



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 GRAÇANICA MUNICIPALITY FOR YEAR 2021

**Prishtina, May 2022**

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# 1 Audit Opinion

We have completed the audit of the financial statements of Graçanica Municipality 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 Graçanica, 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 Graçanica, 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. Accounts receivable (€3,826,839) presented in article 16 of the Annual Financial Report (AFR) were understated by €1,190,365;

A2. Capital Assets (€21,530,588) presented in article 19.3.1 of the AFR were understated by €200,086;

A3. Contingent Liabilities presented in article 18 of the AFR were understated by €58,022;

A4. The Municipality misclassified expenditures in the amount of €28,796; and

B1. Non-capital assets (€405,253) presented in article 19.3.2 of the AFR were not true and complete.

*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.

<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 if 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, transactions carried out in the process of execution of Municipality of Gračanica'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**

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 Gračanica's financial reporting process.

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

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

## **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

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

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 Graçanica'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 Graçanica'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, expenditures, receivables and recording of assets. The Municipality's reporting process had shortcomings as identified during the preparation of the Annual Financial Report (AFR). The AFR of the Municipality prepared on 31.01.2022 for the year ended as at 31.12.2021, was not in compliance with the Regulation No. 01/2017 on Financial Reporting. The AFR was untrue, therefore during the audit we required from the Municipality's management to correct it. After our request, the necessary corrections were made, the report was submitted to the NAO and the issues raised by us were rectified except for the matters of accurate reporting of accounts receivable, contingent liabilities, assets and misclassification of expenditures which have led to the qualification of the audit opinion. 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 comprises nine (9) recommendations of which seven (7) are new recommendations and two (2) 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 accounts receivable in the AFR

##### **Finding**

Pursuant to Regulation MoF – No. 01/2017, on Annual Financial Statements of Budget Organisations, Article 16 stipulates that budget organizations that collect revenue are required to keep registers of the revenues collected and invoiced amounts of the uncollected. Receivables shall be disclosed in the annual financial report in the relevant table by type of revenues.

In the AFR, the Municipality had presented accounts receivable from business taxes €228,270 only of 2021 not presenting a summary of the uncollected amounts of previous years, which should have been reported in a total of €1,418,635, including 2021. This results in understated accounts receivable by €1,190,365.

Identified weaknesses for accounts receivable are due to inefficient internal controls in the management and reconciliation of values from the registers, respectively their disclosure in the AFR.

##### **Impact**

Untrue presentation of accounts receivable leads to the disclosure of untrue information to the stakeholders or users of financial statements.

**Recommendation A1** The Mayor should ensure strengthening of internal controls in order to improve the process of management and fair presentation of the accounts receivable in the AFR.

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

#### **Issue A2 – Overstatement of capital assets**

**Finding** Regulation MoF – No. 02/2013, on Management of Non-Financial Assets by Budget Organizations, Article 6.1 stipulates that each budget organization shall put in place and update a register of non-financial assets under its management. The register must be maintained separately for each asset individually and in aggregate form pursuant to categories classified according to the accounting plan, and article 6.3 sets out that capital assets must be recorded in KFMIS, while the non- capital assets and stocks in the “e- assets” system.

The following payments were recorded as capital assets by overstating the capital assets register.

- Payments in the amount of €119,984 and €10,000 for the supply with construction material is a capital transfer as the beneficiaries of the construction material are citizens with social schemes.
- Payment in the amount of €50,000 is a capital transfer made for the Municipal Public Enterprise purchase of a garbage truck.
- Payment in the amount of €20,102 for the supply with sports equipment falls under the category of goods and services.

Identified weaknesses regarding the asset recording were due to the weaknesses of officers' poor application of internal controls over assets.

**Impact** Failure to record assets according to criteria set forth in the regulation on management of non-financial assets leads to untrue presentation of information in the AFR.

**Recommendation A2** The Mayor should ensure that internal controls over non-financial assets true recording are exercised properly and in compliance with the criteria set forth in the regulation on management of non-financial assets.

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

#### **Issue A3 – Overstatement of contingent liabilities**

**Finding** Article 6 of the Regulation MoF – No. 01/2017, on Annual Financial Statements of Budget Organisations provides that budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information.

Contingent liabilities (€5,313,030) presented under article 18 of the AFR were overstated by €58,022 because the presented value relates to the lawsuit filed by the Municipality against a municipal officer, and not to any lawsuit filed against the Municipality.

Untrue presentation of contingent liabilities was due to the negligence of the officer that keeps records of contingent liabilities and lack of internal control by the chief financial officer to check the amount in the presentation of contingent liabilities in the AFR.

**Impact** Untrue presentation of contingent liabilities leads to the disclosure of untrue information to the stakeholders or users of financial statements in regards to contingent liabilities value.

**Recommendation A3** The Mayor should ensure that contingent liabilities are evaluated and truly presented during the preparation of the AFR.

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

#### **Issue A4 – Misclassification of expenditures**

**Finding** Article 18.3 of Financial Rule No. 01/2013-Public Funds Expenditure sets forth that expenditures should have the adequate codes, as defined under the Administrative Instruction for the accounting plan. The Treasury Accounting Plan defines the adequate codes and categories of expenditures that BOs should apply.

The Municipality made misclassification of expenditures by paying €28,796 from the capital investments category, for disinfection, disinsectization and deratization services of buildings and public spaces in the Municipality of Gračanica, services that actually fall under the category of goods and services.

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

**Impact** Payments made from inadequate categories lead to the presentation of incorrect entries in the Municipal Financial Statements, where the data for the category of expenditures are not accurate and as such provide misleading information to the users of the AFS.

**Recommendation A4** The Mayor should ensure that appropriate actions are taken so that expenditures are planned in the adequate budget appropriation or that the funds are redesignated, so that the payment and recording of the expenditures are done according to the adequate economic codes.

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



**Issue B1 – Failure to records non-capital assets in the E-assets system**

**Finding** Regulation MoF- No. 02/2013 on Management of Non-Financial Assets by Budget Organisations, article 6.3 sets out that capital assets must be recorded in KFMIS, while the non- capital assets and stocks in the “E- assets” system.

The Municipality did not record the non-capital assets in the E-assets system. Data on non-capital assets are recorded in the internal Excel format which does not calculate the depreciation of assets and as such overstates their value in the AFR.

In addition we found that 11 of the tested samples in the amount of €53,327 were not recorded in this register.

Failure to record non-capital assets in the E-assets system was due to the system being dysfunctional and weaknesses of officers’ poor application of internal controls over recording and true and complete presentation of non-capital assets.

**Impact** The usage of alternative formats for recording of non-capital assets has a negative impact on the assurance, accuracy, complete and fair reporting of non-capital assets.

**Recommendation B1** The Mayor should ensure that needed actions are taken for the application of the E-assets system for the recording, management and reporting of non-capital assets in compliance with the set criteria of the regulation on management of non-financial assets.

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

## 2.2 Findings on financial management and compliance issues

### 2.2.1 Revenues

Revenues generated by the Graçanica Municipality in 2021 amounted to €1,866,079. They relate to property tax, construction permits tax, administrative fees, business activities tax, rent tax, etc.

#### **Issue A5 – Delays in issuance of construction permits**

**Finding** Article 21 paragraph 3 of the Law No. 04/L-110 on Construction sets says that if the conditions as provided by this Law have been fulfilled and if the applicant has submitted evidence of the payment of construction permit fee, the competent body shall, within thirty (30) days for category I and within forty-five (45) days for category II and III, issue the construction permit from the date of submission of the application. In the event that the competent body has not informed the applicant of its decision within such period, the construction permit will be deemed issued.

During the testing we found that the Municipality did not considered issuing the construction permits within the legal deadline because in four cases there were delays of one to six months in the issuance of permits.

This situation occurred due to the negligence of the Directorate of Urbanisation to issue the construction permit as provided by law.

**Impact** Delays in issuing construction permits lead to illegal constructions by applicants.

**Recommendation A5** The Mayor should ensure that the issuance of construction permits from the Directorate of Urbanisation will be done within legal deadlines.

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

## 2.2.2 Capital Investments

The final budget for Capital Investments was €3,292,012, of which €2,658,655 were spent in 2021. Those relate to asphaltting of local roads, rehabilitation of water supply and rehabilitation of rivers.

### **Issue A6 – Execution of works not in compliance with the contracted bill-of-quantities and estimates**

**Finding** Project “Construction of reinforced bridge in Gushterica e Poshtme” in the amount of €23,297 according to bill-of-quantities and estimates was foreseen to be built in a 12m length. Item 5.1- Purchase, transport and paving with the roller of the binder course with BNS 16 asphalt of thickness  $d=7\text{cm}$  in a surface of  $78\text{m}^2$  amounted to €624. Item 5.2- Purchase, transport and paving with roller of the wearing course with melted asphalt AB 11 of thickness  $d=4\text{cm}$  in a surface of  $102\text{m}^2$  amounted to €612. Item 6.2- Supply with material, preparation and fence installation from metal profiles with cross section  $\varnothing 63\text{mm}$  according to detail  $h=1.4\text{m}$  in a 32m length amounted to €800.

On 24.03.2022 together with the project manager we paid a site visit for this project and found that it was not done according to the contracted bill-of-quantities and estimates because under item 5.1 - Purchase, transport and asphalt paving  $d=7\text{cm}$  – the layering was done in about  $55\text{m}^2$  surface ( $7.7\text{m length}+9.3\text{ length}=17\text{m}/2=8.5\text{m length}*6.5\text{m length}=55.25\text{m}^2$ ).

Item 5.2- Asphalt paving of thickness  $d=4\text{cm}$  was not executed at all.

Item 6.2- The fence installation was done for 17.6m.

It is worth noted that in the project manager's report these works are listed as completed.

After receiving our draft audit report, the Municipality took action to eliminate the identified deficiencies, in which case he asked us to we do a re-examination. In our re-examination of this project dated 05.05.2022, it was noted that the identified deficiencies were eliminated.

This occurred due to poor supervision of the project manager.

**Impact** Failure to execute works as contracted leads to non-fulfilment of contract and failure to achieve the set objectives.

**Recommendation A6** The Mayor should increase controls so that the contract manager supervises the contract properly, the reporting on the implementation of the contract is true and fair.

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

### 2.2.3 Capital and non-capital assets

The amount of capital assets presented in AFS is €21,530,588, that of non-capital assets is €405,253, and of stock is €6,160.

#### **Issue B2- Failure to prepare the inventorying report prior to the preparation of the AFR**

**Finding** Based on the Regulation No.02/2013 on Management of Financial Assets in Budget Organisations, articles 18 and 19, paragraphs 4.6 and 4.7 stipulate that the Commission for Non-Financial Assets Inventorying prepares the report on inventorying as well as composes general report based on the individual reports of the Non- financial Assets Inventorying Commission in the convenient time before the preparation of the annual financial statements.

By Mayor's decision the Municipality had formed the commission of assets inventorying, but the latter had drafted the general report after the preparation of the AFR.

Delays in drafting the assets inventorying report were due to poor internal controls over adherence to report preparation criteria by the inventorying commission.

**Impact** Failure to draft the inventorying report before the preparation of the financial statements has a negative impact on the trueness and completeness of asset registers and their presentation in the financial statements.

**Recommendation B2** The Mayor should ensure to take needed actions so the inventorying commission drafts the assets inventorying report before the preparation of the financial statements.

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



## 2.2.4 Receivables

Accounts receivable disclosed by the BO in 2021 AFS were in the amount of €3,826,839. This is made of accounts receivable for property tax amounted to €2,881,689, expropriation of municipal land amounted to €671,855, business activities tax €228,270, inspection penalties €26,683 and rent €18,342.

### Issue A7 – Poor management of accounts receivable

Pursuant to Law no. 06/L-005 on Immovable Property, Article 26 sets forth 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; Article 27, if a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor. Other revenues should be collected in compliance with the deadlines specified in the invoice for each type of revenue.

In 2021, the Municipality disclosed in the AFS accounts receivable amounted to €3,826,839. Most of which €2,881,689 or around 75% belong to property tax, €671,855 or around 18% land expropriation, €228,270 or around 6% business activities tax and €45,025 or around 1% others. The Municipality did not have effective management in the collection of receivables as their increase continuous over years. Compared to the previous year the increase was around €214,796.

Weaknesses identified regarding accounts receivable are due to poor internal controls over their collection/management.

### Impact

Failure to timely collect the 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 A7

The Mayor should ensure the improvement of accounts receivable management process in order to increase the efficiency in collecting 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>7,839,373</b>	<b>8,816,914</b>	<b>7,978,563</b>	<b>11,270,839</b>	<b>9,065,733</b>
Government Grant - Budget	5,130,120	5,167,096	5,161,256	6,355,103	5,835,035
Funding through borrowing	0	41,897	41,897	114,030	0
Funding through borrowing-investments clause	1,066,287	1,066,287	812,017	2,559,741	1,488,822
Carried forward from previous year	0	896,455	791,684	603,626	584,483
Own Source Revenues	1,642,966	1,642,966	1,169,815	1,580,029	1,157,393
External Donations	0	2,213	1,894	58,310	0

The final budget was higher than the initial budget by €977,541. This increase is a result of the revision of the Budget Law, Government decisions, carried forward own source revenues, funding through borrowing and donations.

In 2021, the Municipality spent around 91% or €7,978,563. This constitutes a good budget performance.

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

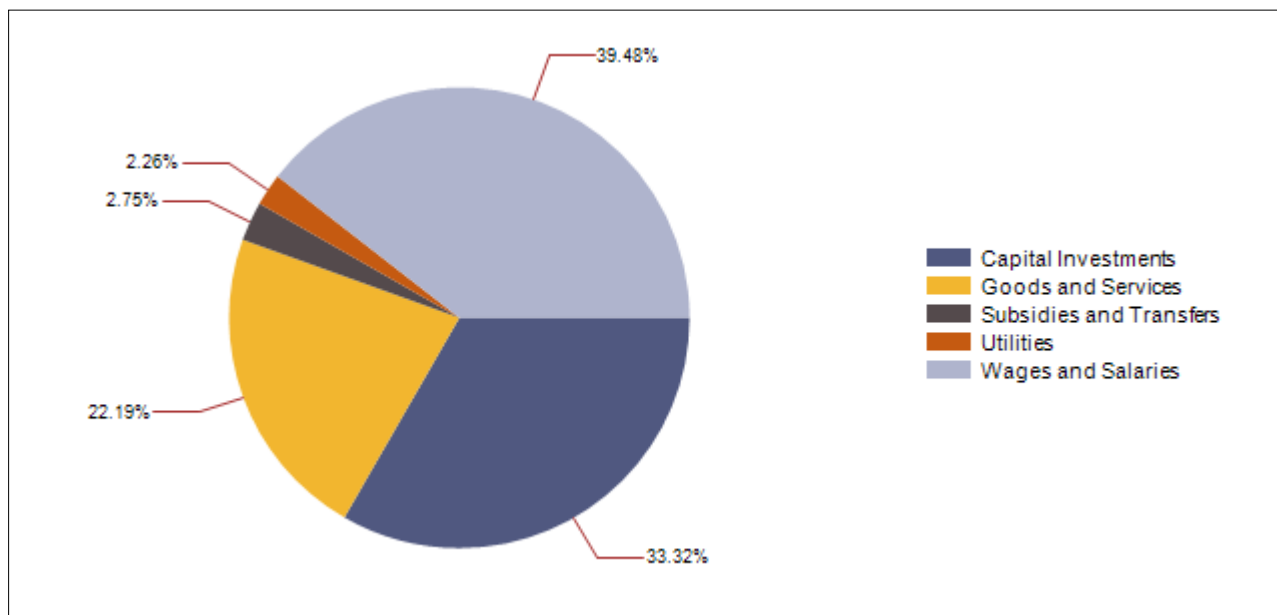
Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
<b>Spending of funds by economic categories</b>	<b>7,839,373</b>	<b>8,816,914</b>	<b>7,978,563</b>	<b>11,270,839</b>	<b>9,065,733</b>
Wages and Salaries	3,109,032	3,149,905	3,149,905	3,277,556	2,959,570
Goods and Services	1,382,289	1,774,183	1,770,293	2,207,390	1,269,445
Utilities	182,000	232,000	179,976	306,358	138,143
Subsidies and Transfers	180,859	305,314	219,735	139,286	190,660
Capital Investments	2,921,693	3,292,012	2,658,655	5,340,249	4,507,915
Reserves	63,500	63,500	0	0	0

Explanations for changes in budget categories are given below:

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

- The final budget for Wages and Salaries compared to the initial budget was increased by €40,873. This increase is a result of borrowing €41,897, which have been spent according to government decisions for allowances during the pandemic, and a Government Grant reduction by €1,024.
- The final budget for Goods and Services was increased by €391,894. This increase is from unspent own source revenues of 2020 in the amount of €390,000 as well as donations in the amount of €1,894. These funds are planned to be spent on road maintenance, medical supplies and fuel supply.
- The final budget for Utilities was increased by €50,000 from unspent own source revenues of 2020.
- The final budget for Subsidies and Transfers was increased by €124,455 of which €86,455 were from unspent own source revenues of 2020 and €38,000 from government decision regarding floods in 2021.
- The final budget for Capital Investments compared to the initial budget was increased by €370,319. This increase is a result of unspent own source revenues from 2020 in the amount of €370,000 and €319 were from donor grants. By decision of the Municipal Assembly these funds were planned to be spent on the following projects: Asphaltting local roads; Building, reconstruction and maintenance of social housing; Building of public spaces; Building of health facilities.
- It is worth noted that the project “Building of Water Supply for Graçanica’s Municipality” amounted to €5,115,108 is funded by the investments clause. For this project the Assembly of the Republic of Kosovo in 2019 adopted the Law No. 06/L-143 on ratification of the loan agreement between the Republic of Kosovo and Unicredit Bank Austria AG. From 2019 to 2021, €4,860,580 were spent, whilst for 2021 €812,017 were spent.
- The funds spent in 2021 for Economic Recovery totalled to €254,669 which were mainly appropriated for allowances in education and health.

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



Revenues collected by the Graçanica Municipality in 2021 amounted to €1,866,079. They relate to property tax, construction permits tax, administrative fees, business activities tax, rent tax, etc. In addition, the Municipality has also received revenues collected by traffic and court in the amount of €158,942. These revenues are not included in the following table because they are planned and implemented by line ministries.

**Table 3. Revenues (in €)**

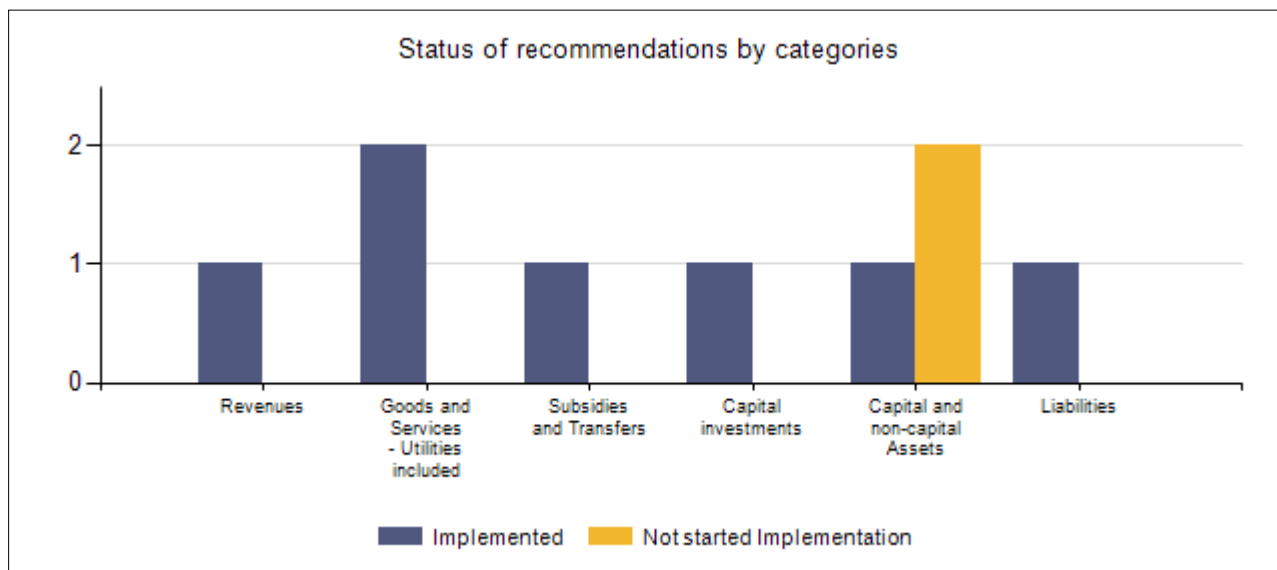
Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
<b>Total of revenues</b>	<b>1,642,966</b>	<b>1,642,966</b>	<b>1,866,079</b>	<b>2,317,164</b>	<b>1,624,676</b>
Tax revenues	759,213	759,213	893,846	676,147	603,416
Non-tax revenues	883,753	883,753	972,233	1,641,017	1,021,261

## 4 Progress in implementing recommendations

Our audit report on 2020 AFS of Graçanica Municipality resulted in 9 key recommendations. The BO prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2021 audit, seven (7) recommendations have been implemented and two (2) were not addressed yet as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

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



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

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	Revenues	The Mayor should ensure that the necessary corrections are made on the data of the areas in the protax system, in accordance with the Regulation in force, so that the tax burden is true and fair for all property taxpayers.	We did not encounter problems of this nature while testing our samples	Implemented
2	Goods and Services and Utilities	The Mayor should ensure that all expenditures are recorded in the adequate economic categories and codes.	The Municipality had taken actions to address the given recommendations. We did not encounter cases of inadequate recording in the goods and services category.	Implemented
3	Goods and Services and Utilities	The Mayor should ensure that contract managers monitor and record in acceptance reports and work diaries the amount of supplies and services performed. The Mayor in cooperation with the contracting company must clarify the aspect of the contracted price and adhere to the contracted prices given in Annex D of the Agreement.	We did not encounter problems of this nature while testing our samples	Implemented

4	Subsidies	The Mayor should ensure that the project selection process for funding is developed by applying all requirements and standard formats/forms as provided by the Regulation MoF No. 04/2017 on Public Funding of NGOs; Increase control measures over monitoring funded projects. Segregation of duties and responsibilities should be done in accordance with the FMC rules so that officers are not involved in more than one stage of the process.	We have not encountered any cases in 2021.	Implemented
5	Capital Investments	The Mayor should ensure that contracts are signed in compliance with the budgeted and approved funds, in order for the implementation of projects to be in accordance with the plan for the prevention of additional costs.	From the five samples tested for procurement procedures we found that for all samples the funds were budgeted by law or that the commitment was made in accordance with the value of the contract.	Implemented
6	Assets	The Mayor should ensure that needed actions are taken for the application of the E-assets system in order to have asset management and reporting in compliance with the requirements of the regulation on non-financial assets management. This issue should also be addressed by the MPA in order to enable the Municipality to make the E-assets system operational.	Problems with the E-assets system were still present in 2021 and the recording of assets under €1000 was not done in compliance with the regulation.	Implementation not started
7	Assets	The Mayor should ensure that the inventorying commission drafts the assets inventorying report before the date of preparation of the AFS.	Assets inventorying was done after the date of preparation of the AFS in 2021.	Implementation not started
8	Assets	The Mayor should ensure that vehicles management is controlled by appointed responsible officers who administer documents and approve requests according to the rules by providing relevant evidence that the vehicles are used for the Municipality needs. The supply with fuel should be done in a controlled way or by the appointed officers and vehicle repair should be done upon request and the approval by the responsible level should be attached.	The Municipality had taken actions to address the given recommendations. From the tested samples we found that in all cases approvals of the requests were done by the appointed officers.	Implemented

9	Outstanding liabilities	The mayor should ensure that the certification of payments is made only after the cases have been completed with the necessary documentation, financial obligations to be paid within the legal deadline and that the commitment of funds to KFMIS precedes the requests for supply of goods and services.	We did not encounter problems of this nature while testing our samples	Implemented
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This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Vlora Spanca: Auditor General

Zukë Zuka: Assistant Auditor General

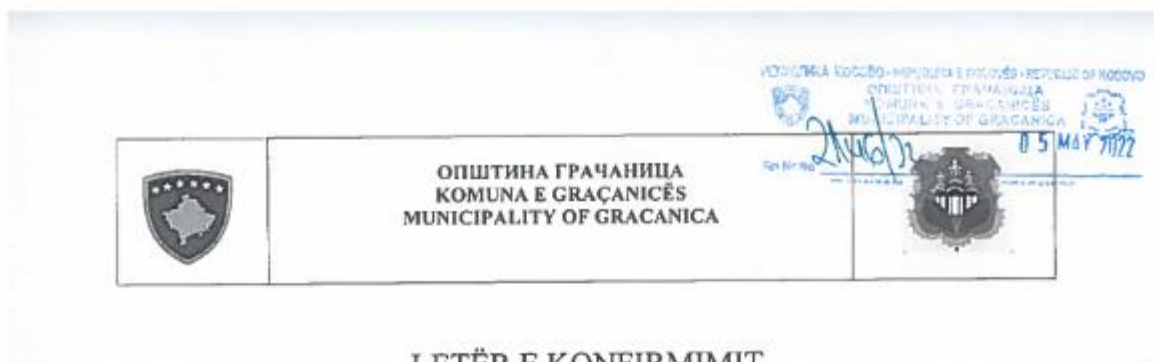
Lavdim Maxhuni: Head of Audit

Florim Beqiri: Team leader

Faik Thaqi: Team member

Arben Hundozi: Team member

## Annex I: Letter of confirmation



### 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 Graçanicës, 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.

Prof. dr Ljiljana Šubarić  
Kryetarja e Komunes se Graçanices

Data: 05.05.2022, Graçanicë,



## 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.

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

<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.

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.