

**AUDIT REPORT**  
**ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF**  
**KAÇANIK FOR THE YEAR ENDED 31 DECEMBER 2011**

**Pristina, June 2012**

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## **I. Executive Summary**

KPMG has carried out an audit of the Annual Financial Statements of the Municipality of Kaçanik (“Municipality”), on behalf of the Office of the Auditor General of Kosovo, for the year ended 31 December 2011.

Our audit was carried out in accordance with international auditing standards issued by the International Organisation of Supreme Audit Instructions (INTOSAI) and included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

Below please find an extract taken from our audit opinion on pages 7-9 of this document:

“In our opinion, the financial statements present fairly in all material aspects the receipts and payments for the year ended 31 December 2011 in accordance with the Cash Basis International Public Sector Accounting Standards (‘IPSAS’) for Financial Reporting Under the Cash Basis of Accounting and with Financial Rule No. 07/2011 On Annual Reporting of Budget Organizations.”

### **Internal Control**

Our audit has identified weaknesses in several areas of financial management. These weaknesses are described in more detail within the report.

Our conclusion is that the Municipality’s internal systems are not properly designed to eliminate evident weaknesses and are not implemented as they should be.

In order to improve the functioning of the financial management system and internal controls, we recommend the Municipality to ensure:

- An automated billing system for all types of taxes is maintained;
- Reconciliation of revenues between the own source revenue officer and operational departments are performed;
- Measures are taken to increase the collection of revenues from various taxes; and
- The Law No. 03/L-241 and 04/L-042 ‘Law on Public Procurement in Kosovo’ (amended), both applicable during different periods within the year 2011 are fully complied with.

Management of the Municipality was given the possibility to comment on the findings presented in this report. Management has partially agreed to make all efforts to address our recommendations.

Refer to Appendix 3 for management’s comments to our recommendations and our responses to them.

## II. Introduction

This audit relates to the annual financial statements of the Municipality of Kaçanik as at and for the year ended 31 December 2011.

It is the responsibility of the Municipality to prepare financial statements in accordance with Financial Rule 07/2011 and International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”.

KPMG, on behalf of The Office of the Auditor General, is responsible for carrying out an annual audit on the Municipality financial statements as at and for the year ended 31 December 2011.

An audit is an attestation of financial accounting, involving examination and evaluation of Financial Statements and other financial records and provides assurance on:

- Whether the financial statements 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
- Any other significant matters arising from or relating to the audit.

We carried out an interim assessment of the Municipality. During that stage of the audit process we addressed the Municipality’s handling of recommendations given earlier and the quality of the financial statements. Based on this we have given advice to management. Our recommendations included advice related to improvements for the financial statements to be in compliance with Administrative Instruction 07/2011 and International Public Sector Accounting Standards (“IPSAS”) for “Financial Reporting under the Cash Basis of Accounting”.

In order to fulfil our responsibilities for the audit of the Municipality, we have undertaken the following activities:

- Compared the Municipality’s Annual Financial Statements against the approved budget as at and for the year ended 31 December 2011;
- Determined whether the Municipality’s Annual Financial Statements were prepared in accordance with IPSAS “Financial Reporting under the Cash Basis of Accounting” and Administrative Instruction no. 07/2011;
- Established a materiality level, as a threshold for assisting in determining the type of opinion to render on the financial statements;
- Used a combination of judgment and random sampling to select transactions for testing;
- Undertook substantive testing of financial transactions; and
- Relied on a combination of interviews, analytical reviews, document checking, and physical verification to assess the validity and propriety of financial transactions.

In this report we summarise the audit findings and provide our opinion on the Annual Financial Statement as at and for the year ended 31 December 2011.

INTOSAI set out specific criteria that govern the type of opinion that should be rendered regarding our audit opinion for the Municipality's annual financial statements.

These are set out more fully in Appendix 1, which includes an extract from ISSAI 4000.

### III. Audit Opinion

To Kaçanik Municipality

Pristina, 25 June 2012

We were engaged to audit the accompanying financial statements of Municipality of Kaçanik (“the Municipality”), which comprise the statement of cash receipts and payments for the year ended 31 December 2011, 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 Cash Basis International Public Sector Accounting Standards (‘IPSAS’) *Financial Reporting Under the Cash Basis of Accounting* and with the Financial Rule No. 07/2011 *On Annual Reporting 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 international standards issued by the International Organisation of Supreme Audit Instructions (INTOSAI). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about and 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 our 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, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall 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 statement present fairly in all material aspects the receipts and payments for the year ended 31 December 2011 in accordance with Cash Basis International Public Sector Accounting Standards (‘IPSAS’) *Financial Reporting Under the Cash Basis of Accounting* and with the Financial Rule No. 07/2011 *On Annual Reporting of Budget Organizations*.

### *Emphasis of Matter*

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

As disclosed in Note 30, the Municipality sought to measure such items at fair value based on a valuation performed by an internally established committee. The committee is not composed of certified appraisers and the values reported in the financial statements are not supported by any valuation report.

### *Review of Compliance*

In addition to our audit of the financial statements, a compliance review was planned and performed to express a conclusion with limited assurance as to whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them. The nature, timing and extent of the compliance work were limited compared to that designed to express an opinion with reasonable assurance on the financial statements.

### *Auditor's Responsibility*

Our responsibility is to express a conclusion based on our review. Our work was conducted in accordance with the ISSAI 4200 *Compliance Audit Guidelines Related to Audit of Financial Statements*. Those principles require that we comply with ethical requirements and plan and perform the review so as to obtain limited assurance as to whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them.

A review is limited primarily to analytical procedures and to inquiries, and therefore provides less assurance than an audit. We have not performed an audit, and, accordingly, express our conclusion in the form of limited assurance, which is consistent with the more limited work we have performed under this compliance review.

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

### *Conclusion on Compliance*

Based on our work described in this report, the activities, financial transactions and information reflected in the financial statements that have come to our notice during the review, are in all material respects, in compliance with the authorities which govern them.

### *Other matters*

We draw attention to the following:

- 1 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.

- 2 Since the Municipality has not implemented a comprehensive and automated billing system, 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.
- 3 We identified a number of non-compliances with Law No. 04/L-042 'Law on Public Procurement in Kosovo' (amended). Such non-compliance related to required procedures which were not performed and documented by the Municipality.
- 4 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.

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## **IV. Status of Prior Years Recommendations**

Our previous year management letter, as at and for the year ended 31 December 2010, identified five main recommendations. Three of the recommendations given last year, namely preparation of financial statements, listing of PPE and creation of an audit committee are resolved, while the two listed below remain to be addressed, namely:

- A number of non-compliances in the expenditure area were identified, including non-compliances with Law No. 04/L-042 'Law on Public Procurement in Kosovo' (amended), non-compliances in the areas of wages and salaries and other purchases. Such non-compliance related to required procedures which were not performed and documented by the Municipality.
- An automated billing system for all types of taxes should be put in place and measures should be taken to increase the collection of revenues from various taxes;

Failure to fully address our given recommendations in 2011, has led us to have similar findings in these areas as in 2010.

## V. Financial outcome compared to approved budget

The analysis of Actual Outcome in the Financial Statements compared to the Approved Budget indicates:

Table 1: Overview of budget and actual spending

Description	Initial Budget	Reviewed Budget	Final Budget	2011 Actual	2010 Actual
Own Source Revenues	567,000	-	585,000	510,000	515,000
Domestic Donations	-	-	79,000	79,000	-
External Donations	-	-	-	-	22,000
<b>Total of revenues and transfer of Donations</b>	<b>567,000</b>	<b>-</b>	<b>664,000</b>	<b>589,000</b>	<b>537,000</b>
Wages and Salaries	3,502,000	-	3,567,000	3,557,000	2,769,000
Goods and Services	364,000	-	470,000	433,000	454,000
Utilities	82,000	-	87,000	87,000	87,000
Subsidies and Transfers	42,000	-	82,000	73,000	61,000
Capital Investments	1,471,000	-	1,610,000	1,443,000	1,033,000
Reserves	-	-	-	-	-
<b>II. Total of Expenditures</b>	<b>5,461,000</b>	<b>-</b>	<b>5,816,000</b>	<b>5,593,000</b>	<b>4,404,000</b>
<b>Difference I-II</b>	<b>(4,894)</b>	<b>-</b>	<b>(5,172)</b>	<b>(5,004)</b>	<b>(3,867)</b>

The budgeted amounts are extracted from the following sections within the Financial Statements as at and for the year ended 31 December 2011: Section 13 *Budget Execution Report*.

### *Conclusion*

Actual total revenues and transfers of donations were lower than final budget by EUR 75 thousand due to realization of own source revenues being lower by EUR 75 thousand.

Actual cash outflows from the treasury account were lower than final budget by EUR 223 thousand due to Wages and salaries being lower by EUR 10 thousand, goods and services being lower by EUR 37 thousand, transfers and subsidies lower by EUR 9 thousand and capital expenditure being lower by EUR 167 thousand.

Initial budget was lower by EUR 97 thousand from the final budget due to lower anticipated own source revenues and donations. All changes to the original budget were properly approved by the Mayor and Municipality Assembly. These changes are also supported by the assembly decision and mandated by the legal framework in Law 03/L-048.

The unspent budget of the Municipality in 2011 is less than 2%.

## **VI. Financial Statements**

### **VI.1 Compliance with reporting framework and the quality of information**

Requirements in LPFMA No. 03/L-048 and Administrative Instruction 07/2011.

- The Municipality has prepared the financial statements according to AI 07/2011;
- The Financial Statements have been signed by the Chief Administrative Officer and Chief Financial Officer of the audited body;
- The Financial Statements were signed within the required time frame on 29 January 2012 and Submitted to Ministry of Finance (MF);
- The Financial Statements were submitted in the Albanian and Serbian Languages; and
- The Municipality has prepared and submitted regular quarterly reports to MF during 2011.

## VI.2 Revenues (including own source revenues)

### Findings

- *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 of revenues.* Except for taxes on property, the Municipality management does not maintain separate sub ledgers or lists of all its debtors from various taxes. Without sufficient, detailed, and accurate records of debtors, the Municipality is unable to prepare a reliable and accurate budget, to report an accurate collection ratio, nor follow up the collection of the own source revenues on a timely basis.
- *Weaknesses in the automated billing system.* The tax on property billing system is centralized and the Municipality cannot review and monitor the collection of revenue as it is automatically done by the system.

### **Recommendation 1**

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 persons 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.

## **VI.3 Expenditures**

### **3.1 Purchases through Procurement**

#### **Findings**

During our inspection of the documents for our sample of procurement files we noted several non-compliances with procedures as required by Public Procurement Law PL 04/L-042. These non-compliances are described below:

- In the procurement procedure KA652/11/21/521 for the procurement of road construction, the criteria for determining the winning bidder was 'most economically favourable price'. In determining the winning bidder, the tender committee was to consider the following parameters: Price, experience and timing. As per our review of the tender dossier, we noted that the reason for selecting the winning bidder, which had a price of EUR 17,370 higher than the cheapest bidder, was the time schedule, in which this bidder had indicated a completion time of 15 working days. In our opinion the timeline presented was not achievable due to the size and complexity of the project. The nature of the project was construction of a 2.5 km secondary road in difficult mountainous terrain. Indeed, the project took three months to complete from 22 August 2011 to 24 November 2011 and the Municipality did not apply any late penalties, despite significant delays in the completion of the project.
- For the procurement procedure KA652/11/006/52 for road construction, regarding a construction project, we were not provided with the schedule plan, so we were not able to verify if there were any delays in this project.
- In the procurement procedure KA652/11/009/521 for road construction, the budgeted/committed amount for the project was EUR 50,000, whereas the agreement for this project is in the amount of EUR 60,926.
- For the procurement procedure KA652/11/052/521 for road construction, we noted that the Contractor had not finished the renovation of the school within the agreed upon timeframe. According to the agreement, the work should have been completed within 15 days, which was just in time for the commencement of the school year, while in reality the work took 3 months to complete (5 September 2011 till 15 December 2011). The Municipality did not apply any penalties to the Contractor, despite the contract allowing for such penalties.

#### **Recommendation 2**

We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements.

### **3.2 Other purchases**

#### **Findings**

No findings.

### **3.3 Remunerations (Wages and Salaries)**

#### **Findings**

No findings.

### **VI.4 Subsidies and Transfers**

#### **Findings**

No findings to report.

### **VI.5 Assets and Debts**

#### **5.1 Cash and cash equivalents**

#### **Findings**

- We noted that cash revenues collected, were only deposited in the bank once a month, which is not in compliance with the regulation over the cash management of budget organisations. According to this rule the amounts collected in cash must be deposited within 48 hours.
- We noted that Municipality is allowed to collect revenues up to EUR 20 in cash. This is not in line with the regulation over the cash management of budget organisations, which states that only amounts up to EUR 10 can be collected in cash.
- Moreover, we noted that the Municipality has collected in cash the fees for professional exams held in the Professional School of Kacanik, which ranged from EUR 100 to EUR 130. These fees are over and above the EUR 10 threshold indicated above and as such should have been collected through the bank account.

#### **5.2 Handling of receivables**

#### **Findings**

The Municipality does not have in place a process for identifying, evidencing and following up on issued invoices for its taxes. This may lead to incorrect disclosures of the receivables. In addition, we noted several amounts receivable that have been outstanding for over one year.

#### **Recommendation 3**

We recommend the Mayor ensures a process is designed and established, which ensures that receivables are recorded upon issuing of each invoice. Also the receivables register should be updated according to payments done in respect of invoices released by the Municipality. Further, we recommend the Municipality to reconsider it's treatment of cash collection limits. We recommend to the Municipality to regularly follow up on the timely collection of receivables.

### **5.3 Capital and non capital assets**

#### **Findings**

Due to a lack of supporting documentation for the measurement of a significant part of its property, plant and equipment, disclosed in Note 30, the Municipality sought to measure such items at fair value based on a valuation performed by an internally established committee. The committee is not composed of expert appraisers and the values reported in the financial statements are not supported by any valuation report.

#### **Recommendation 4**

Involve additional resources in the registration and valuation of the assets of the Municipality. Involvement of independent and certified appraisers is recommended as the best practice in such cases. However, the Municipality should also keep in mind the cost vs. benefits from such valuation before engaging external parties to assist in the valuation of capital and non-capital assets.

### **5.4 Debts**

#### **Findings**

The Municipality does not have in place a robust process for identifying, evidencing and following up on unpaid invoices. This may lead to incorrect disclosures of unpaid invoices.

The total of outstanding liabilities not paid to suppliers as at the end of 2011 was EUR 33 thousand. These liabilities are carried forward to be paid in 2011.

In accordance with Law No. LPFMA 03/L-048, Article 39.1, the organization is responsible for ensuring that each valid invoice and request for payment for goods and services supplied and/or works completed for the budget organizations are to be paid within thirty (30) calendar days after receipt of invoice or request for payment by the concerned budget organization. We noted that many of the invoices presented have been outstanding for more than 30 days as at the year-end.

#### **Recommendation 5**

We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements. All efforts should be made to make payments within the year.



## **5.5 Current reporting and timeliness in the overall budget process**

Fulfilment of current external reporting obligations as well as its budgetary process such as:

- Budget requests were completed on a timely basis;
- Quarterly reports including the nine month financial statements were submitted on a timely basis to MF.
- Draft procurement plan was also submitted to MF on time;
- Action Plan on implementing recommendations was included in the annual financial statements of the Municipality.

### **Findings**

No other findings to report in this area.

## **VII. Management Control**

### **VII.1 Internal Control Systems**

#### **Findings**

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 for the year ended 31 December 2011.

#### **Recommendation 6**

We recommend the Mayor ensures that the preparation of the Municipality's financial statements should include procedures and tools that are designed to ensure that information required is recorded, processed, summarized and appropriately reported in the financial statements.

### **VII.2 Audit Committee**

#### **Findings**

No findings to report in this area.

## **VIII. Overall conclusion on the Management of Municipality of Kaçanik**

### **General conclusions**

As discussed within this report, improvements need to be made in the areas of revenues, procurement, cash and cash equivalents, handling of receivables, payments of obligations within the required timeframe and measurement of capital and non-capital assets.

#### **Overall Recommendation**

- An automated billing system for all types of taxes should be put in place, reconciliations of revenues between the own source revenue officer and operational departments should be performed, and measures should be taken to increase the collection of revenues from various taxes; and
- All efforts should be made to improve expenditure procedures.
- All efforts should be made to pay all outstanding invoices within the required timeframe.
- The regulation over the cash management of budget organisations should be strictly followed.

## Appendix 1 Different types of Audit Opinions based on ISSAI 4000

(Extract from ISSAI 4000)

**9.** An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.

**10. An unqualified opinion** is given when the auditor is satisfied in all material respects that:

- (a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- (b) The statements comply with statutory requirements and relevant regulations;
- (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- (d) There is adequate disclosure of all material matters relevant to the financial statements.

**11. Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

**12.** An auditor may **not be able to express an unqualified opinion when** any of the following circumstances exist and, in the auditor's judgment, their effect is or may be material to the financial statements:

- (a) There has been limitation on the scope of the audit;
- (b) The auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- (c) There is uncertainty affecting the financial statements.

**13. Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

**14. Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

**15. Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

**16.** It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

## Appendix 2: Prior year recommendations

Audit Component	Recommendation or finding	Recommendation fully implemented	Partly addressed	Not addressed
Financial statements VI.1 Compliance regarding the external reporting	Financial statements prepared under IPSAS and AI	Yes		
6.3 Capital and non capital assets	Maintain a comprehensive list of property, plant and equipment of the Municipality	Yes		
4.1 Purchases through Procurement	Total implementation of Public Procurment Law no.2003/17 - with the changes made		Partially addressed. New procurement issues were found by the auditor for 2011.	
VII.2 Audit Committee	Establishment of Audit Committee	Yes		
VI.3 Revenues (including own source revenues)	Implement a billing system that includes updated details about the payers, their current address, history and collection rating for all types of revenues.	No		

### Appendix 3 Municipality of Kaçanik management comments and KPMG responses

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<p><b><u>Recommendation 1:</u></b></p> <p>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.</p> <p>We recommend that the Municipality:</p> <ul style="list-style-type: none"> <li>• 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 persons and with the authorization of management.</li> </ul>		<b>X</b>		<p>The Municipality has a list of debtors according to departments, which are not evident on excel, and not in any software program.</p> <p>There are efforts for the installment of a comprehensive software for the charges of the Municipality debtors for all departments, and to do reconciliations with the budget organization.</p> <p>The Municipality has raised this issue in the meeting of the Collegiums of the Directors for Budget and Finance.</p> <p>It was requested from the Association of the Municipalities of Kosovo for financial support for a unique software to overcome these shortcomings.</p>	<p>The Municipality has partially agreed with our findings.</p>



<b><u>Recommendations</u></b>	<b>Agree</b>	<b>Partially agree</b>	<b>Do not agree</b>	<b>Comments from the Municipality</b>	<b>KPMG response</b>
<p><b><u>Recommendation 1 (continued):</u></b></p> <ul style="list-style-type: none"> <li>• Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and generate the bills automatically. The generation of bills should also be authorized and reviewed.</li> <li>• Automatically inter-connect the billing system with the accounting software so that the information is automatically processed into the general ledger.</li> <li>• 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.</li> </ul>					
<p><b><u>Recommendation 2:</u></b></p> <p>We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements.</p>		<b>X</b>		<p>Related to the procurement procedure KA652/11/21/521 of the project of Asphalt of the road Kacanik-Gajre the first phase with the notice of the contract we have determined the criteria “the most economically advantageous tender” therefore the commission has contained the createria determined and I, as a manager, have evaluated the commission recommandation. The nature and complexity of this project has extended the dinamic plan, and you had the work plan in the documentation provided. I, as a manager of the ZP in the contract have picked the engineer for the supervision of the project, and since i have not received a written notice</p>	<p>The Municipality has partially agreed with our findings.</p> <p>Our findings and recommendations are based on the documents provided to us during our audit.</p>

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<u>Recommendation 2 (continued):</u>				<p>for the stagnation of the work done or the extention of work from the dinamic plan, i had no reason to make a different decision. During the implementation of the project there were pozition desputes that us as an AK took the time to solve them.</p> <p>In relation to the procurement procedure KA652/11/06/521 of the project: Asphat of the road village Doganaj neightborhood Mursel and Kolsh. For the realization of this project with contract nr. 09/11 dated 13.05.2011 the value of the contract was 129,980.76 EUR, whereas, it was foreseen with the budget of 2011 with a value of 50,000 EUR for work to be done, and the rest of the work to be realized with the budget of 2012. That is why this project was unfinished in 2011 (only the first phase was done), and the second phase will continue in 2012.</p> <p>In relation to the procurement procedure KA652/11/06/521 of the project: Asphalt of the road Deshmoret e Lirise –phase II-, you have mentioned that the we have signed the contract without all commitment funds being available. I confirm that on the date 13.05.2011 i have signed the contract we had all the commited funds for the amount of 50,000 EUR plus 10,926.26 EUR on the date 05.05.2011 were committed, it is possible that during your audit you did not see the second committment.</p>	

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<u>Recommendation 2 (continued):</u>				In relation to the procurement procedure KA652/11/052/521 of the project “Partial repairment of several schools in the Municipality of Kacanik”, as far as the deadline for which you had remarks it is sustainable, however, the supervisor of the project did not give a written notice for the disregard of the dinamic plan.	
<p><u>Recommendation 3:</u></p> <p>We recommend the Mayor ensures a process is designed and established, which ensures that receivables are recorded upon issuing of each invoice. Also the receivables register should be updated according to payments done in respect of invoices released by the Municipality. Further we recommend the Municipality to reconsider it’s treatment of cash collection limits.</p> <p>We recommend to the Municipality to regularly follow up on the timely collection of receivables.</p>		X		Expenses of the bank provision for the depozition would have charged everyday and with the non sufficient budget, especially for the cagetory Goods and Services (KESH-130). Therefore, in order to apply the savings of all the receivable revenues in cash after the daily reporting and reconciliation we have put them in a safe place “metalic safe” and at the end of every month we have depozited them in the Municipality bank account.	The Municipality has partially agreed with our findings.
<p><u>Recommendation 4:</u></p> <p>Involve additional resources in the registration and valuation of the assets of the Municipality. Involvement of independent and certified appraisers is recommended as the best practice in such cases. However, the Municipality should also keep in mind the cost vs. benefits from such valuation before engaging external parties to assisst in the valuation of capital and non-capital assets.</p>		X		<p>Lack of budgeted funds for the commitment of a certified company.</p> <p>The registration of the property at the end of 2011 was done by a formed commision with the decision of the President of the Municipality and for this we have a written report:</p> <ul style="list-style-type: none"> <li>• The Municipality has assigned an officer for the registration of assets in KIMFS and that the same person is processing the data in this unique system in the municipality level.</li> </ul>	The Municipality has partially agreed with our findings.

<b><u>Recommendations</u></b>	<b>Agree</b>	<b>Partially agree</b>	<b>Do not agree</b>	<b>Comments from the Municipality</b>	<b>KPMG response</b>
<p><b><u>Recommendation 5:</u></b> We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements. All efforts should be made to make payments within the year.</p>	<b>X</b>			No coments.	The Municipality has agreed with our findings.
<p><b><u>Recommendation 6:</u></b> We recommend the Mayor ensures that the preparation of the Municipality’s financial statements should include procedures and tools that are designed to ensure that information required is recorded, processed, summarized and appropriately reported in the financial statements.</p>		<b>X</b>		The KIMFS system – does not allow the registration or the identification of the payments from third parties and the unpaid invoices. Therefore, we as a budget organization were required to keep the data in a manual form and the involmnet in the Financial Statements was done after we ensured and reconciliated the information with that of the relevant ministry, supplier and donators of the as a third party who have contributed directly in the increase of the Municipality assets.	The Municipality has partially agreed with our findings.



**Republika e Kosovës**  
**Republika Kosova-Republic of Kosovo**



**KOMUNA KAÇANIKUT**  
**OPSTINA KAÇANIK**  
**MUNICIPALITY KAÇANIK**

## **Financial Statements**

as at and for the year ended 31 December 2011

Section 11. DECLARATION REGARDING THE PRESENTATION OF FINANCIAL STATEMENTS

For: **Mr.Zilif Lufi , act. as General Treasury Director**

From: **Administrative and Financial Chief Officer**

In our opinion, the attached financial statements and the notes to these statements for the year ended on 31 December 2011 have been prepared in accordance with the International Public Sector Accounting Standards "Financial Reporting Under the Cash Based Accounting", adhere to all reporting requirements of the Law on Public Finance and Accountability 03/L-048 and Law nr. 03/L-221 for meeting changes of LPFMA and are based on properly maintained financial records.

This declaration is provided in connection with the presentation of the Kosovo Consolidated Budget ("KCB") financial statements of the budget organizations for the year ending 31 December 2011.

We confirm, to the best of our knowledge and belief, that:

There have been no irregularities involving management or employees which could have had a material effect on the financial statements.

The information provided and presented in the financial statements regarding the identification of funds and their expenditure related to the KCB is complete and accurate.

The information regarding collection of revenues is accurate.

There are no bank accounts related to the KCB other than the bank accounts specified in the financial statements and this specification is complete and accurate as of 31 December 2011.

There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

There are no (legal) claims pending that could have a material effect on the financial statements.

All liabilities, both actual and contingent, and all guarantees given to third parties have been recorded and/or disclosed, as appropriate.


All loans to external parties have been recorded and/or disclosed, as appropriate.

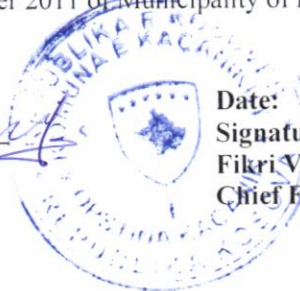
There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or Notes thereto.

Municipalities must send their reports to the Budget and Finance Committee in the Municipal Assemblies.

In our opinion, the attached financial statements give a true and fair presentation of the finances and financial transactions for the year ended 31 December 2011 of Municipality of Kaçanik.

Date:

Signature and stamp:   
Xhabir Zharku  
Chief Executive Officer



Date:

Signature and stamp:   
Fikri Verbani  
Chief Financial Officer

**Kaçanik Municipality**  
**Section 12. Statement of Cash Receipts and Payments**  
**for the year ended 31 December 2011**

(Amounts in thousands of EUR, unless otherwise stated)

	Notes	2011		2010		2009	
		Single treasury account	Payments from third parties	Single treasury account	Payments from third parties	Single treasury account	Payments from third parties
		BKK €'000	€'000	BKK €'000	€'000	BKK €'000	€'000
<b>Funds sources</b>							
Government Grant	2	4,936	-	3,950	-	3,419	-
Own Source Revenue	3	592	-	432	-	576	-
Fund designated for specific purpose		-	-	-	-	-	-
Designated Donor Grants	4	65	-	22	-	68	-
Borrowed Funds	5	-	-	-	-	-	-
Other receipts	6	-	940	-	327	-	-
<b>Total funds</b>		<b>5,593</b>	<b>940</b>	<b>4,404</b>	<b>327</b>	<b>4,063</b>	<b>-</b>
<b>Utilization of funds</b>							
<i>Operations</i>							
Wages and Salaries	7	3,557	-	2,769	-	2,501	-
Goods and Services	8	433	3	454	-	370	-
Utilities	9	87	-	87	-	80	-
		<b>4,077</b>	<b>3</b>	<b>3,310</b>	<b>-</b>	<b>2,951</b>	<b>-</b>
<i>Transferet</i>							
Transfers and subsidies	10	73	-	61	-	79	-
Capital expenditures		-	-	-	-	-	-
Property, Plant and Equipment	11	1,443	937	1,033	327	1,033	-
Other payments	12	-	-	-	-	-	-
Return of Loan	13	-	-	-	-	-	-
<b>Total</b>		<b>5,593</b>	<b>940</b>	<b>4,404</b>	<b>327</b>	<b>4,063</b>	<b>-</b>



# Kaçanik Municipality

## Section 13. Budget Execution Report for the year ended 31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

	Notes	2011				2010	2009
		Original Budget (Appropriation)	Final Budget (Appropriation)	Realization	Variance	Realization	Realization
		A	B	C	D=C-B	E	F
		€'000	€'000	€'000	€'000	€'000	€'000
<b>Cash inflows from treasury account</b>							
Taxation	14	-	-	-	-	-	
Own Source Revenue	15	567	585	510	75	515	
Donations	16	-	79	79	-	22	
Capital Receipts	17	-	-	-	-	-	
Privatization Fund	18	-	-	-	-	-	
Borrowings	19	-	-	-	-	-	
Other	20	-	-	-	-	-	
<b>Total cash inflows</b>		<b>567</b>	<b>664</b>	<b>589</b>	<b>75</b>	<b>537</b>	
<b>Cash outflows from Treasury accounts</b>							
Wages and Salary	21	3,502	3,567	3,556	(11)	2,769	
Goods and Services	22	364	470	433	(37)	454	
Utilities	23	82	87	87	-	87	
Transfers and Subsidies	24	42	82	73	(9)	61	
Capital expenditures	25	1,471	1,610	1,444	(166)	1,033	
Privatization Fund	26	-	-	-	-	-	
Return of Borrowings		-	-	-	-	-	
Other	27	-	-	-	-	-	
<b>Total payments</b>		<b>5,461</b>	<b>5,816</b>	<b>5,593</b>	<b>(223)</b>	<b>4,404</b>	

The *General Fund* amounts totaling EUR 4,894 thousand for original budget, EUR 4,949 thousand for final budget and EUR 4,940 thousand for 2011 realisation (2010: EUR 3,950 thousand; 2009: EUR 3,419 thousand) have not been included in the *Cash inflows from treasury account* section in the above table, although they were used to help pay the various expenses of the Municipality presented under the *Cash outflows from treasury accounts* section. In previous years, such amounts were recorded as a separate category within the *Cash inflows from treasury account* in Section 13 *Budget Execution Report*.

# **Kaçanik Municipality**

## **Section 14. Notes to the financial statements**

### **31 December 2011**

*(Amounts in thousands of EUR, unless otherwise stated)*

#### **Note 1**

##### **1.1 Basis of preparation**

The financial statements have been prepared in accordance with Cash Basis IPSAS *Financial Reporting Under The Cash Basis of Accounting* and with the Administrative Instruction No. 07/2011 *On Annual Reporting Of Budget Organizations*

The accounting policies have been applied consistently throughout the period.

##### **1.2 Reporting entity**

The financial statements are for the public sector entity: Municipality of Kacanik ('the Municipality'). The financial statements according to the Law for the management of Public Finance and Responsibility (03/L-048 and 03/L-211). The Municipality of Kacanik is controlled by the Kosovo Government and all financial activities from the Consolidated Budget of Kosovo.

##### **1.3 Payments by Third Parties**

The Municipality benefits from goods and services purchased on its behalf as a result of cash payments made by third parties during the reporting period. The payments made by third parties do not constitute cash receipts or payments of the Municipality of Kacanik. The payments are reported in the column *Payment by Third Parties* in the Statement of Cash Receipt and Payments and other financial statements.

##### **1.4 Treasury Single Accounts**

The Municipality of Kacanik does not operate its own bank accounts. The Government has a centralized function of Treasury which administers the receipt of cash received by all budgetary entities during the fiscal year. Payments made in this account regarding the Municipality of Kacanik are presented in the column Single Treasury Account in the Statement of Cash Receipt and Payments.

##### **1.5 Return of expenses from last year**

Expenses returned to KCB from previous year are reported in the year and not as reductions to expenses of the year when the expense occurred.

##### **1.6 Reporting currency**

The reporting currency is Euro (€)

##### **1.7 Authorization Date**

The financial statements are authorized to be issued on 29 January 2012 and approved by Fikri Verbani.

**Kaçanik Municipality**  
**Section 14. Notes to the financial statements**  
**31 December 2011**

*(Amounts in thousands of EUR, unless otherwise stated)*

**Funds source**

**Note 2 General Fund Appropriation**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Economic classification</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Wages and Salaries	3,546	2,744	2,462
Goods and Services	339	358	181
Utilities	82	71	46
Subsidies and transfers	-	61	-
Capital Investments	969	777	730
<b>Total</b>	<b>4,936</b>	<b>3,950</b>	<b>3,419</b>

**Note 3 Own source revenue**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Economic classification</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Wages and Salaries	10	25	39
Goods and Services	69	88	181
Utilities	5	16	34
Subsidies and transfers	73	61	79
Capital Investments	435	242	243
<b>Total</b>	<b>592</b>	<b>432</b>	<b>576</b>

**Note 4 Designated Donor Grants**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>Economic classification</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Wages and Salaries	-	-	-
Goods and Services	25	8	8
Utilities	-	-	-
Subsidies and transfers	-	-	-
Capital Investments	40	14	60
<b>Total</b>	<b>65</b>	<b>22</b>	<b>68</b>

**Kaçanik Municipality**  
**Section 14. Notes to the financial statements**  
**31 December 2011**

(Amounts in thousands of EUR, unless otherwise stated)

**Note 5 Borrowed Fund**

Lender	2011 €'000	2010 €'000	2009 €'000
	-	-	-
	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 6 Other Receipts**

Economic classification	2011 €'000	2010 €'000	2009 €'000
Renovation of road Cardak – Kacanik i Vjeter	-	211	-
Building of primary school in Begrance	-	26	-
Renovation of road Magjistranja – Biqec - Nika	-	9	-
Building of Sport Center in Biqec	-	9	-
Construction of seats in city stadium “B.Begunca”	-	32	-
Development of agriculture	-	40	-
Ministry of Infrastructure – road construction Lumbardhë – Granti 2011	436	-	-
Ministry of Education and Science – Granti 2011 – Construction of PS “Te Kisi”	351	-	-
EU office –Project “Kosova e Bukur” – implemented by IOM-i	139	-	-
World Bank (WB) – Establishment of Municipal Business Center (MBC), permes MTI	11	-	-
USAID/DEMI – Supply with technical Equipments of Local Youth Council	3	-	-
<b>Total</b>	<b>940</b>	<b>327</b>	<b>-</b>

**Note 7 Wages and Salaries**

Description	2011			Total €'000	2010 €'000	2009 €'000
	KCB €'000	OSR €'000	DDG €'000			
<b>Payments</b>						
Net Salaries	3,072	-	-	3,072	2,327	2,117
Payments to unions -0.10% to 0.50%	-	-	-	12	10	9
Overtime payments	-	-	-	-	-	-
Part time payments	-	-	-	-	26	-
Night-shift salaries	-	-	-	-	-	-
Net salary for maternity leave	-	-	-	-	-	-
Daily payments for Assembly and committee members	-	-	-	-	63	69
Contracted payments	-	-	-	-	-	-
Personal Income Tax	134	-	-	134	80	70
Employer pension contribution	170	11	-	169	132	119
Employee pension contribution	170	-	-	169	132	119
Court decisions	-	-	-	-	-	-
<b>Total Payments</b>	<b>3,546</b>	<b>11</b>	<b>-</b>	<b>3,557</b>	<b>2,769</b>	<b>2,501</b>

**Kaçanik Municipality**  
**Section 14. Notes to the financial statements**  
**31 December 2011**

(Amounts in thousands of EUR, unless otherwise stated)

**Note 8 Goods and Services**

Përshkrimi	2011				2010	2009
	KCB €'000	THV €'000	GPD €'000	Total €'000	€'000	€'000
<b>Payments</b>						
Travel expenses	4	3	-	7	12	5
Telecommunication services	6	2	-	8	6	5
Service expenses	46	13	2	61	70	44
Furniture and equipment under 1,000 EUR	10	1	17	28	22	19
Other furniture and equipment 1,000-5,000 EUR	-	-	-	-	-	-
Other goods and services	63	10	2	74	104	86
Heating fuel	144	12	1	157	138	119
Financial services	-	-	-	-	-	-
Registration and insurance expenses	10	2	-	12	8	5
Lack in cash box	-	-	-	-	-	-
Maintenance	39	7	2	49	52	47
Rent	-	-	-	-	-	-
Marketing expenses	9	9	1	18	21	24
Representation expenses	8	10	1	19	20	16
Court decision	-	-	-	-	-	-
Tax	-	-	-	-	-	-
Debt servicing	-	-	-	-	-	-
	<b>339</b>	<b>69</b>	<b>25</b>	<b>433</b>	<b>454</b>	<b>370</b>

**Note 9 Utilities**

Description	2011				2010	2009
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
Electricity	48	4	-	51	43	49
Water	10	1	-	12	8	7
Waste	16	-	-	16	23	14
Phone	8	-	-	8	12	10
<b>Total payments</b>	<b>82</b>	<b>5</b>	<b>-</b>	<b>87</b>	<b>87</b>	<b>80</b>

**Kaçanik Municipality**  
**Section 14. Notes to the financial statements**  
**31 December 2011**

(Amounts in thousands of EUR, unless otherwise stated)

**Note 10 Subsidies and transfers**

Description	2011				2010	2009
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
<b>Payment</b>						
Subsidies for public entities	-	28	-	28	11	37
Subsidies for cultural entities	-	1	-	1	-	-
Subsidies for non public entities	-	34	-	34	20	30
Transfers for other governments	-	-	-	-	5	-
Payments for individual beneficiaries	-	10	-	10	25	12
Base pensions	-	-	-	-	-	-
Disabled pensions	-	-	-	-	-	-
Pensions or social assistance	-	-	-	-	-	-
Pensions for KSF	-	-	-	-	-	-
Penstions for category I (family members)	-	-	-	-	-	-
Penstions for category II (family members)	-	-	-	-	-	-
Payment for war invalids	-	-	-	-	-	-
Payments for civil invalids	-	-	-	-	-	-
Payments for war victim families	-	-	-	-	-	-
Trepca provisional pensions	-	-	-	-	-	-
Court Decisions	-	-	-	-	-	-
<b>Total payments</b>	-	<b>73</b>	-	<b>73</b>	<b>61</b>	<b>79</b>

**Note 11 Capital Investments**

Description	2011				2010	2009
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
<b>Payments</b>						
Buildings	134	147	3	283	138	18
Roads construction	576	152	27	755	477	845
Waste water system	29	12	10	51	119	93
Water supply system	60	-	-	60	100	7
Energy, generation, transfer, and supply	12	-	-	12	38	-
Equipment over 1,000 Euro	22	-	-	22	77	18
Transport vehicles	24	25	-	49	-	-
Machinery	-	-	-	-	-	-
Other capital	96	66	-	162	-	-
Land	-	-	-	-	2	-
Intangible assets	-	-	-	-	-	-
Capital transfers for public entities	16	11	-	26	81	52
Capital transfers for non-public entities	-	21	-	21	-	-
Cour Decisions	-	-	-	-	-	-
<b>Total payments</b>	<b>969</b>	<b>434</b>	<b>40</b>	<b>1,443</b>	<b>1,033</b>	<b>1,033</b>

**Kaçanik Municipality**  
**Section 14. Notes to the financial statements**  
**31 December 2011**

*(Amounts in thousands of EUR, unless otherwise stated)*

**Note 12 Other payments**

No other payments in 2011.

**Note 13 Return of borrowings**

Description	2011 €'000	2010 €'000	2009 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
<b>Total</b>	-	-	-

**Note 14 Taxation**

Description	Note	2011 €'000	2010 €'000	2009 €'000	% of total 2011	% of difference from 2010
Tax Revenues 1		-	-	-	%	%
Tax Revenues 2		-	-	-	%	%
Tax Revenues 3		-	-	-	%	%
<b>Total</b>		-	-	-	<b>0%</b>	<b>%</b>

Warning: The table relates only to taxes related to Customs and Tax Administration of Kosovo ("TAK").

**Kaçanik Municipality**  
**Section 14. Notes to the financial statements**  
**31 December 2011**

(Amounts in thousands of EUR, unless otherwise stated)

**Note 15 Own Source Revenues**

Description	Note	2011	2010	2009	% total 2011	% of difference from 2010
		€ '000	€'000	€'000		
Tax on property		149	190	150	29%	(28)%
Revenue from taxes 1		163	179	155	32%	(9)%
Revenue from taxes 2		-	-	-	0%	0%
Revenues from fines-penalties 1		17	26	11	3%	(35)%
Revenues from fines-penalties 2		-	-	-	0%	0%
Revenues from licenses 1		88	88	80	17%	0%
Revenues from licenses 2		-	-	-	0%	0%
Revenue from sale of assets and services		81	31	46	16%	161%
Revenues from inspection		12	1	3	2%	1100%
Revenues from bank interest		-	-	-	0%	0%
Fees on accreditation		-	-	-	0%	0%
Revenues from assets		-	-	-	0%	0%
Other revenues		-	-	-	0%	0%
<b>Total OSR collected in the year</b>		<b>510</b>	<b>515</b>	<b>445</b>	<b>100%</b>	<b>(1)%</b>

Own source revenues presented in Section 13, for the years 2009 and 2010 have been restated from EUR 576 thousand and EUR 432 thousand respectively, to EUR 445 thousand and EUR 515 thousand respectively.

A change was made to the presentation in the current year such that *Own Source Revenues* recorded in Section 13 *Budget Execution Report* comprise only OSR collected in the year, and no adjustment was made for the net of OSR carried and brought forward which for the years 2009 and 2010 amounted to EUR 131 thousand and negative EUR 83 thousand respectively.

**Note 16 Grants and assistance**

Donator	Description	Project	2011 €'000	2010 €'000	2009 €'000
Communit.Street Lekaj	Remain. Project (KP-70942)	Road construction Lekaj	-	-	-
Communit.Street Dallosh	Particip.comm. - (KP-72040)	Waste water system Dallosh	7	-	-
Communit. Vilage.Bob	Particip.comm.- (KP-83198)	Primary school sports hall	3	-	-
Communit.Street Thaq	Particip.comm. - (KP-83198)	Rehab. of waste water sys.	2	7	59
World Bank (WB)	130 - M/Sh,Ditura - (94118)	Inst.of education and devel.	6	8	9
World Bank (WB)	130 - M/Sh, SHMP - 94118	Inst.of education and devel.	14	-	-
Swiss Government	130 - M/Sh,Information-96135	Support.Public Inf. Office	2	7	-
Swiss Government	130 -M/Sh, Mayrot O.96144	Support.Gend. Equal Office	6	-	-
Swiss Government	Bashkëf. Projekti-(KP-83205)	Bridge construction river Nerodime	26	-	-
Swiss Government	130 - M/Sh, Code - 96126	SHMP "F.Guri and VII.Çaka"	10	-	-
UNOPS	130 - M/Sh, Code - 96701	Support. Cit.Reg.-REKOS	3	-	-
<b>Total grants provided by donors</b>			<b>79</b>	<b>22</b>	<b>68</b>



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**Note 17 Capital Receipts**

	Gains from sales		
	2011	2010	2009
<b>Natyra e pasurive</b>	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Land	-	-	-
Building	-	-	-
Infrastructure	-	-	-
Machinery	-	-	-
Equipment	-	-	-
Transport vehicles	-	-	-
Other	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 18 Privatization Fund**

	POE	Gains from privatisation		
		2011	2010	2009
		€'000	€'000	€'000
POE #1		-	-	-
POE #2		-	-	-
POE #3		-	-	-
POE #4		-	-	-
POE #5		-	-	-
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>

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**Note 19 Borrowings**

Description	2011 €'000	2010 €'000	2009 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
Lender 4	-	-	-
Lender 5	-	-	-
<b>Total</b>	-	-	-

**Note 20 Other**

Nature of revenue	2011 €'000	2010 €'000	2009 €'000
Lottery game deposits	-	-	-
Regulatory committee deposit	-	-	-
Ministry of Justice deposit	-	-	-
Other deposit	-	-	-
<b>Total</b>	-	-	-

**Note 21 to Note 27**

Unlike 11 -16 records, these records are used to explain material difference in column D, i.e. material differences in budget realizations. Depending on the size of the gap, there is no need to offer explanations for all categories.

**Note 21. Difference between payments and final budget for wages and salaries**

The difference between the payment and final budget for the category of wages and salaries amounting to EUR 11 thousand is due to supplemental teachings for two high schools, which were planned but not realised in 2011.

# **Kaçanik Municipality**

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#### **Note 22. Difference between payments and final budget for goods and services**

Goods and services were lower by EUR 37 thousand due to unprocessed expenses from General Grant amounting to EUR 3 thousand, unspent Own Source revenues of EUR 10 thousand, unallocated revenues in the amount of EUR 9 thousand, and unspent donations from the Swiss Government and World Bank in the amount of EUR 14 thousand.

#### **Note 23. Difference between payments and final budget for utilities**

There are no differences in this economic category.

#### **Note 24. Difference between payments and final budget for transfers and subsidies**

The difference between the payment and final budget for transfers and subsidies in the amount of EUR 9 thousand is due to lack of requests for execution for expenses in this category. The remaining balance will be spent in 2012.

#### **Note 25. Difference between payments and final budget for capital expenditure**

The difference between payments and final budget for capital investments is EUR 166 thousand. From this amount, EUR 91 thousand relate to capital projects initiated in 2011, which are still in progress as at year end and will continue in the following year. While EUR 75 thousand relate to different capital projects, which were planned to take place in 2011, but the budget was not sufficient for initiating the activity. The balance is to be carried forward to the next year.

#### **Note 26. Difference between payments and final budget for privatization fund**

There are no differences in this economic category.

#### **Note 27. Difference between payments and final budget for other funds**

There are no differences in this economic category.

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**Note 28 Statements of unpaid invoices (obligations) by the organization**

Summary

<b>Economic Category</b>	<b>Description</b>	<b>2011</b>
		<b>€'000</b>
111	Wages and Salaries	10
130	Goods and Serices	19
132	Utilities	4
<b>Total</b>		<b>33</b>

Details of unpaid invoice

<b>Invoice date</b>	<b>Invoice number</b>	<b>Economic code</b>	<b>Due date</b>	<b>Supplier</b>	<b>Description</b>	<b>Reason for nonpayment</b>	<b>€'000</b>
31.12.2011	Vend.01-400-15033	111	31.12.2011	SHMP-Kaçanik	Informal education	Delay in alocation	10.38
30.10.2011	2011/718.	14220	29.11.2011	Infopress	Publications	Lack of funds	0.31
30.11.2011	2011/772	14220	30.12.2011	Infopress	Publications	Close of commitments	0.29
05.11.2011	1019/11	14210	04.12.2011	Epoka e Re	Publications	Lack of funds	0.12
26.11.2011	1099/11	14210	25.12.2011	Epoka e Re	Publications	Close of commitments	0.12
12.10.2011	84/KK	13450	11.11.2011	Shtyp. ERA	Printing serv.	Invoice not obtained	0.02
14.11.2011	93/KK	13450	13.12.2011	Shtyp. ERA	Printing serv.	Lack of funds	0.11
12.10.2011	76/10.	14220	11.11.2011	Zyra Kryeminist.	Official newsp.no.18-21/11	Lack of funds	0.10
15.11.2011	76/11.	14220	14.12.2011	Zyra Kryeminist.	Official newsp.no.22-24/11	Lack of funds	0.08
03.12.2011	140-A/011.	13720	02.01.2012	Shkendija - NTSH	Heating wood QKMF	Close of commitments	2.56
30.11.2011	137-A/011.	13780	29.12.2011	Shkendija - NTSH	Fuel QKMF	Close of commitments	1.79
30.11.2011	132-A/011.	13780	29.12.2011	Shkendija - NTSH	Fuel QKMF	Close of commitments	0.11
30.11.2011	137-A1/011.	13710	29.12.2011	Shkendija - NTSH	Vehicle oil- QPS	Close of commitments	0.10
25.11.2011	142/11.	13630	24.12.2011	Inst.Mjek.Punës	Measure equipment	Lack of funds	0.10
05.01.2012	4/Konr.1120/10	13630	31.12.2011	Dr.Idriz Mumci	Special services.4-months	Lack of funds	0.45
11.11.2011	7/2011	14010	10.12.2011	NTP-Malësia	Vehicle maint-QKMF	Lack of funds	0.21
07.12.2011	8/2011	14010	06.01.2012	NTP-Malësia	Vehicle maint-QKMF	Lack of funds	0.14
30.11.2011	135-A/011.	13780	29.12.2011	Shkendija - NTSH	Fuel- SHZF	Close of commitments	0.55
30.11.2011	134-A/011.	13780	29.12.2011	Shkendija - NTSH	Fuel- DBPZHR	Close of commitments	0.47
31.10.2011	120-A/011	13770	30.11.2011	Shkendija - NTSH	Generator fuel-DAK	Lack of funds	0.15

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**Note 28 Statements of invoices (obligations) unpaid by the organizations budget (continued)**

Details of unpaid invoice

Invoice date	Invoice number	Economic code	Due date	Supplier	Description	Reason for nonpayment	€'000
30.11.2011	133-A/011	13780	29.12.2011	Shkendija - NTSH	Fuel- DAK	Close of commitments	0.21
08.11.2011	128-A/011	13730	07.12.2011	Shkendija - NTSH	Heating fuel -Q.IIazi	Lack of funds	0.13
27.12.2011	150-A/011	13720	26.01.2012	Shkendija - NTSH	Heating fuel	Close of commitments	5.76
31.12.2011	153-A/011	13780	30.01.2012	Shkendija - NTSH	Fuel- DBPZHR	Close of commitments	0.24
31.12.2011	155-A/011.	13780	30.01.2012	Shkendija - NTSH	Fuel- SHZF	Close of commitments	0.44
21.09.2011	53/11.	13640	20.10.2011	NTP - Te Dadini	Hygenic matterial. - SHZF	Lack of funds	0.05
13.12.2011	61/11.	13620	12.01.2012	NTP - Te Dadini	Food PM N.Osmani	Lack of funds	0.09
14.11.2011	74/11.	14310	13.12.2011	Restorant Mani	Food & drinks	Lack of funds	0.33
30.11.2011	006514	14310	29.12.2011	DPH - Parku	Food & drinks	Lack of funds	0.18
27.12.2011	000294	14310	26.01.2012	Rest.Europa 92-1	Food & drinks	Lack of funds	0.01
14.12.2011	KF nr.9	14310	13.01.2012	Kafiteria Egzona	Food & drinks	Lack of funds	0.05
14.12.2011	KF nr.10	14310	13.01.2012	Kafiteria Egzona	Food & drinks	Lack of funds	0.02
01.12.2011	45-48/11.	14230	30.12.2011	Kiosku - BOSS	Newspaper m-11/11.	Lack of funds	0.09
19.09.2011	05/11.	13470	18.10.2011	DPZ-Fortuna	Usage of sports hall	Lack of funds	0.04
17.07.2011	6/11.	13470	16.08.2011	NTP - Gjinis	Voice service -for 7 mars	Incomplete doc.	0.45
03.10.2011	18369	13130	02.11.2011	Kombi Z.Zenuni	Pupil transport	Lack of funds	0.41
30.12.2011	289/11.	13130	29.01.2012.	Sh.a.-Merkatori	Pupil transport	Lack of funds	0.14
10.11.2011	101011-3	13610	09.12.2011	Elita - IT	Material for "Ditën e Rinisë"	Lack of funds	0.21
26.05.2011	39/11.	14310	25.06.2011	Rest.Beni	Food & drinks	Lack of funds	0.03
04.11.2011	29/11.	14310	03.12.2011	Rest.Beni	Food & drinks	Lack of funds	0.04

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**Note 28 Statements of invoices (obligations) unpaid by the organizations budget (continued)**

Details of unpaid invoice

Invoice date	Invoice number	Economic code	Due date	Supplier	Description	Reason for nonpayment	€'000
15.12.2011	35/11	14310	14.01.2012	Rest.Beni	Food & drinks	Lack of funds	0.06
30.08.2010	25/10	13640	30.09.2010	NTP-Dadini	Hygenic mat.-SHMP	KFMIS	0.15
09.11.2011	174/11.	13310	08.12.2011	NTSH-Elektra	Internet	Lack of funds	0.05
02.11.2011	264188552011.	13250	01.12.2011	Telekom.Kosovës	Telephone Amin.	Lack of funds	0.50
03.12.2011	5671877	13210	18.12.2011	KEK-u	Municipality	Lack of funds	0.08
03.12.2011	5662399	13210	18.12.2011	KEK-u	ZV - Doganaj	Lack of funds	0.00
03.12.2011	5662597	13210	18.12.2011	KEK-u	Public lightening B6 5210	Lack of funds	0.06
03.12.2011	5662629	13210	18.12.2011	KEK-u	Public lightening -VII.Çaka	Lack of funds	0.26
03.12.2011	5663344	13210	18.12.2011	KEK-u	Public lightening-E.Duraku	Lack of funds	0.06
03.12.2011	5728890	13210	18.12.2011	KEK-u	DSHPE - SHZF	Lack of funds	0.09
01.12.2011	24328	13220	01.01.2012	NPK - Lypeteni	DSHPE - SHZF	Lack of funds	0.03
06.12.2011	26594202011	13250	05.01.2012	Telekom.Kosovës	Telephone Amin.	Close of commitments	0.50
21.12.2011	128/2011.	13460	31.12.2011	Shpk."Syri Shqip."	Security Admin.	KFMIS	1.00
21.12.2011	126/2011.	13460	31.12.2011	Shpk."Syri Shqip."	Security Culutral house	Lack of funds	0.75
30.11.2011	26606522201	13250	31.12.2011	Telekom.Kosovës	Telephone - QKMF	Lack of invoice	0.50
05.07.2011	232283532010	13250	31.12.2011	Telekom.Kosovës	Telephone- QPS	Lack of invoice	0.08
03.12.2011	5661081	13210	18.12.2011	KEK-u	PSch -K.Zeka, Soponicë	Lack of funds	0.03
03.12.2011	5660060	13210	18.12.2011	KEK-u	PSch -K.Zeka, Dubravë	Lack of funds	0.09
31.12.2011	3924/11.	13230	30.01.2012	KRM-Pastërtia	PSch - Gllloboçicë	Lack of funds	0.08
03.12.2011	5693775	13210	18.12.2011	KEK-u	PSch - Kotlinë	Lack of funds	1.16
03.12.2011	5662825	13210	18.12.2011	KEK-u	PSch - Elezaj	Lack of funds	0.06
03.12.2011	5644387	13210	18.12.2011	KEK-u	PSch - Bajnicë	Lack of funds	0.02

**TOTAL**

**33**

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**Note 29: Contingent Liabilities**

Nature of contingent liabilities	Reason for liability	Estimated or exact value		
		2011	2010	2009
		€'000	€'000	€'000
		-	-	-
		-	-	-
		-	-	-
		-	-	-
		-	-	-
<b>Total</b>		-	-	-

**Section 16 Disclosure of assets**

**Note 30: Summary of non financial capital assets (over EUR 1,000) in possession by the organizations' budget**

Classification of assets	2011	2010	2009
	€'000	€'000	€'000
Buildings	10,856	5,196	4,967
Land	19,254	19,254	19,252
Equipment and inventory	511	473	445
Infrastructure-roads	28,595	7,330	6,854
Waste water system	1,628	1,517	1,398
Water supply system	167	107	7
Vehicles	266	252	252
Other	961	431	344
<b>Total</b>	<b>62,238</b>	<b>34,560</b>	<b>33,518</b>

Note:

- 1) The source of information is the register of property with value over EUR 1,000 in KFMIS

**Note 31: Summary of non financial assets with the value under 1,000 EUR and with term of use over one year**

**Non capital assets (value under 1000 Euro)**

Classification of assets	2011	2010	2009
	€'000	€'000	€'000
Furniture and equipment	28	-	-
<b>Total</b>	<b>28</b>	<b>-</b>	<b>-</b>

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**Note 32: Summary of inventory at the end of the period**

**Inventory**

Classification of assets	2011 €'000	2010 €'000	2009 €'000
Inventory	1	-	-
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>

**Note 33: Unjustified Loans and advances**

Issue date	CPO No.	Reason	2011 €'000
-	-	-	-
<b>Total</b>			<b>-</b>

**Note 34 Receivables (applied to those organizations that receive revenues)**

Economic code	Description	2011 €'000
40110	Revenues from tax on property	521
50006	Tax on business	59
50407	Tax for municipal land usage	20
<b>Total</b>		<b>600</b>

Note: 1) The source of information is the account register of receivables at the OB.

**Section 17 Note 35 Summary of Carried Forward Own Source Revenues**

	2011 €'000	2010 €'000	2009 €'000
Own source revenues carried over from last year	202	119	250
<i>Plus</i> Own Source Revenues received this year by section 15	510	515	445
<b>Total available for sharing in the current year</b>	<b>712</b>	<b>634</b>	<b>695</b>
<i>Minus</i> The amount spent in the current year	(592)	(432)	(576)
<b>The amount left for transfer</b>	<b>120</b>	<b>202</b>	<b>119</b>



# Kaçanik Municipality

## Section 15-20. Notes to the financial statements

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### Section 18 Note 36 Reconciliation between Original and Final Budget Appropriations

Appropriation Category	Changes authorized by LPFMA							Final Budget Appropriation KFMIS €'000	Adjustment from Original Budget €'000
	Initial budget disposal of (Law on Budget) €'000	Changed according to article 29 Law nr. 03/L-048 €'000	Changed according to article 30 Law nr. 03/L-048 €'000	Changes according to article 31 Law nr. 03/L-048 €'000	Changes of own source revenue €'000	Changes for donor grants defined	Changes for other sources of finance		
<b>Revenues</b>									
Tax	-	-	-	-	-	-	-	-	0.00%
Own source revenues	567	-	-	-	18	-	-	585	3.17%
Designated donor grants	-	-	-	-	-	79	-	79	100.00%
Capital receipts	-	-	-	-	-	-	-	-	0.00%
Privatization funds	-	-	-	-	-	-	-	-	0.00%
Other	-	-	-	-	-	-	-	-	0.00%
	<b>567</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>79</b>	<b>-</b>	<b>664</b>	<b>17.10%</b>
<b>Expenses</b>									
Wages and Salaries	3,502	-	9	-	56	-	-	3,567	1.82%
Goods and services	364	-	-	-	106	-	-	470	22.55%
Public services	82	-	5	-	-	-	-	87	5.75%
Transfers and subsidies	42	-	40	-	-	-	-	82	48.78%
Capital expenditures	1,471	-	1	-	59	79	-	1,610	8.63%
Privatization funds	-	-	-	-	-	-	-	-	0.00%
Other	-	-	-	-	-	-	-	-	0.00%
<b>Total</b>	<b>5,461</b>	<b>-</b>	<b>55</b>	<b>-</b>	<b>221</b>	<b>79</b>	<b>-</b>	<b>5,816</b>	<b>6.10%</b>

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**Section 19. Employees number**

Department	Total full time & part time no. of employees	Actual number of employees at the beginning of 2011		Actual number of employees at the end of 2011	
		Full time	Part time	Fulltime	Part time
Mayor Office	14	17	-	14	-
Administration	26	25	-	25	-
Budget and Finance	14	17	-	14	-
Public services and emergency	26	26	-	26	-
Local office of community	1	1	-	1	-
Agroculture , Forestry and Rural Development	14	12	-	13	-
Urban planning	13	13	-	13	-
<b>Total Municipal Administration</b>	<b>108</b>	<b>111</b>	<b>-</b>	<b>106</b>	<b>-</b>
Health	115	115	-	115	-
Education, Science and Culture	573	572	-	579	-
<b>Total</b>	<b>796</b>	<b>798</b>	<b>-</b>	<b>800</b>	<b>-</b>

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**Section 20.**

**Report on taken and proposed actions on findings and recommendations of the Auditor for the prior year**

<b>No</b>	<b>Recommendation or finding</b>	<b>Taken or proposed action</b>	<b>Deadline for implementation</b>	<b>Effect</b>
1	Financial statements prepared under IPSAS and AI	The recommendation related to years 2009 and 2008, not for the year 2010	There was no remark for 2010 financial statements, while for 2009-2008, even a part was corrected it was not accepted	Correct financial statements prepared under IPSAS and AI
2	Maintain a comprehensive list of property, plant and equipment of the Municipality	Commission as at 31.12.2011	Year 2011	Comprehensive list of property, plant and equipment at 31.12.2011
3	Total implementation of Public Procurement Law no.2003/17 - with the changes made	Implementation of PPL	Year 2011	Elimination of eventual misstatements
4	Establishment of Audit Committee	Audit Committee established by the decision 01-No.16-7603/11	Dated on 18.07.2011	Promotion to a higher level of financial policies and procedures in accordance with IPSAS
5	Implement a billing system that includes updated details about the payers, their current address, history and collection rating for all types of revenues.	Implementation of the billing system for all types of revenues.	Year 2011	Promotion of effective controls