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AUDIT REPORT

**ON THE FINANCIAL STATEMENTS OF
THE MUNICIPALITY OF KACANIK
FOR THE YEAR ENDED 31 DECEMBER 2013**

Pristina, June 2014

*The Municipality has not prepared financial statements in the English language. The financial statements are attached to our report in the Albanian language.

KPMG has carried out an audit of the Annual Financial Statements ('AFS') of the Municipality of Kacanik ("Municipality"), on behalf of the Office of the Auditor General of Kosovo, for the year ended 31 December 2013.

The Office of the Auditor General (OAG) undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson, is the head of the OAG which employs around 145 staff. The Auditor General and the OAG shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

The OAG's Mission is to "Contribute to sound financial management in public administration. We shall perform quality audits in line with internationally recognized public sector auditing standards and good European practices. We shall build confidence in the spending of public funds. We shall play an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability."

The reports produced by the OAG directly promote accountability as they provide a base for holding managers' of individual budget organizations to account.

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Executive Summary

Introduction

KPMG has carried out an audit of the Annual Financial Statements of the Municipality of Kacanik (the 'Municipality') for the year ended 31 December 2013, on behalf of the Office of the Auditor General.

This report summarises the key findings from our audit of the 2013 Annual Financial Statements (AFS), which determine the Audit Opinion. We would like to thank the Mayor and his team for their assistance during the audit process.

The audit of the 2013 financial statements was conducted in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Fundamental Auditing Principles and Guidelines. Our approach included such tests and procedures as we deemed necessary to form an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated October 2013.

Our audit focused on:

- The AFS – compliance with the reporting framework and the significant risks related to the AFS, as highlighted in the Audit Planning Memorandum;
- The response to our recommendations made in 2012 and earlier; and
- The Financial Management and Internal Control of the Municipality (including management and budget execution).

The level of work undertaken by us to complete the 2013 audit is a direct reflection of the quality of the internal controls implemented by management.

Opinion

Annex I explains the different types of opinions applied.

Our opinion is included in Part 2.1 of this report.

Note: The opinion reflects the audit findings and conclusions highlighted in this report.

Overall Conclusion

Based on the detailed sections of this report, our overall conclusion is:

The Management of the Municipality has designed and implemented an internal control system. However, certain controls over key areas of the financial reporting and management were not implemented and operating effectively. In particular, we identified the following weaknesses:

- During the last years, the Municipality has only partially addressed our recommendations in relation to Article 16 Disclosure of Assets - capital and non capital assets and payments from third parties and as a result, this area continues to represent a significant risk. Due to the nature of the underlying records and lack of supporting documentation, uncertainties exist with regard to the ownership rights, completeness and valuation of the property, plant and equipment;
- Furthermore, the Municipality has only partially addressed our other recommendations from previous years. The Municipality does not have in place a robust process that would ensure a timely and complete implementation of our recommendations;
- Actual own source revenues amounted to 67% of the budget for the year 2013, and decreased by 5% when compared to revenues for the year 2012. The low budget execution is one of the main areas where more improvements are necessary;
- The Municipality does not yet have an automatic billing system for all types of own source revenues and receivables related to them;
- We identified non-compliances with the Law on Public Procurement in Kosovo, No. 04/ L-042, (amended). Such non-compliances related to required procedures which were not performed and documented by the Municipality;
- Free Balance does not ensure completeness of the information required for financial reporting purposes and it cannot solely be used to produce comprehensive financial statements. Although the majority of requirements for presentation of the AFS were addressed, there were a number of omissions and inaccuracies in the draft AFS provided to us. Only some of these were adjusted in preparing the final version of the AFS, while others remain unadjusted, as detailed in part 2.3 of this document; and
- The Municipality has not taken sufficient measures to ensure the independence of the Audit Committee from the management.

Our key recommendations are that the Mayor should:

- Analyse the reasons for the uncertainties in relation to property, plant and equipment and identify the actions required to address such matter, in order to ensure a proper presentation of the properties in 2014. The required timely support from an internally established Assets Inventory Committee may be considered;
- Ensure that an updated action plan is prepared and reviewed on a quarterly basis and clearly sets out the timeframe for addressing our recommendations, which includes the identification of the responsible officers/units/entities, and initial focus on the most significant areas;
- Regularly monitor the budget performance on a monthly basis and identify and address barriers to the planned levels of budget execution. Where the initial budget assumptions are found to be inaccurate, this should be addressed in the final budget. Ensure that the plan for own source revenues is realistic and corresponds to the opportunities to collect revenues. Furthermore, the Mayor should ensure that all necessary measures are taken to collect these revenues;
- Improve the billing and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue. Improvement of the procedures related to such systems would enable management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out;

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- Perform a detailed assessment of the procurement process and controls over it, in order to identify weaknesses and to determine actions that should be taken to address such weaknesses;
 - Ensure an automatic and effective process for the recording and reporting of disclosures in the AFS for 2014, which formally incorporates the management review of the draft financial statements with specific focus on areas considered as high risk of error and/or areas where errors have been identified in previous years; and
 - Ensure the independence of the Audit Committee, compile appropriate policies and procedures to ensure a high standard of corporate governance and implement a risk based internal audit programme for the year 2014, which provides assurance to the management in relation to the effective operations or key financial systems.

1 Audit Scope and methodology

It is the responsibility of the Municipality to prepare financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting' and other specific requirements. We are responsible for carrying out a Regularity Audit which involves the examination and evaluation of the AFS and other financial records and expression of opinions on:

- Whether the AFS give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

We have considered the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the audit opinion and the focus of our audit.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of our review. The Mayor's responses are in Annex III. An assessment of the Management Responses to recommendations made in 2012 is in Annex II.

For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

High Priority - issues which may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

Medium Priority - issues which may not result in a material weakness but where action will also offer the potential for improvements to the efficiency and effectiveness of internal controls.

Our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated. Findings considered as low priority will be reported separately to finance staff.

2 Annual Financial Statements and Other External Reporting Obligations

Overall Conclusion

Our review of the AFS considers both compliance with the reporting framework and the accuracy of the information recorded in the financial statements. We also consider the Declaration made by the CEO (the 'Mayor') and Chief Financial Officer when the draft AFS are submitted to the Government. The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the financial statements. A number of declarations are intended to provide assurance to the Government that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

We have determined an unmodified opinion with an 'Other matter' paragraph because six procurement files with a total contracted value of EUR 336 thousand and total payments made until end of 2012 of EUR 299 thousand, were under investigation by the public prosecutor office and were not provided to us during the audits for 2012 and 2013. Furthermore, the Municipality has not addressed all our recommendations in relation to properties disclosed in the AFS. We identified a number of immaterial errors in the AFS and the reporting requirements were met. There were no major exceptions noted in relation to the other external reporting requirements. However, the Basis for the qualified opinion and the 'Other matter' paragraph indicate that the Declaration referred to above was not correct in all respects.

The terminology used in the current year for different types of opinions changed with reference to ISSAI 200. In the current year, we have used the 'unmodified opinion' terminology, instead of the 'unqualified opinion' used in the prior year. For further details on the types of audit opinions, please refer to the Annex 'Explanation of the different types of opinion applied'.

2.1 Audit Opinion

To the Municipality of Kacanik

Pristina, 6 June 2014

We have audited the accompanying financial statements of Municipality of Kacanik ('the Municipality'), which comprise the statement of cash receipts and payments for the year ended 31 December 2013, a comparison of budget and actual amounts, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards ('IPSAS') for 'Financial Reporting under the Cash Basis of Accounting' and with the Regulation MoF- No. 03/2013 'On Annual Financial Statements of Budget Organizations'. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) Fundamental Auditing Principles and Guidelines. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements of the Municipality for the year ended 31 December 2013 are prepared, in all material respects, in accordance with IPSAS for 'Financial Reporting under the Cash Basis of Accounting' and with the Regulation MoF- No. 03/2013 'On Annual Financial Statements of Budget Organizations'.

Other Matter

Without qualifying our opinion, we draw attention to the following:

- Six procurement files with total payments made until the end of 2012 of EUR 299 thousand are under investigation from the public prosecutor office and were not provided to us. We are not aware of the reasons and the status of such investigations and their potential outcome.
- Article 16 comprises disclosures of nonfinancial capital and noncapital assets. Due to lack of ownership documentation for certain properties, uncertainties exist with regard to the ownership rights of the Municipality. In addition, due to lack of supporting documentation for the measurement of a significant part of these assets, the Municipality sought to measure some of the main properties only, at fair value based on a valuation performed by an internally established committee.
- 'Payments from third parties' presented in Article 12 include a total of EUR 764 thousand that represents investments financed by the Ministries of Kosovo, rather than from third parties. In addition, the formal transfer of ownership has not yet been obtained for a significant part of the assets that were presented as 'Payments from third parties'.

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2.2 Significant risks to the Annual Financial Statements

Description

During the audit, we identified a risk in relation to the procurement, and to the presentation of Article 16 Disclosure of Assets - capital and non capital assets and of payments from third parties.

The Risk reflects the following:

- Lack of procurement files that from the previous year are under investigation by the public procurement office, the final results of which are not yet known.
- Uncertainties in relation to the lack of documentation to support the ownership and measurement of a significant part of properties.
- The disclosure of assets is not complete, because not all property, plant and equipment were included in the valuation.

In addition, we identified risks in relation to other compliance issues (see Issue 3 below).

The risk was identified and occurred.

Identified Risk

Our approach so far reflects our audit response for the period ended 31 December 2013, as it is also explained in the audit planning memorandum. We draw attention to the following issues:

Issue 1 – Procurements under investigation

Finding

Six procurements files comprising files with a total contracted amount of EUR 336 thousand and total payments made until the end of 2012 of EUR 299 thousand, are under investigation by the public prosecutor office and were not provided to us during the audits for 2013 and 2012. We are not aware of the reasons and the status of such investigations and their final or potential outcome. In addition, we identified non-compliances with the Law on Public Procurement in Kosovo, No. 04/ L-042, (amended). Such non-compliances related to required procedures which were not performed and documented by the Municipality.

Risk

In the absence of the procurement files, we are not able to conclude on these procurements. Poor procurement procedures may result in irregular payments, delays in the delivery of services, poor value for money, inappropriate parties being awarded contracts, and contracts not implemented as required.

Audit Response

We considered the Municipality's internal controls and processes related to procurement and recording of assets and other expenses. We reported to the Municipality our findings and recommended that measures are taken to comply with the requirements of the law.

Issue 2 – Article 16 Disclosure of Assets - capital and non capital assets and payments from third parties

Finding

The difference between the total amount presented in Article 16 Disclosure of Assets - capital and non capital assets for the year ended 31 December 2013 and the total at 31 December 2012, is different by EUR 1,436 thousands from the additions of properties disclosed in Article 12. For certain properties, there are uncertainties regarding ownership rights of the Municipality or various other Kosovo Government Agencies and lack of supporting ownership documentation. Furthermore, the Municipality does not have any transfer or ownership documentation for assets with a value of EUR 764 thousand, received from Ministries in 2013. In addition, due to lack of supporting documentation for the measurement of a significant part of these assets, the Municipality sought to measure them at fair value based on a valuation of the main properties

performed by an internally established committee. The valuation included only main municipal buildings and not all property, plant and equipment.

Risk

Due to lack of ownership documentation there are uncertainties regarding ownership rights of the Municipality or various other Kosovo Government Agencies. As a result the Municipality may face difficulties in utilising such properties in the future. In addition, the disclosure of assets is not complete, because not all property, plant and equipment were included in the valuation. Such deficiencies may result in significant values not included in the AFS, or in the wrong value of assets being presented, and in the inability of the management to control and exploit the resources in favour of the Municipality.

Audit Response

We considered the Municipality's internal controls and other processes related to the presentation of property and payments from third parties in the FS. We advised the Municipality on the additional actions required to ensure an effective process of recording and reporting properties in the financial statements for 2013.

In addition, we audited a sample of expenditures which represent additions to property for the period, to determine that the expected capitalization approach was applied, proper classification and disclosure of assets was made, and we have informed the management on the results of such work.

Issue 3 – Other compliance issues

Findings

The following compliance issues were identified:

- The primary reliable source of information for the preparation of financial statements is Free Balance. However, since Free Balance is not being used to record payments from third parties and outstanding invoices, it cannot solely be used to produce comprehensive financial statements.
- The Municipality has not implemented a comprehensive and automated billing system.
- The Municipality does not have in place any formal process that would ensure complete, adequate and reliable information registered from legal cases.
- The Municipality did not prepare financial statements in the Serbian language.

Risk

- Free Balance does not ensure completeness of the information required for financial reporting purposes and it cannot solely be used to produce comprehensive financial statements.
- There is uncertainty regarding completeness of both receivables and revenues that the Municipality can earn, and their ability to prepare a reliable and accurate budget, to report an accurate collection ratio, and monitor the collection of the own source revenues on a timely basis.
- Although the Municipality may be involved in several minor legal cases and future cash outflows might be required in the near future, the Municipality does not have in place any formal process that would ensure complete, adequate and reliable information for recording provisions and contingent liabilities related to these legal cases.
- Lack of financial statements in the Serbian language limits the use of these financial statements by the readers and is not in compliance with the applicable legislation.

Audit Response

We considered the Municipality's internal controls and processes related to recording and presentation in the FS of those disclosures that are not reported under the Cash Basis Accounting and are not recorded in Free Balance. Such disclosures include income from fines, payments from third parties, receivables and contingent liabilities.

We recommended additional actions that are required from the Municipality, to ensure an automatic and effective process for the recording and reporting of disclosures in the AFS for 2013.

We recommended that the Municipality implements a formal process that would ensure complete, adequate and reliable information for recording provisions and contingent liabilities.

We recommended that the Municipality prepares AFS in the Serbian language.

2.3 Compliance with AFS reporting requirements

Description

The requirements of the IPSAS 'Financial Reporting under the Cash Basis of Accounting' and of the Financial Regulation No. 03/2013 have only partially been met in preparing the financial statements. We considered the following:

- Compliance with FR no. 03/2013;
- Requirements of LPFMA no. 03/L-048;
- The time frame for submission to the MoF;
- The requirement for the AFS to be signed by the CEO (the 'Mayor') and the CFO;
- The requirement to prepare the AFS in hard and electronic copies; and
- The submission of quarterly reports to the Municipal Assembly and the MoF.

As reported in our Audit Memorandum in December 2013, the financial statements for the nine-month period ended 30 September 2013, were not prepared and submitted to the MoF within 31 October 2013, as required. We received those financial statements in November 2013.

Certain adjustments were made to the draft annual financial statements and we also made other suggestions to improve the disclosures and to ensure completeness of such disclosures. Our findings are shown below.

Finding

The primary reliable source of information for the preparation of financial statements is Free Balance, which is not being used to record and report all disclosures that are reported under the Cash Basis Accounting. Such disclosures include income from fines, payments from third parties, receivables and contingent liabilities.

The following inconsistencies were identified in the financial statements:

- The actual number of employees at the beginning of 2013 presented in Article 22, is less than the total number of employees in the payroll list by four employees, while the total number of the employees exceeds the limit stated in the budget law by seven employees at the beginning of the year and by one employee at the end of the year.
- Notes 23 - 25 do not provide with sufficient details on the reasons for the low budget execution, although the Municipality provided explanations on the sources of financing and on their designation.
- Different classifications of the expenses in the initial budget were presented in Article 13 and Article 18, Note 36 for the utilities and goods and services. The classification difference was EUR 12 thousand, while there were no differences in the total budget. In addition, all payments from third parties in 2012 were included in Note 12, whilst in Article 12 they were classified under two different categories.

The Municipality did not prepare financial statements in the Serbian language.

Several rounding or small differences were identified in the notes to the financial statements and certain formats could be further improved to ensure a better presentation of the financial statements.

Risk

Free Balance does not ensure completeness of the information required for financial reporting purposes and cannot solely be used to generate comprehensive financial statements.

Disclosures that lack clarity limit the ability of the readers to use the financial statements and may lead to misinterpretations.

Lack of financial statements in the Serbian language limits the use of these financial statements by the readers and is not in compliance with the legislation and the financial rule 03/2013

Recommendation

We recommend the Mayor ensures that:

- The preparation of the annual financial statements includes procedures and tools that are designed to ensure that the required information is recorded, processed, summarized and appropriately reported in the Financial Statements.
- Information on payments from third parties, receivables and contingent liabilities is regularly updated and reviewed to ensure accuracy and completeness of such disclosures in the financial statements.
- The number of employees is continuously monitored and regularly reported to ensure compliance with the budget limits and reporting requirements.
- The Municipality prepares financial statements in the Serbian language.

2.4 Compliance with other external reporting requirements

Description

In addition to the preparation of the AFS, the Municipality is required to comply with external reporting requirements, including the following:

- Budget Request;
- Quarterly reports, including nine-months financial statements;
- Operating Reports (performance reports) if any;
- The draft, timely procurement plan; and
- Action Plan on implementing recommendations, included in the annual financial statements of the Municipality.

No major exceptions were identified regarding the compliance with current external reporting requirements and the budget process.

3 Prior Year Recommendations

Overall Conclusion

From the acceptance of our recommendations for the year 2012 in July 2013, only some actions have been taken to address the concerns raised. It is important that the Municipality takes proactive actions to ensure the improvement of key areas of financial management and control.

Description

Our Audit Report on the AFS of Municipality for 2012 resulted in seven key recommendations. The Municipality has prepared an Action Plan stating how all recommendations will be addressed. However, the specified period was not always met.

Recommendations have been partly addressed.

At the end of our audit for 2013, one recommendation was partly addressed and six have not been addressed. For a thorough description of the recommendations and how they are addressed, see Annex II.

Issue - Addressing prior year recommendations - High Priority

Finding

Only some of the recommendations from the last year have been implemented and the Municipality does not have in place a formal process to manage and monitor the implementation of our recommendations.

Risk

Continuous weaknesses of internal controls over the key financial systems have resulted in:

- The budget not being met;
- Organizational ineffectiveness and possible poor value for money in the procurement process;
- Delays in improving controls over the revenues and their collection; and
- Omissions or inaccurate disclosures of the properties of the Municipality in the financial statements.

Recommendation

The Mayor should ensure that a reviewed action plan determines the exact timelines to address the recommendations, identifies responsible staff members and initially focuses on the most important areas.

4 Financial Management and Control

4.1 Overall Conclusion

Our audit approach is focused on understanding and evaluating the actions taken by the management to ensure an effective financial management and control, and on the results of these actions. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be the monitoring activity undertaken by senior management or lower level operational controls. We consider whether controls are well designed, have been implemented as planned and operate effectively. This requires an assessment of the structures, processes and responsibilities introduced by the management including the role of the Internal Audit and the Audit Committee.

Actual own source revenues amounted to 67% of the budget for the year 2013 and decreased by 5% when compared to revenues for the year 2012. The low budget execution is one of the main areas where more improvements are necessary.

4.2 Good Governance

Description

No major exceptions identified.

Recommendation

We have no recommendation in this area.

4.3 Budget Planning and Execution

Description

In 2013, the budget execution of expenses represents 94% of the total budget. This represents an increase of 2% when compared to the execution in 2012. The low execution when compared to the final budget is mainly due to capital investments, and also due to other categories of expenses.

Actual own source revenues amounted to 67% of the budget for the year 2013 and decreased by 5% when compared to revenues for the year 2012.

The table below presents the initial and the revised budget of the Municipality, the sources of revenues and the funds spent by economic category:

Table 1. Source of budgetary funds - actual versus budget (in €'000)

Description	Initial budget 2013	Final Annual Budget ¹ 2013	2013 Annual Actual	2012 Annual Actual	2011 Annual Actual
Government Grant	5,011	5,011	4,992	4,976	4,936
Own source revenues transferred from the previous year ²	-	174	132	97	203
Own Source Revenues ³	600	600	325	275	389
Internal Donations	-	1	-	-	-
Donacionet e jashtme	-	110	108	89	65
Source of funds	5,611	5,896	5,557	5,437	5,593

Table 2. Funds spent by economic category - actual versus budget (in €'000)

Description	Initial Budget 2013	Final Budget 2013	2013 Annual Actual	2012 Annual Actual	2011 Annual Actual
Wages and Salaries	3,744	3,745	3,732	3,728	3,556
Goods and Services	523	571	530	511	433
Utilities	121	121	113	164	87
Subsidies and Transfers	130	137	129	39	73
Capital Investments	1,093	1,322	1,053	995	1,444
Total expenses	5,611	5,896	5,557	5,437	5,593

Table 3. Own source revenues - actual versus budget (in €'000)

Description	Initial Budget 2013	Final Budget 2013	2013 Annual Actual	2012 Annual Actual	2011 Annual Actual
Own Source Revenues ⁴	600	600	404	426	510

- The execution for capital investments for the year 2013 was 80% compared to the final budget for the year 2013. In 2012, the annual budget execution for capital investments was 70%. Low executions were also observed in other categories of expenditures. The utilization of funds for capital investments for 2013 increased by 6% when compared to the amounts reported in year 2012.
- Actual own source revenues represent 67% of the budget for the year 2013 and decreased by 5% when compared to revenues for the year 2012. The realization of own source revenues in 2012 was 72% only, compared to the budget for that year.
- Receivables for tax on property based on the central billing system were different from such receivables disclosed in Note 34 to the financial statements by EUR 131 thousand. The

¹ Final Budget - budget approved by the Assembly and continuously adjusted by the Ministry of Finance.

² Own source revenues of the Municipality not spent in the previous year and transferred to the current year.

³ A Portion of the receipts planned and collected for the Kosovo Budget in the current year, and used by the Municipality to finance its budgeted expenses.

⁴ Own Source Revenues collected in 2013.

collection of own source revenues from tax for the year 2013 reported in the Free Balance represent only 56% of the total billed for the period. We do not have information to breakdown the collections into those related to invoices issued in 2013, or in previous years.

Because of the lack of billing systems for other types of revenues, we are not able to calculate collection ratios for those revenues.

Issue - Budget Execution - High Priority

Finding

The execution of the budget did not reach the expected levels. The low execution when compared to the final budget is mainly due to capital investments and also to other categories of expenses. Actual own source revenues represent 67% of the budget for the year 2013 and were decreased by 5% when compared to revenues for the year 2012.

Risk

Inadequate budget planning and a low budget execution and realisation levels may result in failure to meet the objectives of the Municipality and in current year obligations being financed by the subsequent year budget.

Recommendation

The Mayor should regularly monitor the budget performance on a monthly basis and identify and address barriers to the planned levels of budget execution. Where the initial budget assumptions are found to be inaccurate, this should be addressed in the final budget.

The Mayor should ensure that the plan for own source revenues represents a realistic plan and corresponds to the opportunities of the Municipality to collect revenues. Furthermore, the Mayor should ensure that all necessary measures are taken to collect these revenues.

4.4 Revenues (including own source revenues)

Description

Own source revenues generated by the Municipality in 2013 amounted to EUR 404 thousand. There is a need for improvement in some processes and controls relating to the collection and reporting of revenues, in order to increase revenue collection and ensuring the accuracy and completeness of reporting for managerial purposes and for purposes of preparing the financial statements.

Issue - Controls on revenues - High Priority

Finding

- *Billing systems.* An automated billing system exists only for tax on property. The Municipality does not maintain billing records for other types of revenue. Instead only cash collections from such revenue streams are recorded.
 - *Collection and reconciliation of revenues.* Except for tax on property, business licenses, and revenues from rental of public properties, the Municipality does not maintain separate sub-ledgers or lists of all its debtors, in relation to various taxes. No formal reconciliation is performed between the operational departments and the accounting department for revenues during 2013
 - *The identification and verification of properties.* The Municipality did not perform the identification of all new properties, neither the annual verification of 1/3 of the registered taxable properties, as required by Law No. 03/L-204, AI No. 03 /2011 for real estate property taxes.
 - *Classification of revenues:* The Municipality used payment slips designated for 'Tax on property' to document collections of EUR 20 related to the 'Vehicles registration'. As a result, there were differences between the totals recorded in the Free Balance and the collection lists maintained for these two categories.
-

Risk

- There are uncertainties regarding the completeness of revenues that the Municipality may earn and the related receivables, and as a consequence the risk of errors in the financial statements is increased and the ability of the management to take decisions, control, identify and resolve these errors on time is impaired.
- Without detailed, accurate and sufficient data to debtors, the Municipality is not able to prepare an accurate and reliable budget, to report an accurate collection ratio, and monitor the collection of revenues on time.
- Lack of the new properties' identification and of verification for 1/3 of the existing properties, may result in the Municipality not having accurate and complete information on the actual properties, and consequently in lower taxes being assessed on property.
- Utilization of inadequate payment slips may result in the wrong classification of revenues.

Recommendation

We recommend the Mayor ensures that the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue. Improvement of the procedures related to such systems would enable management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out. We recommend that the Municipality considers to:

- Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of people and with the authorization of management.
- Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and generate bills automatically. The generation of bills should also be authorized and reviewed.
- Automatically inter-connect the billing system with the accounting software so that information is automatically processed into the general ledger.
- Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed.
- Perform the required identification and verification of all properties to ensure a proper assessment of the tax on property.
- Utilise the adequate codes and payment slips for own source revenues to ensure their proper classification, and implement controls such as regular review of classification, in order to ensure an accurate presentation of such revenue in the financial statements.

4.5 Expenditures

Description

Further improvements are needed in relation to controls over and reporting of expenses. As a result of the weaknesses in the procurement process, this area represents a significant risk as described in point 2 above.

4.5.1 Procurement

Description

There are certain aspects of the procurement process, where the controls are not effectively implemented and the maintenance of complete required documentation is not ensured. As a result, this area represents a significant risk as described in point 2 above.

Issue- Inadequate procedures and procurements under investigation - High Priority

Finding

- Six procurements files comprising files no. KA652/12/002/136, KA652/12/27/521, KA652/12/011/136, KA652/12/021/236, KA652/11/32/521 and KA652/11/27/521 with a total contracted amount of EUR 336 thousand and total payments made until the end of 2012 of EUR 299 thousand, are under investigation by the public prosecutor office and were not provided to us during the audits for 2013 and 2012. We are not aware of the reasons and the status of such investigations and their final or potential outcome.
- Procurement No. KA652/13/05/136: the contract notification wrongly states that the procedure is 'open', while based on the procurement code and the procurement file, the procedure is 'Open price quotation'. Although, the guarantee for the tender was required with the contract notification, we were not provided with such guarantee from the winner.
- Procurement No. KA652/12/44/221: one of the members of the valuation committee had not signed the valuation report.
- Delays in the implementation of the dynamic plan of the projects were noted for procurements No. KA652/13/31/521, KA652/13/63/521 and KA652/13/75/136. The Municipality has not imposed penalties on such delays as required by the contracts.

Risk

Poor procurement procedures may result in irregular payments, delays in the delivery of services, poor value for money spent, inappropriate parties being awarded contracts, and contracts not implemented as required.

Recommendation

We recommend the Mayor ensures that:

- The Municipality shall take further steps to improve controls over expenses and payments, and ensure that all required documentation is obtained and presented in strict compliance with laws and local regulatory requirements.
- A review of the audit findings according to which the processes are not implemented effectively is performed, and the reasons for failures are assessed. Appropriate actions / processes should be implemented to ensure that such failures will not occur in the future.

4.5.2 Non Procurement Expenditure

Description

We identified lack of required and sufficient documentation for certain projects that were co-financed by the Municipality.

Issue – Lack of required documentation for certain projects – High Priority

Finding

The following issues were identified in relation to the project ‘Construction of center for communities’, a co-financed project of the ‘Community Development Fund (CDF)’ and the municipal commission ‘Commission of Project of Old Kacanik (CP)’:

- CDF organised the procurement procedures and the Municipality has no evidence of such procurement to support the payments;
- The payment was based on the CDF request and CDF invoice, while no other documentation was filed by the Municipality

In addition, procurement procedures for a co-financed project were organised by Caritas Luxembourg, while the Municipality has no evidence of such procedures to support its payments. The payment was based on the agreement with the donor, while no other related documentation was filed. The Municipality participated in this project with EUR 83 thousand, whilst the total paid in 2013, was EUR 40 thousand.

Risk

Poor procurement documentation may result in irregular payments, delays in the delivery of services, poor value for money spent, and contracts not implemented as required.

Recommendation

We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and ensure that all required documentation is obtained and presented in strict compliance with laws and local regulatory requirements.

4.5.3 Remunerations (Wages and Salaries)

Description

We identified delays and lack of approvals, reporting and documentation in the personnel files.

Issue – Lack of controls over salaries and personnel files – Medium Priority

Finding

- The CPOs for the payrolls of employees in June 2013, were not signed as required by the administrative officer – in one case, and by the approving officer – in six cases.
- Employee No. EM00052591: although based on the approved decision, the salary increase should be effective from 21 March 2013; such increase was reflected in the payroll list that was received from the Ministry of the Public Services, from May 2013.
- Employees No. EM00099171 and EM00057871: the newspaper announcement on the job vacancy and the candidates’ interview documentation, were not filed.
- Employee No. EM00130694: the performance evaluation was not filed.
- Employee No. EM00019900: the signed code of ethics was not filed.

Risk

Lack of controls over the completeness of reported information, and the personnel documentation and compensations, may increase the risk of unidentified errors and misuse of the funds allocated for salaries.

Recommendation

We recommend the Mayor ensures that the Municipality reports and maintains complete information in relation to wages and salaries and complies with the relevant requirements for approval of such expenses and for the personnel files.

4.5.4 Subsidies and Transfers

Description

No major exceptions identified.

Recommendation

We have no recommendation in this area.

4.6 Assets and liabilities

4.6.1 Capital and non capital assets

Description

- Although the Municipality has taken steps to improve reporting on its properties, some uncertainties and weaknesses in relation to the assets of the Municipality still exist, and our recommendations on the Article 16 Disclosure of Assets - capital and non capital assets have been partly addressed. Our findings detailed below, together have impacts that result in a significant risk, as described in Part 2 of this document.
- As a result of the lack of coordination and the frequent and regular reconciliation of information between the Municipality and third parties, the financial information presented by the Municipality may be incomplete and misstated.

Issue 1 - Uncertainties in relation to Article 16 Disclosure of Assets - capital and non capital assets - High Priority

Finding

- For certain properties there are uncertainties regarding ownership rights of the Municipality or various other Kosovo Government Agencies and lack of supporting ownership documentation.
- Due to lack of supporting documentation for the measurement of a significant part of these assets, the Municipality sought to measure them at fair value based on a valuation of the main properties performed by an internally established committee. Only the main municipal buildings that were not reported in previous periods were identified and registered. The total value according to the valuation was lower than the total shown in the financial statements by EUR 918 thousand, and such difference was not explained or reconciled. Other properties which are not currently included in the assets register are expected to be recorded in future periods.
- The Municipality has not appointed an Assets Officer and has not recorded any asset in the Free Balance register during 2013. The Municipality has not prepared a detailed list of the movements for the years 2013 and 2012 to ensure reconciliation of the information presented in the financial statements and has not kept a comprehensive register with information such as the date of acquisition and disposal of the assets, and the depreciation of the assets for the year. In the absence of such reconciliation, the difference between the total amounts presented in Article 16 Disclosure of Assets - capital and non capital assets for the years ended 31 December 2013 and 2012, is different by EUR 1,436 thousand from the additions of properties disclosed in Article 12 and such difference is not explained.
- The Municipality was not provided with formal information from the Ministries during 2013, in relation to the assets that may have been financed by these Ministries in 2013 or earlier. As a result, the Municipality may have to perform significant adjustments to the amounts shown in its financial statements and in the assets register for properties financed by third parties, in the future periods.

Risks

- Although the Municipality has taken steps to address issues reported in the previous years in relation to the inaccurate and incomplete disclosures of properties and capital investments, such issues were the result of the absence of a process that would ensure completeness of information through regular communication and reconciliations between different sources, including other parties that are involved in financing the properties of the Municipality. Such process is not yet in place.

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- Due to lack of ownership documentation there are uncertainties regarding ownership rights of the Municipality or various other Kosovo Government Agencies. As a result the Municipality may face difficulties in utilising such properties in the future.
 - The disclosure of assets is not complete, because not all property, plant and equipment were included in the valuation. Such deficiencies may result in significant values not included in the AFS, or in the wrong value of assets being presented, and in the inability of the management to control and exploit the resources in favour of the Municipality.

Recommendation

We recommend the Mayor to involve additional resources in the registration, control and valuation of the assets of the Municipality and to ensure that Municipality continuously records and presents all assets in its financial statements, and reconciles information from all sources involved in financing these assets.

Issue 2 - Payments from third parties- High Priority

Finding

Free Balance is not used to record payments from third parties. Consequently, central information systems that are available for use by the Municipality do not provide comprehensive financial information on these payments. Payments from third parties of EUR 764 thousand disclosed in Article 12 include capital investments received from the ministries. The Municipality does not have ownership documentation for these capital investments.

Risk

Because of lack of coordination and reconciliation of data between third parties and the Municipality, the information presented by the Municipality might be incomplete and misstated.

Recommendation

We recommend the Mayor ensures that the Municipality is making its best efforts to obtain information on payments from third parties, with particular emphasis on those parties that are known to have made significant investments in the Municipality. The obtained information should be properly presented in the assets register of the Municipality. Best practice would require an annual reconciliation of information between third parties and the Municipality for the investments made during the year.

4.6.2 Handling of cash (and cash equivalents when applicable)

Description

No major exceptions identified.

Recommendation

We have no recommendation in this area.

4.6.3 Handling of receivables

Description

The Municipality does not have in place a robust process for identifying, evidencing and following up on issued invoices for its taxes.

Issue - Lack of controls over and assessment of the revenue collection - High Priority

Finding

The majority of receivables disclosed in the financial statements related to previous years. The Municipality has not taken necessary actions to collect these amounts and no aging analysis is

performed.

Risk

Lack of sufficient controls over the collection of revenues and lack of the receivables aging analysis, have an adverse impact on the collection of revenues and as a consequence, on the funds generated by the Municipality to finance its expenses and investments. Such deficiencies impair the ability to identify issues, to monitor and allocate appropriate resources for the collection of revenues, and to report accurate and complete amounts of collectible amounts receivable in the financial statements.

Recommendation

We recommend that the Mayor ensures that the Municipality take further steps to improve controls and to comply with laws and local regulatory requirements regarding collections of revenues.

4.6 4.7 Handling of debts

Description

No major exceptions identified.

Recommendation

We have no recommendation in this area.

5 Internal Audit System

Description

The Municipality has not taken sufficient measures to ensure the independence of the internal audit functions from the management, as the best practice would indicate.

Issue- Lack of independence of the Audit Committee - High Priority

Finding

Although the Municipality has established an Audit Committee, only two out of the three required meetings were held. The members of the Audit Committee are employees of the Municipality and as a result, they are not able to carry out their responsibilities with due independence. On 18 November 2013, the Mayor has decided to replace the chairman and the members of the Audit Committee.

Risk

Inadequate functions of the Audit Committee and lack of its independence impair the assurance obtained by the management in relation to the operation of financial systems and internal controls. This may result in unidentified weaknesses and continuity of inefficient practices that result in financial losses for the Municipality.

Recommendation

We recommend that the Mayor should prepare an Action Plan which should be implemented to ensure that the internal audit work is appropriately performed and reported on a timely basis, and to address the resulting recommendations, including appointment of the responsible officers and determination of the timeline for the implementation.

The Mayor should cooperate with Internal Audit to ensure sufficient activities on the financial systems during the year, before draft AFS are issued. The completion of activities included in the internal audit plan, should be monitored every two months to take proactive actions in order to address deviations from the plan in due time.

Annex I: Explanation of the different types of opinion applied

(Taken from ISSAI 200)

Form of opinion

147. 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.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or 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 modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. 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, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion** if: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion** if, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion** if, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705¹⁹ provides additional guidance on the

specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

157. 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.

158. 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 emphasized and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- To indicate that the auditor's opinion is not modified in respect of the matter emphasized.

159. 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 judgment, 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.

Annex II: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Recommendation Partly addressed	Recommendation Not addressed
2.3 Compliance with AFS reporting requirements	We recommend the Mayor ensures that the preparation of the Municipality's financial statements includes procedures and tools that are designed to ensure that information required on payments from third parties, receivables and contingent liabilities, is recorded, processed, summarized and appropriately reported in the financial statements.			To be addressed
4.4 Revenues (including own source revenues)	We recommend the Mayor ensures that the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue.			To be addressed
4.5.1 Procurement	We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and ensure that all required documentation was obtained and presented in strict compliance with laws and local regulatory requirements.			To be addressed
4.5.3 Remunerations (Wages and Salaries)	We recommend that the Mayor ensures that the Municipality takes further steps to improve controls and to comply with laws and local regulatory requirements regarding personnel.		Partly addressed	
4.6.1 Capital and non capital assets	We recommend the Mayor to involve additional resources in the registration and valuation of the assets of the Municipality.			To be addressed

4.6.3 Handling of receivables	We recommend the Mayor ensures a process is designed and established, which ensures that receivables are recorded upon issuance of each invoice and that overdue amounts are followed up regularly.			To be addressed
5 Internal Audit System	We recommend the Mayor ensures that an Action Plan is implemented to ensure that the audit work is performed and reported on a timely basis and the recommendations have been implemented, detailing the responsible officers and the timeline for implementation.			To be addressed

Annex III: Management Response to Our Findings

Findings	Agree Yes/No	Comments from the institution	KPMG view
<p>2.3 Compliance with AFS Reporting Requirements</p> <p>The primary reliable source of information for the preparation of financial statements is Free Balance, which is not being used to record and report all disclosures that are reported under the Cash Basis Accounting. Such disclosures include income from fines, payments from third parties, receivables and contingent liabilities. The following inconsistencies were identified in the financial statements:</p> <ul style="list-style-type: none"> • The actual number of employees at the beginning of 2013 presented in Article 22, is less than the total number of employees in the payroll list by four employees, while the total number of the employees exceeds the limit stated in the budget law by seven employees at the beginning of the year and by one employee at the end of the year. • Notes 23 – 25 do not provide with sufficient details on the reasons for the low budget execution, although the Municipality provided explanations on the sources of financing and on their designation. • Different classifications of the expenses in the initial budget were presented in Article 13 and Article 18, Note 36 for the utilities and goods and services. The classification difference was EUR 12 thousand, while there were no differences in the total budget. In addition, all payments from third parties in 2012 were included in Note 12, whilst in Article 12 they were classified under two different categories. <p>The Municipality did not prepare financial statements in the Serbian language.</p>	Partially	<ul style="list-style-type: none"> ▪ Article 19 appears in AFS, while at the beginning of year 2013 we have exceeded 3 employees, while at the end of year one. ▪ In accordance to the differences presented we believe that the main explanation or sufficient disclosures have been made. ▪ Differences of € 12,000 are due to the six month Budget review (hence the change has been approved based on review) 	

<p>Several roundings or small differences were identified in the notes to the financial statements and certain formats could be further improved to ensure a better presentation of the financial statements.</p>			
<p>4.3 Budget planning and execution</p> <p>The execution of the budget did not reach the expected levels. The low execution when compared to the final budget is mainly due to capital investments and also to other categories of expenses. Actual own source revenues represent 67% of the budget for the year 2013 and were decreased by 5% when compared to revenues for the year 2012.</p>	Yes		
<p>4.4 Revenues (including own source revenues)</p> <ul style="list-style-type: none"> • <i>Billing systems.</i> An automated billing system exists only for tax on property. The Municipality does not maintain billing records for other types of revenue. Instead only cash collections from such revenue streams are recorded. • <i>Collection and reconciliation of revenues.</i> Except for tax on property, business licenses, and revenues from rental of public properties, the Municipality does not maintain separate sub-ledgers or lists of all its debtors, in relation to various taxes. No formal reconciliation is performed between the operational departments and the accounting department for revenues during 2013 • <i>The identification and verification of properties.</i> The Municipality did not perform the identification of all new properties, neither the annual verification of 1/3 of the registered taxable properties, as required by Law No. 03/L-204, AI No. 03 /2011 for real estate property taxes. • <i>Classification of revenues:</i> The Municipality used payment slips designated for 'Tax on property' to document collections of EUR 20 related to the 'Vehicles registration'. As a result, there 	Yes	Currently we are in the process of installing an automated billing system and registration of own source revenues	

<p>were differences between the totals recorded in the Free Balance and the collection lists maintained for these two categories.</p>			
<p>4.5.1 Procurement</p> <ul style="list-style-type: none"> • Six procurements files including files no. KA652/12/002/136, KA652/12/27/521, KA652/12/011/136, KA652/12/021/236, KA652/11/32/521 and KA652/11/27/521 with a total contracted amount of EUR 336 thousand and total payments made until the end of 2012 of EUR 299 thousand, are under investigation by the public prosecutor office and were not provided to us during the audits for 2013 and 2012. We are not aware of the reasons and the status of such investigations and their final or potential outcome. • Procurement No. KA652/13/05/136: the contract notification wrongly states that the procedure is 'open', while based on the procurement code and the procurement file, the procedure is 'Open price quotation'. Although, the guarantee for the tender was required with the contract notification, we were not provided with such guarantee from the winner. • Procurement No. KA652/12/44/221: one of the members of the valuation committee had not signed the valuation report. • Delays in the implementation of the dynamic plan of the projects were noted for procurements No. KA652/13/31/521, KA652/13/63/521 and KA652/13/75/136. The Municipality has not imposed penalties on such delays as required by the contracts. 	<p>Yes</p>	<p>No comments</p>	
<p>4.5.2 Non procurement expenses</p> <p>The following issues were identified in relation to the project 'Construction of centre for communities', a co-financed project of the 'Community Development Fund (CDF)' and the municipal commission 'Commission of Project of Old Kacanik (CP)':</p>	<p>Yes</p>		

<ul style="list-style-type: none"> • CDF organised the procurement procedures and the Municipality has no evidence of such procurement to support the payments; • The payment was based on the CDF request and CDF invoice, while no other documentation was filed by the Municipality <p>In addition, procurement procedures for a co-financed project were organised by Caritas Luxembourg, while the Municipality has no evidence of such procedures to support its payments. The payment was based on the agreement with the donor, while no other related documentation was filed. The Municipality participated in this project with EUR 83 thousand, whilst the total paid in 2013, was EUR 40 thousand.</p>			
<p>4.5.3 Remunerations (Wages and Salaries)</p> <ul style="list-style-type: none"> • The CPOs for the payrolls of employees in June 2013, were not signed as required by the administrative officer – in one case, and by the approving officer – in six cases. • Employee No. EM00052591: although based on the approved decision, the salary increase should be effective from 21 March 2013; such increase was reflected in the payroll list that was received from the Ministry of the Public Services, from May 2013. • Employees No. EM00099171 and EM00057871: the news paper announcement on the job vacancy and the candidates’ interview documentation, were not filed. • Employee No. EM00130694: the performance evaluation was not filed. • Employee No. EM00019900: the code of ethics was not filed. 	Yes		
<p>4.6.1 Capital and non capital assets</p> <p>1. Article 16 Disclosure of Assets - capital and non capital assets</p> <ul style="list-style-type: none"> • For certain properties there are uncertainties regarding 	Yes		

<p>ownership rights of the Municipality or various other Kosovo Government Agencies and lack of supporting ownership documentation.</p> <ul style="list-style-type: none"> • Due to lack of supporting documentation for the measurement of a significant part of these assets, the Municipality sought to measure them at fair value based on a valuation of the main properties performed by an internally established committee. Only the main municipal buildings that were not reported in previous periods were identified and registered. The total value according to the valuation was lower than the total shown in the financial statements by EUR 918 thousand, and such difference was not explained or reconciled. Other properties which are not currently included in the assets register are expected to be recorded in future periods. • The Municipality has not appointed an Assets Officer and has not recorded any asset in the Free Balance register during 2013. The Municipality has not prepared a detailed list of the movements for the years 2013 and 2012 to ensure reconciliation of the information presented in the financial statements and has not kept a comprehensive register with information such as the date of acquisition and disposal of the assets, and the depreciation of the assets for the year. In the absence of such reconciliation, the difference between the total amounts presented in Article 16 Disclosure of Assets - capital and non capital assets for the years ended 31 December 2013 and 2012, is different by EUR 1,436 thousand from the additions of properties disclosed in Article 12 and such difference is not explained. • The Municipality was not provided with formal information from the Ministries during 2013, in relation to the assets that may have been financed by these Ministries in 2013 or earlier. 		<p>The Municipality has now appointed a property official and we are now only expecting the training and certification from Treasury.</p>	
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<p>As a result, the Municipality may have to perform significant adjustments to the amounts shown in its financial statements and in the assets register for properties financed by third parties, in the future periods.</p> <p>2. Payments from third parties</p> <p>Free Balance is not used to record payments from third parties. Consequently, central information systems that are available for use by the Municipality do not provide comprehensive financial information on these payments. Payments from third parties of EUR 764 thousand disclosed in Article 12 include capital investments received from the ministries. The Municipality does not have ownership documentation for these capital investments.</p>			
<p>4.6.3 Handling of receivables</p> <p>The majority of receivables disclosed in the financial statements related to previous years. The Municipality has not taken necessary actions to collect these amounts and no aging analysis is performed</p>	Yes		
<p>5 Internal Audit System</p> <p>Although the Municipality has established an Audit Committee, only two out of the three required meetings were held. The members of the Audit Committee are employees of the Municipality and as a result, they are not able to carry out their responsibilities with due independence. On 18 November 2013, the Mayor has decided to replace the chairman and the members of the Audit Committee.</p>	Partially	Members of the Audit Committee are not employees of the Municipality. The Mayor has not changed on any decisions the members of the Audit Committee. The Director of Audit Unit has reported on regularly bases as per the Internal Audit Law no. 03/L128: the senior Management of the Audit Committee and the Central Audit Harmonization of Internal Audit in MF.	