



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

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Prizren, 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 Prizren 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

- B1 The contingent liabilities presented in the financial statements are not comprehensive and complete, and that 325 disputed cases are presented with zero value.
- B2 Expenses in the amount of €144,267 have not been registered in the relevant economic categories.
- B3 Accounts receivable disclosed in the annual financial statements are overstated by €32,541.

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.

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

Audit 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 Prizren'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 Delayed implementation of capital projects and contracts not covered with the performance security.
- B4 Delayed payment of financial obligations
- A2 Irregularities in public procurement procedures.
- A3 Commitment of financial resources to KFMIS after signing the public contracts.
- A4 Irregularities in the subsidy processes of NGOs and farmers
- B5 Additional costs as a result of payments from court / enforcement decisions
- A5 Changing the fixed-term employment contract to an indefinite ones
- A6 Failure to inspect 20% of the current state of the facilities.

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 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 Prizren's financial reporting process.

Management's Responsibility for Compliance

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

Auditor General's Responsibility for the audit of AFS

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

Our objective is also to express an audit opinion on compliance of respective Municipality of Prizren'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 Prizren's internal control.

³ Collectively referred to as compliance with authorities

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

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

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

2 Findings and recommendations⁴

During the audit, we have identified areas of possible improvement including internal control that are presented for your consideration below in the form of findings and recommendations. Areas that require further improvement are: public procurement and contract management; subsidies and supervision of the implementation of subsidised projects; classification of expenditures in respective categories; management of personnel, assets accounts receivable and contingent liabilities etc. 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 14 recommendations, of which eight (8) are new recommendations five (5) are repeated and one (1) has been partly implemented.

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

2.1 Issues with impact on audit opinion

Issue B1 – Incomplete disclosure of contingent liabilities in financial statements

Finding

MF Regulation no.01/2017 for annual financial reporting by budgetary organizations, Article 18, stipulates that the OB in harmony with the LPFMA reports all contingent liabilities in the annual financial report.

Contingent liabilities were not completely and comprehensively disclosed in the financial statements. During the year 2022, the municipality revised the list, but could not manage to have a complete record of the register of contested cases throughout the years, registering only those of 2021 and 2022. The value of contingent liabilities presented in the financial statements is €2,351,332. In the annex of the financial statements, apart from the cases where the value of the dispute has been assessed, 325 cases or lawsuits belonging to the category of capital investments and daily wages, with zero value or without any financial value of the dispute, have been disclosed. From three tested samples presented with zero value, we found that the value of the lawsuits is €6,000.

This occurred due to inadequate controls as well as the lack of clarity about the data on contingent liabilities, and the lack of proper coordination of information between the legal office of the municipality and the legal contractor or representative of the municipality

Impact Disclosure of contingent liabilities in incomplete values affects that stakeholders or users of financial statements are not informed correctly and correctly about the value of contingent liabilities.

Recommendation B1 The Mayor should ensure a proper coordination of information and improved communication between departments, in order to ensure accurate and complete evidence of contingent liabilities for presentation in the annual financial statements.

Response of the Auditee`s Management (Agree)

Issue B2 - Registration of expenses in inadequate economic categories

Finding Law No. 08/L-066 for the Budget of the Republic of Kosovo for the year 2022, as well as the accounting plan clearly define that expenses must occur from adequate economic categories. Also, Administrative Instruction No. 2005/08 on the economic classification of expenditures clearly describes the definitions of the economic categories that the Treasury uses to record and report government expenditures.

From the tested samples, it was found that:

- from the goods and services budget, €100,000 were paid for the rehabilitation and construction of asphalt roads, which by its nature are capital investments; and
- as a result of judicial/executive decisions, direct payments from the Treasury from the budget for capital investments were €44,267 for the payment of salaries, which by nature belong to the category of salaries and wages

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

This happened due to court decisions as well as lack of proper planning of expenses in the relevant economic categories.

Impact

Incorrect economic classifications present an unfair view of expenditures in the financial statements, thus overstating/understating the economic category of the expense, neither do t reflect the information about the corresponding categories of expenses.

Recommendation B2The Mayor should ensure that all actions to plan expenditures in the appropriate divisions/categories of the budget (or reallocate funds when necessary and possible) are taken, and that expenditures are truly and fairly paid from and recorded in the appropriate economic codes.

Response of the Auditee`s Management (Agree)

Issue B3 - Overstatement of accounts receivable from waste taxes

Finding

MF Regulation no.01/2017 on annual financial reporting, Article 16, stipulates that revenue-collecting BOs are bound to keep records of the collected revenues as well as of the invoiced and uncollected amounts. Receivables shall be disclosed in the annual financial report in the corresponding table according to the type of income.

According to the analytical register, accounts receivable from waste taxes were €4,602,730, while in the financial statements they were disclosed in the amount of €4,635,271, overestimating the balance of receivables by €32,541.

This happened due to inadequate controls in keeping records of accounts receivable from the relevant department.

Impact

Deficiencies in the registers have influenced the overestimation of accounts receivable in the financial statement, which may have a negative impact on management decision-making and inaccurate information to stakeholders.

Recommendation B3The Mayor should ensure that the relevant departments keep accurate records of accounts receivable so that their presentation in the financial statements is true and fair.

Response of the Auditee`s Management (Agree)

2.2 Issues with impact on compliance conclusion

Issue A1 - Delayed implementation of capital projects and contracts not covered with the performance security

Finding

Public Procurement Rules and Operational Guide, points 61.6, 61.19, and 61.20 stipulate that: "Contract managers are responsible for managing the contract and should ensure that the EO performs the contract in accordance with the terms and conditions specified in the contract. Each public contract has a defined implementation deadline. Also, with the special conditions of the contract, the time limit for the realization of the projects, the value (percentage), and the time limit of the security of the execution of the contract is determined, as well as the time limit of the guarantee of the works.

Delays in the implementation of capital projects have been encountered in:

- The project for the construction of local roads in the village of Zym, worth €392,968, signed on 07.11.2019 and with a dynamic implementation plan for 300 working days, has been completed with a delay of 212 days. In the final report prepared by the project supervisor, no information or justifications were given for the delays in the implementation of the project. The security of the execution of the contract had expired on 08.02.2021, and its continuation was not requested. Also, the security of the guarantee of the works was made only for 1 year, although the contract required a guarantee of 3 years from the date of technical acceptance of the works. After reviewing the case during the audit work, EO has provided additional insurance of the works guarantee for another two years.
- The project for the construction of infrastructure in the village of Malësi e Vrrinit, worth €108,825, signed at the end of 2021, and planned to be completed in 150 working days, has not been completed even until April 2023. The security of the execution of the contract for this project was made for a period of 6 months or until 30.06.2022. From this time until 28.03.2023, when we reviewed/audited the matter, the contract was without security cover. Then the new security of execution for the term of 1 year was introduced.

This happened due to insufficient controls in the management of public contracts, until delays in implementation due to the lack of budget funds.

Impact Delays in the completion of projects affect the increase in contractual obligations, which may have budgetary implications for the following year's budget. This also affects the performance and failure to achieve the defined objectives. Furthermore, the lack of certainty of execution, in addition to being a legal bypass, increases the risk that the contracting authority will not have cover for possible eventual damages and expenses that may arise during the deferred period for the implementation of these contracts

Recommendation A1 The Mayor should ensure that the capital projects are implemented within the dynamic plan defined by the contract, and for unjustified delays, the penalties provided for in the contract are applied. The security of the execution of the contract and the guarantee of the works to be done in the value and term determined by the special conditions of the contract. In cases where the projects exceed the dynamic implementation plan, the contract execution insurance must continue and cover the time period until the implementation.

Response of the Auditee`s Management (Agree)

Issue B4 – Delayed payment of financial obligations

Finding LPFMA and Financial Rule No. 01/2013/MF for spending public money, stipulates that every valid invoice and request for payment for goods and services supplied and/or works performed must be paid within thirty (30) calendar days after receipt of the invoice.

Four payments of €187,358 for capital investments and three payments of €41,380 for goods and services were made after the legal deadline of 30 days from the date of receipt of the invoice was due. Delays ranged from 1 to 237 days.

This happened due to entering into obligations without prior commitment of budget funds.

Impact Failure to pay financial obligations on time increases the risk of potential complaints or lawsuits from contractors, and this may cause additional financial costs for the Municipality.

Recommendation B4 The Mayor should ensure that entering into obligations is done only after the budget funds have been committed in advance, and that financial obligations to contractors are paid within 30 days from the date of receipt of invoices.

Response of the Auditee`s Management (Agree)

Issue A2 - Shortcomings in public procurement procedures

Finding

In the tender dossier and the contract notice, the criteria that must be met by the bidders are determined. According to Law No. 04/L-042 on Public Procurement, Article 28, and Public Procurement Rules and Guidelines, Article 19.6, the tender file should be prepared in a way that does not discriminate or act in favour of one or more EOs. The definition of technical specifications that refer to a specific product or source, or a specific process, or trademarks, patents, specific types or origins, or products, is as a general rule prohibited. With the special conditions of the contract, the value (percentage) and the time limit of the security of execution (SE) of the contract are determined, with Article 26.9 of Regulation no. 001/2022 on public procurement.

From the audit of public procurement procedures, we have identified the following deficiencies in the projects:

- *Construction of the transit road - intersection with the highway in Prizren*, in the value of €785,055, one of the criteria was that the EO must have a graduated traffic engineer, with working experience of no less than 3 years. The EO had only submitted the employee's diploma but not the proof of work experience.
- *Supply with dental equipment for the needs of the dentistry department*, in the amount of €25,750, one of the criteria required in the contract notice was the provision of the catalogue by the manufacturer with the technical specifications for the equipment provided. The winning EO had provided technical specifications only for one device (printer), whilst for the other devices it had not provided a catalogue with technical specifications, but only provided photos of the device. Another criterion required was the authorization from the manufacturer or the authorized dealer for the sale and servicing of the equipment, whilst the EO submitted two authorizations from the manufacturer only for the sale, but not for the servicing of the equipment, and that the authorizations did not contain the designations of the type of equipment provided by EO.
- *The renovation of the Sezai Surroi sports centre in Prizren*, in the amount of €518,036, the bill-of-quantities/ technical specification contained the trademark or type of equipment. The type or model of the Hisense Thermo Pump as well as the Sonnigei heaters were mentioned in the In the estimates.
- *Supply with gravel for unpaved roads in the municipality of Prizren*, with an estimated value of €1,500,000, with the tender dossier and the contract notice requested the performance security of 10% of the estimated value of the contract to be provided for a period of 37 months. Prior to signing the contract, EO had submitted the performance security in the amount of €150,000 for a period of 12 months rather than 37. After the expiration of the performance security, the second one was made in the amount of €59,797 for a 12-month period and after the expiration of the second performance security the third one was made in the amount of €21,500 for a 12-month period.

This happened as a result of insufficient supervision and controls over the procurement procedures and the tender evaluation process.

Impact

The shortcomings identified above may lead to contractors being ineligible and lacking the professional human capacities to implement the contracted projects. Furthermore, mentioning the trademark or model in the technical specifications of the tender dossier leads to favouring certain operator/s for certain type of product thus limiting the competition.

Recommendation A2 The Mayor should ensure that the tenders evaluation commissions comply with the requirements defined in the contract notice and the tender dossier. Technical specifications should be prepared fully in compliance with legal requirements, not using a trademark or model name that favours or discriminates against any EO. He should also ensure that the contract performance security is done for the amount and period determined in the contract notice.

Response of the Auditee`s Management (Agree)

Issue A3 - Commitment of funds to KFMIS after signing the public contracts

Finding

Article 36.1 of Law 05/L-063 LPFMA, stipulates that before the initiation of a procurement process which aims to result in the raising of an obligation in the current fiscal year, the OB registers all commitments of funds allocated to KFMIS.

In three cases, funds were committed in KFMIS after the public contracts were signed. The cases concern projects for:

- *The construction of the family medicine centre in the premises of the former KFOR in Prizren* (three-year project), in the amount of €2,323,000, signed without prior commitment of budget funds to KFMIS. The partial commitment of funds was made two months after the contract had been signed and the first progress payment for the works was made. Part of the commitment was made in 2021 when the procurement procedure had been initiated, whilst the contract was signed on 27.05.2022.
- *The construction of the infrastructure in the village of Krushë e Vogël* (two-year project), in the amount of €121,555, dated 02.02.2022, signed without the prior commitment of funds to KFMIS. The partial commitment of funds was made almost 3 months after the contract had been signed and the first progress payment for the works was made.
- *The disinfection, disinsection, and deratization of the city of Prizren and the peripheral areas*, in an estimated value of €210,000, was signed without prior commitment of funds. The partial commitment for this contract was made one month after the signing date. The contract was signed on 30.03.2022, whilst part of the funds were committed in 2021, as the procurement procedure had started in 2021.

This happened because the procurement office has considered that the funds were committed in the previous year and that it was not necessary to recommit them in the year when the contract was signed.

Impact

Delayed preparation of the commitment may lead to failure to timely implement the public contracts as a result of lack of funds committed in KFMIS.

Recommendation A3 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)

Issue A4 - Shortcomings in the subsidy processes

Finding

Section 6 of the manual of the Regulation No-04/2017 on the criteria, standards and procedures of public financing of NGOs, defines the requirements and official forms that the OB must use during the subsidy process. In addition, Article 7 requires that the provider of financial support appoints the responsible official to monitor the project implementation and assess the fulfilment of the objectives. In the public call for the sports pitch, it was requested that the club have at least two licensed coaches, whilst in the public call for agriculture, it was requested evidence for the verification of animals issued by the Identification and Registration Sector within the Food and Veterinary Agency (FVA). Moreover, the financing agreements between the Municipality of Prizren and the benefiting NGOs determined that the beneficiary must submit a financial and narrative report upon completion of the subsidized project.

The shortcomings encountered in the subsidy processes are related to.

- The commissions for evaluating the subsidy applications in the field of culture, youth and sports have not applied the official forms for evaluating the applications, as required by MF Regulation no.04/2017. This was found in five tested samples in a total of €54,550. In addition, the chairman of the evaluation committee was appointed to supervise the funded projects. The supervisor had not prepared any report on the subsidised projects or on any visits paid in supervising the projects;

- In the public call for sports pitch, lot 2, it was requested, *inter alias*, that the football team have at least 2 licensed coaches. The beneficiary of the Prizren Football Massification project, worth €30,000, had submitted a written confirmation for the coaches, but the names presented therein were not listed in the register issued by the Regional Football League - Prizren. The beneficiary of the subsidy had not submitted the trainers' certificates/licenses;
- In the procedures for subsidizing milk producers, in addition to other criteria for application, farmers were asked to provide evidence for the verification of animals issued by the Identification and Registration Sector within FVA. The beneficiary/farmer had brought a document signed and stamped by the farmer himself for the number of animals, not by FVA;
- In two cases, the beneficiaries of the subsidies had not submitted narrative and financial reports for the projects funded by the Municipality. The first project worth €45,000 belongs to the sports pitch for participation in national basketball competitions, and the second project in the youth field for the promotion of voluntary work, worth €4,000.

This was due to inadequate controls over the management of subsidy projects by the evaluation commission and insufficient supervision by the projects' supervisors.

Impact

Failure to apply legal requirements affects the process of reviewing and evaluating the applications and increases the possibility of unequal treatment of beneficiaries. Furthermore, the projects implementation monitoring by the head of the evaluation commission contradicts the principle of segregation of duties and responsibilities. In the absence of narrative and financial reports, there is no certainty that the financial funds have been used by the beneficiaries for the intended purpose.

Recommendation A4 The Mayor should ensure that the evaluation of tenders is carried out within the 30-day period, and that this period is extended only in exceptional and justified cases, in particular for complex contracts.

Response of the Auditee`s Management (Agree)

Issue B5 - Additional costs due to payments through court/enforcement decisions**Finding**

Article 40.1 of the LPFMA, determines that when a court issues an order or decision requiring a public authority to pay any type of monetary compensation to a person and the order or decision is not subject to the right of appeal by the public authority or the public authority has not exercised this right in time, the court immediately sends a copy of the order or decision to the Ministry of Justice and the Ministry of Finance.

As a result of payments from court/enforcement decisions, the Municipality of Prizren has paid the amount of €205,872 in the name of interest and enforcement procedures. In total, the payments, including the principal debt and interest, were €1,688,164. Of this amount, 588,064€ were paid for salaries and wages, 206,254€ for goods and services, 76,773€ for municipal expenses, and 817,073€ for capital investments.

This happened due to entering into obligations without a prior commitment of funds, poor contract management, delays in completing the cases, legal ambiguity regarding the payment of meals and jubilee salaries, etc.

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 B5 The Mayor should ensure that the causes that have resulted in non-payment of obligations to contractors on time, and which have resulted in lawsuits and court/enforcement procedures against the municipality, have been analysed. Before entering into the obligations, secure the necessary funds, as well as strengthen the controls in the supervision of the implementation of the projects and in the timely payment of the obligations.

Response of the Auditee`s Management (Agree)**Issue A5 - Changing the term of the employment contract, from fixed to indefinite****Finding**

Law on Public Officials, Article 66, defines the criteria for the duration of the employment, while Article 67, determines that the establishment of the employment relationship for a public service employee is made only on the basis of a public and open competition, organized according to this law.

To the employee with a fixed-term contract in the position of driver at MFHC, three months before the expiration of the contract, a new contract with an indefinite period was made, without developing a new recruitment procedure.

This happened due to inadequate controls and insufficient supervision in personnel management by the management of the municipality

Impact

The change of the employment contract, from a fixed term to an indefinite term, contradicts the requirements for the duration of the employment relationship defined by the law for public officials.

Recommendation A5

The Mayor should ensure that employees with a fixed-term contract are engaged only for the term specified in the contract. In cases where the need for regular employees is assessed, the recruitment procedure should be developed through a public competition.

Response of the Auditee`s Management (Agree)

Issue A6 - Shortcomings in the properties' inspection activities

Finding

Pursuant to the Law no.06/L-005 on Immovable Property Tax, Article 15.2, inspection activities shall be carried out each year for at least twenty per cent (20%) of all objects within the territory of the Municipality.

The Municipality has not managed to conduct inspection activities for at least 20% of the recorded properties. Of a total of 58,380 properties, they have only inspected 9,155 facilities during 2022, i.e. 16% of the total premises.

This is due to inefficient number of staff engaged in the property inspection activities.

Impact

Failure to conduct complete inspections of properties for property tax purposes may lead in incorrect information on the current taxable property and may lead to incorrect estimation of property tax revenues. Collection of revenues from this source will have a direct impact on the implementation of projects leading to increased quality of services to the citizens of the Municipality.

Recommendation A6

The Mayor should provide for improved inspection activities process in line with the legal established criteria, in order to have potential changes resulting from the inspections recorded and property tax records completed.

Response of the Auditee`s Management (Agree)

2.3 Other financial management and compliance issues

2.3.1 Common issues on certain economic categories.

The following issues are common for the economic categories of: Goods and Services and Capital Investments.

Issue A7 - Irregularities in the management of public contracts contracted through the procedure with a scored (weighted) price

Finding As explained under sections 54.15 and 68 of the PPRC Regulation no. 001/2022 for public procurement, the contracting authority (CA) must play an active role in determining as accurately as possible the estimated value and furthermore the value of the (realized) contract. Considering the fact that the weighting of the items must be done based on the weight and importance of the respective category, this means that the amount realized (spent) cannot and should not change from the ratios according to the given weight, but maintain the same ratio. The sole function of price weighting in contracting is to determine the contract with the lowest price.

Finding During the implementation of three public contracts with a scored price, the ratio between the realized quantity or percentage of the category and the weight or percentage given during the contracting of that category was not preserved. Cases have been noted in:

- The public contract for the *Supply of Gravel for Unpaved Roads in the Municipality of Prizren*, with an estimated total value of €1,500,000, was contracted based on the price per unit and determining the importance and weight (%) given to each category/position. The measure or technical specification was divided into 5 categories, weighted by percentage according to the expenditure. For category C Gravel services weighing 20% of the total value of the contract or up to €300,000, €1,186,159 or 79% of the contract value were spent, losing the ratio between the realized amount and the weight given during contracting. Category C had the highest weighted price compared to other categories;

- The public contract for *Intervention and Repair in the Signage of the Municipality of Prizren, the Establishment of Bus Shelters for Urban-Suburban Buses and in the Villages of the Municipality of Prizren*, with a total estimated value of €250,000, was contracted based on the price per unit and determining the importance and weight (%) given for each category/position. The premeasure was divided into 3 categories, weighted by percentage according to expenditure. For category A, preparatory works weighted 20% of the total value of the contract or €50,000, by the end of 2022 €126,600 or 51% of the value of the contract had been spent. This category had the highest unit price compared to other categories; and
- The public contract for the *Renovation and Maintenance of the Facilities of the Municipality of Prizren*, with an estimated value of €550,000, was contracted based on the price per unit and determining the importance and weight (%) given to each category/position. The measure or technical specification was divided into four main categories, weighted by percentage according to the expenditure. For category B, supply, work, and monitoring, weighted 20% of the total value of the contract or €110,000, €288,565 or 52% of the total value of the contract was spent, losing the ratio between the realized quantity and the weight given during contracting. This category had the highest weighted price compared to other categories.

This happened due to poor planning of needs by the requesting unit and the lack of adequate controls in the management of contracts

Impact

Changing the weighting ratio or percentage between planning and payments affects the non-realization of other contracted categories. The deviation from the contracted percentage or weight during the execution of the contract causes a higher cost than the contracted one because the weighting ratio is a main factor in the selection of the cheapest tender or offer during the procurement procedure.

Recommendation A7 The Mayor must ensure that in public contracts contracted through the weighted price procedure, the ratio of the weighting or the percentage determined for the categories is the same even during the execution, namely payments.

Response of the Auditee`s Management (Agree)

2.3.2 Capital and non-capital assets

The amount of net capital assets presented in 2022 AFS of the Municipality of Prizren was €494,418,553, of non-capital assets was €2,905,920 and of stocks was €1,102,536.

Issue C1 – Non-registration of non-capital assets in the e-assets system

Finding MF Regulation no. 02/2013 for the Management of Non-Financial Assets in BOs, Article 6.3, requires that capital assets be registered in KFMIS, whilst non-capital assets and stocks registered in the e-assets system.

The Municipality has not used the e-assets program for the registration and management of non-capital assets. Instead the Municipality used the Excel format for the registration and management of non-capital assets, where the tested samples were also recorded.

This happened due to inefficient internal controls over the use and functioning of the e-assets system for the recording the non-capital assets.

Impact Although the Municipality had recorded non-capital assets in Excel, the use of alternative registers for recording non-capital assets may reflect negatively on the security, accuracy, completeness, and fair reporting of non-capital assets.

Recommendation C1 The Mayor should ensure that necessary actions for the application of the e-assets system are undertaken in order to have the non-capital assets registered, managed and reported in accordance with the criteria of the Regulation on the Management of non-Financial Assets.

Response of the Auditee`s Management (Agree)

2.3.3 Receivables

Accounts receivable disclosed in the 2022 AFS were in the tune of €18,936,616. This is made of accounts receivable from property tax, waste management tax, business tax, rental municipal property etc.

Issue A8 – Increased balance of accounts receivable

Finding

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

Accounts receivable disclosed in the financial statements were €18,936,616. Most of them belong to property tax (57%), waste taxes (24%), business taxes (13%), use of public property (5%), and urban planning (1%). Accounts receivable have an increasing trend. Compared to the previous year, receivables have increased by €1,212,183.

This happened due to insufficient controls and actions in revenue collection.

Impact

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

Recommendation A8 The Mayor must ensure the improvement of the accounts receivable management process, by undertaking the necessary actions in order to increase the efficiency in the collection of revenues.

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 ⁵	2022 Expenditures	2021 Expenditures	2020 Expenditures
Sources of funds	47,788,685	55,333,114	46,266,941	50,185,605	44,966,504
Government Grants – Budget	40,614,658	42,118,372	36,663,440	41,768,695	37,528,620
Funding through borrowing	0	359,900	359,900	311,911	526,542
Carried forward from previous year	0	4,749,585	3,934,810	2,405,653	2,514,548
Own source revenues	7,174,027	7,366,692	5,118,768	5,382,984	4,199,010
Domestic Donations	0	488,808	41,530	315,934	132,793
External donations	0	249,757	148,492	428	64,992

The final budget is higher than the initial budget by €7,544,429. This increase is the result of revenues carried over from the previous year in the amount of €4,749,585, domestic and external donations in the amount of €738,565, funding from borrowing in the amount of €359,900, the change in planned revenues for €192,665 and from government decisions in the amount €1,503,713.

In 2022, the Municipality of Prizren spent 84% of the final budget, or €46,266,941, a decrease of 7% compared to 2021. The budget was not spent at the expected level and the explanations for the current position are detailed below.

In 2022, the Municipality of Prizren also benefited €1,352,660 in revenue from traffic fines; €54,921 from court fines; and €11,851 from the Forestry Agency. These revenues are not included in the table below because they are planned and collected by the relevant institutions, while they are allocated to the Municipality of Prizren on a quarterly basis during the year for making payments.

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

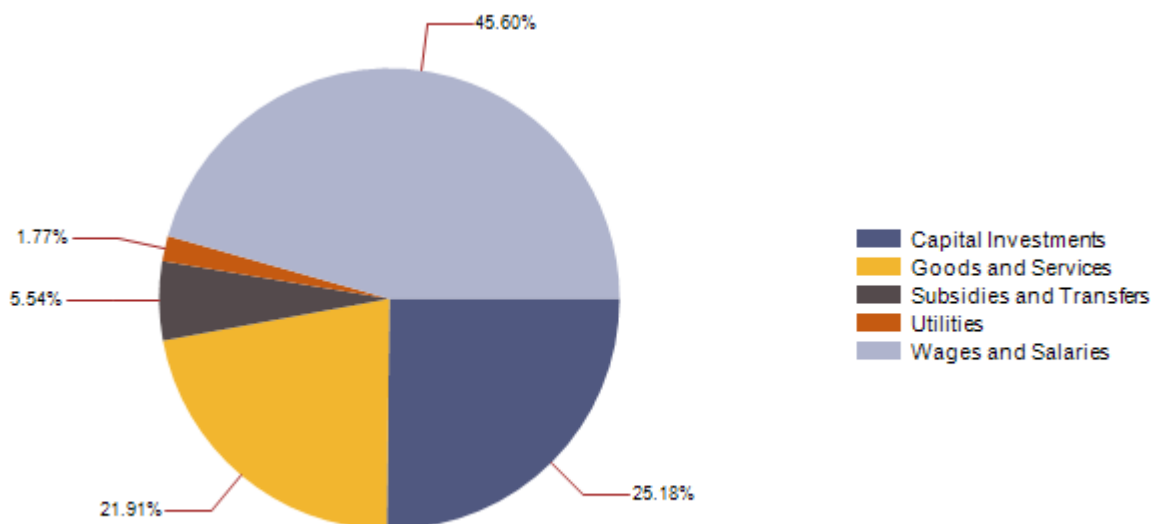
Description	Initial budget	Final budget	2022 Expenditures	2021 Expenditures	2020 Expenditures
Spending of funds by economic categories	47,788,685	55,333,114	46,266,941	50,185,605	44,966,504
Wages and Salaries	20,845,757	21,860,277	21,098,714	24,546,533	20,582,472
Goods and Services	6,970,550	10,528,245	10,135,739	8,170,451	7,438,923
Utilities	1,031,199	1,317,956	818,129	741,445	680,450
Subsidies and Transfers	950,000	2,682,038	2,562,388	2,562,240	1,877,050
Capital Investments	16,546,972	17,629,598	11,651,971	14,164,936	14,387,609
Reserves	1,444,207	1,315,000	0	0	0

Explanations on the changes to budget categories are the following:

- The budget for Wages and Salaries has increased by €1,014,520. The increase is the result of receipts from financing loans in the amount of €359,900 for the purpose of economic recovery dedicated to the health sector, external donors in the amount of €47,323, revenues carried over from the previous year in the amount of €73,745, government decisions in the amount of €533,552 and from the reduction of planned revenues for €20,000.
- The Goods and Services Budget has increased by €3,557,695. The increase was influenced by the carryover of last year's revenues in the amount of €1,868,915, government decisions in the amount of €1,680,000, and the acceptance of donations in the amount of €8,780.
- The budget for Utilities has increased by €286,757. The increase is the result of revenues carried over from the previous year in the amount of 246, €757 and government decisions in the amount of €40,000
- The budget for Subsidies and Transfers has increased by €1,732,038. The increase is the result of revenues planned for €930,000, revenues carried over from last year in the amount of €801,430, and donations in the amount of €608.
- The budget for Capital Investments has increased by €1,082,626. The increase was influenced by the revenues carried over from the previous year in the amount of €1,758,738, donations €681,854, the reduction in planned revenues for €886,000, and reductions from government decisions for €471,966. Despite an increase in the capital expenditure budget during the year, only 66% of the budget was spent, and this was mainly due to contracting delays as a result of complaints to the PRB from the EO. The Public Investment Program includes 107 ongoing projects from last year, and 14 new projects for the current year. For 46 projects with a budget value of €2,719,006, no payments were made during the year 2022.
- The Reserves budget was reduced by €129,207. This was influenced by the reduction of planned revenues for €381,446 and increases from government decisions for €252,239.

The municipality of Prizren has benefited from the economic recovery program in the amount of €389,209, of which €359,900 was used to finance salaries and wages for general medical services and housing

Chart 1. Expenditures by economic categories in 2022



The revenues collected by the Municipality of Prizren in 2022 were in the amount of €7,538,665. Revenues are related to property tax, waste tax, construction permits, administrative fee, business tax, rental, co-payments, and other municipal fees.

In addition to these revenues, in 2022 the Municipality of Prizren has received €1,352,660 in revenue from traffic fines, €54,921 from court fines, and €11,851 from the Forestry Agency. These revenues are not included in the table below because they are planned and collected by the relevant institutions, while they are allocated to the Municipality of Prizren on a quarterly basis to be spent during the year.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2022 Receipts	2021 Receipts	2020 Receipts
Total of revenues	7,174,027	7,174,027	7,538,665	7,952,471	5,971,583
Tax revenues	2,861,732	2,861,732	2,572,438	3,168,586	2,205,372
Non-tax revenues	4,312,295	4,312,295	4,944,441	4,774,606	3,765,726
Other revenues	0	0	21,785	9,279	485

4 Progress in implementing recommendations

Our audit report on 2021 AFS of Municipality of Prizren resulted in 16 key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented, as well as periodic reports on the progress on implementation of 2021 recommendations. The audit report for year 2021 and the action plan on addressing of recommendations have been discussed in the municipal assembly.

By the end of our 2022 audit, 9 recommendations have been implemented; 9 have not been addressed; 1 has been partly implemented; and 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

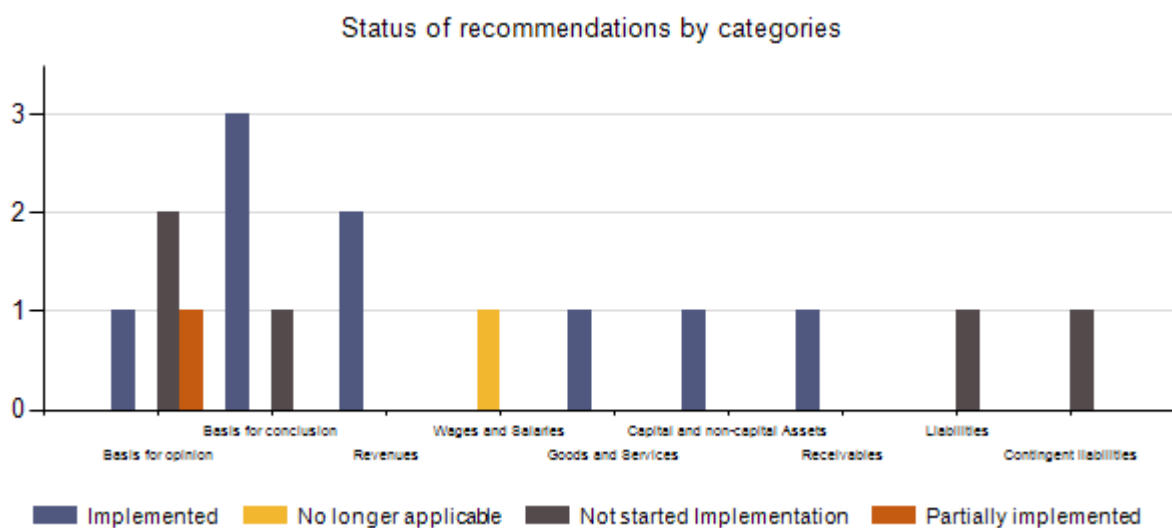


Table 4. Summary of prior year's recommendations

No	Audit area	Recommendations of 2021	Actions undertaken	Status
1	Basis for opinion	The Mayor should ensure that all actions are taken in order to have the expenditures planned in the appropriate budget categories (or reallocated when necessary and feasible), and that the payment and recording of expenditures is made according to the appropriate economic codes.	Misclassifications of expenses have been encountered this year as well.	Implementation not started
2	Basis for opinion	The Mayor should ensure that the necessary corrective actions are taken to reconcile the data in the waste tax revenue system, in order to provide true information on the accounts receivable.	Shortcoming were found in the balance of AR for waste this year as well.	Implementation not started
3	Basis for opinion	The Mayor should provide for adequate and rigorous oversight and controls over the contracts on capital projects as well as over the commissions/supervisory bodies on the delivered works/goods. The management should also provide for more advance control mechanisms of oversight of contracts and payments in such projects.	There have been no cases where the acceptance report was signed without accepting the goods/services.	Implemented
4	Basis for opinion	The Mayor should ensure that all assets of the Municipality are identified and correctly recorded in the capital and non-capital assets books. In addition, he should take the necessary measures to ensure that the e-assets system is put to use for recording, managing and reporting the non-capital assets in line with the criteria set forth in the Regulation on the management of non-financial assets.	Capital assets are registered in KFMIS, but the e-assets program for registering non-capital assets is not used by the Municipality.	Partly implemented
5	Basis for conclusion	The Mayor should ensure that the causes behind the delays are eliminated in the first place, the needed funds are provided, and the controls over the	Even this year there are payments as a result of court /	Implementation not started

		supervision of projects implementation are strengthened in order to prevent additional costs from incurring.	enforcement decisions.	
6	Basis for conclusion	The Mayor should ensure that the established commission for the acceptance of goods is composed of competent staff in order to ensure that the ordered goods is received according to the specified procedures and criteria.	No irregularities were encountered in the receipt of goods /equipment.	Implemented
7	Basis for conclusion	The Mayor should ensure that, when receiving goods and services, all items of the progress payments are summarised beforehand as a precondition for invoicing and payments execution. He should also ensure that services/supplies delivered in the quantity and amount determined by the contract.	There have been no cases of exceeding +/-30% of the value of public framework contracts.	Implemented
8	Basis for conclusion	The Mayor should decide, in the appropriate case of unit price contracts, to apply these contract efficiencies, just as procurement processes are the appropriate procedures for different types of contracts.	There were no cases where inadequate procurement procedures were used.	Implementation not started
9	Revenues	The Mayor should provide for a better cooperation and communication between the Municipal Property Tax Department and the Ministry of Finance in order to prevent potential errors in the estimated tax base or any other eventual error.	Actions have been taken, the deduction for primary residence no longer applies to taxpayers without a personal number.	Implementation not started
10	Revenues	The Mayor should ensure that proper analysis is carried out on waste management in order to achieve the objectives of the Municipality in creating a sustainable financial system. Consideration should be given to updating the burdens data base in the first place and then to making changes and having the regulations for the exemption from or setting of tariffs for	Measures have been taken and internal regulations have been drawn up that regulate issues for certain households.	Implemented

		certain households approved by the legislative body.		
11	Wages and Salaries	The Mayor should ensure that all employees are paid based on the job positions they are appointed to and that the appointment acts are harmonised with the payroll for all the employees.	Last year's recommendation is already addressed through the law on wages in the public sector.	Partially implemented
12	Goods and Services and Utilities	The Mayor should increase controls over execution of works in order to ensure that the signed items are received prior to receiving the invoices and ensure that the payments are made correctly and in time.	There have been no cases of payments without approval of the work situations.	Implementation not started
13	Assets	The Mayor should ensure that the assets stocktaking and evaluation process is carried out in time and that the reports therefrom are reconciled with the assets' book value prior to the preparation of the AFS, in order to provide for a true presentation of assets.	The asset inventory was done before the AFS was prepared.	Implemented
14	Receivables	The Mayor should ensure that the established commission reviews the invoices paid over the years and that an estimation of actual debts balance is made.	Actions have been taken by assessing the actual situation.	Implemented
15	Outstanding liabilities	The Mayor should ensure that the liabilities are planned/budgeted and paid within the statutory deadlines in order to prevent any damages to the Municipal budget as a result of additional enforcement costs.	Delays in the payment of obligations have also been identified this year.	Implementation not started
16	Contingent liabilities	The Mayor should ensure that the contingent liabilities are fairly presented in the AFS. The legal office should provide true and complete data on these liabilities and the same should be forwarded to the finance office as the drafter of the AFS.	Contingent liabilities were not truly disclosed in the 2022 AFS.	Implementation not started

Vlora Spanca: Auditor General

Zukë Zuka: Assistant Auditor General

Shehrije Shala: Audit Director

Illir Abazi: Team leader

Arben Hundozi: Team member

Annex I: Letter of confirmation



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 Prizrenit, për vitin 2022 (në tekstin e mëtejshëm "Raporti");
- Pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- Brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

Kryetar i Komunës
Shaqir Totaj

Data: 20.06.2023



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 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).

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.

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.

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.