



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 ISTOG FOR YEAR 2022

Prishtina, Jun 2023

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1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Istog 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 Istog, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 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 Istog 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 In five (5) payments executed by the treasury in the aggregate amount of €283,231, the expenditures were misclassified, paying them from the economic category of capital investments and goods and services, whilst the payments were for the benefits of the collective contract for teachers, which should have been from the wages and salaries category. Likewise, in two cases, payments in the amount of €17,800 were made from the goods and services category, which by nature belong under the category of subsidies and transfers.

For more, see sub-chapter 2.1 Issues with impact on 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 if the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our opinion, except for the effects of matters described in the Basis for Conclusion on Compliance section of our report, transactions carried out in the process of execution of Municipality of Istog's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

Basis for the Conclusion

A1 Capital and non-capital assets; there were cases of usage of incorrect useful life which affects its net value, an accumulated overstatement of €38,339 was for five cases and in two cases a cumulative understatement of €15,858.

B2 Outstanding liabilities; six (6) invoices had not been paid within the 30-day deadline, payment delays for these cases range from 47 to 264 days.

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 Mayor is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, the Mayor is responsible for establishing internal controls which he determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The mayor is responsible to ensure the oversight of the Municipality of Istog's financial reporting process.

Management's Responsibility for Compliance

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

Auditor General's Responsibility for the audit of AFS

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

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

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

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

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, which are presented for your consideration below in the form of findings and recommendations. Weaknesses identified on important financial areas are: misclassification of expenditures, poor assets recording and evaluation, delays in the payment of liabilities and poor accounts receivable management. 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 has resulted in six (6) recommendations, of which three (3) are repeated recommendations, two (2) are new recommendations and one (1) 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 – Misclassification of expenditures

Finding

Regulation 01/2013 - MF on Public Funds Expenditure, Article 18.3, expenditures should have adequate codes, defined by the Administrative Instruction for the accounting plan. The corresponding codes and categories of expenditures that budgetary organizations must apply are defined in the accounting plan of the Treasury.

The following misclassifications relate to the payment of salaries and other rewards for teachers foreseen by the education collective sectoral contract paid by the Treasury through court decisions from inadequate categories such as:

- 200,000€ were paid from the economic code of capital investments even though they are expenditures of the salary and wages category; and

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

- €83,231 were paid from goods and services economic code, even though they are expenditures of the salaries and wages category.

Likewise, misclassification of expenses was also identified in the expenditures from the economic category of goods and services, two payments in the aggregate amount of €17,800 were made, which by nature of the expenditures relate to the category of Subsidies and Transfers.

The cases are related to payments such as:

- "Supply of construction material for emergency cases" in the amount of €5,800; and
- Rehabilitation services based on psycho-social community and physiotherapy for children with disabilities" in the amount of €12,000.

Misclassification of expenses from one category to another occurred as a result of the payments' execution by the Treasury for court decisions, payment of teachers' salaries and other rewards which are defined by the collective contract.

While, in the other case, there was a lack of funds in the category of subsidies and transfers.

Impact

Payments made from inadequate economic categories lead to misclassification of expenditures that are presented in the municipality's AFSs by overstating/understating the relevant economic categories and as such they provide incorrect information for their users.

Recommendation B1 The mayor should ensure that the budget planning of expenditures is done according to adequate categories, including contingent liabilities that are at the end of the contested procedures, to avoid the need for the execution of those payments from other economic categories. The same ones should be registered in the relevant economic categories in accordance with the Treasury's chart of accounts and be presented correctly in the AFS.

Response of entity's management (do not Agree).

2.2 Issues with impact on compliance conclusion

Issue A1 - Shortcomings in recording and evaluation/depreciation of non-financial assets

Finding

Article 1 of Regulation 02/2013 on the Management of Non-Financial Assets defines the standard procedures for documenting, preserving and alienating non-financial assets, keeping accurate data on non-financial assets through the systematic maintenance of the Register of Non-Financial Capital Assets, as an integral part of KFMIS, and the Register of Non-Financial Non-Capital Assets for the purpose of assessing and reporting their value, as well as adequate, efficient, effective and transparent processes of alienation of non-financial assets.

From the testing of non-financial capital assets over €1,000, which are registered in the asset register at KFMIS, the following shortcomings have been identified:

- The asset under the name "Elimination of waste from public spaces" in the amount of €9,954 does not meet the conditions to be recorded as an asset, therefore it should not be in the asset register, this has led to the overstatement of the municipality's assets for its entire value;
- The asset under the name "Toyota 4 Runner Vehicle Jeep" in the amount of €4,137, recorded in 2007, should have been completely depreciated, so this has led to the overstatement of the municipality's assets for this value;
- The asset under the name "Construction of the city park at the location of the former public enterprise Radusha" in the amount of €75,409, was as an ongoing investment not being depreciated, even though it was functioning and had to be depreciated for two years, therefore, this has led to the overstatement of the property of the municipality for €3,770;
- The asset under the name "Asphalting of the Drenusha-Lubova road" in the amount of €55,000, was as an ongoing investment not being depreciated, even though it was functioning and had to be depreciated for three years, therefore, this has led to the overstatement of the municipality's asset for €8,250;

- The asset under the name "Electronic system for the administration of municipal subsidies" in the amount of €2,360, was not recorded with the correct useful life of 10 years, but 3 years, depreciating it by 2/3 of it, which should have been 2/10 of it, respectively leading to the understatement of the municipality's asset for €1,101;
- The asset under the name "Construction of the building and rehabilitation of the space for the storage of confiscated woods" in the amount of €8,433, was not recorded with the correct useful life of 40 years, but 10 years, depreciating it for 7/10 while it should have been 7/40 of it, respectively leading to the understatement of the municipality's asset for €14,757; and
- The asset under the name "Replacement of asbestos pipe - of water supply in Banje" in the amount of €101,989, was as an ongoing investment not being depreciated, even though it was functioning and had to be depreciated for the past three years, therefore, this has led to the overstatement of the municipality's assets for €12,228.

This situation occurred mainly due to poor knowledge related to the requirements of the regulation for asset management as well as the lack of internal guidelines related to the asset management process and the necessary corrections in the asset register according to the needs of the actual balance of their values.

Impact

Failure to properly record assets according to their useful life, and failure to correct the asset register according to changes in ownership and value of assets, makes it impossible to obtain assurance regarding the accuracy and completeness of asset registers.

Recommendation A1

The Mayor should undertake the necessary actions to strengthen internal controls for the correction of the asset register, and in particular by verifying and correcting the values of the assets with the "Ongoing Investments" statute and if the useful life of the assets is the one determined by regulations and that the value of assets is presented correctly.

Response of entity's management (Agree).**Issue B2 - Delays in payment of invoices received****Finding**

Law No. 03/L-048 on PFMA, Article 39.1, 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.

When handling outstanding liabilities, we found that six (6) invoices were not paid within the 30-day deadline, the payment delays for these cases range from 47 to 264 days:

- The invoice received on 24.12.2021 in the amount of €8,880 was paid on 14.10.2022; and
- The invoice received on 22.11.2022 in the amount of €1,599 was paid on 09.03.2023.

Furthermore, the invoices which were still unpaid even until the completion of the audit work in the field (date 11 May 2023) were:

- Invoice received on 09.12.2022 in the amount of €2,327;
- Invoice received on 12.07.2022 in the amount of €131;
- Invoice received on 20.12.2022 in the amount of €7,180; and
- Invoice received on 20.12.2022 in the amount of €8,440.

The reason for not paying the liabilities on time was poor internal controls and the lack of budgeted funds for the relevant economic code.

Impact

Liabilities carried forward from previous years increase the risk of project implementation and the achievement of the municipality's annual objectives. Likewise, in case of lawsuits from suppliers, additional costs can be made.

Recommendation B2 The mayor should ensure a better allocation plan and commitment of funds as well as for the initiation of expenditure procedures to be carried out only after the funds are available, in order to eliminate delays in invoice payments.

Response of entity's management (Agree).

2.3 Findings on financial management and compliance issues

2.3.1 Receivables

Accounts receivable disclosed by the Municipality in the 2022 AFS were in the amount of €1,888,787. This relates to property tax €1,615,860, municipal taxes for construction permits €36,956, business charges €174,831, unpaid rent (land and premises) €50,520 and charges for alcoholic beverages services €10,620.

Issue B3 - Challenges in Accounts Receivable management**Finding**

Based on the Law on Immovable Property tax No. 06-L-005, Article 26, 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) and Article 27, if a taxpayer or debtor has not fully paid the tax and the fine in accordance with the established deadlines, the municipality issues a final written notice within ten (10) working days after the last day for payment, where it requests the full payment of unpaid tax obligations, no later than ten (10) calendar days after the day the final notification is considered to have been received by the debtor.

The municipality had ineffective management in the collection of Accounts Receivable (AR). As seen above, the value of AR for property tax, business taxes and unpaid rent still remain with high values and with an increasing trend from year to year, respectively there is an increase of AR around 16% compared to the previous year.

The municipality had not undertaken concrete actions to collect these debts, although this situation was raised as an issue last year as well.

According to the municipality, the economic and social situation of the citizens of the municipality has led to the non-payment of property tax debts, while for business taxes there are many inactive businesses.

Impact

Failure to collect receivables for several years may result in those receivables becoming uncollectible and also in less own source revenues for the municipality.

Recommendation B3 The Mayor should ensure that the collection of AR from the property tax is done according to the requirements and established legal methods. As for AR from business tax and rents, all possible options should be considered, establishing policies and regulations and even through legal means in order to increase efficiency in debt collection.

Response of entity's management (Agree).

2.3.2 Internal audit function

The Internal Audit Unit (IAU) had only one auditor (Director of Unit). In addition to the strategic plan, the IAU had also prepared the annual work plan, with four (4) audit planned to be carried out. Of which, only two (2) audit were completed due to insufficient IAU staff. The audits were focused on the health area, assets and their management.

Issue C1- Non-functional audit committee**Finding**

Administrative Instruction MF-No. 01/2019 on establishment and functioning of audit committee at public sector entity, Article 6, the Audit Committee is appointed by the head of the public sector entity and consists of three (3) or five (5) members. The head of the Audit Committee should not be in a management position, two-thirds (2/3) of the members should be external, and the rest from the internal staff of the public sector entity.

The Internal Audit Committee (AC) was without a quorum (two of them had withdrawn from the audit committee) from March until December 2022, when it was completed with a new composition.

Also, the audit committee had not held four meetings that are mandatory, but only two.

Poor functioning of the AC was a result of the withdrawal of the head and member of the AC after their mandate expired, and the municipality did not appoint new members in time.

Impact

An ineffective Audit Committee has an impact on providing assurance for the effectiveness of the municipality's internal controls, the functioning of the audit and the independence of the internal audit.

Recommendation C1 The Mayor should ensure the effective functioning of the Audit Committee, in order to review the internal audit plans, to confirm that they are based on risk and to provide the required assurance to the management for the functioning of internal controls

Response of entity's management (Agree).

Issue A2 – Failure to complete the Internal Audit Unit with staff

Finding

GoRK Regulation - No 01/2019 on the establishment and implementation of the internal audit function in the public sector entity, Article 5.1.1 stipulates that every public sector entity with a budget over seven (7) million euros should have at least three auditors.

The Internal Audit Unit in the Municipality of Istog, consists only of the Head of the Audit Unit and has no other members as internal auditors.

The municipality has not taken appropriate actions to address the issue of the composition and function of the Internal Audit Unit to complete it with appropriate staff.

Impact

Failure to complete the IAU with staff may lead to the internal audit not covering all areas of risk, and prevent management from taking actions to prevent possible errors at the earliest possible time.

Recommendation A2

The Mayor should ensure that the budget planning for the required positions will be done in time, and that the IAU is completed with sufficient staff according to the regulation on its establishment, which would at the same time increase and strengthen internal controls.

Response of entity'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	11,611,999	12,760,811	11,589,771	11,920,156	13,665,096
Government Grants – Budget	10,451,384	10,532,882	9,897,405	9,385,694	9,897,884
Funding through borrowing	0	98,602	98,602	25,031	92,580
Funding through borrowing – investments clause	0	144,806	0	1,528,317	2,402,275
Carried forward from previous year	0	777,218	616,338	0	426,373
Own source revenues	1,160,615	1,160,615	945,931	941,700	638,792
Domestic Donations	0	46,164	31,495	39,414	31,545
External donations	0	523	0	0	175,649

The final budget is higher than the initial budget by €1,148,812. This increase is a result of unspent own source revenues carried over from last year, funding through borrowing, funding through borrowing – investments clause, domestic donations and the government's decision effect on allowances for health employees in the public sector.

In 2022, the Municipality of Istog had spent 91% of the final budget or €11,589,771, with a decrease of 3% compared to 2021. However, the budget execution remains at a satisfactory level and the explanations for the current position are detailed below.

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

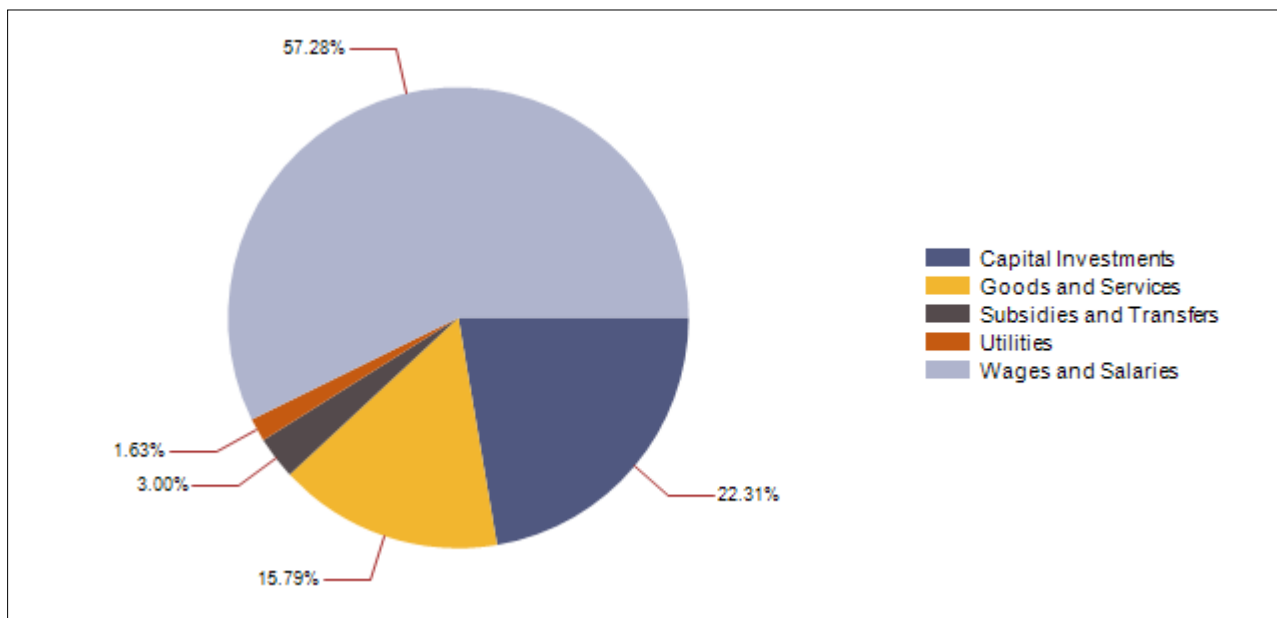
Description	Initial budget	Final budget	2022 Spending	2021 Spending	2020 Spending
Spending of funds by economic categories	11,611,999	12,760,811	11,589,771	11,920,156	13,665,096
Wages and Salaries	6,511,000	6,691,101	6,638,555	6,160,659	6,211,773
Goods and Services	1,593,959	1,923,439	1,829,768	1,227,191	1,482,803
Utilities	202,000	202,000	188,599	157,882	174,280

Subsidies and Transfers	310,000	376,454	347,736	321,811	315,008
Capital Investments	1,408,395	3,567,817	2,585,113	4,052,614	5,481,234
Reserves	1,586,645	0	0	0	0

Explanations for changes in budget categories are given below:

- The category of wages and salaries in the final budget had an increase of €180,101 compared to the initial budget and a 99% budget outturn.
- The goods and services category in the final budget had an increase of €329,480 and had a 95% budget outturn.
- The category of utilities at the yearend did not have any budget changes and had a 93% budget outturn.
- The category of subsidies and transfers, had a budget increase at the yearend for €66,454 and 92% budget outturn.
- The capital investment category had a budget increase for €2,159,422 at the yearend and budget outturn at the yearend was €2,585,113 or 72%.

Chart 1. Expenditures by economic categories in 2022



The revenues generated by the Municipality of Istog in 2022 were in amount of €1,079,823 or around 93% of the planning. They are related to revenues from property tax, construction permits tax, various certificates tax, revenues from vehicle registration, revenues from change of land use, inheritance registration tax, revenues from co-payments (health, education), other administrative revenues, etc.

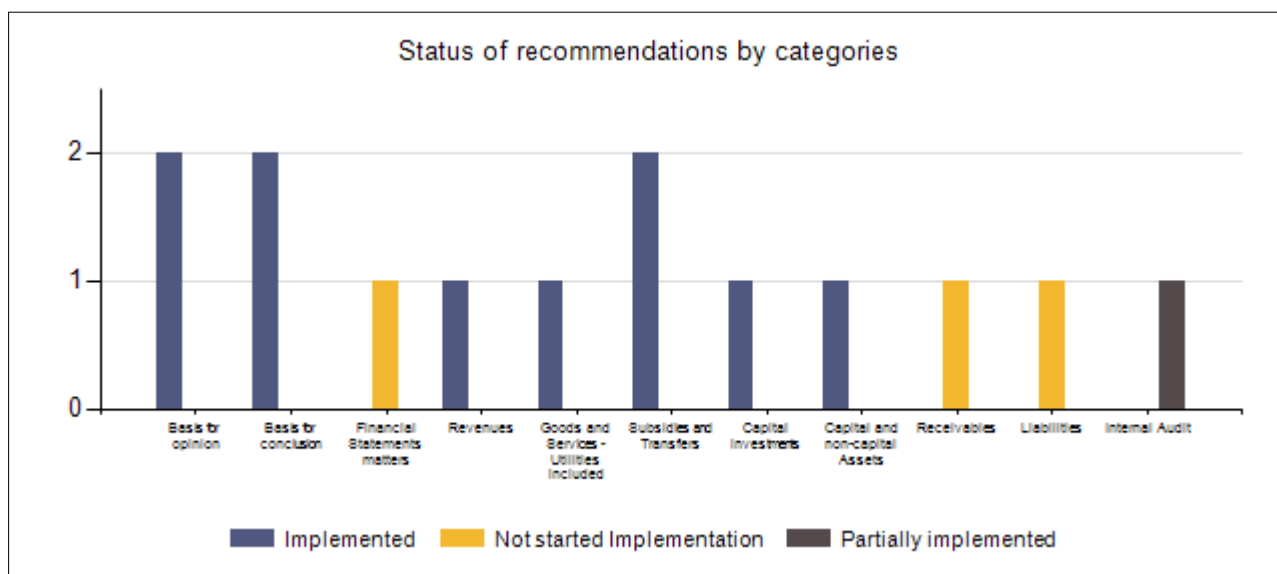
Table 3. Revenues (in €)

Description	Initial budget	Final budget	2022 Receipts	2021 Receipts	2020 Receipts
Total of revenues	1,160,615	1,160,615	1,079,823	1,072,090	787,307
Tax revenues	570,395	570,395	422,826	474,062	299,468
Non-tax revenues	590,220	590,220	656,667	598,028	487,840
Other revenues	0	0	330		

4 Progress in implementing recommendations

Our audit report on 2021 AFS of the Municipality of Istog resulted in 14 key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2022 audit, 10 recommendations have been implemented, three (3) recommendations have not started to be implemented yet and one (1) partly implemented 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 2020	Actions undertaken	Status
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1	Basis for Opinion	The Mayor should increase controls during the preparation of the AFS in order for the disclosures and tables for 2022 to be free of errors and undertake adequate measures towards the responsible people for untrue presentation of data in the AFS for two consecutive years. It should also be ensured that the statement issued by the Chief Administrative and Financial Officer is not signed, if all necessary controls have not been implemented according to the draft AFS.	No such issue has been identified.	Implemented
2	Basis for Opinion	The Mayor should ensure that Accounts Receivable are presented in the financial statements as required by the regulation for Annual Financial Reporting by Budget Organisations. In addition, it should ensure that responsible people for keeping the AR records and the CFO cooperate and present true data of Accounts Receivable in the AFS.	No such issue has been identified.	Implemented
3	Basis for Conclusion	The Mayor should ensure the increase of immovable property inspection activities, according to legal requirements, so that eventual property changes are recorded in the database to show the correct tax liability.	No such issue has been identified.	Implemented
4	Basis for Conclusion	The Mayor should ensure that all procurement procedures and steps have been followed in engaging individual contractors for special services making sure that the engaged staff will be for irregular job positions.	No such issue has been identified.	Implemented

5	Annual Financial Statements	The Mayor should ensure that all necessary actions are taken in order for the expenditures to be planned in the adequate budget appropriations or that funds are redesignated and payment and recording of expenditures is done according to adequate economic codes defined by the chart of accounts.	No such issue has been identified.	Implemented
6	Revenues	The Mayor should ensure that taxpayers' files are completed according to the Protax system requirements. Errors and defects occurring in the Protax system should be addressed and solved in cooperation with the Property Tax Department within the Ministry of Labour, Finance and Transfers.	No such issue has been identified.	Implemented
7	Goods and Services and Utilities	The Mayor should ensure that the Municipality's legal representative undertakes necessary actions within deadlines at times when legal representation of the Municipality is needed to protect the Municipality's interest.	The same issue has been found this year too.	Implementation not started
8	Subsidies and Transfers	The Mayor should ensure that the legal requirements are met in drafting the annual financial support plan for NGOs and reporting the plan in the Prime Minister's Office within the set deadline.	No such issue has been identified.	Implemented
9	Subsidies and Transfers	The Mayor should ensure that public calls for subsidies comprise all the requirements set out in the Regulation on Criteria, Standards and Procedures for Public Financing of NGOs, then ask	No such issue has been identified.	Implemented

		NGOs to submit financial and narrative return reports as well as for each beneficiary of the subsidy to appoint a monitoring official.		
10	Capital Investments	The Mayor should ensure that proper control is in place through the procurement office, so as to review that the requesting units draft the executive project according to the legal requirements and needs of the Municipality by setting the standard of quality of work or supply.	No such issue has been identified.	Implemented
11	Assets	The Mayor should ensure that all assets are recorded in the asset register in order to lower the risk of misuse or loss of assets. In addition, the e-assets system should be put to use to record assets under €1,000.	No such issue has been identified.	Implemented
12	Accounts Receivable	The Mayor should ensure that all possible options are being actively considered, establishing policies and regulations in order to increase the efficiency of debt collection by reviewing all measures against operators who do not fulfil their obligations in accordance with the law.	The same issue has been found this year too.	Implementation not started
13	Outstanding Liabilities	The Mayor should ensure that all invoices and financial liabilities are paid within the statutory deadline and works or supplies are not done unless the Municipality provides or allocates sufficient budget funds for payment.	Delays in payment of liabilities were identified this year too.	Implementation not started
14	Internal Audit	The Mayor should ensure that the necessary actions are taken so that the AC is complete and functional in order	The same issue has been found this year	Partly implemented

		for the committee to critically review the internal audit plans, confirm that they are risk-based and provide the management with the assurance required. The AC should also monitor the actions taken by the management in relation to the audit recommendations.	too. However, the IA Committee was established on 16.12.2022	
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Vlora Spanca: Auditor General

Zukë Zuka: Assistant Auditor General

Blerim Kabashi: Head of Audit

Enver Boqolli: Team leader

Aurora Morina: Team member

Agim Sogojeva, Team member

Annex I: Letter of confirmation



Komuna e Istogut

Opština IstokIstog

Municipality



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 Istogut, për vitin 2022 (në tekstin e mëtejshëm "Raporti");
- Siç kemi diskutuar edhe në takimin e datës 29.05.2023, se nuk pajtohem me kualifikimin e draft-raportit të Auditorit;
- Arsyeja është se për çështjen B1 të kualifikohet Raporti i Auditimit të Komunës së Istogut, është i pa drejtë nga ana e procedurës, ashtu siç jeni të njoftuar edhe ju që për shkak të vendimeve Gjyqësore e cila është kompetencë ekskluzive e Thesarit e jo e Komunave, ku janë ekzekutuar këto pagesa nga Thesari, të vendimeve Gjyqësore (shujtave e transportin për Mësimdhënës) nga Investimet kapitale, nga fondet burimore 22 dhe 10, si dhe nga kategoria ekonomike Mallra dhe shërbime, ku vendimet janë ekzekutuar pa koordinim me ZKF-në e komunës sonë.
- 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. Ilir FERATI
(Kryetar i Komunës),

Data: 12.06.2023, Istog,



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

Auditor's Report on the financial 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.