



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 PEJA FOR YEAR 2022

**Prishtina, June 2023**

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# 1 Audit Opinion

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

## **Unmodified Opinion on Annual Financial Statements**

We have audited the annual financial statements of the Municipality of Peja, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports<sup>2</sup>, for the year ended as at 31 December 2022.

In our opinion, the annual financial statements of the Municipality of Peja 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.

## **Conclusion on Compliance**

We have also audited whether 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 Peja's

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

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

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 Contract management is not maintained and archived through the electronic public procurement system (e-procurement).
- A2 Additional expenses (interest) of €275,239 were generated as a result of judicial/enforcement decisions.
- A3 Delayed implementation of contracted works.
- A4 Poor management of subsidies
- B1 Delayed payment of invoices

*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 Annual Financial Statements***

The Chief Financial Officer 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 Peja's financial reporting process.

### **Management's Responsibility for Compliance**

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

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

## **Auditor General's Responsibility for the audit of AFS**

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

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

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

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

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

During the audit, we have identified areas of possible improvement on financial management and control. Significant shortcomings found in important financial areas are; misclassification of expenditures, poor management of payments, poor assets management. In addition, we found other financial management and compliance issues, including revenues, assets management, subsidies and 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 8 recommendations, of which four (4) are new recommendations four (4) are repeated ones.

*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 – Poor project management through the electronic e-procurement platform**

##### **Finding**

The Rules and Operational Guide for Public Procurement, Article 61 on Contract Management and Performance Evaluation of Contractors, paragraph 20.f., stipulates that all contract management records are prepared, kept and archived in the contract management module in the e-procurement system.

During the testing, we found that in five (5) cases records on the contracts management and contractors' performance evaluation were neither kept nor archived in the e-procurement module, such as:

- Reconstruction of the network in the Rugova villages, worth €385,605;
- Construction of the sports gym at Pjeter Budi ELSS in Paqeste Village in the Municipality of Peja, worth €139,847;
- Asphaltting of roads in the villages of Upper Baran, Kryshec, Rashiq, and Broliq, worth €377,027.
- Asphaltting of roads in the villages of Nabergjan, Jabllanice and Leshan, Ramun, Zahaq and Gllaviqice, worth €277,955

This occurred because the responsible officers overlooked the required procedure.

**Impact** Failure to keep and archive contracts records through the e-procurement system may lead to improper management of contracts and does not provide the management or authorized users with sufficient opportunity to receive timely information about the contracts progress and performance.

**Recommendation A1** The Mayor should look into the reasons behind failure to use the e-procurement system and undertake additional control measures or other needs, to ensure that the management of contracts will be maintained and archived in the electronic public procurement system.

### **Response of the Auditee`s Management (Agree)**

#### **Issue A2 – Payments through court decisions/enforcement**

**Finding** The Law on Public Financial Management and Accountability, article 39, stipulates that the CFO of a budget organization shall be responsible for ensuring that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment. Whilst, article 40 of the same law stipulates that Treasury shall have the authority to immediately make the payment upon receipt of the final order or judgment.

The amount of payments made by the Treasury, based final orders/judgements was €1,133,493. Of these, the main debt was €858,254, while €275,239 were interest and court/enforcement procedural costs, these were paid from:

- the category of wages and salaries, the main debt was €602,867, whilst additional costs were €225,083;
- the category of goods and services, the main debt was €168,316, whilst additional costs were €22,570; and
- the category of capital investments, the main debt was €87,071, whilst additional costs were €27,586.

This happened due to failure to timely pay the financial obligations and requests for jubilee salaries, the largest part of which consisted of payments for food and transport for the implementation of the collective contract, as well as payments to suppliers.

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



**Impact** Payments made through court decisions make it difficult to realize the budget according to the plans, respectively the implementation of projects, and also create additional costs in the name of court costs and interest.

**Recommendation A2** The Mayor should provide for financial discipline, in order to ensure that the payments are made within the statutory deadlines.

### **Response of the Auditee`s Management (Agree)**

#### **Issue A3 – Delayed implementation of contracted works**

**Finding** The Rules and Operational Guide for Public Procurement, Articles 61.6, 61.19 and 61.20, stipulate that contract managers shall ensure that the economic operator performs the contract in accordance with the terms and conditions specified in the contract. Each public contract has an implementation deadline set.

In three (3) cases, we found delays of up to 175 days. They relate to the following projects:

- *Construction of Kindergarten for children in Karagaq neighbourhood* - contract in the amount of €242,684 signed on 12.05.2021, delays up to 175 days;
- *Construction of public spaces around the MFHC* - contract in the amount of €95,365 signed on 15.07.2021, delays up to 167 days; and
- *Rehabilitation of Karagaq Park* - contract in the amount of €33,434.00, signed on 19.10.2021, delays up to 126 days.

In none of these cases was there any request/approval for extending for the contracts implementation deadlines. Punitive measures have not been applied for delays in the execution of works either.

According to municipal officers, the reason behind the delays was the increase in the prices of construction materials in the market due to inflation. However, the delays were also due to lack of internal controls.

**Impact** Delayed implementation of projects may lead to increased contractual obligations, resulting in budgetary implications for the following year's budget. This also affects the Municipality's performance and undermines the achievement of the set objectives.

**Recommendation A3** The Mayor should, through the procurement manager and the contract managers, ensure that contracts are implemented in accordance with the dynamic plan/works execution deadline and that measures foreseen in the contract are applied for unjustified delays.

**Response of the Auditee`s Management (Agree)****Issue A4 – Poor management of subsidies****Finding**

MF Regulation no.04/2017 on the Criteria, Standards and Procedures of Public Financing of Non-Governmental Organizations (NGOs), Article 23, defines the monitoring and reporting of projects and programs: 1. For each contract concluded, the financial support provider assigns a responsible official who should take care of monitoring the implementation of the project. Reporting includes narrative and financial reports and reporting periods will be determined by the provisions of the contract with the beneficiary.

From the samples tested, in three (3) cases the provider of financial support has not appointed a responsible official who should take care of monitoring the implementation of the project. Also, in one (1) case, the NGO did not submit financial and narrative reports for 2022.

The reason was the lack of internal controls and the negligence of the responsible officials to implement the rules defined according to the regulation.

**Impact**

Failure to appoint the responsible officials to take care of monitoring the implementation of the project and failure to submit the narrative and financial reports for the reporting periods, has a negative impact and undermines the proper management of subsidies.

**Recommendation A4** The Mayor should ensure that responsible officials who must take care of monitoring the implementation of the projects are appointed. He should also ensure that NGOs receiving subsidies submit financial and narrative reports.

**Response of the Auditee`s Management (Agree)****Issue B1 – Delayed payment of invoices****Finding**

According to Article 39.1 of Law no. 03 /L-048 on Public Finance Management and Responsibilities, it is required that each valid invoice and request for payment of goods and services be paid within 30 calendar days after receipt of the invoice. As well as Financial Rule No. 01/2013, it determines that first the request for purchase must be made, then the pledge of funds, the purchase order must be processed, then the goods or service must be accepted, and after receiving the invoice, the payment must be executed

From the testing of the samples, we have identified delays in the payment of invoices that exceed the time stipulated by the current law. In five cases, invoices with a total value of €61,377, payments were not made within the legal term of 30 days. Delays are from 80 to 240 calendar days.

Moreover, in five (5) other cases, the invoices of €97,200 together with the supporting documentation, were received by the municipality before the date of the request for commitment of funds:

The reason for not paying the obligations on time was poor budget planning and initiation of spending procedures without available funds and lack of communication between the responsible officials. Furthermore, for the cases accepted by the municipality before the date of the request for commitment of funds, this happened due to the non-functioning of the internal control.

**Impact**

The carried-forward liabilities undermine the implementation of projects and the achievement of the objectives set by the Municipality, as a result of the need to pay (obligations) the previous years' commitments as well. This also leads to additional costs in case of lawsuits from suppliers. Whereas, entering into obligations without prior commitment of funds may lead to delayed payment of liabilities, causing a burden to the following year's budget.

**Recommendation B1** The Mayor should ensure that all invoices and financial liabilities are paid within the statutory deadline and that works or supplies are not delivered unless the Municipality provides for the funds or allocates sufficient budget to pay for it.

**Response of the Auditee`s Management (Agree)**

## 2.2 Other financial management and compliance issues

### 2.2.1 Internal controls over financial reporting

The following issues are related to the presentation of data and preparation of the financial statements.

#### **Issue B2 - Inadequate classification of expenditures**

##### **Finding**

According to the Financial Rule no. 01/2013/MF on Expenditure of Public Money, expenditures must have the appropriate codes defined by the Administrative Instruction on the Chart of Accounts. In addition, the Treasury Chart of Account defines the corresponding codes and categories of expenditures that the BO must apply.

The municipality has paid and registered expenses in the amount of €135,479 in non-adequate categories which are related to the organization of the winter fair, the organization of the summer fair and the reconstruction of the network in the Rugova villages, namely:

- The amount of €33,689 was paid from Goods and Services for Subsidies and Transfers;
- The amount of €81,790 was paid from Subsidies and Transfers for Capital Investments; and
- The amount of €20,000 was paid from Capital Investments for Subsidies and Transfers.

This happened because the Municipality had not made adequate planning according to the needs and requirements of reporting expenses under the relevant categories.

##### **Impact**

The planning and execution of expenditures from inadequate economic categories leads to overstatement/understatement of the respective categories of expenditures and assets. This results in untrue presentation of expenditures in the Annual Financial Statements.

**Recommendation B2** The Mayor should ensure that funds are committed in KFMIS before the public contracts are signed. In cases when the procurement procedures for objective reasons are not finalised in the fiscal year when the contracting process was started, the re-commitment of funds to KFMIS should be done in the following year.

#### **Response of the Auditee`s Management (Agree)**

## 2.2.2 Capital and non-capital assets

The value of capital assets presented in the AFS was €348,863,841, that of non-capital assets was €517,334 and of stocks was €379,047.

### **Issue B3 – Failure to record the assets and untrue presentation in the AFS**

**Finding** Regulation no. 02/2013 on the Management of Non-Financial Assets in Budgetary Organizations, Article 6, stipulates that capital assets must be registered in KFMIS, whilst non-capital assets and stocks must be recorded in the e-assets system.

In four (4) cases, capital expenditure payments of €124,003 were not recorded in the accounting registers of KFMIS. While in 14 cases, payments of €132,578 were not recorded in the e-assets system.

Likewise, the value of assets under €1000 presented in the AFS was €517,334, while the value of assets in the e-assets registers was €215,158, an overstatement of €302,176.

This was a result of lack of internal controls over the responsible officials.

**Impact** The lack of accurate and complete records causes a lack of information for the management regarding the assets owned by the municipality and may result in assets over/understatement and in untrue presentation of information in the financial statements.

**Recommendation B3** The Mayor should ensure that all the Municipality's assets are correctly recorded in the relevant registers, according to the requirements of Regulation 02/2013 on Management of Non-Financial Assets in Budgetary Organizations.

### **Response of the Auditee`s Management (Agree)**

## 2.2.3 Receivables

Accounts receivable disclosed by the Municipality in the 2022 AFS were in the amount of €21,633,930. They consist of property tax €14,990,712, business tax €6,391,030, and €252,189 from other sources.

**Issue B4 – Increased accounts receivable****Finding**

Based on Law no. 06/L-005 on Immovable Property Tax, Article 27, if a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor.

Accounts receivable in 2022 increased by €2,478,658 compared to 2021, particularly those of SOEs (property tax) the debt of which was €1,681,237. While testing 17 cases, we found that the Municipality had not made sufficient efforts to collect uncollected funds from property tax, rents from land, shops, markets or company taxes, by not sending warning letters and not initiating cases of enforcement proceedings. The trend of the growth of accounts receivable from last year is even higher, therefore this situation is being repeated over the years.

Such increase in receivables was due to insufficient actions taken by the Municipality to reduce the uncollected debt through legal remedies.

**Impact**

Failure to engage and take actions on collecting the revenues causes damages to Municipality's budget. Lack of action results in poor collection performance as well as in a negative trend growing year after year leading to the aging of the accounts receivable.

**Recommendation B4** The Mayor should provide for more efficiency when it comes to the collection of accounts receivable. Development and application of programs and clear procedures on the way receivables are managed, recorded and collected would be some of the measures that could lead to improvements.

**Response of the Auditee`s Management (Agree)**

### 3 Summary on budget planning and execution

In this chapter we have presented 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 budgetary funds (in €)**

Description	Initial budget	Final budget <sup>5</sup>	2022 Expenditures	2021 Expenditures	2020 Expenditures
<b>Sources of funds</b>	<b>29,296,054</b>	<b>32,121,898</b>	<b>28,763,576</b>	<b>28,071,128</b>	<b>29,725,920</b>
Government Grants – Budget	24,438,900	24,459,704	23,455,986	23,398,357	24,642,123
Funding through borrowing	0	251,913	251,913	68,088	186,282
Carried forward from previous year	0	2,223,049	1,581,174	873,599	579,274
Own source revenues	4,857,154	4,857,154	3,194,746	3,586,402	3,320,700
Domestic Donations	0	25,472	0	14,777	27,000
External donations	0	304,606	279,758	129,905	970,541

The final budget is higher than the initial budget by €2,825,844. This increase is as a result of the received donations, revenues carried forward from the previous year, borrowing and recovery. In 2022, the Municipality spent 90% of the final budget, a decrease of 8% compared to 2021.

The explanations for the current position are detailed below.

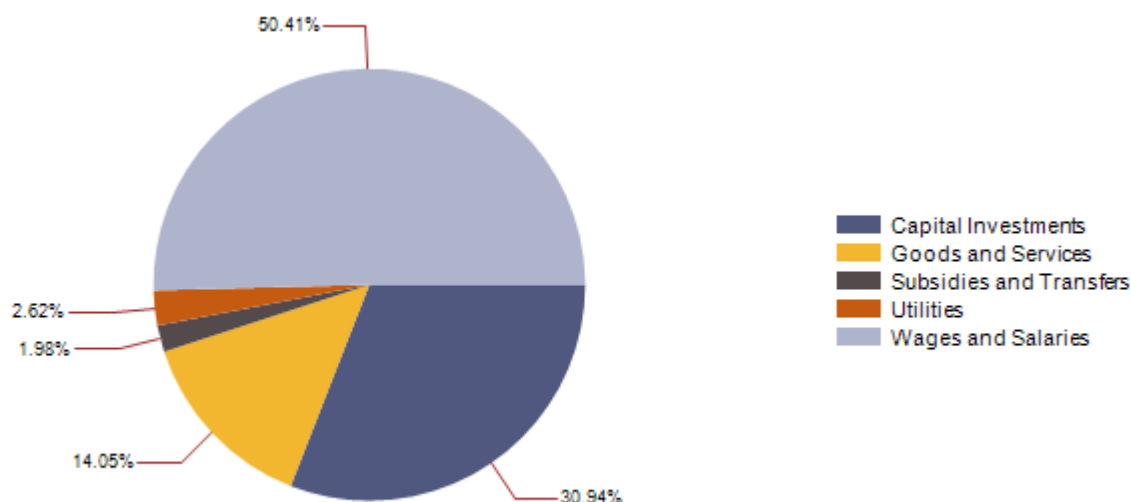
**Table 2 – Spending of funds by economic categories - (in €)**

Description	Initial budget	Final budget	2022 Expenditures	2021 Expenditures	2020 Expenditures
<b>Spending of funds by economic categories</b>	<b>29,296,054</b>	<b>32,121,898</b>	<b>28,763,576</b>	<b>28,071,128</b>	<b>29,725,920</b>
Wages and Salaries	14,887,342	15,202,047	14,500,277	14,902,939	14,686,862
Goods and Services	3,700,000	4,115,868	4,041,842	3,582,232	4,132,109
Utilities	748,455	753,201	752,993	764,949	726,471
Subsidies and Transfers	531,016	610,829	570,394	469,590	471,545
Capital Investments	9,329,241	11,439,952	8,898,071	8,351,418	9,708,932
Reserves	100,000	0	0	0	0

- The final budget for Wages and Salaries increased by €314,705 compared to the initial budget. The increase is the result of government decision for allowances from the fiscal package, by €20,730; revenues carried forward from the previous year, by €23,800; designated donor grants, by €18,175; and funding from borrowing, by €252,000.
- The final budget for Goods and Services increased by €415,868. This increase was as a result of revenues carried forward from the previous year by €180,000, and the designated donor grants by €235,868.
- The budget for Utilities increased by €4,746, as a result of revenues carried forward from the previous year,
- The final budget for Subsidies and Transfers increased by €79,813 compared to the initial budget, as a result of revenues carried forward from the previous year.
- The final budget for Capital Investments increased by €2,110,711, compared to the initial budget, as a result of the Municipal Assembly's decision to transfer €96,550 from the Reserves to the Capital Investments; revenues carried forward from the previous year by €1,938,131; and designated donor grants by €76,030

The Municipality spent the Capital Investments budget at 78%. It has 37 projects carried forward from the previous years. Low execution level is found in 35 projects, due to delayed execution of works caused by the increase in the prices of construction materials.

**Chart 1. Expenditures by economic categories in 2022**



The revenues collected by the Municipality of Peja in 2022 were in the amount of €4,753,464. Revenues are related to property tax, construction permits, administrative fee, licensing, rental, co-payments etc. In addition to these revenues, the Municipality of Peja has received indirect revenues collected by the central level to the tune of €1,033,736 (traffic fines €966,138 and court fines €67,598).



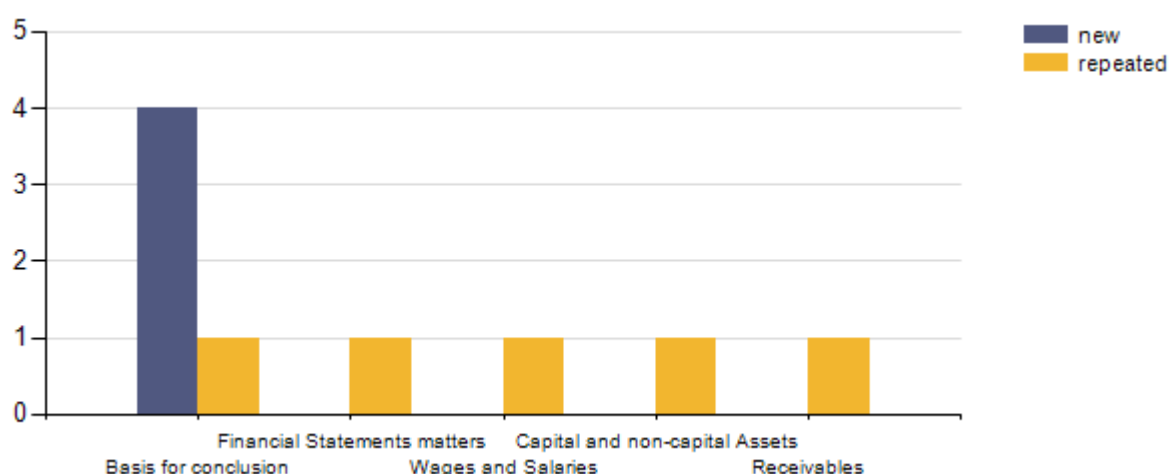
**Table 3. Revenues (in €)**

Description	Initial budget	Final budget	2022 Receipts	2021 Receipts	2020 Receipts
<b>Total of revenues</b>	<b>4,857,154</b>	<b>4,857,154</b>	<b>4,753,464</b>	<b>4,907,146</b>	<b>3,470,296</b>
Tax revenues	2,913,782	2,913,782	2,354,504	2,455,933	1,412,091
Non-tax revenues	1,943,372	1,943,372	2,398,960	2,451,213	2,048,205
Other revenues	0	0			10,000

## 4 Progress in implementing recommendations

Our audit report on 2021 AFS of Municipality of Peja resulted in 14 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2022 audit, nine (9) recommendations have been implemented and four (4) have not been addressed yet and one (1) recommendation is no longer applicable, as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table of recommendations no. 4.

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



**Table 4 Summary of previous year's recommendations**

No	Audit area	Recommendations of 2021	Actions taken	Status
1.	Basis for opinion	The Mayor should ensure that the responsible officers keep accurate records of accounts receivable and the Chief Financial Officer should provide for their true presentation in the PFV. He should also communicate with the Property Tax Department so that the property tax liabilities for municipal properties and for those in use by multinational peacekeeping forces are paid off.	Actions have been taken.	Implemented
2.	Basis for opinion	The Mayor should ensure that the financial obligations are presented in the Annual Financial Statements as required in the Regulation on Annual Financial Reporting by Budget Organizations.	Actions have been taken.	Implemented
3.	Basis for opinion	The Mayor should ensure that all the necessary actions are taken so that the expenses are planned in the adequate budget appropriations - or that funds are reallocated - in order to have the payments made	Needed actions have not been taken	Implementation not started

		from and expenses recorded in the adequate economic codes as defined in the Chart of Accounts		
4.	Basis for conclusion	The Mayor should ensure that all invoices and financial obligations are paid within the statutory deadline and that no works or supplies are delivered unless the funds have been provided in advance or sufficient budget has been allocated by the Municipality	Needed actions have not been taken	Implementation not started
5.	Basis for conclusion	The Mayor should ensure that all procurement procedures and steps are followed when engaging individual contractors for special services, ensuring that the engaged personnel will be able to discharge the assigned tasks. The Management should also ensure that regular job positions are staff by conducting the regular recruitment process	Actions have been taken.	Implemented
6.	Basis for conclusion	The Mayor should ensure that, when subsidizing the NGOs, the requirements from the regulation will be adhered to so that the financial support for NGOs is made through public calls according to the criteria defined by the regulation	Actions have been taken.	Implemented
7.	Basis for conclusion	The Mayor should control and monitor the implementation of legal requirements, so that when initiating the procurement procedures for contracting of works/construction, the projects are drafted beforehand in accordance with the foreseen needs and requirements	Actions have been taken.	Implemented
8.	Revenues	The Mayor should ensure that the municipal properties are inspected as provided by the law, so that all possible changes to the properties, valid for the taxable base, are integrated into the database	Actions have been taken.	Implemented
9.	Revenues	The Mayor should take appropriate actions to establish internal controls so that collection of revenues and spending of funds is done in accordance with the rules and according to legal requirements	Actions have been taken.	Implemented
10.	Wages and salaries	The Mayor should take appropriate actions to clarify and resolve this issue, in accordance with the applicable laws and the executive decisions of the IOBCSK and the competent courts, so that the IAU has one appointed Director, as selected through completion, and that the decision on the Acting Director of IAU is revoked.	Since the case is still in the Court process, this case is not applicable.	It is no longer applicable
11.	Subsidies and Transfers	The Mayor should ensure that when beneficiaries of the subsidies do not comply with the agreements upon which they have received the subsidies, measures are taken to have those returned by respecting all the points of the agreement signed between the parties. In addition, adequate control measures should be put in place so that the members	Actions have been taken.	Implemented

		of the Applications Evaluation Commission are free of any conflict of interest		
12.	Capital Investments	The Mayor should provide for proper control through the procurement office, so that the tender evaluation commissions make a fair evaluation and comparison of the offers. He should also review the process and make sure that the eligible EO has been selected.	Actions have been taken.	Implemented
13.	Assets	The Mayor should provide for true and fair recording of all assets in the asset register for reporting purposes and in order to diminish the risk of assets misuse or loss	Needed actions have not been taken	Implementation not started
14.	Accounts receivable	The Mayor should provide clear procedures for the collection of accounts receivable. He should also provide for adequate actions to find a joint solution with the Kosovo Privatization Agency regarding the obligations for the social enterprises that are under their management and that the issue of paying the old debts of the former social enterprises finds an appropriate form to pay them. The Mayor should also ensure that all possible options are being actively considered, establishing policies and regulations in order to increase efficiency in debt collection, considering all measures in accordance with the law towards debtors who do not fulfil their obligations	Needed actions have not been taken	Implementation not started

Vlora Spanca: Auditor General

Zukë Zuka: Assistant Auditor General

Shehrije Shala: Audit Director

Fanol Hodolli: Team leader

Fetah Osmani: Team member

## Annex I: Letter of confirmation



**Komuna e Pejës**

**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 Pejës**, për vitin 2022 (në tekstin e mëtejshëm “Raporti”);
- Prej gjithsej 8 rekomandimeve të gjetura nga ZKA pajtohem me të gjitha.
- 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. Gazmend Muharekaj – Kryetar i Komunës së Pejës

Data: 15 Qershor 2023



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

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

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

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

### **(Extract from ISSAI 200)**

#### *Forms of opinion*

#### **Unmodified opinion**

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

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.

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

<sup>6</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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.