during the drafting of the new specifications, the Municipality of Mitrovica will certainly take into account the findings of the National Audit Office.</p>	
<p>Incomplete assets stocktaking and failure to implement the assets alienation rules</p>	<p>Regarding the stocktaking of assets under €1,000.00 for Educational and Health Institutions, we inform you that all these assets are recorded in the Municipal registers for each object in particular. Their assessment by the respective Commissions is expected to start soon. Stocktaking reports for Educational and Health Institutions were not required by the Audit Team because they can all be provided in real time (with USB or CD because the volume of the subjects is very large).</p>	<p>The issue of e-kiosks has been taken into account and has been removed from the audit report, but as far as the stocktaking of all institutions of the Municipality is concerned, this issue remains in the report as we have not been provided with evidence that this process was carried out in schools and health institutions.</p>

	<p>The Municipality of Mitrovica has created the commission for the evaluation of E-kiosks, where the commission has made a decision to remove them from the established locations because they cannot be functionalized and the IT equipment (internal) has been placed in a civil state, while the external frame in the municipal warehouse. It should be noted that the e-kiosks were not sold, only the valuation was made according to Article 21 of the MF Regulation No. 02/2013 for the Management of Non-Financial Assets of Budgetary Organizations, to further follow the legal procedures in force. Attached is the report.</p> <p>Therefore, we cannot accept as a finding the term "Sale without following legal procedures" or "Assets Alienation".</p> <p>Once again, we inform you that the E-kiosks are located in the warehouses of the municipality of Mitrovica and this can be verified at any time by visiting these warehouses by the officials of the National Audit Office.</p>	
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<p>Delay in payment of invoices and extra expenditures on enforcement proceedings</p>	<p>Based on the decisions of the management of the Municipality of Mitrovica and the creation of financial regularity as well as the recommendations of the National Auditor Office, we have planned the payment of arrears in the 2022 budget.</p> <p>Therefore, we have used most of the 2022 Budget for the payment of debts, which at the time of accepting the governing mandate until the end of 2022, was over €6million.</p> <p>Delays from 1 to 662 days in the execution of payments are related to old invoices inherited even from 2016. This can also be proven by the KFMS Reports of Budget expenditure.</p> <p>We have informed the Audit Team regarding the plan of paying old debts and invoices during the Audit phase for the year 2022.</p> <p>Since we are focused on the paying inherited debts, we cannot accept that during 2022 there were delays of up to 662 days in payments. We have even insisted that no new obligations are created without funds commitment.</p>	<p>The auditor's finding remains as such as our tests have confirmed that there are delays in the payment of invoices. This has also been confirmed by the Municipality through the comments it has sent to us, where it states that delays, from 1 to 662 days, in the execution of payments, are related to old inherited invoices even from 2016.</p>
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	<p>Attached you can find the decision on the transfer of own source revenues from 2021, where a significant part of them was used for the payment of debts. Also in the 2022 Budget Planning, we have planned the payment of priority payments from the list of outstanding liabilities.</p>	
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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.