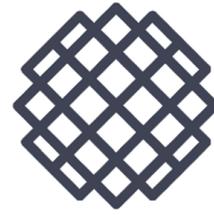




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

## AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF GJILAN FOR YEAR 2021

**Prishtina, May 2022**

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# 1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Gjilan for the year ended on 31 December 2021 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities<sup>1</sup>.

## Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Gjilan, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports<sup>2</sup>, for the year ended as at 31 December 2021.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Municipality of Gjilan, 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

A1 Contingent liabilities of €14,427,529 presented under Article 18 of the Annual Financial Report were overstated by €301,299.

B1 The Municipality misclassified expenditures of €330,194 in the economic categories.

*For more details, 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.

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

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

## Audit Conclusion on Compliance

We have also audited whether the processes and accompanying 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 the matters described in the *Basis for Compliance Conclusion* section of our report, transactions carried out in the process of execution of Municipality of Gjilan'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

- A2 For the project "*Construction of green market in the Municipality of Gjilan*", in the amount of €509,177, the Municipality applied inadequate procurement procedure.
- A3 The Public Framework Contract entered into on a unit price basis for "*Renovation and opening of third order roads, cleaning of rivers and removal of illegal landfills*" was exceeded by €72,000;
- A4 The Municipality subsidised the Non-Governmental Organization in the amount of €17,350, without a prior public call;
- B2 For payments in the amount of €857,352, the steps for payments processing have not been adhered to;
- B3 In the Public Framework Contract "*Rehabilitation and maintenance of public lighting in the city of Gjilan*" the indicative quantities were exceeded for 15 items;
- A5 The Municipality paid €29,688 for the cleaning of school buildings which had not been foreseen in the contract;
- C1 The Municipality did not pay the financial liabilities on expropriations within the deadline set forth in the expropriation decisions;
- B4 The Municipality overstated the capital assets as a result of having recorded assets that actually fall under Goods and Services category in the capital assets register and had registered them in the inadequate class of assets; and
- A6 The municipality had engaged employees with contracts for special services, without respecting public procurement procedures.

*For more details, 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.

### **Other Matter**

1. The Municipality did not register non-capital assets in the e-assets system, because e-assets system is not yet functional, in its absence, assets data not capital are recorded and recorded in excel format.

### ***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 Gjilan's financial reporting process.

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

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

### **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.

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

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

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

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

## 2 Findings and recommendations

During the audit, we have identified areas of possible improvement on Financial Management and Control. Weaknesses were identified on important financial areas, such as: revenues, liabilities, receivables, as well as recording of non-financial assets, including internal control which are presented for your consideration below in the form of findings and recommendations. In addition, shortcomings were found in the Municipality's reporting process, namely during the preparation of AFS where other errors were identified during the audit and possible corrections were made following our suggestions. However, issues related to Contingent Liabilities and Misclassifications were not presented truly and fairly in the AFS. These findings and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in the 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 14 recommendations, of which seven (7) are new recommendations, six (6) repeated and one (1) partly repeated.

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

### 2.1 Issues with impact on the audit opinion

#### **Issue A1 - Untrue presentation of contingent liabilities in the AFS**

**Finding** Regulation MF.no. 01/2017 on Annual Financial Reporting by Budget Organizations, Article 6, stipulates that budget organisations should maintain accurate, complete and up-to-date accounting records in accordance with applicable legislation, for all financial information and other non-financial information.

During the audit process we found that the annex (register) of contingent liabilities attached to the AFS was not true due to duplication of values, thus resulting in overstatement of the contingent liabilities presented in Article 18 of the Annual Financial Report for the year 2021. We asked the Municipality to rectify the annex and the statements together with the annex were afterwards corrected and submitted to the Treasury. Yet, they were overstated because four lawsuits filed against the Municipality amounting to €301,299 were recorded twice in the contingent liabilities registers.

The untrue presentation of contingent liabilities values was due to the neglect of officials who keep records on contingent liabilities and insufficient internal control exercised by the chief financial officer to verify the values during the presentation of contingent liabilities in AFS.

Untrue presentation of contingent liabilities leads to untrue and unfair information on contingent liabilities being provided to the stakeholders or users of the AFS.

**Recommendation A1** The Mayor should ensure that responsible officials keep accurate records of contingent liabilities in order to provide for their true presentation in the AFS.

**Response of entity's management (Agree).**

### **Issue B1 – Misclassification of expenditures in the economic categories**

**Finding** Administrative Instruction MF-no.04/2019 on Definition of Capital Projects and Classification of Capital Project Expenditures provides that the date when the asset is first ready for use and able to be used as intended is the date of commissioning (technical acceptance) of the asset. From this date, operating, repair and maintenance costs are considered as running costs. Moreover, the Financial Rule no. 01/2013/MF on the Expenditure of Public Funds, Article 18, paragraph 3, provides that expenditures must have the appropriate codes, defined by the Administrative Instruction on the chart of accounts. The Treasury chart of accounts defines the relevant codes and categories of expenditures that BOs must apply

The Municipality misclassified expenditures of €330,194 in the economic categories, of which: €181,821 were paid from the category of capital investments for the technical maintenance of municipal buildings and summer road maintenance; €118,693 were paid by Treasury, based on the execution decision, from the category of goods and services for expropriation of lands; and €29,680 were paid from the category of subsidies for expropriation of lands.

This occurred due to poor budget planning and lack of funds in the respective categories.

**Impact** Payments made from the inadequate category lead to untrue presentation of notes in the Financial Statements of the Municipality, resulting in data by category of expenditures being untrue and misleading to the users of the AFS.

**Recommendation B1** The Mayor should ensure that all necessary actions are taken so that the expenditures are planned under the adequate budget appropriation or that the funds are redesignated so that the payments are made and expenditures recorded under adequate economic codes.

**Response of entity's management (Agree).****2.2 Issues with impact on the compliance conclusion****Issue A2 – Incorrect use of the procurement procedure****Finding**

The Rules and Operational Guidelines for Public Procurement, Article 52, considers the use of the negotiated procedure without publication of a contract notice as a very exceptional procedure. This procedure for works or service contracts is usually used:

- For additional works or services not included in the original contract subject to certain conditions (original EO performs the additional services or works that cannot technically or economically be divided, although as separate are still strictly necessary for the completion, and the value does not exceed 10% of the value of the original contract); and
- For new services or works consisting in the repetition of similar works or services entrusted to the EO subject to certain conditions (are in conformity with the basic project; this opportunity is disclosed in the tender; it takes place during a period of 2 years after conclusion of the initial contract; and the value does not exceed 10% of the value of the original contract).

On 14.03.2019, the Municipality signed a contract in the amount of €871,173, for the project "*Construction of a green market in the Municipality of Gjilan*". According to the project manager, the project could not be finalized due to lack of quantities and lack of special items in the bill-of-quantities and estimates in relation to the project. The project manager has therefor notified the procurement office of the obstacles encountered in the project implementation. In this regard, the procurement office considered the performance of additional works and the vendors' need for the market as indispensable and a matter of urgency in order to prevent the investment from being jeopardized. To this end, it applied the negotiated procedure without publication of a contract notice, by sending an invitation for negotiations to three Economic Operators (EO). Only the winning operator having signed the original contract with submitted the financial bid. After evaluating the bid, the evaluation commission recommended the responsible procurement officer to award the contract. On 22.04.2021, a contract of €509,177 was concluded. Based on the requirements of the Rules and the Guidelines, the procurement office should have used the open procurement procedure in this case.

It is worth noting that, by the time we formed field work (04.03.2022), this project was not yet completed despite the fact that it had to be completed within 90 days according to the dynamic plan.

According to the municipality, this has happened due to the market urgent need for investment.

**Impact**

Application of the inadequate procedure may undermine competitiveness during development of procurement procedures.

**Recommendation A2**

The Mayor should ensure that the procurement procedures provided for by statutory requirements are applied and that the negotiated procedure without publication of a contract notice is used in reasonable circumstances, according to the LPP.

**Response of entity's management (Agree).****Issue A3 – Public Framework Contract exceeded****Finding**

The Rules and Operational Guidelines for Public Procurement, Article 56.15, provides: Whenever the contracting authority does not know the indicative quantities, unit price contracts, the CA must determine the weights based on the importance of each "service category" or each "item" in order for the Contracting Authority to determine what is the lowest bid. In these cases, the threshold or ceiling plus/minus thirty percent (30%) is not applicable, such as car maintenance, power generator maintenance, etc. In these cases in public opening of bids reads the total scores (weighted price) which serves only for the purpose of evaluating the bids while the contract is concluded with unit prices.

On 17.12.2020, the Municipality entered into a public framework contract, on unit price, for "*Renovation and opening of third order roads, cleaning of rivers and removal of illegal landfills*" in the amount of €240,000. We found that the municipality exceeded the contract by €72,000.

This occurred because the contract manager was not aware that for public framework contracts, concluded on a unit price basis, the threshold or ceiling of plus/minus thirty percent (30%) was not applicable.

**Impact** Exceeding of public framework contracts leads to more unreasonable and unplanned spending of public money and to the increase of municipal liabilities.

**Recommendation A3** The Mayor should increase controls to ensure that the contract manager exercised proper oversight of public framework unit-price contracts in order to prevent them from being exceeded.

**Response of entity's management (Agree).**

#### **Issue A4 – Subsidies granted to NGOs without prior public calls**

**Finding** Regulation MF-no-04/2017 on Criteria, Standards and Procedures for Public Financing of NGOs, Article 12 paragraph 1, provides that any financial support to NGOs must be announced by public call, which must be published on the website of the financial support provider.

On behalf of the manifestation "Flame of January 2021", the Mayor, with a decision dated 23.04.2021, subsidized the NGO "Vepro" with €17,350, without making public calls as required by the regulation.

According to the Municipality, this was due to the pandemic situation.

**Impact** Subsidising of NGO by the Mayor's decision only, without announcing the public call, excludes competitiveness, transparency and leads to unequal treatment of NGOs.

**Recommendation A4** The mayor should ensure that when subsidizing NGOs, the requirements of the regulation are adhered to and the financial support for NGOs is made through public calls.

**Response of entity's management (Agree).**

**Issue B2 – Failure to adhere to the steps for payment processing as required by the Financial Rule****Finding**

The Financial Rule NR.01/2013/MF - Expenditure of public money, Article 22, defines the steps for processing payments: firstly the Purchase Request is made; the Purchase Order is issued; the goods/services are accepted; and then the Economic Operator submits the invoice for payment.

From 68 samples tested as part of substantial testing in the category of Goods and Services and Capital Investments, we found that in 13 cases in amounting to €429,710 for capital investments and 13 cases amounting to €482,287 for goods and services the payments processing steps were not adhered to. The stage for the received works/goods and services had been requested and the invoice had been submitted before the Purchase Order was issued. It is worth noting that such occurrence - the stage provided by the EO for the performed work being many times higher than the purchase order, commitment and invoice – was quite prevalent.

This was a result of Procurement Officer's failure to exercise controls over the processing of the payment order.

**Impact**

Failure to adhere to the steps for processing payments is causing a sharp increase in municipal liabilities towards economic operators as a result of the stages of executed work being much higher than the commitments and purchase orders issued by the procurement office.

**Recommendation B2** The Mayor should ensure that the responsible officers adhere to all the steps for the payment processing as stipulated in the Financial Rule on spending of public money.

**Response of entity's management (Agree).**

### **Issue B3 – Poor definition of quantities in the public framework contracts**

#### **Finding**

The Law no.04/L-042 on Public Procurement and the Rules and Operational Guidelines for Public Procurement, Article 56.10, provides that the estimated quantity specified in the tender documents is only an indicative quantity. If the purchase orders exceed the total indicated quantity or the total indicated value of the public framework contract (including plus/minus thirty percent (30%)), regardless of the original expiry date of the Public Framework contract, it will be automatically ceased. The allowed discrepancy plus/minus thirty percent (30%) also applies to Lots and item, and in case the allowed threshold is reached the Contracting Authority may not place other orders for that Lot or item.

In the payment of €54,645, of the public framework contract on "Rehabilitation and maintenance of public lighting in the city of Gjilan" dated 20.12.2018, in the amount of €181,796, we have found that the quantities in 15 items of the stage of performed works in amount €25,301 compared to the contracted amount. It is worth noting that the contract value has not been exceeded.

The allowed discrepancy plus/minus thirty percent (30%) was exceeded as the following:

In item No.76. "Holder - metal pipe & Phi; 48 mm with a length of 90cm broken in parts at an angle of 105 degrees in which will be placed the illuminator 150 W (50cmx50cm angle up to 105 degrees)", of the executed stage, the quantity was 413 pieces, while the quantity in the contract for this item was 30 pieces

In item No.106. "Engagement of the truck (basket) for certain purposes (placing and removing flags, decorations, etc.) for holidays and other official ceremonies", of the executed stage, the quantity was 250 h (hours), while the quantity for this item in the contract was 15 h (hours).

In item No.114. "Decoration of existing natural trees in the city with LED strip", of the executed stage, the quantity was 5800 m<sup>2</sup>, while the quantity for this position in the contract was 2900 m<sup>2</sup>

### **Impact**

Discrepancies exceeding the allowed threshold of plus/minus thirty percent (30%) per item were as a result of poor internal controls over planning and definition of quantities in the contract.

**Recommendation B3** The Mayor should ensure that before initiating procurement procedures and entering into contractual obligations through framework contracts, the needs are properly assessed. He should also ensure that contract managers exercise regular control over the supply with each item under the framework contract and to assure that the contracted quantities are not exceeded.

**Response of entity's management (Agree).**

**Finding** The Rules and Operational Guidelines for Public Procurement define the responsibilities of the project manager as the following: Section 61.19 - the Project Manager shall ensure that the Economic Operator performs the contract in accordance with the terms and conditions specified in the contract. Section 61.21 - Direct Supervisor of the contract manager shall be responsible for a) direct supervision of the implementation of the contract, b) full administration of the contract, including any eventual amendment to the contract. Section 61.23 - where the contract is amended in order to change the original terms and conditions, the amendment to the contract shall be prepared by the procurement department. Section 61.24 - a contract amendment shall not be issued to the Economic Operator prior to: a) obtaining approval from the CAO; b) commitment of funds for the amended contract.

In the public framework contract "Cleaning of school buildings in the Municipality of Gjilan", in the amount of € 1,256,050, dated 15.03.2019, we found that the payment of €37,985, also included the cleaning of 12 schools which were not provided in the framework contract. The amount paid for the cleaning of these schools was €29,688.

According to municipal officials, this happened as a result of requests for general cleaning of school-educational facilities due to the pandemic situation with Covid-19.

**Impact** Shortcomings identified regarding the works performance is contrary to the criteria set for public framework contracts and may result in overpayments or unplanned liabilities, which may lead to budgetary implications.

**Recommendation A5** The Mayor should ensure that when signing public framework contracts, a thorough analysis of real needs is made beforehand, in order to prevent services or items not included in the contracted specification from being performed.

**Response of entity's management (Agree).**

**Issue C1 – Delays in paying the outstanding liabilities**

**Finding** The Mayor's final decisions on property expropriation provide that "upon entry into force of the decision, the Expropriating Authority (Municipality) is obliged to pay, within 24 months, the compensation amount for the expropriated property as determined in the valuation report of the Immovable Property Valuation Office, Property Tax Department within the Ministry of Finance".

We found that, in 13 cases, the Municipality did not pay the financial liabilities €4,373,191 for the expropriations although the deadline set by the final decisions was within 24 months. As a result the liabilities were carried forward to be paid next year.

This happened because the municipality decided to make expropriations by issuing final expropriation decisions without having funds and without making a proper budget analysis.

**Impact** Delayed payment of liabilities is causing additional costs to the Municipality as it is facing lawsuits filed from land owners. Therefore, in addition to the land, it is obliged to pay for the interest and court costs.

**Recommendation C1** The Mayor should ensure that outstanding liabilities on expropriation are paid. Before making decisions on land expropriation, she should conduct a thorough analysis, to ensure that there will be sufficient budget funds to cover all the foreseen expropriation costs.

**Response of entity's management (Agree).**

**Issue B4 – Poor recording of capital assets****Finding**

Regulation MF-No.02/2013 on the management of non-financial assets in budget organizations, Article 6.1, stipulates that, every budget organization shall put in place and update a register of non-financial assets under its management. The register must be kept for each asset individually and in aggregate form pursuant to the categories classified based on the Chart of Accounts, whilst Article 6.3 stipulates that Capital assets shall be recorded in KFMIS while non-capital assets and stocks shall be recorded in the system "e-assets

With regard to capital assets, the following weaknesses have been identified:

Assets in the amount of €174,500 for land expropriation is presented in the asset's class of ongoing investments of the assets register, although all payments were made according to the valuation report, and should be recorded in the asset's class of land of the asset's register.

The assets in the amount of €34,947 for road asphaltting is presented in the asset's class of ongoing investments of the assets register, although all payments were made according to the contract, and should be registered in the asset's class of road construction of the assets register.

Payments in the amount of €120,000 and €16,528 for summer road maintenance as well as payments in the amount of €42,264 for technical maintenance of facilities were recorded as capital assets, thus overstating the register of non-financial capital assets.

The identified weaknesses related to the assets registration occurred due to poor implementation of internal controls by the municipal officials.

**Impact**

Failure to properly register assets according to the criteria set out in the regulation on non-financial assets management, impacts the presentation of inaccurate information in the financial statements.

**Recommendation B4** The Mayor should ensure that internal controls over the recording of non-financial capital assets are properly implemented in accordance with the criteria set forth in the Regulation on the management of non-financial assets.

**Response of entity's management (Agree).**

**Issue A6- Shortcomings regarding the special service agreements****Finding**

Law no.06/l-114 on Public Officials, Article 84, stipulates that special service agreements, according to paragraph 4 of Article 12 of the Law No. 03/L-149 on Civil Service of the Republic of Kosovo, entered into before entry into force of this Law, shall be valid until the deadline defined in those agreements in line with above stated provisions. Following this period, special service agreements shall be entered into according to the relevant public procurement legislation.

In 2021, the Municipality engaged 103 persons on special service agreements. We have tested five (5) samples and found that the municipality had not conducted public procurement procedures for their engagement. The contracts signed between the Municipality and the employees were for three persons engaged in the procurement office, one in the civil status office and another in the inspection directorate.

This has occurred as a result of inadequate actions, departing from the requirements provided by the Law of public officials.

**Impact**

Failure to comply with the established statutory criteria on the engagement of persons through special services agreements undermines the principle of competition, transparency and may lead to discrimination against others.

**Recommendation A6**

The Mayor should ensure that when engaging persons through special services agreements, the criteria set forth in the relevant legislation are complied with.

## 2.3 Findings on financial management and compliance issues

### 2.3.1 Revenues

Revenues generated by the Municipality of Gjilan in 2021 amounted to €4,837,641. They relate to property tax, construction permits tax, business activities tax, administrative fees, rental etc.

#### **Issue A7 – Incomplete verification of municipal properties**

**Finding** Law no. 06/L-005 on Immovable Property Tax, Article 15, provides that inspection activities shall be carried out each year for at least twenty per cent (20%) of all properties.

The Municipality of Gjilan billed the Property Tax to 34143 facilities through the Protax system. The municipality managed to inspect only 1234 facilities or about 4% during 2021.

Failure to carry out inspection activities was due to the lack of sufficient staff.

**Impact** Low level of property inspection may result in incomplete information on current taxable property and lead to incorrect estimation of property tax revenue estimates.

**Recommendation A7** The Mayor should ensure that 20% of real estate is inspected so that eventual changes of property are integrated into the database to reflect the correct tax liability.

**Response of entity's management (Agree).**

### 2.3.2 Capital investments

The final budget for Capital Investments was €7,354,440, of which €6,266,743 were spent in 2021. They relate to construction of roads, construction of business/administration buildings, investment maintenance, purchase of vehicles etc. We tested 44 samples of €2,057,404 as part of substantive testing and 5 samples as part of compliance testing.

**Issue B5 – Projects initiated without sufficient funds allocated****Finding**

Law no.03/L-221 Amending and Supplementing Law no.03/l-048 on Public Financial Management and Accountability, Article 36, paragraph 1, stipulates that a Budget Organization shall record a commitment of allocated funds in the KFMS in accordance with the FMC rules prior to initiating any procurement process that is intended to result in a liability in the current fiscal year.

In four (4) cases, the Municipality had entered into contractual obligations without having sufficient funds committed. Cases are related to the following projects:

- Supply with IT equipment - the contract value was €127,740, whilst €13,900 were committed;
- Reconstruction of Adem Jashari and Zija Shemsiu streets - contract value was €349,879, whilst €58,864 were committed;
- Supply with off-road vehicles, equipped with medical devices - the contract value was €24,700, whilst €8,185 were committed; and
- Construction of a green market in the Municipality of Gjilan - contract value was €509,177, whilst no funds have been committed prior to the initiation of procurement procedures or the signing of the contract

This occurred as a result of the lack of controls during the initiation of procurement procedures without prior commitment of funds.

**Impact**

Entry into obligations without having the needed funds committed leads to increased outstanding liabilities or budget implications for the current year and might create a burden for the following year's budget.

**Recommendation B5** The Mayor should strengthen controls over projects planning, in order to ensure that sufficient implementation funds are committed for each capital project prior to initiating the procurement procedures.

**Response of entity's management (Agree).****2.3.3 Accounts Receivables**

Accounts receivables disclosed by the Municipality in 2021 AFS were in the amount of €12,672,851. This is made of receivables from property tax (€10,590,361), business licences (€1,747,025), rent (€296,854) and other (€38,611). We tested 70 samples of €2,006,708 as part of substantive testing.

**Issue B6 – Poor management of accounts receivables**

Pursuant to Law no. 06/L-005 on Immovable Property, Article 26, the Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competences to collect outstanding tax liabilities which exceed the amount of ten (10) Euros. Whilst Article 27 of this Law stipulates that if a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor. Other revenues should be collected according to the deadlines set forth in the invoice for each type of revenue.

Accounts receivables disclosed by the Municipality in 2021 AFS were in the amount of €12,672,851. The largest share of €10,590,361 or about 84%, belongs to property tax; €1,747,025 or about 14% to business licenses; €296,854 or about 2% to rent; and €38,611 to other taxes. The Municipality has not effectively managed the collection of receivables, as they continue to grow over the years. Compared to the previous year (€ 11,997,965), the increase was around €674,886.

Identified shortcomings were due to insufficient internal controls over the management and collection of receivables.

**Impact**

Failure to timely collect charged revenues affects the level of funds collected for the municipal budget and has a negative impact on the financing and implementation of projects from own source revenues.

**Recommendation B6** The Mayor should ensure that the receivables management process is improved, in order to increase the efficiency in the collection of receivables.

**Response of entity's management (Agree).**

### 3 Summary on budget planning and execution

We have considered the sources of budget funds, spending of funds and revenues collected by economic categories. This is highlighted in the following tables:

**Table 1. Expenditures by sources of budgetary funds (in €)**

Description	Initial Budget	Final Budget <sup>4</sup>	2021 Outturn	2020 Outturn	2019 Outturn
<b>Sources of Funds</b>	<b>27,734,737</b>	<b>29,220,833</b>	<b>28,862,333</b>	<b>27,361,357</b>	<b>25,549,636</b>
Government Grant - Budget	23,686,703	23,696,120	23,632,751	23,241,424	20,349,084
Funding through borrowing	0	90,971	90,910	239,711	0
Carried forward from previous year	0	695,723	695,640	741,694	1,042,842
Own Source Revenues	4,048,034	4,048,034	3,866,687	2,608,996	3,880,386
Domestic Donations	0	55,136	7,569	22,237	55,603
External Donations	0	634,849	568,776	507,294	221,721

The final budget was higher than the initial budget by €1,486,096. This increase is a result of the revised Law on Budget, Government's decisions, own source revenues carried forward from the previous year, financing from borrowing, and donations.

In 2021, the Municipality spent 99% of the final budget, which constitutes a good budget performance.

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

Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
<b>Spending of funds by economic categories</b>	<b>27,734,737</b>	<b>29,220,833</b>	<b>28,862,333</b>	<b>27,361,357</b>	<b>25,549,636</b>
Wages and Salaries	15,894,494	15,982,504	15,958,854	15,816,156	14,958,556
Goods and Services	4,112,000	4,295,261	4,186,070	4,189,744	3,722,837
Utilities	671,500	671,500	588,601	456,408	515,226
Subsidies and Transfers	790,000	917,128	803,898	1,159,159	775,550

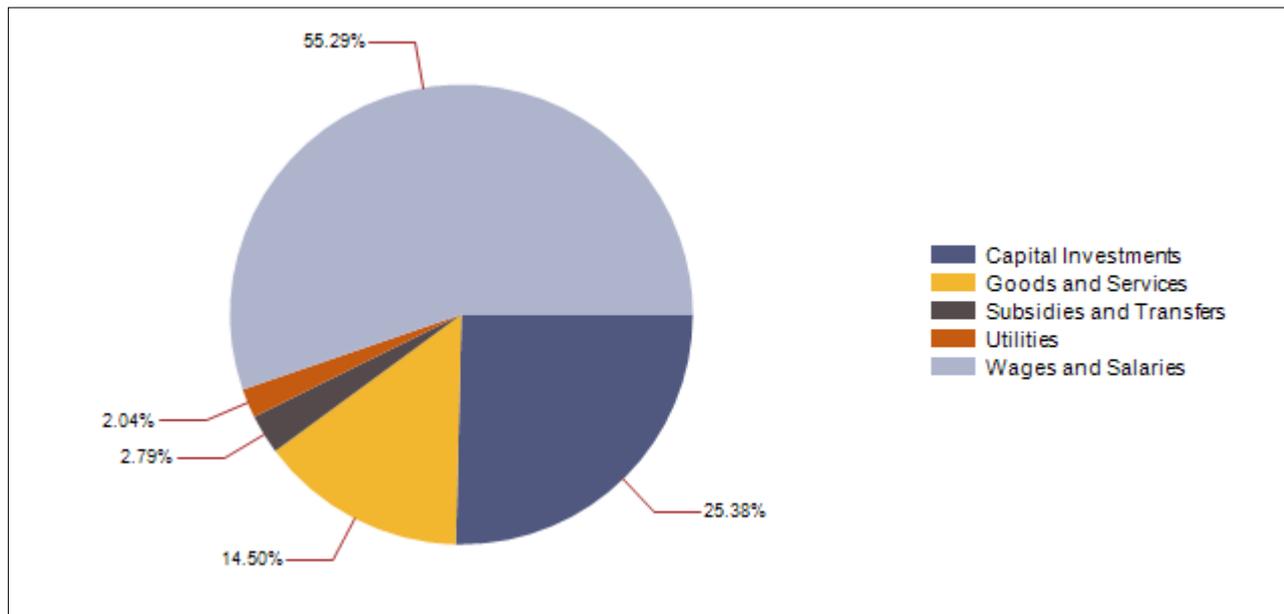
<sup>4</sup> Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

Capital Investments	6,266,743	7,354,440	7,324,911	5,739,889	5,577,469
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Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries was increased by €88,010, compared to the initial budget. This increase was as a result of Government's Decisions by €10,317; donations by €25,152; borrowing of €52,541 by government decision;
- The final budget for Goods and Services was increased by €183,261, of which: €900 was cut with the revised Law on Budget; €56,300 was added from the transfer of own source revenues unspent in 2020; €123,917 was from donations; and €3,944 was added from borrowing;
- The final budget for Utilities has not changed compared to the initial budget;
- The final budget for Subsidies was increased by €127,128, of which €30,000 was added from the transfer of own source revenues unspent in 2020; and 97,128 from donations;
- The final budget for Capital Expenditures was increased by €1,087,697 compared to the initial budget. This increase was as a result own source revenues of €609,423 unspent in 2020; €443,788 from donor grants; and €34,486 from borrowing;
- Funds from carried-forward own source revenues were designated for financing capital projects such as: Construction of a green market, in the amount of €320,000; Maintenance public investments, in the amount of €100,000; and €189,423 for expropriation payments.
- The budget from donor grants was mainly designated to the Construction of Mirusha River plateau, in the amount of € 415,595, and €28,163 for agribusiness. The budget of €34,486 from borrowing was to support the education sector in the area of IT. Funds spent in 2021 for Economic Recovery were €505,517, they were mainly allocated for education, health and firefighting allowances.

**Chart 1. Expenditures by economic categories in 2021**



Revenues planned by the Municipality of Gjilan in 2021 were in the amount of €4,048,034, whilst €4,837,641 were collected. They relate to property tax, construction permits tax, administrative fees, business tax, rental, etc. In addition, the Municipality collected revenues from traffic fines and court penalties totalling to €769,238 as well as revenues from Forestry Agency amounting to €16,938. These revenues are not presented in the following table as they are planned and collected by the line ministries.

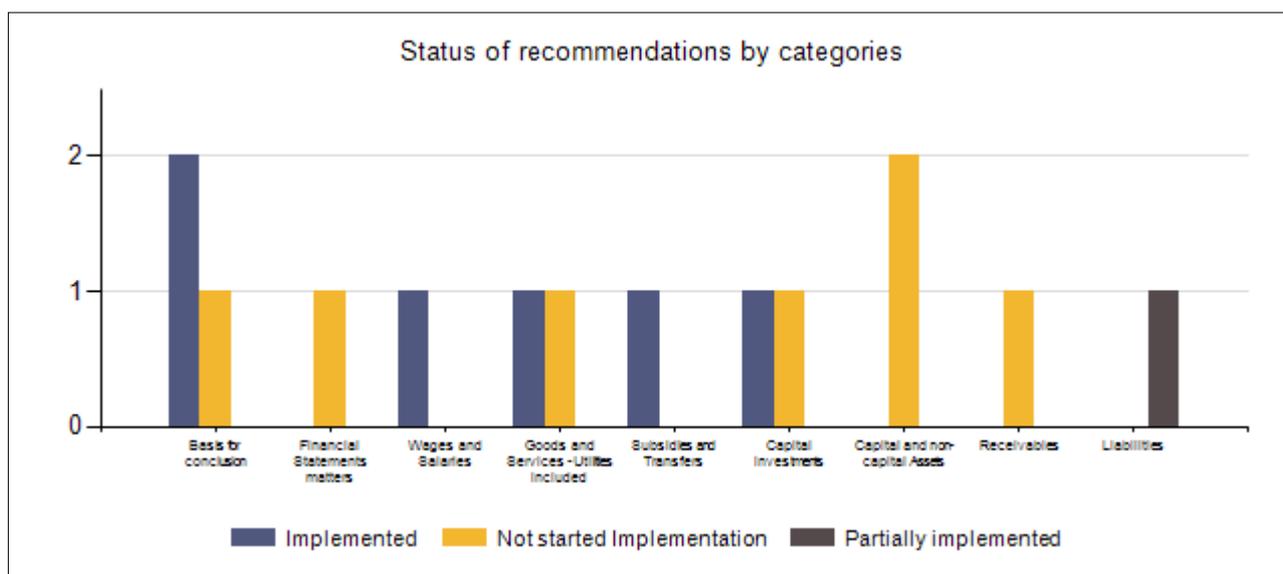
**Table 3. Revenues (in €)**

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
<b>Total of revenues</b>	<b>4,048,034</b>	<b>4,048,034</b>	<b>4,837,641</b>	<b>2,758,090</b>	<b>3,765,119</b>
Tax revenues	1,856,707	1,856,707	2,312,933	1,340,924	1,651,323
Non-tax revenues	2,191,327	2,191,327	2,505,694	1,417,166	2,113,795
Other revenues	0	0	19,014		

## 4 Progress in implementing recommendations

Our audit report on 2020 AFS of Municipality of Gjilan resulted in 14 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2021 audit, six (6) recommendations have been implemented; one (1) was partly implemented; and seven (7) have not been implemented yet as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (Table of recommendations).

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



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

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	Basis for Conclusion	The Mayor should ensure that payment processing officers follow all the steps for processing of payments set out under the Financial Rules on Public Funds Expenditure.	Unfortunately, this phenomenon has continued in 2021, number of cases when the purchase order was issued after the invoice and the acceptance report have increased compared to last year.	Implementation not started

2	Basis for Conclusion	The Mayor should ensure that all public procurement procedures and rules are applied when it comes to segregation of duties in the procurement process in order to prevent any potential conflict of interest. He should also ensure that all requirements of the tender dossier are met by the winning economic operator.	We have not encountered problems of this nature.	Implemented
3	Basis for Conclusion	The Mayor should ensure that when outsourcing construction works, the relevant Department has drafted the projects and the rest of the technical-investment documentation in accordance with the needs and requirements. Otherwise, such procedures should not be initiated	We have not encountered any case lacking the executive project.	Implemented
4	Annual Financial Statements	The Mayor should ensure that all actions are taken so that expenditures are planned under adequate budget categories, or to reallocate funds so that payments and recording of expenditures is carried out from adequate economic codes	The municipality in 2021 had misclassified expenditures into economic categories.	Implementation not started
5	Wages and Salaries	The Mayor should, prior to making staff promotions, initially secure adequate funds, while in cooperation with Treasury should start paying outstanding salaries according to signed contracts.	The Municipality in 2021 after receiving the audit report has addressed the Recommendation.	Implemented
6	Goods and Services and Utilities	The Mayor should ensure that prior to initiating procurement procedures and entering into contractual obligation, the needs to be met through framework contracts are defined clearly, and ensure that contract managers conduct regular controls on supplies of each item according to the framework contract and that no exceeding in contracted quantities is made.	Exceeding of indicative quantities in public framework contracts have been identified.	Implementation not started
7	Goods and Services and Utilities	The Mayor should ensure that sufficient technical evaluation capacities are provided during evaluation, and that economic operators that best meet the criteria in the Tender Dossier are awarded with subsidies and transfers	We have not encountered problems of this nature.	Implemented
8	Subsidies and Transfers	The Mayor should ensure that the annual plan on financial support to NGOs is prepared and contains all the criteria established in the regulation for financial support.	We have not encountered problems of this nature.	Implemented

9	Capital Investments	The Mayor should strengthen controls over project development by ensuring that sufficient funds are provided for the implementation of any capital project prior to initiation of procurement procedures.	Also in 2021 there were cases when the municipality initiated and concluded contracts without sufficient commitments.	Implementation not started
10	Capital Investments	The Mayor should ensure that the tenders' evaluation process is completed within the deadlines set forth in the procurement regulations	In our samples tested for procurement procedures we did not encounter problems of this nature.	Implemented
11	Assets	The Mayor should ensure that the purchased items are recorded in the respective assets registers according to the requirements of the Regulation on assets management.	The same situation was in 2021.	Implementation not started
12	Assets	The Mayor should ensure that the assets under €1,000 are recorded in the e-assets system as required under the applicable regulations. Also, the Municipality should develop internal rules and regulations on assets' management.	The situation is the same as in last year's Audit Report. Since the E-assets system was not operational, which is maintained and managed by the central level, the Municipality, has recorded its non-capital assets in an Excel spreadsheet. We have concluded that even though assets are recorded in an Excel spreadsheet, The Municipality had calculated the depreciation for non-capital assets. Therefore, this year this will be a part of the report in the chapter of audit opinion, part of other matters.	Implementation not started
13	Accounts receivable	The Mayor should ensure the implementation of laws and regulations for the collection of debts from property tax, business licenses, and other debts	Also, in 2021, it is reported that there is an increase in accounts receivable compared to the	Implementation not started

		and should strengthen internal control to prevent their continued increase.	previous year and as a result this recommendation remains unimplemented.	
14	Outstanding liabilities	The Mayor should ensure that the Municipality starts registering all invoices in the Invoice Book, and that invoices are paid according to the deadlines set in the regulations.	The municipality has made the protocolling of invoices through the electronic system where each received invoice has its own number assigned by the system, while in terms of delays it remains unimplemented because the payment of unpaid obligations is not done on time.	Partly implemented

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

Vlora Spanca: Auditor General

Zukë Zuka: Assistant Auditor General

Lavdim Maxhuni: Head of Audit

Florim Beqiri: Team leader

Faik Thaçi: Team member

Arben Hundozi: Team member

## Annex I: Letter of confirmation



REPUBLIKA E KOSOVËS  
REPUBLIKA KOSOVA/REPUBLIC OF KOSOVO  
KOMUNA E GJILANIT  
OPŠTINA GNJILANE/MUNICIPAL GJILAN/GILAN BELEDIYESI



### LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2021 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 Gjiçanit, për vitin 2021 (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.

Z. Alban Hyseni/Kryetar i Komunës

Data: 21.prill,2022, Gjiçan,



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

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

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

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

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

#### *Forms of opinion*

#### **Unmodified opinion**

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

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

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

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

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

#### Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

#### **Qualified opinion**

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

#### **Adverse opinion**

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

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

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

**Disclaimer of opinion**

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

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

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

An Emphasis of Matter paragraph should:

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

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