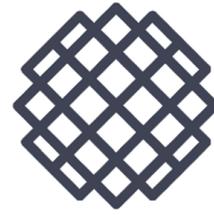




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE
MUNICIPALITY OF SKËNDERAJ 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 Skënderaj 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 Municipality of Skënderaj, 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 Municipality of Skënderaj give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for the 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 whether the processes and underlying transactions comply 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 matters described in the Basis for Compliance Conclusion section, transactions carried out in the process of execution of Municipality'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.

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

Basis for the Conclusion

- A1 The Municipality engaged 16 employees on special service agreements without conducting procurement procedures. These were mainly regular job positions, such as: health specialist, paediatrician, and health staff.
- A2 During the examination of outstanding liabilities, we found that four payments of €78,002 were not reported in the monthly reports on arrears, and payments were made in delays from 49 to 137 days.

For more details, see subchapter 2.1 Issues with impact on 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 Skënderaj's financial reporting process.

Management's Responsibility for Compliance

Management of the Municipality of Skënderaj 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

³ Collectively referred to as compliance with authorities

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 authorities of the Municipality of Skënderaj 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 Skënderaj'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 that the internal control system of the Municipality of Skënderaj needs improvement in certain areas. Areas for possible improvements are: internal controls over preparation of the AFS; expenditures management; engagement of employees on special services agreements; management of capital projects; management of non-financial assets, accounts receivable and liabilities; and staffing of IAU which are presented for your consideration below in the form of findings and recommendations. These findings and recommendations are intended to improve internal controls over financial reporting and compliance with authorities with regard to the management of funds in the public sector. We will follow up these recommendation during the next year's audit.

This report has resulted in 11 recommendations, seven (7) are new recommendations, three (3) are repeated ones and one (1) is 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 compliance conclusion

Issue A1 - Engagement of staff on special services contracts not in compliance with the law

Finding

Law no. 06/L-114 on Public Officials, Article 84, stipulates that special service agreements are entered into according to the relevant public procurement legislation, whereby – under paragraph 4 of the amended rules on procurement of special services (consultants/contractors/individuals) – these rules shall only apply for the procurement of those special services that cannot be obtained through recruitment procedures. Special service agreements are entered into according to the relevant public procurement legislation.

The Municipality engaged 16 employees on special service agreements without conducting procurement procedures. In testing four (4) samples we found that these were mainly regular job positions, such as: health specialist, paediatrician, and health staff.

According to the personnel manager, this occurred because of the need to engage staff for achieving the Municipality's additional objectives during the pandemic period.

Impact

Failure to comply with legal requirements on staff engagement undermines the competitiveness and meritocracy and leads to poor performance of the organisation.

Recommendation A1 The Mayor should ensure that the Municipality's need for regular job positions are addressed to the Ministry of Finance, Labour and Transfers and that the applicable legislation is complied with when the need to engage staff on special service agreements arises.

Response of entity's management (Agree)

Issue A2 – Incomplete report on arrears**Finding**

MoF Financial Rule No. 02/2013 on reporting of arrears by budget organisations, Article 5 – Reporting of arrears, stipulates that all budget organizations must report their arrears to the Ministry of Finance, Treasury. Reporting shall done on a monthly basis. The monthly report on arrears shall include the balance of arrears for the reporting period, including all other liabilities regardless of the period they have incurred in.

During the examination of outstanding liabilities, we found that four payments were not reported in the monthly reports on arrears, as the following:

- The invoice of €9,100, paid in March, was not presented in the report of February;
- The invoice of €1,739, paid in February, was not presented in the report of January;
- The invoice of €1,182, paid in February, was not presented in the report of January;
- The invoice of €65,981, paid in May, was not presented in the report of April.

All these payments were not paid within the deadline of 30 days and the delays consisted of 49 to 137 days.

Impact

The reason behind failure to payment arrears on time was poor planning of allocation/commitment of funds and initiation of expenditure procedures without available funds in place. Whilst, failure to report them monthly reports on arrears was due to insufficient internal controls.

Recommendation A2

The Mayor should provide for a better planning of the funds allocation and commitment and ensure that expenditures procedures are not initiated unless funds for paying the liabilities towards the economic operators are made available. In addition, he should ensure that monthly reports on arrears are revised in order to make sure that they are completed before being sent to Treasury.

Response of entity's management (Agree)

2.2 Findings on financial management and compliance issues

2.2.1 Internal controls over financial reporting

The following issues relate to the presentation of information in and preparation of the financial statements.

Issue A3 – Annual Financial Statements rectified

Finding

The annual financial statements should be prepared according to the International Public Sector Accounting Standards, Financial reporting under cash basis of accounting, and the Regulation no.01/2017 on annual financial reporting of the budget organisation issued by the MFLT.

The Municipality prepared the AFS and sent them to Treasury within the statutory deadline, 30th of January. While examining the AFS, we identified some issues and recommended the Municipality to rectify them. The identified issues are the following:

- In Article 13, Statement of Cash Receipts and Payments, under “Resources of Funds – Receipts” column, the return of deposits of €100,000 was not presented as funds outflow;
- In Article 14 – Budget Execution Report – under the Cash Inflow in TSA column, revenues from donations were incorrectly presented in the amount of €131,000 instead of €227,000; and
- Receipts from deposits in the amount of €140,000 and the amounts presented in the explanatory notes were not true and complete.

Having identified the errors and following the audit advice, the Municipality took action and made the necessary rectification. The rectified version of the AFS was prepared in accordance with the requirements of International Public Sector Accounting Standards “Financial reporting under cash basis of accounting” and met all the reporting obligations arising from the legal framework on reporting.

This was due to inadequate internal controls and lack of responsible staff’s knowledge in the preparation of AFSs, namely the presentation of deposits.

Impact Untrue and incomplete presentation of financial and non-financial information in the AFS does not give a true and fair view of the records and diminishes the level of reliability for the intended users.

Recommendation A3 The Mayor should provide for more controls over the preparation of the AFS in order to ensure that the AFS for the year 2022 are free from any accounting and administrative error. The declaration made by the Chief Administrative Officer and the Chief Financial Officer should not be signed unless it has been assured that the information presented in the AFS is true and complete.

Response of entity's management (Agree)

2.2.2 Goods and Services and Utilities

The final budget for Goods and Services for year 2021 was €1,757,726, of which €1,701,383 was spent. Expenditures mainly relate to utilities, fuels and other combustibles materials for heating, maintenance of buildings, and other contractual expenditures etc. We tested 22 samples as part of substantive testing and nine (9) samples as part of compliance testing.

Issue A4 – Misclassification of expenditures

Finding Pursuant to MF Regulation no.01/2013 on Spending of Public Funds, Article 18.3, expenditures should have their adequate codes as set forth in the Administrative Instruction on the Chart of Accounts. The Treasury's Chart of Accounts sets forth the respective codes and categories of expenditures that budget organisations should apply.

The payment of €23,150 for the supply with 1,000 food care packages for families in need was made from the economic category of Goods and Services, whilst this type of expenditure falls under the category of Subsidies and Transfers. The issue on misclassification of expenditures was also reported in the audit report for year 2020.

Responsible municipal officers said they were not inform as to how to classify this type of expenditures.

Impact Payments from and recording of expenditures under inadequate economic codes leads to untrue presentation of expenditures, resulting in overstatement or understatement of these economic categories.

Recommendation A4 The Mayor should put in place internal controls over this area, in order to ensure that processing of payments and recording of expenditures is made from adequate economic categories, according to the Chart of Accounts approved by Treasury.

Response of entity's management (Agree)

2.2.3 Capital Investments

The final budget for Capital Investments was €3,896,457 in 2021, of which €3,319,291 were spent. They relate to the construction of sewers, roads, water supply, cultural facilities, investment maintenance, medical equipment, etc. We tested 15 samples of €967,153 as part of substantive testing and five (5) samples as part of compliance testing.

Issue A5 – Delays in execution of works

Finding Article 2 of the contract stipulates that: the total price of works must be €1,159,800. The funds for payment for 2016 are €30,000, the budget estimates for 2017 are €160,000, whilst the other estimated funds for payment for 2018 are €300,000 and for 2019 are €669,800.

The contract for "Construction of sewerage 49,400m long in the village of Klina-Kuqicë, Municipality of Skënderaj" was signed on 11.10.2016 and should have been completed within three years (during 2017, 2018 and 2019). But, this project has not yet been fully implemented, whilst the payment of €65,981 for the stage 25 was made on 07.05.2021. The Municipality had taken decisions to extend the contract in order to implement it.

These delays occurred because the contract was concluded prior to allocating the needed budget and due to various obstacles caused on site by the community during the implementation of the project.

Impact Delayed implementation of projects reduce their value and failure to comply with the contract terms may create additional impact affecting the municipal budget.

Recommendation A5 The Mayor should ensure that funds are committed prior to the implementation of the projects and that all measures for preventing any setbacks for processing of payments are taken, in order to ensure timely implementation of the projects.

Response of entity's management (Agree)

2.2.4 Capital and non-capital assets

The value of capital assets presented in the AFS was €150,211,544, that of non-capital assets was €42,380, and of stocks was €75,784. We tested 85 samples of €6,601,525 as part of substantive testing and five (5) samples as part of compliance testing.

Issue A6 – Poor assets management

Finding

MoF Rule no.02/2013 on the Management on Non-Financial Assets by Budget Organizations sets forth the standard procedures for documentation, preservation and alienation of non-financial assets as well as accurate recordkeeping on non-financial assets through systematic maintenance of the register of non-financial capital assets.

Non-capital financial assets over €1,000 were presented in the amount of €150,544,842 in the annual financial report, whilst according to the audit the value of assets is €151,336,285, i.e. an understatement in the AFS of €791,443. This was due to the unregistered part of the school building "Hamëz Jashari High School in Skënderaj" in the amount of €1,849,903 financed by the Ministry of Education, Science and Technology (MEST). A part of it, the amount of €1,058,460 was recorded in the accounting register of KFMIS of Skënderaj, whilst the other value was not recorded in the KFMIS of the Municipality of Skënderaj, although the school was in use from September 2021.

"Multifunctional Polygon sports facility" in the amount of €193,722 was recorded as an asset, although the technical acceptance was made for the works executed in the second phase and the project is not completed yet. Depreciation in the amount of €5,650 was calculated for this object. In this case, this asset was understated for depreciation value as it should have been recorded under ongoing investments. Furthermore, the municipality did not apply for a construction permit for this project, therefore it is considered as construction without a permit.

"Accounting software in the Municipality of Skënderaj", in the amount of €4,250, was registered with a lifespan of 7 years whilst it should have been registered as intangible assets - 10 years. This has understated the remaining book value of this assets by €910.

Weaknesses presented are due to poor functioning of internal controls over asset management and failure to review of assets balance.

Impact This has affected the assets net book values and consequently the assets net value presented in the annual financial statements.

Recommendation A6 The Mayor should strengthen internal controls over asset management as well as review and ensure that assets recording in the accounting register are true and complete. He should also ensure that the Municipality's listed assets are revaluated.

Response of entity's management (Agree)

Issue B1 – Shortcomings in the inventory of non-financial assets

Finding Rule MoF - No. 02/2013 on Management of Non-Financial Assets by Budget Organizations, Article 18 stipulates that an inventory of all assets owned and controlled by the budget organization, physical and qualitative verification of the situation, comparison of the inventory balance with the balance in the registers of non-financial assets, identification of assets with no carrying value, as well as damaged and obsolete assets should be made every year. According to Article 6.3, capital assets must be recorded in KFMIS, whilst the non-capital assets and stocks in the "e-assets" system.

The Mayor had appointed three assets inventory commissions by sectors (health and welfare, administration, and education) who had to submit their reports by 25.12.2021. The Municipality provided us with the asset inventory report by the Administration sector only, whilst the non-financial assets inventory report for the other two sectors was not completed.

The inventory report for the Administration sector not only was produced in delay, namely 16.02.2022, but it did not contain the requirements according to the tasks set in the decision, consequently the inventory balance was not compared with the balance in the non-financial asset registers.

Moreover, the "e-assets" system for the registration of non-capital assets (under €1,000) had problems and shortcomings, due to its non-functioning at the central level.

This was due to the lack of sufficient internal controls over the management of non-financial assets.

Impact

Failure to complete inventory of non-financial assets and failure to compare inventory results with the balance in the asset registers and failure to assess assets, makes it impossible to obtain assurance regarding the accuracy and completeness of records and the value of assets.

Recommendation B1 The Mayor should ensure that the assets inventory and valuation process is carried out in all sectors and that commissions compare the inventory results with the assets balance in the books, by verifying all assets according to value, use and disposal.

Response of entity's management (Agree)

2.2.5 Receivables

Accounts receivable presented in the 2020 AFS of the Municipality of Skënderaj were €1,368,871. This consists of receivables from property tax, business tax, use of public property (rental) and construction permits. We tested five (5) samples of €1,998 as part of substantive testing.

Issue C1 – Beneficiaries’ failure to report on granted subsidies

Finding Revenue collection is done according to the deadlines set out in the invoice for each type of revenue. Revenue collection is done according to the deadlines set out in the invoice for each type of revenue.

Most of the receivables belong to property tax in the amount of € 993,516 about 73%, municipal business tax in the amount of € 243,169 about 18%, and the use of public property (rent and rent) in the amount of € 132,185 about 10%. The municipality did not have effective management in the collection of receivables as their growth continues year after year. Compared to the previous year, the increase was € 191,525, namely about 16.3%.

The increase in accounts receivable was due to inefficient internal controls over the management and collection of municipal taxes and fees.

Impact Non-timely collection of charged revenues affects the level of funds collected for the municipal budget and consequently affects the financing and implementation of projects from own source revenues. Non-timely collection of charged revenues affects the level of funds collected for the municipal budget with a negative reflection on the financing and implementation of projects from own source revenues.

Recommendation C1 The Mayor should provide for higher efficiency in collecting accounts receivable by designing and implementing clear plans and procedures on how to collect them.

Response of entity’s management (Agree)

2.2.6 Contingent liabilities

Contingent liabilities by the end of 2021 were in the amount of €978,994, of which: €389,649 for disputes for payment of jubilee salaries, meals and return to work; €568,147 for civil disputes, compensation of damages; and €21,197 were for disputes on debts to the invoices of economic operators.

Issue B2 – Irregularities in NGOs subsidies**Finding**

The list of contingent liabilities must be based on source evidence that proves the value of liabilities claimed by the parties in litigation and that they relate to the municipality. The list of contingent liabilities should be based on source evidence proving the value of liabilities and that they relate to the Municipality.

Out of the seven (7) samples required for the audit of contingent liabilities, we received four of them, while the other three, municipal officials were not able to provide, due to the change of responsible officials and the movement of documents from the old object to the new one.

The list of contingent liabilities had 386 cases of disputes with the value of their initial claims filed in the lawsuit € 978,994 (which do not include procedural costs and legal interest). In this list there are cases which have been presented as disputes from the years 2005, 2006 until the day of reporting (on 31.12.2021), but in the middle of this list we have identified two cases which are already resolved, and which should not be to be on this list.

The lack of updated list of contingent liabilities creates uncertainty about the number and value of disputed cases for the municipality related to the claims of other parties to municipal liabilities. It also affects the overestimation or underestimation of their value presented in the AFS.

This happened due to non-updating of the list of contingent liabilities and lack of capacity in the municipal lawyer's office

Impact

The lack of updated list of contingent liabilities creates uncertainty about the number and value of disputed cases for the municipality related to the claims of other parties to municipal liabilities. The lack of relevant evidence on the list and value of contingent liabilities creates uncertainty for the Municipality regarding the claims of other parties to municipal liabilities.

Recommendation B2 The Mayor should ensure that the list of contingent liabilities is based on relevant and accurate evidence, and updated regularly, in order to prove the financial value and ensure that such claims relate to the Municipality

Response of entity's management (Agree)

2.2.7 Internal audit function

The Internal Audit Unit (IAU) operates with only one member. The IAU had prepared a strategic plan and an annual plan based on which three of the seven planned audits were carried out. The period covered by the audit was mainly 2021. The audit committee had not been functional during 2021, until December 8th, when it was established and held only one meeting. The internal audit strategic plan for 2022-2024 and the IAU annual plan for 2022 were approved in this meeting.

Issue B3 – Failure to staff Internal Audit Unit

Impact GRK Regulation no.01/2019 on establishment and implementation of internal audit function in the public sector entity, Article 5.1.1 stipulates that every public sector entity with a budget of over 7 million Euro must have at least three auditors, and the Municipality meets this criterion.

The Internal Audit Unit (IAU) had only one Internal Auditor. The Head of IAU had resigned in July 2021. The IAU had drafted a strategic plan, an annual work plan that included seven (7) audits, of which only three (3) audits were completed due to the Covid 19 pandemic and insufficient IAU staff. The audits focused on procurement, assets and their management as well as revenues. The Municipality has made efforts to engage the Internal Auditor and the Head of the Internal Audit Unit but had not succeeded with internal procedures due to the lack of eligible candidates and is now in the procedure of external competition.

Impact Failure to complete IAU with sufficient staff and failure to implement the plan may cause the internal audit not covering all risk areas and prevent management from taking timely action to prevent potential errors.

Recommendation B3 The Mayor should ensure that vacancies in the IAU are filled as soon as possible, which would lead to the functioning and strengthening of internal controls.

Response of entity's management (Agree)

Issue A7 - Audit Committee not functional

Finding MoF AI no.01/2019 on establishment and functioning of Audit Committee in public sector entity, Article 4.1 Establishment of Audit Committee, stipulates that any public sector entity which has established internal audit unit at level of main body under to the applicable legislation, shall establish the Audit Committee.

The Municipality of Skënderaj was without an audit committee during 2021 until 08.12.2021 when the Mayor had established the committee. This committee held a meeting, which approved the strategic plan of internal audit for 2022-2024, the annual plan of the IAU for 2022, discussed the report of the second half and the annual 2021.

This had happened due to the municipal management neglect.

Impact

The non-functioning of the audit committee affects the internal audit not to give the results of its own work in strengthening the internal controls in the budget organization

Recommendation A7

The mayor should ensure that the audit committee is functional, to help improve the internal control system of public finances, in order to achieve the objectives of the organization, providing advice and recommendations related to governance, risk management and internal control processes.

Response of entity's management (Agree)

3 Summary on budget planning and execution

This Chapter contains summarised information 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	14,207,588	14,777,943	14,057,504	14,158,325	13,507,214
Government Grant - Budget	12,686,085	12,641,007	12,485,548	12,789,981	11,536,240
Funding through borrowing	0	63,567	63,496	136,390	91,527
Carried forward from previous year	0	313,814	313,788	561,316	586,075
Own Source Revenues	1,521,503	1,521,503	1,063,816	643,748	1,151,988
Domestic Donations	0	9,012	1,242	0	0
External Donations	0	229,041	129,615	26,890	141,385

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

The final budget was higher than the initial budget by €570,355.29. This increase is a result of the increase in the category of salaries by €209,000 for the remuneration of allowances to the staff engaged during the COVID-19, health staff, education staff, technical staff, social services staff and firefighters.

In 2021, the Municipality spent 95% of the final budget or €14,057,504, an improvement of 7% compared to 2020. Budget execution remains at a satisfactory level and explanations for the current position are given in more details below:

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

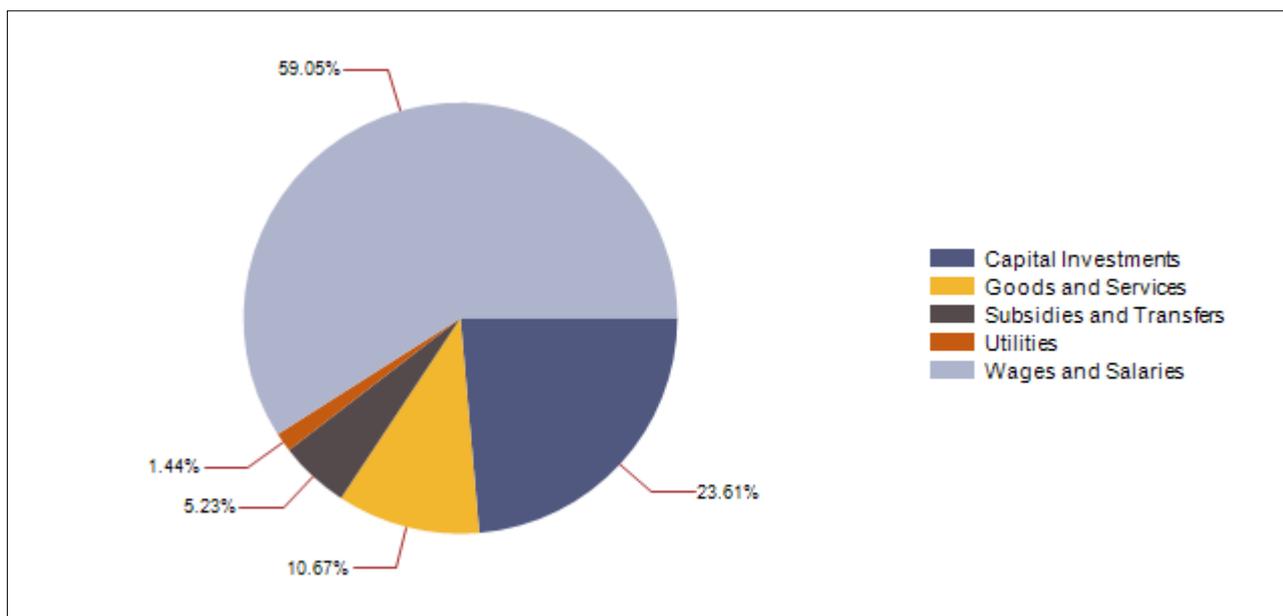
Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
Spending of funds by economic categories	14,207,588	14,777,943	14,057,504	14,158,325	13,507,214
Wages and Salaries	8,132,003	8,314,213	8,301,053	8,117,827	7,687,208
Goods and Services	1,561,786	1,546,845	1,499,467	2,398,184	1,564,420
Utilities	230,381	210,881	201,916	183,022	183,249
Subsidies and Transfers	635,000	809,547	735,777	573,595	552,047
Capital Investments	3,031,561	3,896,457	3,319,291	2,885,696	3,520,290
Reserves	616,857	0	0	0	0

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries increased by €182,210 compared to the initial budget, and the budget execution was at 99,84%.
- The budget for Goods and Services decreased by €14,941 at the end of the year, and the budget execution was at 97%.
- The budget for Utilities decreased by €19,500 at the end of the year, and the budget execution was at 96%.
- The budget for Subsidies and Transfers increased by €174,547 at the end of the year, and the budget execution was at 91%.
- The budget for Capital Investments increased by €864,896 at the end of the year. This was as a result of: €616,857 that were transferred from reserves for capital investments; €303,000 from own source revenues; and €235,000 from donations. The budget was also decreased by

€289,961 based on decisions pursuant to the Law on Public Finance Management and Accountabilities. The budget was executed by €3,319,291, or around 85%.

Chart 1. Expenditures by economic categories in 2021



Revenues for 2021 were planned in the amount of €1,521,503, whilst €1,261,294 or 83% were collected. They mainly relate to €282,731 from tax revenues and €978,563 from non-tax revenues.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
Total of revenues	1,521,503	1,521,503	1,261,294	660,933	1,548,530
Tax revenues	253,639	253,639	282,731	189,768	272,870
Non-tax revenues	1,267,864	1,267,864	978,563	470,340	1,275,660
Other revenues	0	0		826	

4 Progress in implementing recommendations

Our audit report on 2020 AFS of Municipality of Skënderaj resulted in 7 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2021 audit, three (3) recommendations have been implemented, one (1) was under implementation, and three (3) 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

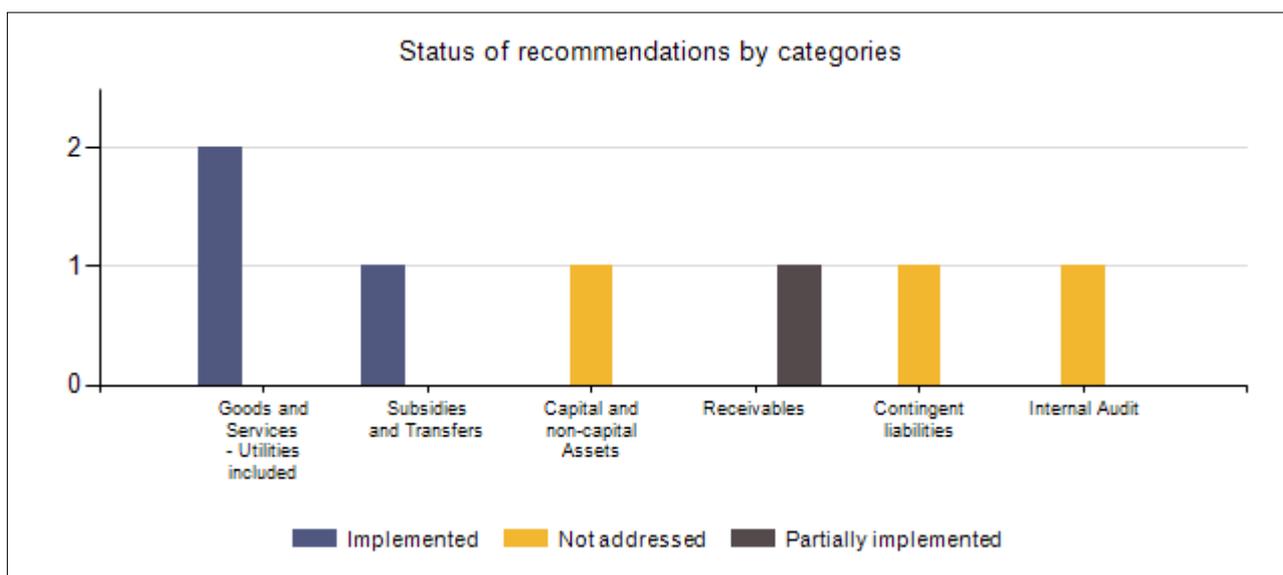


Table 4. Summary of prior year's recommendations and of 2020

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	Goods and Services and Utilities	The Mayor should ensure that during preparation of Public Framework Contracts, items quantities and contract prices are properly planned and defined so that possible discrepancies do not exceed the permitted limit of plus/ minus thirty percent (30%).	No such cases were identified during 2021	Implemented
2	Goods and Services and Utilities	The Mayor should ensure that procurement activities and contracts management duties are properly segregated in compliance with legal criteria of public procurement	No such cases were identified during 2021	Implemented
3	Subsidies and Transfers	The Mayor should strengthen controls over management of subsidies and ensure that subsidies are allocated in accordance with the criteria set out in the public calls	No such cases were identified during 2021	Implemented
4	Assets	The Mayor should ensure that the assets stocktaking and evaluation process is performed according to the requirements of Regulation 02/2013 on Management of Non-financial Assets by Budget Organizations, and that stocktaking results are compared with the assets accounting balance, explaining all the differences	Shortcomings were found in the non-financial assets inventory and evaluation this year as well	Not addressed
5	Accounts receivable	The Mayor should provide for higher efficiency in collection of accounts receivable. Designing and implementing clear programs and procedures on the type of their management, registration and collection would be some of the measures that can lead to improvements	During the year, the Municipality managed to include in the list of receivables also the receivables from the tax on parcels, but the growth trend remains even higher.	Partly implemented
6	Contingent liabilities	The Mayor should ensure that the list of contingent liabilities is based on relevant and accurate evidence, in order to prove the financial value and ensure that such claims relate to the Municipality	Actions have been taken to address this issue	Not addressed
7	Internal Audit	The Mayor should ensure that the required budget planning is done for the required positions and that IAU is staffed with sufficient staff according to the Regulation on Establishment of IAU	Actions have been taken to address this issue	Not addressed

* 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

Blerim Kabashi: Head of Audit

Enver Boqolli: Team leader

Aurora Morina: Team member

Agim Sogojeva: Team member

Annex I: Letter of confirmation



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Komuna Skenderaj
Opština Skenderaj
Municipality of Skenderaj

Zyra e Kryetarit /Kabinet Predcednika / Office of the Mayor

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 Skenderajt , për vitin 2021 (në tekstin e mëtejshëm “Raporti”);
- **pajtohem/** nuk pajtohem/ pajtohem pjesërisht/ me gjetjet dhe rekomandimet 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. Fadil Nura
(Kryetar i Komunës)

Data: 14.prill.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).

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

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

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

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

Modifications to the opinion in the auditor's report

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

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

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

Adverse opinion

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

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

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

Disclaimer of opinion

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

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

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

An Emphasis of Matter paragraph should:

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

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