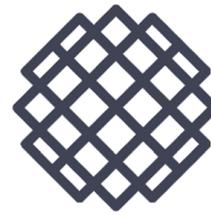




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF GJAKOVA 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 Gjakova 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 Gjakova, 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 Gjakova 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.

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, because of the importance of matters described in the Basis for Compliance Conclusion section, transactions carried out in the process of execution of Municipality's budget have not been in compliance with:

Basis for the Conclusion

- A1 Poor management and reporting of subsidies, failure to adhere to the MF Regulation no.04/2017 on the Criteria, Standards and Procedures of Public Funding of NGOs
- A2 Shortcomings in the acceptance of goods and execution of payments; contract terms have not been adhered to for the payment of €8,146;
- A3 Overlooking of procurement procedures for the Project on Promotion of cultural and traditional values in the Municipality of Gjakova (€4,000);
- A4 In the framework contract “Security of Municipality of Gjakova buildings”, the contracted amount and the indicative amount of 30% has been exceeded by €16,012;
- A5 Poor contract implementation and management;
- A6 Poor contracts management – payments of €11,513 have been made for uncompleted works;
- A7 Lack of executive projects;
- A8 Delayed execution of contracted works;
- B1 Abnormally low prices per units in the tendering bids;
- B2 Extra spending by €525,777 as a result of court/enforcement decisions; and
- B3 Delayed payment of invoices.

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.

Emphasis of Matter

1. The amount of assets worth under €1,000 presented in the annual financial statements of 2021 was €1,705,745, whilst of stocks’ was €182,317. The Municipality did not record these assets in the e-assets system. As an alternative and for internal purposes, they used Excel spreadsheets to keep records of the assets worth under €1,000, modified by the Municipality itself. However, the Municipality did disclose the problems with a dysfunctional e-assets system in the AFS.

Our audit opinion has not been modified in this respect.

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 Gjakova's financial reporting process.

Management's Responsibility for Compliance

Management of the Municipality of Gjakova 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 authorities of the Municipality of Gjakova 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

³ Collectively referred to as compliance with authorities

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 Gjakova'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 for possible improvements related to financial management and control. Shortcomings have been identified in areas such as: failure to comply with the rules when it comes to capital investments, goods and services, subsidies and transfers, and payments through court decisions. We have also found other issues of financial management and compliance, including misclassification of expenditures, revenues, assets management, accounts receivable and contingent liabilities. In addition, shortcomings have been found in the Municipality's reporting process regarding the preparation of the AFS, which contained errors. These errors were identified during the audit and following our suggestions those errors have been rectified. These findings and recommendations are intended to make the needed rectifications to the financial information presented in the financial statements, including the disclosures in the form of explanatory notes, and 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 20 recommendations, of which nine (12) are new recommendations and three (8) are repeated ones.

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 - Poor management and reporting of subsidies

Finding MF Regulation no.04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs, Article 12, stipulates that every financial support to the NGOs must be announced in a public call, which should be published in the web page of the provider of such financial support. Article 23.1 – monitoring and reporting of projects and programs – stipulates that, for each contract entered into, the provider of financial support shall appoint a responsible officer to monitor the project implementation. Section 2 of the same article requires from the beneficiary to report to the monitoring officer regarding the implementation of the project/program on regular basis. The public call dated 01.03.2021 outlined the established criteria to be met by the applicants for financial support, such as: prior to signing the contract, NGOs must submit proofs of not being under investigation for criminal offence, and a tax certificate proving that the NGO is free of tax liabilities.

Of the five (5) tested samples, we found that:

- In two cases, the Municipality allocated subsidies to NGOs without a public call:
 - Financial support of €10,000 to finance NGOs projects in the area of culture, youth, and sports. The Handball Club had benefited upon proposal of the Mayor and decision⁴ of the Municipal Assembly; and
 - Financial support of €31,451 to the Handball Club – the decision was taken by the Municipal Assembly to allocate the funds to the Club, but without informing the Mayor and the Directorate for Culture, Youth and Sports. This payment was made through the court decision.
- Financial support of €7,000 was provided to the KFC/NGO without meeting the criteria set forth in the public call (tax certificate and the court clearance were not submitted). The Municipality did not oblige the other beneficiaries of this public call to submit them either; and
- In regard to culture and sport, three NGOs/Sports Clubs have not submitted the narrative feedback reports.

Allocation of subsidies without public calls eliminates the competitiveness and transparency and leads to unequal treatment of NGOs. Failure to report and lack of monitoring casts doubts as to whether the funds have been used for the intended purposes and may lead the Directorate for Culture, Youth and Sports to the situation of remaining without any funds and failing to implement the program for support to NGOs. This may also enable NGO/Club to misuse the funds.

Recommendation A1 The Mayor should ensure that NGOs are financed only through public calls, in accordance with the established criteria and that a monitoring officer is appointed for each beneficiary. He should also ensure that narrative feedback reports are submitted.

Response of the Auditee's Management (Agree)

⁴ Decision 01 No. 400/05-20825/2021; Decision 01 no. 400/05-13450/2021; Decision 01 no. 400/04-12349/2018 dated 30.04.2018 according to the club's request recorded in the Municipality under no. 01-0400/04 dated 23.03.2018.

Issue A2 – Shortcomings in acceptance of goods and execution of payments

Finding The contract "*Maintenance and cleaning of the facilities of PHC and CSW*", namely Article 1, paragraph 1.2, section 12 stipulates that invoicing must be itemised and forwarded together with a monthly report on maintenance and the process. Section 4 stipulates that when submitting the invoice for payment, the Economic Operator (EO) must also bring the pension contributions payments for each engaged employee, bringing the evidence from TAK by the 15th of the following month.

The Municipality, namely the contract manager had accepted the tax invoice from the EO without any items on the quantities and description of the hygiene material, to serve as information for comparison with the contracted bill-of-quantities. The goods acceptance report was also produced. However, the EO has not submitted evidence on having paid pensions contributions for the employees engaged in this project. The uncompleted subject was received by the Certifying Officer and the same was processed for payment. The payment amount was €8,145.

Impact Execution of payments in lack of source documents increases the risk of misuse and failure to receive goods as per the specifications requested in the contracted bill-of-quantities.

Recommendation A2 The Mayor should ensure that controls over the contract managers and the Certifying Officer are functioning in order to prevent any payment that lacks evidence on the goods or services complying with contracted specifications from being made.

Response of the Auditee's Management (Agree)

Issue A3 - Services received prior to preparing the purchase order

Finding Law no.04/L-042, Article 2.2, stipulates that this law applies to all persons, economic operators, undertakings, as those terms are defined herein, involved, participating or interested, directly or indirectly, in a procurement activity covered by this law; such persons, operators, undertakings are also required to observe and comply with the applicable procedural and substantive requirements of the present law.

In order to promote the cultural, traditional and historical values of the Municipality of Gjakova, a memorandum of understanding was entered into with a music production company for the provision of such services, namely by video recording of a song. However, the Municipality had not applied the procurement procedures, the value of the memorandum was €4,000.

Lack of knowledge on having to follow the procedures as set forth in the respective law was the main cause behind officers' failure to initiate the procurement procedures.

Impact Overlooking of procurement procedures not only undermines competitiveness, transparency of the process and the effectiveness and efficiency of actions, but increases the risk of failure to achieve value for money and might also lead the Municipality to facing financial difficulties or losses.

Recommendation A3 The Mayor should ensure that procurement procedures are implemented for all the supplies and services subject to public procurement.

Response of the Auditee's Management (Agree)

Issue A4 – Payments exceeded the allowed contract amount

Finding According to the Rules and Operational Guideline for Public Procurement (ROGPP), paragraph 56.10, the estimated quantity specified in the tender documents is only an indicative quantity. Whenever the Contracting Authority specifies the indicative quantity, the Contracting Authority shall specify in the tender dossier the value or quantity of the contract as a threshold or a ceiling and allow derivation therefrom, stating also the percentage of permitted discrepancy. The permitted discrepancy cannot be higher than plus/minus thirty per cent (30%). If the payment orders exceed the total indicated quantity or total indicated value of the public framework contract (including + thirty per cent (30%)), regardless the original expiry date of the Public Framework Contract, it will be automatically ceased.

In the framework contract “*Security of Municipality of Gjakova buildings*” in the amount of €251,269, the Municipality paid the amount of €342,662 during the years 2018-2021, thus exceeding the indicative amount of 30% by €16,012.

According to officers of the Municipality, the need to receive the service and the delayed complaint procedures in the PRB for the contracting of services, has led the Municipality to make payments for the services for which the contract has expired as soon as the contract amount has been reached.

Impact Exceeding of the thresholds allowed in the framework contracts leads the Municipality to financial complications/difficulties and increases the risk of failure to implement all other planned projects.

Recommendation A4 The Mayor should, through the contract managers, ensure that payments in the terminated contracts are not exceeded because any payment exceeding the contracted amounts approved constitutes legal violation and impairs the budget.

Response of the Auditee’s Management (Agree)

Issue A5 – Poor contract implementation and management

Finding According to the Rules and Operational Guideline for Public Procurement (ROGPP), paragraph 61.20 (g and h), the functions of the Project Manager are: to issue any required variations or change orders, in accordance with the terms and conditions of a contract: and to provide full details of a required contract amendment to the Procurement Department and to obtain its approval.

Identified shortcomings in the contract management are:

In the contract "*Supply with and installation of park seats, litter bins, manhole lids, drain grates*" in the amount of €89,210, the Municipality executed the payment for stages⁵, which had been changed but not according to the contracted bill-of-quantities (without exceeding the total value of the contract). For these changes, the necessary approvals of the procurement office had not been obtained.

According to the Municipality officers, lack of knowledge of the supervisory body had led to the changes made to the stages within the bill-of-quantities without approval of the procurement office.

Impact Changing the contracted bill-of-quantities and estimates without the approval of the procurement office reveals the weaknesses of controls exercised by the senior management.

Recommendation A5 The Mayor should ensure that the project managers are acquainted with the legal requirements on public procurement and that every change to the contracted terms prior to or during the implementation is made upon approval of the procurement office.

⁵ (Stages no 1.1, 1.2, 2.1 and 2.2)

Response of the Auditee's Management (Agree)

Issue A6 – Payments made for uncompleted works

Finding

According to the Rules and Operational Guideline for Public Procurement (ROGPP), paragraph 61.20, contract managers are responsible for ensuring that the economic operator meets all performance or delivery obligations in accordance with the terms and conditions of a contract; b) to ensure that the economic operator submits all required documentation in accordance with the terms and conditions of a contract

For the project "*Renovation of the Palace of Culture in Cermjan, Gjakova*", in two cases €3,120 were paid for unfinished works as:

- Part V mechanical-boiler installations, position 1-"Supply with and assembly of electric monobloc boilers (3 pieces), equivalent to the 28KW model". According to the stage signed by the supervisory body, the item was implemented, but according to the examinations it was not. Two (2) boilers were not installed at all, while one (1) installed boiler was not equivalent or similar to the 28KW model (the value of unimplemented works was €3,000);
- Item 2 for *Supply with and instalment of ball valves with dutch connection* was implemented, according to the stage signed by the supervisory body, but according to the examinations it was not (the value of unimplemented works was €120).

For the project "*Construction of the sports hall in Kadri Kusari School in Gjakova*" the amount of €11,513 was paid for unfinished works as:

- According to the stage signed by the supervisory body, the Item 9.2 "*Supply with and laying of natural granite stair treads $t=2\text{cm}$ and risers $t=2\text{cm}$ and platform ramps at the entrance of the building*" was implemented and 16.5m^2 were laid, but according to the examinations it was not (the value of unimplemented works was €1,237).
- According to the stage signed by the supervisory body, the Item 9.3 "*Supply with material and instalment - the final layer of the floor in the sports hall should be made of heterogeneous Vinyl from the Tarkett manufacturer, or with similar/same characteristics*" was implemented and 500m^2 were laid, but according to the examinations it was not (the value of unimplemented works was €10,000); and

- According to the stage signed by the supervisory body, the Item 9.4 “*Supply with material and laminate beading of the same material (recommended by the Tarkett floor manufacturer at wings perimeter – sports hall*” was implemented and 92m² were laid, but according to the examinations it was not (the value of unimplemented works was €276).

According to Municipal officers, the reason behind payments for unimplemented works for the project “*Renovation of the Palace of Culture in Cermjan, Gjakova*” was that other EO have been working at the same time, whilst when it comes to the project “*Construction of the sports hall in Kadri Kusari School in Gjakova*” was the weather conditions.

Impact Payments made for unimplemented works impairs the budget of the Municipality, thus leading to failure to fully implement the projects.

Recommendation A6 The Mayor should, through contract managers, ensure that only implemented works are included in the acceptance report and that no payment is made for unimplemented works.

Response of the Auditee’s Management (Agree)

Issue A7 – Lack of executive projects

Finding Article 20.10 of the ROGPP stipulates that technical specifications for works contracts shall include, as own substantial part, an Executive Project. Whereas section 13 of the same article, stipulates that the Contracting Authority is responsible for drawing up the Executive Project which shall be, mandatorily, attached to the Technical Specifications, which are part of the Tender Dossier. No Contracting Authority is allowed to issue tender documentation without attaching the detailed project description.

In three contracts: *Construction and fencing of sports grounds (€109,396)*; *Renovation of sidewalks in the Municipality of Gjakova (€86,927)*; and *Renovation and Construction of parks (€147,393)*, the Municipality had not drawn up an executive project. Instead, procurement procedures were initiated with just the bill-of-quantities and the estimates being prepared.

The reason behind the lack of executive projects was the lack of budget for hiring an EO to draw them up.

Impact Lack of executive projects and initiation of procurement procedures with just the bill-of-quantities and the estimates increases of risk of many setbacks occurring during the projects implementation in terms of both professional aspect and delays or additional costs during execution of works.

Recommendation A7 The Mayor should ensure that no procedures are initiated for any of the works-related procurements unless clear technical specifications are provided in the executive projects. This would prevent delays and additional costs from occurring.

Response of the Auditee's Management (Agree)

Issue A8 – Delayed execution of contracted works

According to ROGPP, Articles 61.6, 61.19 and 61.20, the Project Manager is responsible for managing the contract and shall ensure that the economic operator meets all performance or delivery obligations in accordance with the terms and conditions of a contract. Implementation deadlines are set for each public contract.

Special Conditions for the contracts "*Fencing and landscaping of school yards*", worth €28,856; "*Construction of irrigation canals in rural areas and rehabilitation of dams and canals*" worth €59,999, under article 17.1; and "*Mapping of the municipal zones*" worth €199,800 under article 6.1 set out the dynamic plan and the deadlines for the execution of all works. While testing the payments made for these contracts, we found that delays up to 270 days have occurred.

The reason behind the delays, according to municipal officers, was the Covi-19 pandemic. However, lack of internal controls was another reason behind.

Impact Delayed execution of works undermine the timely achievement of the organisation's objectives and may lead to budget implications for the following year.

Recommendation A8 The Mayor should, through the procurement manager and the contract managers, that contracts are implemented according to the dynamic plan and the deadlines for execution of works/supplies and that the measures provided for in the contract are applied should delays occur.

Response of the Auditee's Management (Agree)

Issue B1 – Shortcomings regarding the units prices in the bid

Finding

ROGPP, Article 4.2.c, stipulates that when administering procurement procedures, a CA shall have the obligation to ensure that the contracted price is not higher than the concerned market price. Article 11.1.b, provides that the responsible procurement officer ensures that goods, services and works are procured in the most economical, efficient and effective manner. Moreover, Article 13.2 stipulates that in estimating the value of the contract, the CA must take into account the prices published by Kosovo Office of Statistics and/or other official indicative prices (such as tax office, customs office, chamber of commerce, etc.); and/or local market prices; and/or prices of previous contracts signed by the same or other contracting; and/or published international prices; and/or unit prices published on PPRC website.

For the project “*Renovation of sidewalks in the Municipality of Gjakova*” (€86,297), the Municipality implemented the contract worth €40,000 in 2021. In examining the bid of the winning EO, we found that prices for items 2,3,4 and 8 were abnormally low compared to those estimated in the bill-of-quantities. Yet, the Municipality had not enquired any confirmation from the EO regarding those abnormally prices. While testing two payments from this contract, we found that the execution of items having been offered abnormally low prices was low.

A	Përshkrimi	Oferta e fituesit			Vlera e llogaritur nga paramasa		Audit diferenca	Realizimi sasi		Realizimi vlera	
		Njësia Matese	Sasia	Çmimi për njësi me tvsh €	Çmimi total me TVSH	Çmimi për njësi me tvsh €		Çmimi total me TVSH	Pagesa		Pagesa
									10,499.50€ dt. 20.10.2021		29,500.50€ dt. 06.10.2022
Nr.		a	b	c=a*b	d	e=d*a	f=c-e	g	h	i=b*(g+h)	
2	Gërmimi i gjërë i dheut (apo fraksioneve egzistuese) me makinë, ngarkimi dhe bartja deri në deponi. Llogaritet për m ³ të pozicionit sipas përshkrimit.	m ³	8,793.60	0.50	4,396.80	1.00	8,793.60	(4,396.80)	802.00	423.00	612.50
3	Blerja, furnizimi dhe shtruarja e gurit të thyer - çakull (0 - 61.5 mm) d=20cm me ngjeshje të duhur në shtresa deri te arrija e modulit të ngjeshmerisë dhe dendësisë, sipas normave teknike. Llogaritet për m ³ të pozicionit në gjendje të ngjeshur.	m ³	7,080.00	0.20	1,416.00	9.00	63,720.00	(62,304.00)	346.00	170.00	103.20
4	Blerja, transporti dhe shtruarja e gurit të thyer - çakull (0 - 31.5 mm) d=15cm me ngjeshje të duhur në shtresa deri te arrija e modulit të ngjeshmerisë dhe dendësisë, sipas normave teknike. Llogaritet për m ³ të pozicionit në gjendje të ngjeshur.	m ³	6,828.00	3.20	21,849.60	10.00	68,280.00	(46,430.40)	259.30	127.00	1,236.16
8	Blerja, transporti dhe shtruarja e kubëzave me trashësi t = 6.0 cm, të atestuar dhe certifikuar sipas ISO standardeve. Në çmim është llogaritur edhe shtruarja e shtresës rrafshuese me fr. II. Forma e kubëzave caktohet nga investitori.	m ²	12,934.00	0.10	1,293.40	10.00	129,340.00	(128,046.60)	0.00	846.00	84.60

This was as a result of undue diligence by the evaluating commission and the procurement manager to identify the abnormally prices provided in the bid of the winning EO.

Impact

Identified shortcomings regarding the abnormally low prices for items in the financial bid may lead to failure to implement the contract items or even to the termination of the contract. This also undermines the correct assessment of the project cost and the management of procurement activities in line with the principles of competition, efficiency and effectiveness.

Recommendation B1 The Mayor should provide for more internal controls over the process of assessing the unit prices offered in the bids in line with the prices estimated in the bill-of-quantities or the manuals with the list of reference prices published by PPRC, market prices, or other indicative official prices. In addition, the Mayor should ensure that each contract item is implemented meticulously.

Response of the Auditee's Management (Agree)

Issue B2 – Payments through court/enforcement decisions

Finding

Article 40.3 for the payment of court decisions stipulates that having received the plenipotentiary decision or final order, the Ministry is authorised and has the responsibility to immediately take any necessary measures to make the payment from available budget allocations as provided for in the decision or order.

Municipality's spent €2,017,823 directly through Treasury, of which, €525,777 were extra costs on court spending. Out of 10⁶ tested samples totalling to €1,480,992, extra costs incurred were in the amount of €406,621 as per the following categories:

- from the Goods and Services category, two cases in the amount of €45,917, of which €5,887 were extra costs for judicial, enforcement and interest expenses;

⁶ Goods and services: Court decision for KRU Gjakova in the amount of €8,034.20 and for KRU Radoniqi in the amount of €37,883.15. Wages and Allowances: Court decision on jubilee, meals etc. €122,400.90, €199,498.00, €105,652.40, €131,175.00, €761,973.79. Capital investments - Court decision €37,667.94 and €45,279.79. Subsidies and transfers – Court decision for the obligations to the sports club €31,451.27.

- from the Wages and Salaries category, five cases in the amount of €1,320,700, of which €387,361 were extra costs for judicial, enforcement and interest expenses;
- from the Capital Investments category, two cases in the amount of €82,924, of which €6,421 were extra costs for judicial, enforcement and interest expenses; and
- from the Subsidies and Transfers category, one case in the amount of €31,451, of which €6,951 were extra costs for judicial, enforcement and interest expenses.

This was as a result of failure to timely pay the financial liabilities and the requests for jubilee payments, and the largest part of them was for meals and transport for the implementation of the collective contract, as well as for payments to suppliers.

Impact

Payments executed through court decisions prevent the budget from being spent as planned, i.e. projects from being implemented. In addition, they occur extra costs on court and interest spending.

Recommendation B2 The Mayor should provide for a fair budget planning by strengthening the financial discipline, in order to ensure that payments are made within the budget projections and established deadlines.

Response of the Auditee's Management (Agree)

Issue B3 – Delayed payment of invoices

Finding Pursuant to the Law no.03/L-048 on Public Finance Management and Accountability, Article 39.1, every valid invoice and request for payment of goods and services is paid within thirty (30) calendar days after the budget organization receives such an invoice.

Six invoices⁷ of a total of €169,149 were not paid within the statutory deadline of 30 days. Delays varied from 71 to 1,442 calendar days.

The reason behind failure to timely pay the invoices was poor budget planning and initiation of spending procedures without any funds available.

Impact Carried-forward liabilities increase the risk that the Municipality will fail to implement projects and achieve the set objectives. The need to pay the liabilities from previous years leads to additional costs should the suppliers file any lawsuit.

Recommendation B3 The Mayor should provide for adequate budget planning and ensure that procurement procedures are not initiated unless funds are made available, in order to prevent liabilities towards EO from incurring. The Mayor should also ensure that all liabilities from previous years are paid.

Response of the Auditee's Management (Agree)**2.2 Other 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 A9 – Misclassification of expenditures

⁷ Designing of infrastructure construction projects in the amount of €17,741.49; Rehabilitation of Krena riverbed in the amount of €100,000; Outstanding liabilities "Victoria Invest" Invoice no.05/SHQ/2019 in the amount of €2,054.43; Outstanding liabilities "Euroasphalt" Invoice no.03/2018 in the amount of €5,660.89; Outstanding liabilities "Joos-Krasniqi" Invoice no.17/20 in the amount of €8,429.72; Outstanding liabilities "Euroasphalt" Invoice no.149/21 in the amount of €35,262.49.

Finding According to the MF Financial Rule no.01/2013 on Spending of Public Funds, expenditures should incur from the adequate economic categories as established in the Administration Instruction on the Chart of Accounts, which also sets forth the respective economic codes and categories of expenditures that BOs should apply.

The Municipality made payments from and recorded expenditures in inadequate economic codes, totalling to €52,177 as the following:

- Payments of €37,987 were planned and made from the category of Goods and Services, of which €27,742 belonged to the category of Capital Investments and €10,245 to the category of Subsidies;
- Payments of €14,190 were planned and made from the category of Capital Investments, of which €1,394 belonged to Goods and Services and €12,796 to the category of Subsidies.

This occurred as a result of poor budget planning and lack of funds in the respective categories.

Impact Payments made from inadequate category lead to presentation of incorrect records in the AFS of the Municipality, which as such give untrue information to the users of the AFS.

Recommendation A9 The Mayor should ensure that all actions for planning the expenditures in the adequate budget categories are undertaken or ensure that funds are reallocated by the respective economic categories.

Response of the Auditee's Management (Agree)

Issue A10 – Lack of controls over preparation of the draft annual financial statements

The AFS should be prepared based on the International Public Sector Accounting Standards, Financial Reporting under the Cash Basis of Accounting, and the MFTL Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations. The Municipality has prepared and submitted the AFS to Treasury within the set deadlines of 30 days. However, during our examination of the AFS, we found some issues which we recommended the Municipality to rectify.

The identified issues are:

- In the Budget Execution Report - Article 14 Cash Outflow – the amount of €15,414,000 was incorrectly presented in the Final Budget under Note 2, category of Wages and Salaries, whilst according to KFMIS it was €15,814,282;

- In the Statement 2 on Budget Execution Report – Article 14 Cash Inflow in TSA – the final budget presented under Note 8, Tax Revenues, was in the amount of €2,092,000, whilst according the Budget it was €1,729,530.
- In the Statement 2 on Budget Execution Report – Article 14 Cash Inflow in TSA – the final budget presented under Note 9, Non-tax Revenues, was in the amount of €1,937,000, whilst according the Budget it was €1,648,728.
- In the Budget Execution Report, Article 14, the carried-forward revenues of €912 were not presented under the Economic Code 61000 in the Note 12, under the Outturn column;
- In the Report on Unspent Own Source Revenues, Article 21, own source revenues collected during 2021 were presented in the amount of €4,582,361, whilst they were in the amount of €4,782,145.

Following the auditors recommendation, the AFS have been rectified within the statutory deadline.

This occurred due to insufficient internal controls and undue diligence of the staff responsible for the preparation of the AFS.

Impact

Untrue and unfair presentation of records in the AFS does not provide the AFS users with a complete view of the statements. This may lead to poor decision making by both the Municipality and the users.

Recommendation A10 The Mayor should, through the responsible persons, ensure that during the preparation of the AFS 2022 particular attention is paid to the prevention of accounting and administrative errors.

Response of the Auditee's Management (Agree)

2.2.2 Revenues

Revenues generated in 2021 amounted to €4,154,591. They mainly relate to property tax, construction permits, administrative fee, business tax, rental, co-payments etc. In addition to OSR, the Municipality has also received indirect revenues, which are collected from the central level, in a total of €466,624 (traffic fines €32,312 and from court €434,312).

Issue A11 – Shortcomings in the properties inspection activities

Finding Pursuant to the Law no.06/L-005 on Immovable Property Tax, Article 15.2, inspection activities shall be carried out each year for at least twenty per cent (20%) of all objects within the territory of the Municipality.

In 2021, the Municipality has not managed to conduct inspection activities for 20% of the recorded properties. Of a total of 34,232 properties, they have only inspected 1,642 during 2021, i.e. 5%.

This was as a result of inefficient management of inspection activities, whilst according to the Municipality this was as a result of the Covid-19 pandemic.

Impact Failure to conduct complete inspections of properties for property tax purposes may result in untrue information on the current taxable property and may lead to incorrect estimation of property tax revenues.

Recommendation A11 The Mayor should provide for improved inspection activities process in line with the legal established criteria, in order to have potential changes resulting from the inspections recorded and property tax records completed.

Response of the Auditee's Management (Agree)

Issue B4 – Delayed review of taxpayers complaints

Finding Pursuant to the Law no.06/L-005 on Immovable Property Tax - Article 31.6, the Municipality shall adopt a decision regarding the submitted complaint within sixty days from the receipt of complaint. The Municipality may extend with a reasoned decision the deadline for reviewing the submitted complaint by up to thirty calendar days.

Of the total of 340 complaints reviewed by the Municipality, 58 of the taxpayers' complaints on errors contained in the property tax bill had been reviewed in delays, thus exceeding the statutory deadline from one to three months.

This was as a result of the Covid-19 pandemic situation in the country, during which the Municipality has operated with reduced number of staff.

Impact Failure to update the information and inadequate valuation of properties in the property tax database may hamper the collection of property tax revenues and may lead to increased accounts receivable as a result of citizens' dissatisfaction and complaints.

Recommendation B4 The Mayor should ensure that taxpayers' complaints are reviewed within the statutory deadlines. The Mayor should also enhance controls over the valuation of property tax for the taxpayers.

Response of the Auditee's Management (Agree)

2.2.3 Subsidies and Transfers

The final budget for Subsidies and Transfers was €663,154, of which €591,454. They mainly relate to the funding of NGOs for sports and culture projects, funding of grants for young people and individual beneficiaries.

Issue A12 – Lack of the annual plan of financial support to NGOs

Finding MF REGULATION no.04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs, under Article 6 (Annual Plan of Financial Support), requires providers of financial support should prepare the annual plan of financial support for NGOs at the latest 30 days after the approval of the annual budget of the Republic of Kosovo and should send it to respective office for good governance at the Prime Minister's Office.

With the Budget of the Republic of Kosovo, the Municipality has foreseen to provide financial support to NGOs programs and projects during 2021. However, it did not meet the statutory requirement to prepare the annual plan of financial support to the NGOs.

The reason behind this was the neglect of the responsible officers to prepare the annual plan of financial support.

Impact Failure to prepare the annual plan increases the risk that budget funds may be used for other unplanned purposes and may lead the Municipality to the failure of achieving the objectives in this area.

Recommendation A12 The Mayor should ensure that the respective directorates prepare the annual plan for financial support to NGOs by allocating in line with the set objectives and sent it to the respective office for good governance at the Prime Minister's Office, as stipulated in the Regulation on the funding of NGOs.

Response of the Auditee's Management (Agree)

2.2.4 Capital and Non-capital assets

The value of capital assets presented in the AFS was €76,019,405, that of non-capital assets was €1,705,745, and that of stocks was €182,317.

Issue B5 – Poor assets management

Finding Pursuant to MF Regulation no.02/2013 on Management of Non-financial Assets by Budget Organizations - Article 22.1, assets depreciation should be carried out on a linear method. According to Article 18.3 of the same regulation, budget organisations must check the non-financial assets at least once a year to verify and assess the factual situation of non-financial assets.

For capital assets over €1000, in 12 tested samples (vehicles belonging to the periods from 2001-2007) appear in the asset register with their original cost totalling to €34,357, although the net book value should be zero. This situation was as a result of incorrect recording of the original data in KFMIS, without defining the depreciation rate as well as due to internal control's failure to review them on a regular basis.

Moreover, the stocktaking of non-financial assets has not been carried out in line with the requirements of Regulation no.02/2013. The Mayor appointed the stocktaking commission on 28.01.2022, which did not manage to conduct the non-financial assets stocktaking for year 2021. In addition, the evaluation commission was unable to produce any evaluation reports due to the lack of reports from the stocktaking commission.

The reason behind this was the delayed establishment of the stocktaking commission, which has affected the work of the evaluation commission.

According to municipal officers, the neglect of officers in charge of KFMIS in the Ministry of Finance to avoid the error related to the depreciation rate has led to the same situation being repeated this year as well.

Impact Identified shortcomings regarding the stocktaking and depreciation leads to untrue and incomplete presentation of assets in the Municipality's registers and AFS and may also result in the loss of assets or misappropriation.

Recommendation B5 The Mayor should ensure that the assets stocktaking and evaluation processes are carried out in line with the requirements of the Regulation 02/2013 and that the assets net value is rectified.

Response of the Auditee's Management (Agree)

2.2.5 Accounts receivable

Accounts receivable presented in the 2021 AFS of the Municipality were €10,734,153. This consists of receivables from property tax €9,785,105, rental of shops €50,023, rental of lands €330,364, business tax €568,661.

Issue B6 – Increase in accounts receivable

Finding The Law no.06/L-005 on Immovable Property Tax – Article 27, and the Regulation on Municipal Taxes, Fees, Charges and Services – Article 16 provide for the collection of outstanding tax liabilities by using the compulsory measures of collection. Meanwhile, the Law no.06/L-092 on Allocation for use and exchange of municipal immovable property – Articles 1, 3 and 4, and the Contract on Short-term Leasing of Municipal Property – Article 5, stipulate that property users shall pay the rent on the 5th day of each month.

Accounts receivable for year 2021 increased by €421,323 compared to 2020, particularly at the socially owned enterprises (property tax) and gamblers (business tax). The Municipality has not make any efforts (filing any lawsuit or enforcement) for collecting the uncollected incomes from property tax, rentals, or business taxes other than just sending them reminders.

According to the Municipality, this was as a result of the Municipality's lack of capacity to collect the receivables from the socially owned enterprises and the Covid-19 pandemic situation.

Impact Failure to collect revenues hinders the Municipality from achieving its plans and may also result in further difficulties in terms of collecting and aging of receivables until they turn into bad debts.

Recommendation B6 The Mayor should analyse the effectiveness of the mechanisms in place for the collection of receivables, including the legal remedies through the enforcement officers, to ensure that they are fully collected.

Response of the Auditee's Management (Agree)

2.2.6 Contingent liabilities

The Statement of Contingent Liabilities by the end of 2021 were in the amount of €567,568. This includes only the enforcement decisions regarding various disputes such as: compensation on lost profits, compensation on property, proof of ownership, etc.

Issue B7 – Incomplete account of contingent liabilities in the financial statements

Finding According to MF Regulation no.01/2017 – Article 3.1.1, a contingent liability is a liability that will materialize only after the occurrence of certain events in the future. Whereas according to Article 18 of the same Regulation, budgetary organizations shall, in accordance LPFMA, report all contingent liabilities.

The Municipality does not have a complete register in place on all the external parties' claims towards the Municipality. Court proceedings of the Directorate of Education and Health are not included in the register of contingent liabilities.

This was as a result of the Municipality's Legal Office failure to create a general register on contingent liabilities, which would have been updated and maintained over the years.

Impact Incomplete presentation of contingent liabilities leads to their understatement, thus resulting in inadequate budget planning when it comes to covering the financial liabilities of the following year should these court cases be lost.

Recommendation B7 The Mayor should provide for a proper control system in order to ensure that a general register on contingent liabilities is created and maintained, thus enabling their true reporting.

Response of the Auditee's Management (Agree)

2.2.7 Internal Audit Function

The Municipality of Gjakova has established the Internal Audit Unit (IAB) staffed with just the Head of the Unit. The audit committee consisting of four members was also established,

which held four meetings in 2021. IAU completed three (3) regular audits⁸, as planned in the annual plan and an audit upon request, wherein it has given recommendations on how the management can improve the functioning of the internal control. Of the total of nine (9) recommendations were given in these reports, four (4) were implemented and five (5) were under implementation.

Issue B8 – Shortcomings in internal audit

Finding Regulation no.01/2019 on Establishment and Implementation of Internal Audit Function at the Public Sector Entity – Article 5.1, stipulates that the Head of Public Sector Entity establishes the independent internal audit unit pursuant to the following criteria: Public Sector Entity with budget over seven (€7.000.000,00 €) million euro should have at least three internal auditors.

IAU had only one auditor who could not manage to cover all the risk areas such as: assets management, management of rented property contracts, accounts receivable and payable, and contingent liabilities etc. the Internal Auditor had prepared a more generalised audit scope, with no deadlines set.

This was due to insufficient human resources in IAU of the Municipality.

Impact Insufficient human resources in IAU undermines the improvement of controls systems in the Municipality as well as the achievement of its objectives.

Recommendation B8 The Mayor should review the performance of IAU and take measures to increase the staff number in IAU according to financial capacities and needs.

Response of the Auditee's Management (Agree)

⁸ IAU had performed a total of three audits according to the plan and one audit on request: Audit of the granting of grants by the Directorate for Economic Development; Audit of the contracts management the Directorate of Public Services; Audit of the procurement process; and Audit of the project by the Ministry of Foreign Affairs of the Government of Bulgaria.

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 ⁹	2021 Outturn	2020 Outturn	2019 Outturn
Sources of Funds	26,330,580	29,140,628	27,459,229	27,339,931	25,626,846
Government Grant - Budget	22,952,322	23,948,011	23,695,818	23,077,882	20,769,699
Funding through borrowing	0	96,143	96,003	228,259	48,173
Carried forward from previous year	0	960,009	621,817	1,013,578	1,533,053
Own Source Revenues	3,378,258	4,028,258	3,004,022	2,602,543	2,978,144
Domestic Donations	0	81,526	30,946	13,995	2,762
External Donations	0	26,681	10,624	403,675	295,015

The final budget was higher than the initial budget by €2,810,048. This increase was a result of received donations, revenues carried forward from previous year, borrowing and recovery package. In 2021 the Municipality spent 94% of the final budget, an improvement of 1% compared to 2020. The budget outturn remains at a satisfactory level and explanations on the current position are given in more details below.

Explanations for changes in budget categories are given below:

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

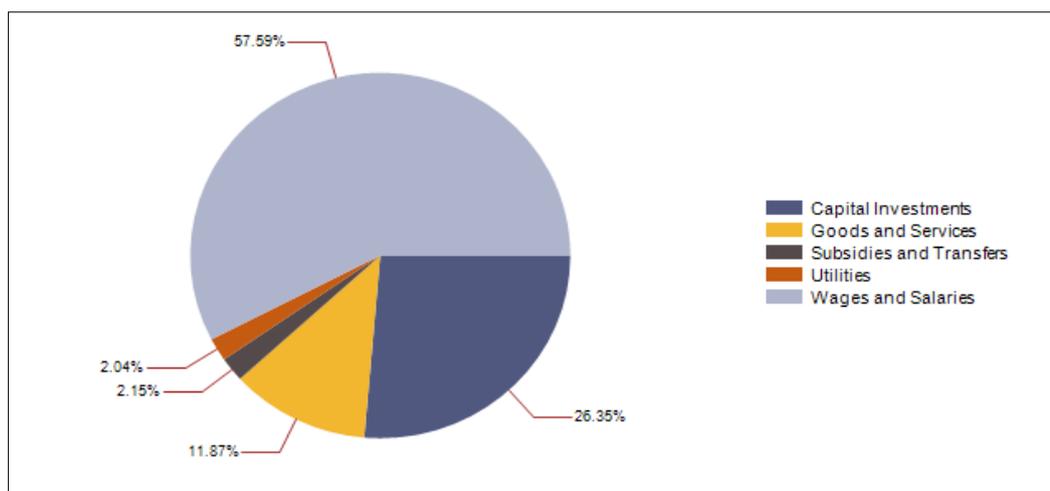
Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
Spending of funds by economic categories	26,330,580	29,140,628	27,459,229	27,339,931	25,626,846
Wages and Salaries	14,150,978	15,814,282	15,812,416	14,242,133	13,599,828
Goods and Services	3,240,000	3,407,829	3,258,299	3,687,338	2,834,453

⁹ Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

Utilities	586,800	610,595	561,203	532,670	579,693
Subsidies and Transfers	550,500	663,154	591,454	682,271	482,644
Capital Investments	7,337,302	8,644,767	7,235,857	8,195,520	8,130,229
Reserves	465,000	0	0	0	0

- The final budget for Wages and Salaries increased by €1,663,304 compared to the initial budget. The increase was as a result of budget review and Government's decision, with €1,606,339 (of which €560,840 for allowances on Covid-19 and €1,045,499 to pay for enforcement, jubilee, meals and transport for professors). Whilst the increase from the designated donor grants was €6,554 and the financing from borrowing was €64,868. In addition, based on the Government decision, the budget was cut by €14,457 for the transfer of municipal inspectors to the Kosovo Veterinary Agency.
- The final budget for Goods and Services increased by €167,829. The increase occurred following the budget review with €2,944; Government decision with €97,056; carried-forward revenues of €52,065; designated donor grants of €12,820; funding from borrowing €5,344; and there was a budget cut of €2,400 based on the Government's decision.
- The final budget for Utilities increased by €23,795 as a result of carried-forward revenues;
- The final budget for Subsidies and Transfers increased by €112,931 compared to the initial budget. This was as a result of budget review with €71,000, carried-forward revenues of €38,695; and designated donor grants of €2,959.
- The final budget for Capital Investments increased by €1,307,465 compared to the initial budget. The increase was as a result of the Government decisions with €324,276 and following the budget review with €25,931, which have been carried over from the reserves (€350,207); carried-forward revenues of €845,454; designated donors grants of €85,873; and financing from borrowing €25,931.
- The final budget for Reserves was reduced by €465,000 compared to the initial budget, which was transferred to other categories based on the decisions made and following the budget review.

Chart 1. Expenditures by economic categories in 2021



Revenues generated by the Municipality of Gjakova in 2021 were €4,115,649. They relate to revenues from property tax, construction permits, administrative fees, business activities, rent, co-payments, etc. In addition to these revenues, the Municipality has also received other indirect revenues of €466,624, which are collected by the central level (traffic fines of €32,312 and receipts from courts €434,312). These revenues are not included in the following table as they are planned and collected from the line ministries and courts.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
Total of revenues	3,378,258	3,378,258	4,115,649	2,919,388	3,328,410
Tax revenues	1,729,530	1,729,530	2,313,597	1,411,815	1,686,810
Non-tax revenues	1,648,728	1,648,728	1,801,140	1,507,572	1,641,600
Other revenues	0	0	912	0	

4 Progress in implementing recommendations

Our audit report on 2020 AFS of Municipality of Gjakova resulted in 10 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2021 audit, two (2) recommendations have been implemented and eight (8) ones have been repeated, as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 – Table of recommendations.

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

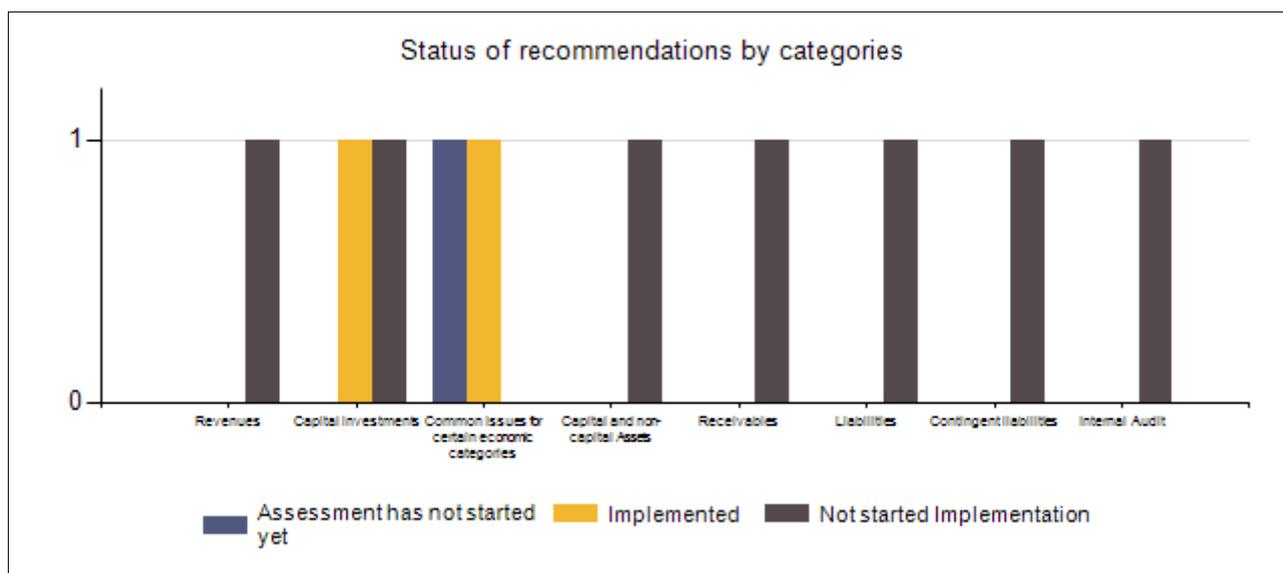


Table 4. Summary of prior year's recommendations and of 2020

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	Revenues	The Mayor should ensure that the review of taxpayers' complaints is conducted within legal deadlines. Also, the Mayor should increase controls to ensure that an accurate evaluation of property tax is made for the taxpayer	Needed actions have not been taken	Implementation not started
2	Capital Investments	The Mayor should ensure improvement of internal controls in the process of fair evaluation of unit prices within the tender bids according to pre-calculated prices, or manuals with reference prices per unit published by the Public Procurement Regulatory Commission, market prices and other official indicative prices. Also, the Mayor should ensure that	Needed actions have not been taken	Implementation not started

		each contract position will be executed accurately		
3	Capital Investments	The Mayor should ensure through the procurement manager that the confiscation of tender security will be applied in the cases where economic operators withdraw or do not respond to meet the eligibility requirement. Confiscation of tender security for irresponsible bidders reduces the possibility of participation of frivolous bidders	Needed actions have been taken	Implemented
4	Common issues	The Mayor should ensure proper budget planning by strengthening the financial discipline, therefore the process of conducting payments is done within the budget planning and set deadlines	Needed actions have not been taken	Implementation not started
5	Common issues	The Mayor should ensure that controls are functional in managing the tender evaluation process, in order that this process is fair and in accordance with the criteria set in the tender dossier, and does not eliminate the responsible economic operators with the most economically advantageous offer	Needed actions have been taken	Implemented
6	Assets	The Mayor should ensure the selection of competent members in the inventory commission and issue an internal guide to the inventory of assets by clarifying its complete and accurate mandate according to the regulation on non-financial asset management. Also, to undertake measures to correct the net value in the books of 12 assets and in cooperation with the Ministry of Public Administration which has a direct contract with the maintainers of e-assets software to enable the improvement of defects in the system, in order that the register of non-capital assets to be updated and generated on time, before drafting the AFS for the year 2021	Needed actions have not been taken	Implementation not started
7	Accounts receivable	The Mayor should analyse the effectiveness of mechanisms available for the collection of receivables, including legal actions through bailiffs, to ensure complete collection of receivable accounts	Needed actions have not been taken	Implementation not started

8	Outstanding liabilities	The Mayor should pay more attention to a better planning of allocation and commitment of funds, as well as initiation of expenditure procedures to be executed only when funds are available in order to eliminate liabilities to EOs. Also, the Mayor shall ensure that all liabilities of previous years are paid.	Needed actions have not been taken	Implementation not started
9	Contingent liabilities	The Mayor should provide for a proper control system in order to create and maintain a general register of contingent liabilities and to present their account completely and accurately in the AFS.	Needed actions have not been taken	Implementation not started
10	Internal Audit	The Mayor should review the performance of IAU and take measures to increase the staff number in IAU according to financial capacities and needs.	Needed actions have not been taken	Implementation not started

Vlora Spanca: Auditor General

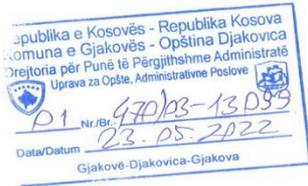
Zukë Zuka: Assistant Auditor General

Shehrije Shala: Head of Audit

Fanol Hodolli: Team leader

Arian Zenelaj: 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 Gjakovës, 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.

Sinqerisht,

Ardian Gjini

Kryetar i Komunës së Gjakovës

Data: 23.05.2022



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 statements¹⁰ 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 authorities¹¹. 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).

¹⁰ Financial statements in the public sector include also the statement(s) of budget execution

¹¹ 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.