



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 KAMENICA MUNICIPALITY FOR YEAR 2021

Prishtina, May 2022

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1 Audit Opinion

We have completed the audit of the financial statements of Kamenica 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 authorities¹.

Unmodified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Kamenica Municipality, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2021.

In our opinion, the annual financial statements of the Kamenica Municipality give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for Opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P-10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

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

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

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

Basis for the Conclusion

- A1 In Wages and Salaries we found discrepancies between the work attendance and payments which result in an overpayment of €29,297;
- A2 Weaknesses in recruitment process;
- A3 We identified two capital projects in which there were changes in the executed quantities in some items, increasing/decreasing the contracted quantity, or by not executing at all the contracted items in some cases. There were no approvals from the Chief Administrative Officer (CAO) for these changes.

For more, see sub-chapter 2.1 Issues with impact on the compliance conclusion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of Management and Those Charged with Governance for the Annual Financial Statements

The 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 Kamenica's financial reporting process.

Management's Responsibility for Compliance

Kamenica 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.³

Auditor General's Responsibility for the audit of AFS

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

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

³ Collectively referred to as compliance with authorities

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

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

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

2 Findings and recommendations

During the audit, we have identified areas of possible improvement including internal control which are presented for your consideration below in the form of findings and recommendations. Controls over expenditures require further improvement to ensure more effective management of capital projects, Municipal assets, expenditures on wages and salaries, recruitment of new staff as well as accounts receivable to prevent them from increasing continuously. 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 eight (8) recommendations of which five (5) are new recommendations, one (1) partly repeated 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 compliance conclusion

Issue A1 - Discrepancies between classes held and contracted ones

Finding Employment contracts define the rights and obligations of each party, determine the working hours that the employee is obliged to have and the salary which he/she is entitled to be remunerated with for the respective working hours.

We found that in 30 cases in 2021 the education sector staff had a lower number of classes held than defined by contract. Regardless, the compensation was done according to the working hours/salary defined by contract and not by the actual number of classes held. Consequently, this resulted in irregular payments amounted around €29,297.

This occurred due to the closure of some schools as a result of the reform in the education sector, wherefrom a part of the education sector staff did not meet the number of the contracted classes. We have been informed that during 2022 the Municipality has started with the reconciling of contracts according to the actual classes held.

Impact The payment of staff for not-held classes shows non-compliance with the contract and affects the payment regularity.

Recommendation A1 The Mayor should take actions to update contracts based on the real number of classes held by the education sector staff and ensure that compensations are done only according to working hours/salary defined by contract.

Entity management response (Agree)

Issue A2 – Weaknesses in recruitment process

Finding Article 6.5 of Administrative Instruction No. 07/2017 for Regulation of Procedures for Competition in the Public Sector stipulates that public competition should be repeated if at least three candidates do not meet the conditions set forth in the competition. In addition, public competition sets forth the conditions for participation in the recruitment process, the duration of the Employment Contract and other criteria that should be met by successful candidates.

We identified one case where the Municipality did not re-announce the competition for the position of the IT teacher although the required number of at least three eligible candidates was not met. In addition, the selected candidate had a Bachelor's degree of 180 ECTS credits, whilst in the announced competition it was required to have a Bachelor's degree of 240 ECTS credits, four-year program. Regardless that the Municipality had concluded an employment contract for a fixed period dated 30.06.2021, the salary remuneration for the said job position was not terminated after its expiry rather it continued for the following two months (July and August 2021). Without a competition announced, in September a new employment contract was concluded with a duration until the end of 2021. The amount of remuneration for the working period without a contract and after the employment contract was renewed without any procedures was €2,527.

This situation occurred because the commission did not comply with the legal requirements and criteria of the public competition and due to failure of controls in the management and monitoring of changes in salaries.

Impact Failure to meet the criteria during the evaluation process and selection of candidates leads to the risk that someone without merit be appointed for the required job position. Whilst, compensations done without concluded contracts and continuity of contracts without following procedures lead to irregular payments, thus damaging the Municipality's budget.

Recommendation A2 The Mayor should ensure that the legal requirements and criteria of the public competition for the staff recruitment process are meticulously followed so that candidates are employed based on merit. To prevent irregular payments, controls in identifying monthly changes in payroll should increase.

Entity management response (Agree)

Issue A3 – Changes in the contract items without prior approval of CAO

Article 61.21 of Rules and Operational Guidelines for Public Procurement defines that an amendment to a contract refers to a change in the terms and conditions of an awarded contract, in article 61.22 it is said that amendment of the contract shall be prepared by the procurement department, whilst article 61.23 says that contract amendment will be issued only after obtaining approval from the CAO.

We identified two contracts in which changes of the executed quantities in some items were made, increasing/decreasing the contracted quantity, or by not executing at all the contracted items in some cases. There were no approvals from the Chief Administrative Officer (CAO) for these changes as required by article 61 of the ROGPP.

In the contract "Asphalting of 12 roads and filling of potholes with asphalt" of €204,617 there were changes in quantities in 126 contracted items, whilst eight (8) items in the amount of €2,530 were not executed at all. In addition, in the contract "Rehabilitation of the stream bed Ruboc-Kamenicë" of €106,277 there were changes in 30 contracted items, whilst six (6) items in the amount of €6,704 were not executed at all.

The need for changes was due to the specifics of the projects, whilst their disapproval occurred because the project managers were not informed on the legal public procurement requirements for contract amendments.

Impact Changes of contracted quantities given in the bill-of-quantities and estimates without CAO approval show the weaknesses in senior management controls and implementation of the contract with amended terms may lead to the selection of a more expensive operator.

Recommendation A3 The Mayor should ensure that project managers are informed on the legal public procurement requirements (achieved through trainings) and that any amendments in terms and conditions of the contract before or during the implementation period, will only be done after notifying the procurement office and obtaining approval from the CAO.

Entity management response (Agree)

2.2 Findings on financial management and compliance issues

2.2.1 Internal Controls over financial reporting

Annual Financial Statements (AFS) of the Municipality prepared on 31.01.2022 for the year ended as at 31.12.2021, were not in compliance with the Regulation No. 01/2017 on Financial Reporting. They were untrue and incomplete, therefore during the audit we required from the Municipality's management to correct the AFS. After our request, the necessary corrections were made, the statements were submitted to NAO and the issues raised by us were rectified. However, during the audit we identified shortcomings in the disclosure of accounts receivable which is addressed below.

Issue A4 – Understatement of accounts receivable

Finding Article 16 of the Regulation No. 01/2017 on Annual Financial Statements of Budget Organisations says that budget organizations that collect revenues 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.

We found that accounts receivable were understated for €147,989. Respectively, the data on receivables of €70,194 from construction permits as well as €77,795 from use of public property were not disclosed.

This situation occurred due to technical error during AFS correction, as in the first version of AFS they were disclosed.

Impact Failure to disclose accounts receivable from construction permits and use of public property led to the understatement of accounts receivable for the value not disclosed.

Recommendation A4 The Mayor should ensure that actions are taken to address the causes that have led to the understatement of accounts receivable to ensure that the information regarding their disclosure in the AFS is true and complete.

Entity management response (Agree)

2.2.2 Capital and non-capital assets

The amount of capital assets presented in AFS is €62,964,113, that of non-capital assets is €279,416, and of stock is €850.

Issue C1- Shortcomings in assets accounting register

Finding Article 6.3 of Regulation No. 02/2013 on Management of non-financial assets provides that capital assets must be recorded in KFMIS, while the non- capital assets and stocks in the e- assets system.

We found payments amounted to €126,039 of capital and non-capital expenditures which were not recorded in the non-financial assets register, of which eight (8) payments amounted to €105,864 were not recorded in KFMIS and three (3) payments amounted to 20,175 were not recorded in e-assets.

It should be noted that the Municipality made some improvements in the asset accounting register as the issues raised in the assets area had an impact in the previous year audit opinion.

According to asset registration officers, failure to record all assets was due to high volume of work in the yearend and due to dysfunction of the e-assets system.

Impact Lack of true and complete registers causes lack of information for the management regarding Municipality assets; causes over/understatement of assets and may result in untrue presentation of information in the financial statements.

Recommendation C1 The Mayor should ensure that all Municipality assets are identified and recorded in the respective Municipal asset registers.

Entity management response (Agree)

Issue A5- Errors in capital assets recording

Finding Pursuant to Article 11 of Regulation No. 02/2013 on Management of non-financial assets- assets that are in the ongoing investments stage as well as upon completion of investment, assets will be classified as assets in use.

In the contract “Asphalting of roads in Kamenicë and villages” of €218,168 and the annex to this contract of €21,227 we found that payments in the amount of €194,151 (€44,151+€35,547+€114,452) were recorded as ongoing investment, whilst the amount of €45,128 was recorded as asset in use, while the contract was concluded and the recording should have been done with the total payments/contract as assets in use in the amount of €239,229.

In addition, in the contract “Sewerage in city and villages” of €190,778 we found that payments in the amount of €50,965 (€42,026+€8,939) were recorded as assets in use, while the project had not yet been completed and should have been recorded as an ongoing investment.

Incorrect records were mainly due to the high volume of work in the yearend, negligence of the asset officer and lack of information regarding the requirements of the regulation on asset management.

Impact Lack of true and complete registers causes lack of information for the management regarding Municipality assets; causes over/understatement of assets and may result in untrue presentation of information in the financial statements.

Recommendation A5 The Mayor should ensure that capital assets register is updated to ensure that all Municipality assets are identified and recorded in the respective Municipal asset registers.

Entity management response (Agree)

Issue B1- Shortcomings in inventorying process and evaluation of non-financial assets

Finding Article 19.4.3 of the Regulation No. 02/2013 on Management of non-financial assets stipulates that comparing the situation of inventory with the condition in the non-financial registers should be done every year, whilst article 21 sets forth the responsibilities for evaluation of non-financial assets.

The Municipality carried out the inventorying process of the non-financial assets but comparison of the inventorying situation with the balance in the non-financial assets registers was not done as required by article 19.4.3 of the Regulation No. 02/2013 on Management of non-financial assets, thus the difference between accounting balance and inventory is unknown. The evaluation of non-financial assets as required by article 21 of the Regulation No. 02/2013 was not done either.

This situation occurred mainly due to lack of information regarding the requirements of the regulation on the assets management and lack of internal guidelines regarding the process of inventorying and evaluation of assets.

Impact Failure to compare the inventorying results with the situation of the assets registers and not evaluating prevents obtaining of assurance on the trueness and completeness of the assets registers.

Recommendation B1 The Mayor should ensure that the inventorying process and evaluation of assets will be done as required by the Regulation No.02/2013 on Management of non-financial assets in Budget Organisations, and that the inventorying results are compared with the balance in the assets registers and all the differences are clarified.

Entity management response (Agree)

2.2.3 Receivables

Accounts receivable disclosed by the BO in 2021 AFS were in the amount of €2,123,197. This is made of accounts receivable for property tax, business tax and rent tax.

Issue B2 – Management of accounts receivable

Finding

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 and based on 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. Whereas according to Regulation 01/2016 on taxes, fees and penalties, article 8.8 provides that fees are annual and are paid in two instalments (first instalment until June 15 and second one until December 15).

The Municipality has poorly managed the collection of receivables as they continue to increase year after year (except for the receivables from the use of public property which were decreased by about 3%). Compared to the previous year, total receivables increased by about €111,247 or 5%. Property tax in the amount of €1,672,448 or 74% makes the largest share in the accounts receivable, Municipal business tax in the amount of €423,669 or 19%, use of public property in the amount of €77,795 or 3%, construction permits in the amount of 70,194 or 3% and rents in the amount of €27,800 or 1%.

Except for property tax, all other accounts receivable are managed in Excel, therefore the data presented cannot provide sufficient assurance on their trueness and completeness.

Failure to take actions for the collection of receivables led to their continuous increase, although the low level of collection was also a result of the pandemic.

Impact

Failure to implement the mechanisms established by the Law and regulations leads to the continuous increase in the amount of receivables, thus resulting in less funds to attain the aims and may encourage other debtors not to meet their obligations.

Recommendation B2 The Mayor should ensure higher efficiency in collecting accounts receivable. Drafting and implementing clear programs and procedures on how to manage, record and collect them would be some of the measures that may lead to improvements.

Entity management response (Agree)

3 Summary on budget planning and execution

In this chapter we have presented a summary on the sources of budget funds, spending of funds and revenues collected by economic categories. This is highlighted in the following tables:

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

Description	Initial Budget	Final Budget ⁴	2021 Outturn	2020 Outturn	2019 Outturn
Sources of Funds	10,725,420	10,929,744	10,015,180	9,516,804	9,050,689
Government Grant - Budget	9,924,961	9,676,070	9,238,751	8,614,281	7,979,945
Funding through borrowing	0	30,611	30,611	73,710	6,035
Carried forward from previous year	0	287,686	178,039	257,672	296,660
Own Source Revenues	800,459	800,459	531,732	558,386	696,648
Domestic Donations	0	53,076	36,047	12,756	71,401
External Donations	0	81,841	0	0	0

The final budget was higher than the initial budget by €204,324. This increase is a result of own source revenues of €287,686 carried forward from the last year; from domestic donations in the amount of €53,071, from borrowing in the amount of €30,611, from external donations in the amount of €81,846, whilst the budget from the Government Grant was reduced by €248,891.

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

Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
Spending of funds by economic categories	10,725,420	10,929,744	10,015,180	9,516,804	9,050,689
Wages and Salaries	7,300,000	7,220,505	7,208,601	7,169,057	6,876,338

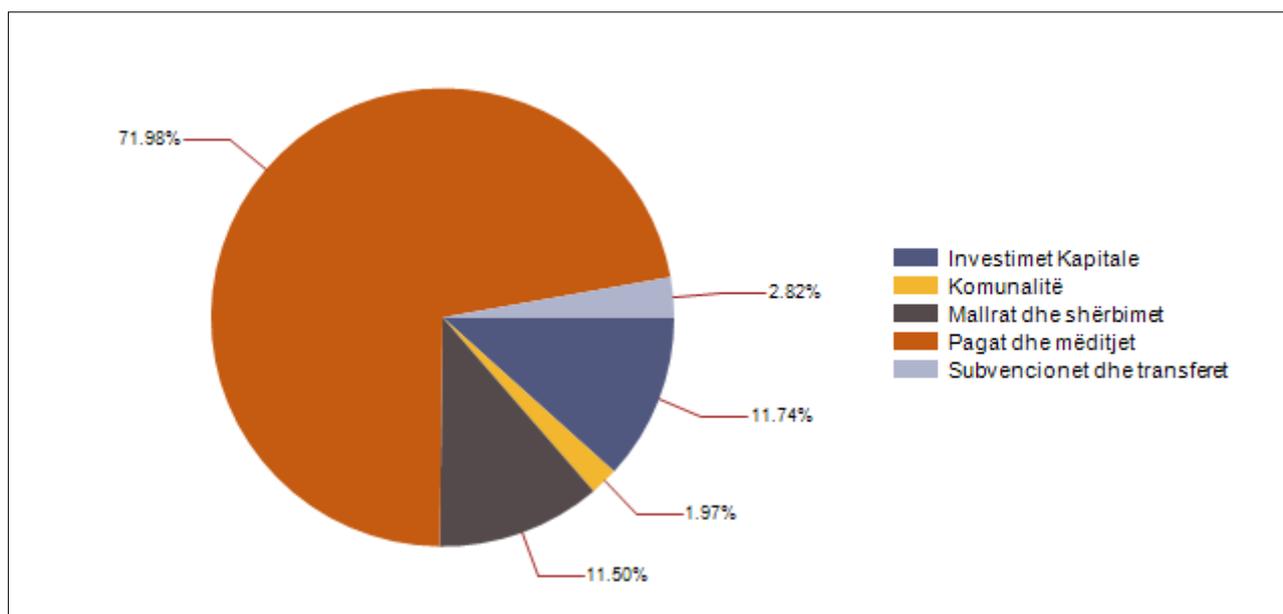
⁴ Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

Goods and Services	1,354,350	1,493,469	1,151,631	1,058,131	787,975
Utilities	195,000	198,870	196,826	172,612	185,833
Subsidies and Transfers	211,000	283,584	282,724	383,499	200,813
Capital Investments	1,665,070	1,733,315	1,175,398	733,504	999,731

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries was decreased by €79,495. The decrease by €329,508 and €51,368 was a result of Government's decisions respectively, for the purpose of reconciling the budget appropriations for the category of Wages and Salaries for December 2021 and for the other categories of expenditures. Whereas the budget of salaries was increased as a result of: revised budget by €188,074; revenues of €13,809 carried forward from the previous year; from borrowings by €28,787 based on Government's decision; and from the emergency fund under the Economic Recovery program by €70,712;
- The budget for Goods and Services and Utilities was increased by €139,119. This increase is from own source revenues €136,191 carried forward from the last year, from borrowing €1,824 and from external donations €1,604, whilst the budget was decreased by €500 due to the transfer of two inspectors in the central level.
- The budget for Utilities was increased by €3,870 from own source revenues carried forward from the last year.
- The budget for Subsidies and Transfers was increased by €72,584. This increase is from own source revenues; and
- The budget for Capital Investments was increased by €68,245. This increase is from own sourced revenues €61,232 carried forward from the last year, from domestic donations in the amount of €53,070 and from external donations in the amount of €80,242. It should be noted that Capital Investments budget was decreased by €126,300 according to the Government decision for the purpose of reconciling the budget appropriations of the salary and allowances category for December 2021 as well as other categories of expenditures.
- Expenditures during 2021 for the management of the Covid-19 pandemic were €248,472. They were executed by the Economic Recovery program and relate to the remuneration of staff salaries based on the decisions by the central level.

Chart 1. Expenditures by economic categories in 2021



Revenues collected by the Kamenica Municipality in 2021 amounted to €908,288 or about 42% more than in the previous year. They relate to property tax, construction permits tax, administrative fees, business activities tax, rent tax, etc. The Municipality had revenues collected by other institutions on behalf of the Municipality as follows: €125,394 from traffic fines, €28,398 from Forestry Agency fines and €80 from the Court.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
Total of revenues	800,459	800,459	908,289	636,097	745,860
Tax revenues	339,325	339,325	449,995	314,078	368,999
Non-tax revenues	461,134	461,134	458,294	322,019	376,862

4 Progress in implementing recommendations

Our audit report on 2020 AFS of Kamenica Municipality resulted in 5 key recommendations. The BO prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2021 audit, two (2) recommendations have been implemented, one (1) partly 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.

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

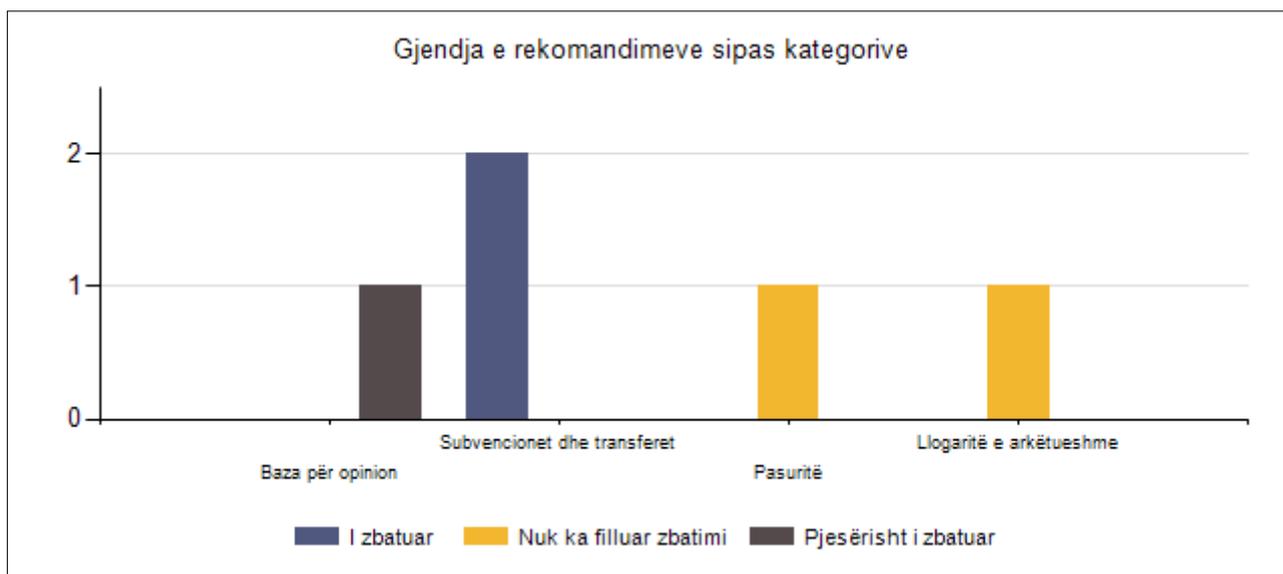


Table 4. Summary of prior year's recommendations and of 2020

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	Basis for Opinion	The Mayor should ensure that assets not under control of the entity should be removed from the assets registers, the purchased items should be recorded in the relevant assets registers in accordance with the requirements of the regulation on asset management, and in co-operation with the responsible officials who manage the e-assets system to depreciate it.	The Municipality has taken some actions in this regard and has made some improvements in the accounting assets register. However, even in 2021 we have identified capital and non-capital assets which were not recorded, although this year the audit	Partly Implemented

			opinion on this issue is not affected.	
2	Subsidies and Transfers	The Mayor should ensure that officials who are part of the evaluation commission, evaluate applications in full compliance with the criteria set out in the Public Call. Also, the commissions should not use criteria that have not been published, are discriminatory, or which the applicants do not know they have to meet.	No such cases have been identified.	Implemented
3	Subsidies and Transfers	The Mayor should ensure that the Annual Financial Support Plan for NGOs is prepared and ensure the same contains all the requirements set out in the Regulation for Financial Support Regulation.	The 2021 Annual Plan for financial support for NGOs was prepared.	Implemented
4	Assets	The Mayor should ensure that the inventory of assets is carried out according to the applicable regulation, where integral part of the inventory report should also be the assets in use by the municipal officials.	We have identified shortcomings in the process of inventorying and evaluation of assets.	Implementation not started
5	Accounts Receivable	The Mayor should ensure the implementation of laws and regulations for property tax debt collection, business licences and other debts, and strengthen internal control to avoid their constant increase.	There is an increase in accounts receivable compared to the previous year.	Implementation not started

*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

Shehrije Shala: Head of Audit

Ylber Sadiku: Team leader

Muharrem Qyqalla: Team member

Mexhit Ferati, Team member



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 Kamenicës, për vitin 2021 (në tekstin e mëtejshëm "Raporti");
- pajtohem në terësi me gjetjet dhe rekomandimet në Draft Raport dhe nuk kam ndonjë koment për përmbajtjen e Raportit;
- 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. Kadri Rahimaj

Kryetar i Komunës,

Data: 12.04.2022



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

Auditor's Report on the financial statements⁵ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

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

⁶ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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 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.