

Kaçaniku Municipality

Financial Statements

as at and for the year ended 31 December 2009

(with independent auditors' report on financial statements thereon)



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Independent Auditors' Report

To the Municipal Assembly
Kaçanik Municipality, Kosovo

Pristina, 10 June 2010

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 2009, a comparison of budget and actual amounts, and a summary of significant accounting policies and other explanatory notes. The financial statements of the Municipality as at and for the year ended 31 December 2008, were audited by another auditor whose report dated 6 November 2009, expressed a disclaimed opinion due to the incompleteness of the form and content of the financial statements and their regulatory compliance, lack of adequate and reliable control procedures, inaccuracy of the financial data related to fixed assets and non-compliance with laws and regulations.

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 Administrative Instruction No. 20/2009 *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. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

- 1 The Municipality should maintain listings of payments from third parties. Due to the nature of records kept in the accounting and operational systems for payments from third parties, as well as the absence of alternative controls implemented by management, we were not able to perform sufficient and appropriate audit tests to verify the completeness of the payments from third parties recognized for the year ended 31 December 2009.
- 2 Note 27 to the financial statements, discloses the property, plant and equipment owned by the Municipality. However, there are a number of deficiencies and uncertainties which affect the Municipality's financial reporting of property, plant and equipment in the following ways:

- The Municipality has not disclosed the property, plant and equipment of the Education Program.
- The Municipality has not maintained a comprehensive register of its property, plant and equipment.
- The Municipality has no detailed and comprehensive list of real estate property including ownership documentation of such property and information on the registration status in the Municipality's name in the local Real Estate Register or Court.
- Due to a lack of supporting documentation for the measurement of a significant part of its property, plant and equipment, 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.

Due to the nature of the records and other deficiencies as described above, we were not able to determine which adjustments might be necessary to the financial information provided in the Municipality's financial statements.

- 3 The comparative information for the years ended 31 December 2008 and 31 December 2007 is not complete and accurate. In particular, the following was omitted or improperly disclosed in the financial statements:
 - In section 9 *Statement of cash receipts and payments*, comparative figures for 2007 do not agree with Notes 3, 6 and 9.
 - The comparative information presented in Note 28 for the year 2007 did not reconcile with Section 9 *Statements of cash receipts and payments* and Section 10 *Budget Execution Report*.
 - The comparative information presented in notes 12 and 13 for the years 2008 and 2007 are not complete and accurate.
 - The comparative information, which should be presented in Note 12.1 for the years 2008 and 2007 was not completed.

Since the financial statements for the year ended 31 December 2008 received a disclaimer of opinion, the comparative figures described above may be materially misstated.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs we do not express an opinion on the financial statements.



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, property, plant and equipment or outstanding invoices, it can not be used to produce comprehensive financial statements.
- 2 Although the Mayor and Chief Financial Officer had signed the Declaration regarding presentation of the financial statements, the Municipality was not able to deliver a final draft of financial statements in Serbian by the end of our audit.

- 3 The Municipality has not implemented a comprehensive and automated billing system and does not maintain separate sub ledgers or lists of all its debtors regarding various taxes. Instead only cash collections from revenue streams are recorded. Whilst receivables are not required to be disclosed in the financial statements, lack of accuracy and completeness will impact revenues that Municipality can earn and the 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.
- 4 The Municipality has not fully maintained listings of payments from third parties. The evidence available to us and the controls implemented by management to ensure that the payments from third parties were presented and managed in accordance with relevant legislation and therefore applied for the purposes intended by the legislature were limited.
- 5 We identified a number of non-compliances with Law No. 2003/17 'Law on Public Procurement in Kosovo' (amended). Such non-compliance related to required procedures which were not performed and documented by the Municipality.
- 6 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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Note

- 1 Further explanation on the recommendations and management response to these suggestions is included as Appendix 1 to this report.
- 2 An explanation of the different forms of modifications to an audit opinion is included as Appendix 2 to this report.



Appendix 1

1 General

1.1 Audit for 2009

KPMG Albania Sh.p.k. – Kosovo Branch (“KPMG”) has been appointed to perform an audit of the Municipality of Kaçanik (the “Municipality”) annual financial statements prepared in accordance with Cash Basis IPSAS Financial Reporting Under The Cash Basis of Accounting, for the year ended 31 December 2009.

Our advice in this document is limited to the conclusions specifically set forth herein and is based on the completeness and accuracy of the facts stated below, assumptions and representations. If any of the foregoing facts, assumptions or representations is not entirely complete or accurate, it is important that we be informed, as the inaccuracy or incompleteness could have a material effect on our conclusions. In rendering our advice, we are relying upon the relevant provisions of the current legislation in Kosovo, the regulations thereunder, and the judicial and administrative interpretations thereof. These authorities are subject to change, retroactively and/or prospectively, and any such changes could affect the validity of our conclusions. We will not update our advice for subsequent changes or modifications to the law and regulations or to the judicial and administrative interpretations thereof.

1.2 Consequences

This report is designed to include useful recommendations that may help to improve the accounting policies and accounting and control system of the Municipality and to avoid weaknesses that could lead to material loss or misstatement. It is your obligation to take the actions needed to remedy those weaknesses and should you fail to do so we shall not be held responsible if loss or misstatement occurs as a result.

1.3 Fraud exclusion

As agreed, you have also acknowledged that because of the importance to our work of the information and representations supplied to us by the Municipality, its directors, employees or agents, you shall not, other than in the event of our negligence, bad faith or willful default, hold us responsible or liable for any losses or other consequences if information material to our task is deliberately withheld or concealed from us or fraudulently represented to us.

1.4 Structure of this report

Each class of observations is described on a different page. For each observation the structure is: observation and current year status (if applicable), risk, recommendation, and management response.

2 Current year issues

2.1 Preparation of financial statements

2.1.1 Observation

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, property, plant and equipment or outstanding invoices, it cannot be used to produce comprehensive financial statements.

Although the Mayor and Chief Financial Officer had signed the Declaration regarding presentation of the financial statements, the Municipality has not prepared a draft of financial statements in English and Serbian languages before the start of our audit. During our audit we spent significant time and resources in assisting the Municipality to improve the presentation of its financial statements in the English language. However, the Municipality was not able to deliver a final draft of financial statements in Serbian by the end of our audit.

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.

As a consequence of the above weaknesses the following was omitted or improperly disclosed in the financial statements:

- Section 15 Note 27, non-financial assets
- There may be significant payments from third parties, for example a ministry or foreign donor may buy/contribute an asset for use by the Municipality, which is not presented in the financial statements because no record of it was maintained in a proper register or Free Balance. Since the Municipality does not maintain a comprehensive and up to date register of these payments, we could not verify the completeness of third party payments.

2.1.2 Risk

The weaknesses in internal controls related to financial reporting system might expose the Municipality to risks and misstatements related to the following:

- Completeness and accuracy of the financial information;
- Integrity of data;
- Assets safeguard; and
- Non-recording of payments from third parties may result in such assets/services being used rent-free by parties other than the Municipality.



2.1.3 Recommendation

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.

2.1.4 Management response

The information presented in the annual financial statements for the year ending 31 December 2009 fully corresponds with Section 9, *Statement of cash receipts and payments* and Section 10 Budget execution report as well as with the notes 2 to 30.

The technical errors noted in the financial statements for the years ending 31 December 2008 and 31 December 2007 are corrected and are not repeated in 2009.

2.2 Property, plant and equipment management

2.2.1 Observation

The Municipality has not maintained a comprehensive register of its property, plant and equipment. Furthermore, the Municipality has not prepared a detailed and comprehensive list of real estate property including documentation of the ownership of such property and information about registration status in the Municipality's name in the local Real Estate Register or at Court.

We were not provided with proper evidence of the physical count of the assets as at 31 December 2009 and as a consequence no verification of the accounting records to a physical count was possible. The physical count documents contained only limited information related to furniture and equipment, which was limited to bar-coding of some the assets and listing the users of those assets.

Due to the nature of these records, the Municipality was not able to:

- disclose the required information on property, plant and equipment in the financial statements as at 31 December 2009 and
- provide us with a reconciliation of the information booked in the accounting registers, to either valuation tables or to any other analysis, prior to the approval of these financial statements.

2.2.2 Risk

Lack of a comprehensive register of property, plant and equipment ("PPE") weakens the internal controls over these assets and may lead to assets being misappropriated and not being identified as such on a timely basis. Additionally, management may waste time and effort to identify the details and the carrying value of the assets, during any related decision making processes.

The Municipality may be unable to control the current use of its properties by any third party, and as a consequence may not collect rental revenues for such properties.

Due to the nature of its records and lack of a proper valuation of its assets, the Municipality may be unable to comply with the reporting requirements.

2.2.3 Recommendation

We recommend that the Mayor ensures that the Municipality considers the following:

- Maintain a comprehensive register of PPE.
- 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.
- Perform regular physical counts to ensure the existence of the assets and their condition and agree the results of the counts with the accounting records and the register.



- Make additional efforts in relation to confirming the ownership and registration of real estate.

2.2.4 Management response

The Municipality and its Mayor, possess a detailed list of all fixed assets (all evidence and specifications are provided in the list) which is verified and reconciled at each year end including on 31 December 2009 by the official committee established by the Mayor.

In addition this committee has performed the physical count of all equipment and furniture based on the location and barcode of each asset. .

We agree with the statement that in the absence of an officer for recording the data in KFMIS there is lack of certain information regarding grants and donations from third parties.

2.3 Revenues

2.3.1 Observation

- *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 regarding 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.
- *Reconciliation of Revenues.* The Administrative Tax Office, Cadastral Office, Urban Planning Office and Property/Rent Office did not perform regular reconciliation of revenues collected with the accounting department.
- *Weaknesses in the automated billing system.* During 2009, the tax on property billing system was centralized and the Municipality could not review and monitor appropriately the collection of revenue as it was automatically done by the new system. According to the interview with the tax on property manager, there are cases where the customer had paid property tax, but the collected amount was not recorded in the system and the customer was charged with penalty even though the tax was paid on time.

2.3.2 Risk

Whilst receivables are not required to be disclosed in the financial statements, lack of accuracy and completeness will impact revenues that Municipality can earn.

Improper and insufficient controls related to revenues and the related software and billing system, increase the risk of manipulation of figures and misuse of information. Such a system could lead to incomplete billing and incomplete revenues.

The manual recording and lack of interface of the billing and accounting system exposes the Municipality to additional risk of errors. In addition, it causes additional costs for the record keeping, review and reconciliation of information.

The detailed and updated list of individual tax payers, active businesses and debtors generated by the system is especially important in the current situation where the municipalities do not record each individual transaction in Free Balance. Consequently, except for taxes on property, the Treasury and Municipality are not provided with detailed lists produced by the accounting system or the billing system. As a result, it is not possible to perform a proper reconciliation or analysis by debtor.

2.3.3 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 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.
- Perform regular reconciliations between the two systems on a regular basis for all types of revenues. Any reconciling differences should be promptly followed up and cleared in a timely manner.
- 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.

2.3.4 Management response

We confirm that except for revenues from property tax, there is no automatic billing system for other types of revenues. We are aware of this weakness, which is common for all municipalities because a suitable and comprehensive software is required to be implemented by the Ministry of Economy and Finance.

We confirm that there are weaknesses in the timely registration of payments from the Ministry of Economy and Finance – department of property tax because the MEF has not complied with the responsibility for recording all payments made in a timely manner, hence we have requested for the transfer of this responsibility to the Municipality in order to avoid delays in the recording of collections which have resulted in improper penalties charged to tax payers.

In the absence of such a software the Municipality is unable to maintain detailed billing records and separate ledgers for all its debtors. However, for all collections of revenues we possess appropriate evidence maintained from the department of Economy and Finance in excel basis and daily records in KFMIS.

The Directorate of Economy and Finance has performed quarterly reconciliations with Free Balance officer whereas no reconciliation has been performed between the Directorate of Economy and Finance and each department due to lack of a detailed register for revenue collections.

2.4 Expenditure

2.4.1 Observation

Wages and salaries

- In cases when a teacher resigns, it takes at least a month to notify the personnel office and the Ministry of Public Services in order that the Ministry can reflect the change in the payroll list. Given such a delay, a teacher may continue to receive compensation even after resignation.
- The Municipality does not have a payroll system which could be used as a reliable source of information to support the figures in the financial statements. Instead, the primary and only reliable source of information relates to the payroll lists provided by the Ministry of Public Administration.
- In the personnel files that were part of our sample, we identified the following:
 - the performance evaluation forms were signed by the employee and the performance manager. However, they provided no information on whether the objectives set up by the employee were achieved.
 - one employee was awarded a slight increase in salary as a result of his performance evaluation form showing a satisfactory performance. However, we were not provided with any evidence that specific objectives were achieved by this employee during the year.
 - the position of Personnel Manager was performed by two persons simultaneously for the period April 2009 to December 2009.
 - on the file of a staff member we found only the decision for termination of the job while other required documents such as the appointment contract, performance evaluation forms etc. were missing.
 - for one employee we identified that the assigned job coefficient as per vacancy announcement differs from that as per signed job contract. According to the vacancy announcement the position had a job coefficient of six whereas in the job contract of the hired employee the job coefficient is seven.

Procurement procedures

- The Municipality has not prepared a procurement plan for the year 2009 as required by PPL 2003/17.
- According to article 20 of Public Procurement Law (PPL) the Chief Administrative Officer of the Municipality must appoint a person to act as Authorizing Officer for each project. In our sample of procurements, the Authorizing Officer role was carried out by the manager of the Procurement without prior appointment by the Chief Administrative Officer.
- During our inspection of the tender documents for procurement number KA65208004521 we noted several non compliances with procedures as required by PPL 2003/17. These non

compliances are described below:

- The tender dossier required that the bidder's price be indicated in two different places, in the offer letter and in the pre-measures. In the offer the winning bidder had indicated a price of EUR 52 thousand and in the pre-measures calculations the winning bidder had indicated a price of EUR 53 thousand due to arithmetical errors. The evaluation committee had properly corrected the arithmetical error in the pre-measures section of the tender dossier. According to article 57 of PPL 2003/17, the contracting authority shall promptly provide to the concerned tenderer written notice of any such correction. However, the Municipality was not in compliance with this requirement as the supplier was notified by phone and no written notice was provided.
 - According to the agreement the work should have been completed within 41 working days from the signing of the agreement. The agreement was signed on 12 May 2009, while the technical acceptance report was dated 5 August 2009. Based on the agreement the Municipality had the right to charge penalties of 0.1% per day for a maximum of 10% of the value of the contract. Despite significant delays, the Municipality did not exercise their right to charge late fees/penalties for the delay and we noted no documentation in the file to justify the delay.
 - According to the supervision report dated 29 July 2009, a portion of the projected work amounting to EUR 3 thousand could not be performed. However, the commission decided to pay this amount to the supplier, to compensate them for overruns that were not previously planned for. According to PPL article 34.1, the Municipality can contract additional works with the same supplier once such additional work has been approved by the Agency for Public Procurement (APP). However, in this case we were not provided with any approval from APP related to this additional work as required by PPL 2003/17 section 34.1.
- We noted that declarations of oath of the valuation committee members for procurement number KA65209005521 were dated 17 April 2009, while the evaluation decision was dated 16 April 2009. These should have been dated on the same day.
 - We noted an annex to the main contract no. 26/09 for procurement number KA65209039221 dated 18 December 2009 signed with the supplier, where it was agreed that in addition to the original contract the supplier was entitled to provide additional services to the Municipality, which consisted of salting the Municipality's roads. This annex was for 650 hours at 2 EUR per hour and 30 tons of salt at EUR 76.20 per ton. We were not provided with any evidence to prove that these additional services were approved by APP as required by PPL 2003/17 section 34.1
 - We noted for procurement number KA65209042521 that as per contract agreement the project should have been completed within 40 working days from the signing of the contract dated 22 September 2009. However, the technical acceptance report did not occur until 15 December 2009. Despite significant delays in finalization of the project, the Municipality did not charge any penalties to the supplier. Based on agreement the Municipality could have charged 0.1% of total value of the contract for each day the project was delayed up to 10% of the value of the contract.
 - In the case of procurement number KA65209043521, although a guarantee for execution of the contract was required, we were not provided with such document. According to article

60 of the Public Procurement Law, for large and medium projects, the contractual authority should request from the economic operator from whom work is contracted to a deposit guarantee for the execution of the work. This guarantee is one of the criteria for the contract to enter in force and is usually set at 10% of contracted amount.

- We noted the following for procurement number KA65208018121:
 - The contract agreement was signed without the execution performance guarantee although required in the notification for contract.
 - The initial contract did not include a total contract amount. The contract was amended at a later date to include the total contract amount of EUR 207 thousands.

Expenses

- The Municipality has established a Fund for Municipal Celebrations (the “Fund”), all funds in which are to be used to fund celebrations of various cultural events throughout the year. Based on review of documentation, this Fund was created by the Organization of war veterans with recommendation no. 430/08 of the Mayor of the Municipality dated 29 February 2008. The authorized persons for managing this Fund are the Head of the Fund and two other members from the Organizing Council of the Fund (one of whom belong to the management of the Municipality). During 2009 the Municipality paid out several amounts to this fund from the subsidies budget line.

In accordance with Rule 2, subsidies can only be given to private and public entities, who are independent bodies from the Municipality. The Municipality was not in compliance with this regulation as the Municipality’s management member is one of the authorized persons for managing this fund and no payment or withdrawal from this fund can be processed without his signature.

According to Treasury Guidelines and Financial Rule 02 – *Expenditure of Public Money* (“Rule 2”) there must be a clear legal basis for any subsidy and transfer paid by the Municipality. Furthermore, subsidies that are paid to any designated entity or private enterprise must be based on a formal grant agreement between the budget organization and the recipient. In addition this regulation requires that the Organization must keep detailed records of payments made for subsidies and amounts received back that are unpaid.

For all subsidy payments made to this Fund, reviewed as part of our sample, we were not provided with any formal agreement between the Municipality and the recipient. Furthermore, during review of a sample of amounts paid to this fund we noted that although the funds were transferred to the Fund for Municipal Celebrations, the invoices for related expenses were issued to the Municipality of Kaçanik instead of the Fund for Municipal Celebrations.

One of the amounts we tested was for sound system services for the celebration of the Independence Day of the Republic of Kosovo, for which the Mayor approved and the Municipality paid to the Fund EUR 2,000. The Municipality was unable to provide us with invoices to support such services.

Unpaid invoices

Section 13.1 of Administrative Instruction No.20/2009 on Annual Reporting of Budget Organizations states that: “*For all goods and services received, regardless of the economic category, budget organizations must pay for them by end of fiscal year – December 31st, 2009*”.



We noted that the municipality has presented unpaid invoices related to goods and service in section 13, Note 25 of the Financial Statements for the year ending 31 December 2009.

2.4.2 Risk

Lack of timely communication and approvals from authorities or incomplete documentation in the procurement files may lead to non-compliance with Laws or Regulatory requirements and to significant losses.

2.4.3 Recommendation

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.

2.4.4 Management response

The Municipality is authorized to intervene in the payroll list prepared by the Ministry of Public Administration – division of wages and salaries up to the moment of the transfer of payments to commercial banks;

The Municipality does not prepare the payroll – this is a responsibility assigned to the Ministry of Public Administration – division of wages and salaries;

The performance evaluation forms do exist. However, they contain some technical deviations from the required form;

In the case when the employee's job coefficient as per vacancy notification differed from the job coefficient as per contract, this is due to the decision of the Mayor of the Municipality to increase the job coefficient from six to seven for all employees who are qualified with a bachelors degree. This employee was included in this range as it was qualified.

Procurement Procedures

The Municipality has not prepared the procurement plan for the year 2009 but the procurement office has conducted its work based on the plan approved by the Municipality Assembly for capital investments projects as well as for goods and services.

According to section 20 of PPL 2003/17 for each project the Chief Administrative Officer must appoint a person to be act as authorizing officer for procurement activities. The Chief Administrative Officer has authorized the procurement manager for initiation of procurement activities as he is the only certified person in this field.

Regarding the procurement no.KA65208004521 you have identified certain deviations. However, we consider that the procedure for selection of the supplier does not contain a breach of the PPL because rightfully the commission has noted the difference in price and has properly corrected it.

Regarding 41 day delay on this project, we were not aware because the appointed project supervisor has not notified the procurement manager. In this case the procurement office has not been informed of such a delay.

In relation to your point about the supervision report dated 29 July 2009 in which it was stated that certain originally planned work for EUR 3,000 was not carried out and it was replaced with additional work, we consider that as long as the total amount in the contract is not exceeded there is no need for approval from APP.

In the case of procurement no. KA65209005521, we believe this was an oversight where 16 April 2009 was used instead of 17 April 2009.

In relation to procurement no. KA65209039221, we consider that this is not an annex contract but an additional part of the base contract, which has arisen as a result of the lower temperatures and we acted on behalf of the wellness of our citizens.

Unpaid invoices

The reason why we have disclosed the unpaid invoices and liabilities in 2009 for goods and services is as following:

- ◆ The budget year and the fiscal year do not begin and end on the same date (refer to AI 2009/15);
- ◆ The allocation of the own source revenue per the last two months M-11 and M-12/2009, were not available to be spent (see explanation above);
- ◆ Lack of fuel in the respective depos (vehicle, central heating, generators);
- ◆ Delays in issuing invoices by the suppliers.

2.5 Internal audit

2.5.1 Observation

The Municipality has not established an Audit Committee.

2.5.2 Risk

The absence of an Audit Committee increases the risk of failure in internal controls. In addition, it does not allow for the functions usually covered by the Audit Committee to be performed with the appropriate independence.

2.5.3 Recommendation

We recommend the Mayor ensures that the Municipality considers the establishment of Audit Committee with members having relevant expertise of financial reporting and internal controls. The Audit Committee should establish appropriate policies and procedures to ensure a high standard of corporate governance. The Audit Committee should review the current status and propose actions for improvement on the following:

- Municipality's accounting and financial reporting process;
- Assessment of internal control systems implemented by management;
- Internal and external audit processes;
- Compliance, reporting and control structures throughout the Municipality to ensure compliance with financial, regulatory and legal requirements;
- Internal Audit plan and follow-up of Internal Audit findings.

2.5.4 Management response

No comments received.

3 Prior year issues

3.1 Prior year observations

The management letter for the year 2008 gave eight main recommendations. In our current audit, we have noted that some of the recommendations related to management of vehicles have been partially implemented and recommendations in respect of preparation of financial statements have been partially resolved whereas others still remain to be implemented.

3.2 Current year status of prior year issues

1. Internal control system - This point remains outstanding and its current year status is discussed in sections 2.4 of this letter.
2. Revenues - This point remains outstanding and its current year status is discussed in sections 2.3 of this letter.
3. Salary expenditure - This point remains outstanding and its current year status is discussed in sections 2.4 of this letter.
4. Goods, services and capital investments - This point remains outstanding and its current year status is discussed in sections 2.4 of this letter.
5. Asset management - This point remains outstanding and its current year status is discussed in sections 2.2 of this letter.
6. Financial reporting - This point remains outstanding and its current year status is discussed in sections 2.1 of this letter.
7. Data protection policy, information technology access security and back up procedure – This point remains outstanding.

Appendix 2

Different forms of Audit Opinions applied by the Office of Auditor General in the Annual Audit Report 2009

(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.

II. DECLARATION REGARDING PRESENTATION OF FINANCIAL STATEMENTS

To: **Lulzim Ismajli, Director of Treasury**
From: **Permanent Secretary (Chief Executive Officer)**

In our opinion, the attached financial statements and the notes to these statements for the year ended on 31 December 2009 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 are based on properly maintained financial records.

This declaration is provided in connection with the presentation of the Kosovo General Budget financial statements of the budget organizations for the year ending on December 31, 2009.

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 Kosovo Consolidated Budget 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 December 31, 2009.

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.

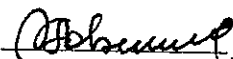
There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or Notes thereto.

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

In our opinion, the attached the financial statements give a true and fair presentation of the finances and financial transactions for the year ended on 31 December 2009 of Municipality of Kaçaniku.

Date:

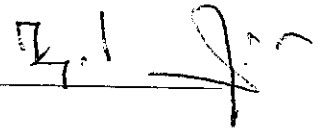
Signature and stamp:



Chief Administrative Officer

Date:

Signature and Stamp:



Chief Financial Officer



Kaçaniku Municipality
Section 9. Statement of Cash Receipts and Payments
for the year ended 31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

	Notes	2009			2008			2007		
		Single Treasury Account		Payments from third parties	Single Treasury Account		Payments from third parties	Single Treasury Account		Payments from third parties
		Kosovo Consolidated budget ('KCB')	OSR		KCB	OSR		KCB	OSR	
EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000		
Receipts										
General Fund Appropriations	2	3,419	576	-	2,738	435	-	2,486	325	-
Special Purpose Fund Appropriations		-	-	-	-	-	-	-	-	-
Designated Donor Grants	3	-	68	-	-	112	-	-	-	-
Other Receipts	4	-	-	-	-	-	-	-	-	-
Total receipts		3,419	644	-	2,738	547	-	2,486	325	-
Payments										
<i>Operations</i>										
Wages and Salaries	5	2,463	38	-	2,125	4	-	1,906	-	-
Goods and Services	6	181	189	-	291	187	-	128	189	-
Utilities	7	45	35	-	84	30	-	48	31	-
		2,689	262	-	2,500	221	-	2,082	220	-
<i>Transfers</i>										
Transfers and Subsidies	8	-	79	-	-	76	-	-	33	-
Capital Expenditures		-	-	-	-	-	-	-	-	-
Property Plant and Equipment	9	730	303	-	238	250	-	404	72	-
Other Payments	10	-	-	-	-	-	-	-	-	-
Total payments		3,419	644	-	2,738	547	-	2,486	325	-

Kaçaniku Municipality
Section 10. Budget Execution Report
for the year ended 31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

	Notes	2009				2008	2007
		Original Budget (Appropriation)	Final Budget (Appropriation)	Payments	Actual Budget	Payments	Payments
		A EUR '000	B EUR '000	C EUR '000	D=C-B EUR '000	E EUR '000	F EUR '000
Cash inflows into Treasury account							
Taxation	11	-	-	-	-	-	
Own Source Revenues 2009	12,28	258	445	355	(90)	435	325
Own Source Revenues 2008	12,28	-	250	221	(29)	-	-
General Fund		3,382	3,478	3,419	(59)	2,738	2,486
Grants and Aid	13	-	91	68	(23)	112	6
Capital receipts	14	-	-	-	-	-	-
Privatization Fund	15	-	-	-	-	-	-
Other	16	-	-	-	-	-	-
Total Receipts collected for KCB		3,640	4,264	4,063	(201)	3,285	2,817
Cash outflows from Treasury account							
Wages and Salaries	17	2,431	2,545	2,501	(44)	2,129	1,906
Goods and Services	18	355	402	370	(32)	478	323
Utilities	19	78	88	80	(8)	114	79
Transfers and Subsidies	20	41	80	79	(1)	76	33
Capital Expenditures	21	735	1,149	1,033	(116)	488	514
Privatization Fund	22	-	-	-	-	-	-
Other	23	-	-	-	-	-	-
Total Payments made from KCB through STA		3,640	4,264	4,063	(201)	3,285	2,855

The amounts presented in column (B) represent the actual allocation of the budget. The total final budget (KFMIS) was EUR 68 thousand higher than the total actual allocations presented above of EUR 4,264 thousand.

Kaçaniku Municipality

Section 11. Notes to the financial statements

31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

1. Accounting Policies

a) 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. 20/2009 *On Annual Reporting Of Budget Organizations*.

The accounting policies have been applied consistently throughout the period.

b) Reporting entity

The financial statements are for a public sector entity: Municipality of Kačaniku ('the Municipality').

The Municipality does not operate its own bank account. The Government operates a centralized treasury function which administers cash expenditures incurred by the Municipality during the financial year. This function is referred to as the "Treasury Single Account" or "TSA". Payments made on this account in respect of the Municipality are disclosed in the Treasury Account column in the Statement of Cash Receipts and Payments and other financial statements.

c) 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 the third parties do not constitute cash receipts or payments of the Municipality but do benefit the Municipality. The Municipality presents separately by source the payments in the Statement of Cash Receipts and Payments and other financial statements.

d) Reporting currency

The reporting currency is Euro.

e) Receipts and payments

Receipts (Revenues) are recognized once they come under the control of the Government. This means cash which is transferred to the Treasury Account with Central Bank of Kosovo ('CBK'), cash held in commercial bank accounts awaiting transfer to the CBK Treasury account and cash collected by officers of the Municipality awaiting transfer to the CBK Treasury Account.

Apart from payments by third parties (refer 1c above), payments (Expenditures) are recognized once they are paid from the Kosovo Consolidated Fund ('KCF') bank account.

f) Transfers

Amounts are transferred to eligible recipients in accordance with the operating mandate and authority of the Municipality.

g) Budgets

The information presented under the original, reviewed and final budgets is publicly available and the primary source of information is as follows:

- The Original Budget is approved by the Law No. 03/L-105
- The Reviewed Budget is approved by Law No. 03/L-167
- The Final Budget is included in the Kosovo Financial Management Information System and is also published as part of the consolidated financial statements of the Government of Kosovo.

Kaçaniku Municipality

Section 11. Notes to the financial statements

31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

2. General Fund Appropriations

Economic classification	2009			2008	2007
	KCB EUR '000	OSR EUR '000	Total EUR '000	EUR '000	EUR '000
Wages and Salaries	2,463	38	2,501	2,130	1,907
Goods and Services	181	181	362	477	317
Utilities	45	35	80	112	78
Subsidies and Transfers	-	79	79	76	32
Capital Outlays	730	243	973	378	477
Total	3,419	576	3,995	3,173	2,811

3. Designated Donor Grants

	2009 EUR '000	2008 EUR '000	2007 EUR '000
Wages and Salaries	-	-	-
Goods and Services	8	-	7
Utilities	-	-	-
Subsidies and Transfers	-	1	-
Capital Outlays	60	111	-
Total	68	112	7

4. Other Receipts

There were no other receipts during the year 2009.

5. Wages and Salaries

Description	2009			2008	2007
	KCB EUR '000	OSR EUR '000	Total EUR '000	EUR '000	EUR '000
Payments from KCF					
Net salaries	2,077	38	2,115	1,799	1,626
Personal Income Tax	70	-	70	63	59
Employer pension contribution	119	-	119	99	90
Employee pension contribution	119	-	119	99	90
Payments for Unions-0.10% to 0.50%	9	-	9	7	5
Overtime payments	-	-	-	8	-
Daily payments for Parliament and committee members	69	-	69	54	36
	2,463	38	2,501	2,129	1,906
Payment from Grants					
Full time salaries	-	-	-	-	-
Overtime wages	-	-	-	-	-
Contracted payments	-	-	-	-	-
	-	-	-	-	-
Total	2,463	38	2,501	2,129	1,906

Kaçaniku Municipality

Section 11. Notes to the financial statements

31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

6. Goods and Services

Description	2009			2008	2007
	KCB EUR '000	OSR EUR '000	Total EUR '000	EUR '000	EUR '000
Payments from KCF					
Expenses for local travelling	1	1	2	2	2
Expenses for abroad travelling	1	1	2	6	4
Communication Services	3	-	3	7	9
Contractual services	30	7	37	44	43
Compensations for court cases	1	-	1	1	-
Furniture and equipment with value smaller than 1,000 EUR	2	1	3	17	-
Food and drinks supply	4	10	14	13	6
Other equipment	7	2	9	-	26
Fuel for generator	8	3	11	30	12
Computer equipment with value smaller than 1,000 EUR	-	2	2	-	3
Other Expenses	-	-	-	15	1
Fuel Supply	2	49	51	48	37
Office supply	21	27	48	54	27
Advances	-	-	-	-	3
Photocopy machine	1	2	3	-	-
Vehicle maintenance and repairs	12	4	16	7	6
Internet Expenses	-	1	1	1	-
Cleaning supplies	3	6	9	10	8
Wardrobe Expenses	2	-	2	6	2
Medical supplies	3	6	9	17	15
Petroleum for heating	23	6	29	81	24
Representation Expenses	10	6	16	8	12
Medical Services	1	-	1	-	1
Technical Services	-	-	-	-	1
Membership Expenses	1	-	1	3	-
Fuel for vehicles	20	10	30	29	25
Insurance and registration of vehicles	5	1	6	5	4
Building maintenance	6	16	22	47	16
Maintenance of roads infrastructure	3	2	5	4	15
Maintenance of Information Technology	1	-	1	-	1
Maintenance of furniture and equipments	2	1	3	7	3
Advertisement Expenses	3	1	4	-	1
Notification publishing	2	10	12	8	1
Public Information Expenses	3	5	8	8	6
Training and Education Expenses	-	-	-	-	3
Advances for business travelling	-	-	-	-	-
Balance carried forward	181	180	361	478	317

Kaçaniku Municipality

Section 11. Notes to the financial statements

31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

6. Goods and Services (continued)

Description	2009			2008	2007
	KCB	OSR	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Balance brought forward	181	180	361	478	317
Payment from Grants					
Travel expenses	-	4	4	-	-
Telecommunication services	-	4	4	-	-
Contractual services	-	-	-	-	6
Furniture and equipment	-	-	-	-	-
	-	8	8	-	6
Total	181	189	370	478	323

7. Utilities

Description	2009			2008	2007
	KCB	OSR	Total	EUR	EUR
	EUR '000	EUR '000	EUR '000	'000	'000
Utilities paid from the KCF	45	35	80	114	79
Utilities paid from Grants	-	-	-	-	-
Total	45	35	80	114	79

8. Transfers and Subsidies

Description	2009			2008	2007
	KCB	OSR	Total		
	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Payments from KCF					
Subsidies					
Subsidies for public entities	-	37	37	36	21
Subsidies for non-public entities	-	30	30	23	-
Payments for individual beneficiaries	-	12	12	17	12
Base pensions	-	-	-	-	-
Disabled pensions	-	-	-	-	-
Pensions or social assistance	-	-	-	-	-
Payments for war invalids	-	-	-	-	-
Payments for war victims families	-	-	-	-	-
Trepca provisional pensions	-	-	-	-	-
	-	79	79	76	33
Payment from Grants					
Subsidies					
Subsidies for public entities	-	-	-	-	-
Subsidies for non-public entities	-	-	-	-	-
Payments for individual beneficiaries	-	-	-	-	-
	-	-	-	-	-
Total	-	79	79	76	33

Kaçaniku Municipality

Section 11. Notes to the financial statements 31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

9. Property, Plant and Equipment

Description	2009		2008	2007	
	KCB EUR '000	OSR EUR '000	Total EUR '000	EUR '000	EUR '000
Payments from KCF					
Buildings	-	18	18	114	-
Road construction	545	86	631	159	441
Waste and water system	79	14	93	-	-
Water supply system	1	5	6	37	35
Energy, generation, transfer, and supply	39	15	54	-	-
Machinery	58	94	152	45	-
Other capitals items	8	11	19	23	-
	730	243	973	378	476
Payment from Grants					
Buildings	-	-	-	-	20
Road construction	-	60	60	110	-
Waste and water system	-	-	-	-	18
Water supply system	-	-	-	-	-
	-	60	60	110	38
Total	730	303	1,033	488	514

10. Other Payments

There were no other payments during 2009.

11. Taxation

Description	Note	2009	2008	2007	% of total 2009	% of difference From 2008
		Original Budget EUR '000	EUR '000	EUR '000		
Customs	11.1	-	-	-	-	-
Tax Administration	11.2	-	-	-	-	-
Other tax	11.3	-	-	-	-	-
Total		-	-	-	-	-

Kaçaniku Municipality

Section 11. Notes to the financial statements 31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

12. Own source revenues

Description	Notes	2009 EUR '000	2008 EUR '000	2007 EUR '000	% of 2009 total	% of Difference from 2008
Administrative Tax	12.1	105	192	76	25%	-45%
Penalty-fines revenue		80	98	72	18%	-18%
Revenues from advertisement		-	24	16	0%	-100%
Professional services license		-	5	3	0%	-100%
Revenues from license on use of		11	7	7	3%	57%
Revenues from rent of public		18	-	-	3%	100%
Revenues from building licenses		17	-	-	3%	100%
Sale of services revenue		-	5	-	0%	-100%
Participation revenues		-	-	-	0%	0%
Inspection revenues		2	2	1	0%	0%
Revenue from business licenses		18	-	-	4%	100%
Revenues from geodesy activities		20	-	-	4%	100%
Land usage revenues		-	38	13	0%	-100%
Tax on Property		150	-	-	34%	100%
Revenues from kindergarten		-	-	-	0%	0%
Revenues from commercial licenses		-	-	-	0%	0%
Revenues from kindergarten		-	-	-	0%	100%
Other receipts		3	139	91	1%	-98%
Revenue from previous year		-	-	-	0%	100%
Revenues from Health Services		21	-	-	5%	100%
Public Services Revenues		-	36	37	0%	-100%
Total		445	546	316	100%	18%
Own source revenue carried forward from previous year	28	250	139	193		

Kaçaniku Municipality

Section 11. Notes to the financial statements

31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

12.1 Own source revenues – Administrative tax

Description	2009 EUR '000	2008 EUR '000	2007 EUR '000
Vehicle Registration Taxes	34	-	-
Driving License Taxes	4	-	-
Traveling Documents Taxes	-	-	-
Tender Participation	3	-	-
Road Tax	-	-	-
Official certificates (birth, martial, death etc)	37	-	-
Other official certificates	27	-	-
Certification of documents	-	-	-
Court Penalties	-	-	-
Forest Fines	-	-	-
Return of court taxes	-	-	-
Total	105	-	-

13. Grants and Assistance

Description	2009 EUR '000	2008 EUR '000	2007 EUR '000
Community Participation in the suburb Lekaj - Doganaj	5	-	-
Community Participation in the suburb Topall-Soponicë	7	-	-
Community Participation in the suburb Topall-Soponicë	7	-	-
Community Participation in the suburb Trima-Manve dhe Prushve	6	-	-
Community Participation in the suburb Qardak-K. I Vjetër	19	-	-
Community Participation in the suburb Trima-Manve dhe Prushve	1	-	-
Community Participation in the suburb Shorr-Zharkë-Bicaj	18	-	-
Community Participation in the suburb Glloboqicë-R.Luma	3	-	-
Funds from World Bank for Education	16	-	-
Community Participation	9	112	6
Total	91	112	6

Kaçaniku Municipality

Section 11. Notes to the financial statements 31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

14. Capital receipts

Asset Type	Profit from Sale		
	2009 EUR '000	2008 EUR '000	2007 EUR '000
Infrastructure	-	-	-
Manufacturing	-	-	-
Site and Equipment	-	-	-
Total	-	-	-

15. Privatization fund

POE	Profit from Privatization		
	2009 EUR '000	2008 EUR '000	2007 EUR '000
POE #1	-	-	-
POE #2	-	-	-
POE #3	-	-	-
POE #4	-	-	-
POE #5	-	-	-
Total	-	-	-

16. Other

Receipt type	2009 EUR '000	2008 EUR '000	2007 EUR '000
Lottery games deposit	-	-	-
Regulatory committee deposit	-	-	-
ADD deposits	-	-	-
Special Chamber deposit	-	-	-
Total	-	-	-

Kaçaniku Municipality

Section 11. Notes to the financial statements

31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

17. Difference between payments and final budget for wages and salaries

The decrease in actual payments for wages and salaries amounting to EUR 44 thousand compared to the final budget is explained by the decrease in number of meetings of Municipality Assembly due to participation of assembly members at local elections in 2009 as well as the participation in local elections of education and health staff that were not entitled to a salary for the period when they were participating in the local elections.

18. Difference between payments and final budget for goods and services

The decrease in actual payments for goods and services amounting to EUR 32 thousand compared to the final budget is explained by the invoices/liabilities carried forward to 2010 due to delay of suppliers in issuing the invoices.

19. Difference between payments and final budget for utilities

There is no material difference between the final budget amount and the actual amount.

20. Difference between payments and final budget for transfers and subsidies

There is no material difference between the final budget amount and the actual amount.

21. Difference between payments and final budget for capital expenditure

The decrease of EUR 116 thousand for capital expenditure is due to several projects not finalized during 2009.

22. Difference between payments and final budget for privatization fund

There were no budgeted or actual payments for the privatization fund during 2009.

23. Difference between payments and final budget for other payments

There were no other payments budgeted or paid during 2009.

Kaçaniku Municipality

Section 12 to 17. Notes to the financial statements

31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Section 12.

24. Reporting obligations under the LPFMA

No	Number of employees by department	Number of employees as per Budget Law 03/L-105	Actual number of employees in the beginning of 2009		Actual number of employees in the end of 2009	
			Full time employees	Part time employees	Full time employees	Part time employees
1	Major Office	18	17	-	18	-
2	Administration	24	24	-	24	-
3	Budget and finance	17	16	-	16	-
4	Public services and emergency	25	24	-	24	-
5	Agriculture	5	4	-	4	-
6	Urban planning	13	12	-	13	-
7	Health	115	107	-	114	-
8	Education and culture	566	564	-	566	-
	Total	783	768	-	779	-

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Section 13.

25. Statement of Outstanding Invoices (Liabilities)

No	Invoice Date	Invoice Number	Economic Code	Payment due date	Vendor	Purpose	Reason for non payment	Amount EUR'000
1	N/A	N/A	N/A	N/A	N/A	Meal compensation in Health Department (for months 09 - 12/2009.)	Insufficient funds	16.880
2	N/A	N/A	N/A	N/A	N/A	Performance Compensation in Health Department – CFM for 2009	Missing criteria for payment	9.694
3	31.08.2009	138	13610	30.09.2009	Printing House "ERA"	Stamp preparation	Insufficient funds	0.280
4	23.12.2009	234	13610	22.01.2010	Printing House "ERA"	Cards	Closing of payment period in KFMIS	0.080
5	17.11.2009	206	13610	16.12.2009	Printing House "ERA"	Certificates	Insufficient funds	0.098
6	30.11.2009	321-11/09	14210	29.12.2009	Zëri	Publishing	Closing of payment period in KFMIS	0.200
7	22.12.2009	445/09	14210	21.01.2010	Zëri	Publishing	Closing of payment period in KFMIS	0.603
8	17.02.2009	198/09	14210	18.03.2009	EPOKA E RE	Publishing	Insufficient funds	0.116
9	31.12.2009	2008/2009	14220	31.12.2009	Mayor Office	Official Gazette	Closing of payment period in KFMIS	0.847
10	30.12.2009	9370	14310	29.01.2010	SOPA COMMERC	Business meals	Closing of payment period in KFMIS	0.380
11	30.12.2009	189/09	14310	29.01.2010	Rest. "MANI"	Business Meals	Closing of payment period in KFMIS	0.135
12	31.12.2009	242/09	13610	30.01.2010	Printing House "ERA"	Pens and table notebooks	Closing of payment period in KFMIS	0.732
13	31.12.2009	9371	14310	30.01.2010	Rest. "SOPA COMMERCE"	Business Meals	Closing of payment period in KFMIS	0.082
14	17.12.2009	186/09	14310	16.01.2010	Rest. "MANI"	Business Meals	Closing of payment period in KFMIS	0.044
15	31.12.2009	Agreement with AKK Agreement and	13480	31.12.2009	Association of Kosovo Municipalities	Membership for third and fourth quarters in 2009	Insufficient funds	1.187
16	31.12.2009	contract	13480	31.12.2009	Regional Development Agency – Lindja NTP "Shkëndija - Petrol"	Rent and Participation in 2009	Not listed in KFMIS	1.400
17	31.12.2009	170-A.09.	13780	30.01.2010	Kaçanik	Fuel for Vehicles	Closing of payment period in KFMIS	1.136
18	31.12.2009	12/09.	14310	30.01.2010	LPH "Lala " - Kaçanik	Canteen for December 2009	Closing of payment period in KFMIS	0.498

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Section 13.

25. Statement of Outstanding Invoices (Liabilities) (continued)

No	Invoice Date	Invoice Number	Economic Code	Payment due date	Vendor	Purpose	Reason for non payment	Amount EUR'000
19	21.08.2009	134	13610	20.09.2009	Printing House "ERA"	Tender Files	Insufficient funds	0.550
20	30.11.2009	374	14210	29.12.2009	INFOPRES	Publishing	Insufficient funds	0.111
21	30.11.2009	375	14210	29.12.2009	INFOPRES	Publishing	Insufficient funds	0.116
22	30.11.2009	376	14210	29.12.2009	INFOPRES	Publishing	Insufficient funds	0.232
23	31.08.2009	50094	14210	30.09.2009	INFOPRES	Publishing	Insufficient funds	0.891
24	30.09.2009	50223	14210	29.10.2009	INFOPRES	Publishing	Insufficient funds	0.854
25	01.12.2009	34/12	14210	31.12.2009	KOSOVA PRES	Publishing	Insufficient funds	0.116
26	01.12.2009	13/12	14210	31.12.2009	KOSOVA PRES	Publishing	Insufficient funds	0.116
27	01.12.2009	241	13610	31.12.2009	Printing House "BERATI"	Books for admin fees	Insufficient funds	1.469
28	22.12.2009	168-A/09	13770	21.01.2010	NTP "Shkëndija - Petrol" Kaçanik	Fuel for Generator	Closing of payment period in KFMIS	0.511
29	31.12.2009	21-A/09	13720	30.01.2010	NTP "Shkëndija - Petrol" Kaçanik	Petroleum for Heating	Closing of payment period in KFMIS	1.880
30	31.12.2009	13-A/09	13720	30.01.2010	NTP "Shkëndija - Petrol" Kaçanik	Petroleum for Heating	Insufficient funds	2.350
31	02.12.2009	144/A/009	13780	31.12.2009	SHKENDIJA	Oil	Insufficient funds	0.060
32	01.12.2009	143/A/009	13780	31.12.2009	SHKENDIJA	Oil	Insufficient funds	0.191
33	31.12.2009	106/A/009	13780	30.01.2009	SHKENDIJA	Oil	Insufficient funds	0.498
34	15.11.2009	175/09	14310	14.12.2009	Rest. "MANI"	Business Meals	Insufficient funds	0.220
35	24.11.2009	56/009	13460	23.12.2009	NSH "SYRI SHQIPONJËS"	Security November 2009	Insufficient funds	0.675
36	10.12.2009	62/2009	13460	31.12.2009	NSH "SYRI SHQIPONJËS"	Security December 2009	Insufficient funds	0.675
37	December 2009	DFE-9004058	13210	January 2010	KEK	Lighting Expenses in the Assembly	Closing of payment period in KFMIS	1.206
38	December 2009	DFE-9004114	13210	January 2010	KEK	Public Lightening in the streets E.Duraku"	Closing of payment period in KFMIS	0.043

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Section 13.

25. Statement of Outstanding Invoices (Liabilities) (continued)

No	Invoice Date	Invoice Number	Economic Code	Payment due date	Vendor	Purpose	Reason for non payment	Amount EUR'000
39	December 2009	DFE-9004178	13210	January 2010	KEK	Public Lightening in the street "V.Çaka"	Closing of payment period in KFMIS	0.043
40	December 2009	DFE-9004020	13210	January 2010	KEK	Public Lightening in the street "A.Bajrami"	Closing of payment period in KFMIS	0.078
41	December 2009	DFE-9015813	13210	January 2010	KEK	Public Lightening in the street "D.Bilalli"	Closing of payment period in KFMIS	0.003
42	December 2009	DFE-2001570	13210	January 2010	KEK	Public Lightening in the street.B6 5210-Kaçanik	Closing of payment period in KFMIS	0.060
43	December 2009	DFE-9022063	13210	January 2010	KEK	Public Lightening in the street "V.Çaka"	Closing of payment period in KFMIS	0.058
44	December 2009	DFE-2001866	13210	January 2010	KEK	Public Lightening in the street "E.Duraku -P+8"	Closing of payment period in KFMIS	0.058
45	December 2009	DFE-7004159	13210	January 2010	KEK	Public Lightening in the street Kukaj, Kaçanik	Closing of payment period in KFMIS	0.003
46	December 2009	DFE-9004186	13210	January 2010	KEK	Lightening in the Building in – Ivajë	Closing of payment period in KFMIS	0.028
47	December 2009	DFE-9004254	13210	January 2010	KEK	Lightening in Kaçaniku i Vjeter	Closing of payment period in KFMIS	0.003
48	December 2009	DFE-9004237	13210	January 2010	KEK	Lightening in the office in Doganaj	Closing of payment period in KFMIS	0.003
49	December 2009	DFE-9004057	13210	January 2010	KEK	Lightening in the office –“Baraka”	Closing of payment period in KFMIS	0.550
50	December 2009	Fat. -17798	13220	January 2010	NPK "Lypeteni"	Water expenses “City Park”	Closing of payment period in KFMIS	0.003
51	December 2009	Fat. -17959	13220	January 2010	NPK "Lypeteni"	Water Expenses - Assembly	Closing of payment period in KFMIS	0.049
52	December 2009	Fat. -17658	13220	January 2010	NPK "Lypeteni"	Water Expenses “Baraka”	Closing of payment period in KFMIS	0.026
53	31.12.2009	2127/09	13230	January 2010	KR Pastërtia	Garbage in Elementary Schools	Closing of payment period in KFMIS	7.749
54	31.12.2009	2125/09	13230	January 2010	KR Pastërtia	Garbage in Secondary Schools	Closing of payment period in KFMIS	1.412
Total								57.282

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Section 14.

26. Statement of Unjustified Advances and Loans

Issuance Date	CPO No.	Purpose	2009 EUR '000
			-
Total			-

Section 15.

27. Summary of Non-Financial Assets Possessed by Budget Organizations

Assets Classification	2009 EUR '000	2008 EUR '000	2007 EUR '000
Land	19,252	19,252	19,252
Equipment	328	317	307
Vehicles	252	252	224
Inventory	117	117	106
Non-residential Buildings	4,967	4,677	5,937
Other Constructed Structures	152	-	-
Roads Construction	6,702	4,954	5,198
Other Capitals	344	258	265
Watering System	7	-	-
Sewage	1,397	1,285	1,318
Total	33,518	31,112	32,607

ID Category	Category	2009 EUR '000
		-
		-
		-
Total		-

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

28. Summary of Carried Forward Own Source Revenues

	2009	2008	2007
	EUR '000	EUR '000	EUR '000
Own Source Revenues carried forward from the previous year	250	139	193
Own Source Revenues received this year in accordance with Note 12	445	546	316
Available total for appropriation in the current year	695	685	509
Wages and Salaries	(38)	(4)	-
Goods and Services	(181)	(187)	(195)
Utilities	(35)	(30)	(31)
Transfers and subsidies	(79)	(76)	(32)
Capital Outlays	(243)	(138)	(112)
Other	-	-	-
Total paid in 2009	(576)	(435)	(370)
Carried forward amount	119	250	139

Section 16.

29. Contingent Liabilities

		2009	2008	2007
Contingency Liability Type	Reason for Liabilities	EUR '000	EUR '000	EUR '000
		-	-	-
		-	-	-
		-	-	-
		-	-	-
Total		-	-	-

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Section 17.

30. Reconciliation between Original and Final Budget Appropriations

Appropriation Category	Authorized reconciliations by Law on Public Financial Management and Accountability ('LPFMA')					Final Budget Appropriation KFMIS (a) EUR '000	Adjustment from Original Budget EUR '000
	Original Budget Appropriation Law on Appropriations (Law No. 03/L-105) EUR '000	Changes pursuant to Sec.29 Law 03/L-048 EUR '000	Changes pursuant to Sec.30 Law 03/L-048 EUR '000	Changes pursuant to Sec.31 Law 03/L-048 EUR '000	ORS Changes EUR '000		
Inflows							
Tax	-	-	-	-	-	-	0%
General Grant	3,382	-	-	96	-	3,478	3%
Own source Revenues	258	-	-	-	187	445	72%
Own source Revenues 2008	-	-	-	-	250	250	100%
Grants and Aid	-	-	-	-	91	91	100%
Capital Receipts	-	-	-	-	-	-	0%
Privatization Fund	-	-	-	-	-	-	0%
Other	-	-	-	-	-	-	0%
Total	3,640	-	-	96	528	4,264	17%
Outflows							
Wages and Salaries	2,431	-	-	76	38	2,545	5%
Goods and Services	355	-	-	18	29	402	13%
Utilities	78	-	-	2	8	88	14%
Transfers and Subsidies	41	-	-	-	39	80	95%
Capital Expenditures	735	-	-	-	414	1,149	56%
Privatization Fund	-	-	-	-	-	-	0%
Other	-	-	-	-	-	-	0%
Total	3,640	-	-	96	528	4,264	17%

The amounts presented in column (a) represent the actual allocation of the budget. The total final budget (KFMIS) was EUR 68 thousand higher than the total actual allocations presented above.

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Budget Execution Report

Description		Original Budget	Final Budget	Payments	Progress	Progress
		Law No. 03/L-105	KFMIS		in %	in %
A		b	c	d	e=(d-b)/b	f= (d-c)/c
Total Payments	1+2+3+4	3,640	4,264	4,063	12%	-5%
Payments from the General Grant	1	3,382	3,478	3,419	1%	-2%
Wages and Salaries		2,424	2,506	2,463	2%	-2%
Goods and Services		173	185	181	5%	-2%
Utilities		50	53	45	-10%	-15%
Subsidies and Transfers		-	-	-	0%	0%
Capital Investments		735	734	730	-1%	-1%
Payments from Own Source Revenues of 2009	2	258	445	355	37%	-20%
Wages and Salaries		7	38	37	478%	1%
Goods and Services		182	185	166	-10%	-11%
Utilities		28	28	28	-3%	-3%
Subsidies and Transfers		41	58	57	40%	-1%
Capital Investments		-	136	67	100%	-51%
Payments from Own Source Revenues carried Forward from 2008	3	-	250	221	100%	-12%
Wages and Salaries		-	1	1	100%	0%
Goods and Services		-	16	15	100%	-4%
Utilities		-	7	7	100%	0%
Subsidies and Transfers		-	22	22	100%	0%
Capital Investments		-	204	176	100%	-14%
Payments from the pre-assigned Grant	4	-	91	68	100%	-25%
Wages and Salaries		-	-	-	100%	0%
Goods and Services		-	16	8	100%	-49%
Utilities		-	-	-	100%	0%
Subsidies and Transfers		-	-	-	100%	0%
Capital Investments		-	75	60	100%	0%

The amounts presented in column (c) represent the actual allocation of the budget. The total final budget (KFMIS) was EUR 68 thousand higher than the total actual allocations presented above.

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Report of Payments under Programs

		Mayor office	Administration	Budget and finance	Total
Total Payments	1+2+3+4	1,600	2,029	434	4,063
Payments from the General Grant	1	1,203	1,840	376	3,419
Wages and salaries		387	1,781	295	2,463
Goods and services		112	-	69	181
Utilities		33	-	12	45
Subsidies and transfers		-	-	-	-
Capital Investments		671	59	-	730
Payments from Own Source Revenues of 2009	2	125	176	54	355
Wages and salaries		-	-	37	37
Goods and services		28	126	12	166
Utilities		-	28	-	28
Subsidies and transfers		30	22	5	57
Capital Investments		67	-	-	67
Payments from Own Source Revenues of 2008	3	212	5	4	221
Wages and salaries		-	-	1	1
Goods and services		15	-	-	15
Utilities		7	-	-	7
Subsidies and transfers		14	5	3	22
Capital Investments		176	-	-	176
Grants	4	60	8	-	68
Wages and salaries		-	-	-	-
Goods and services		-	8	-	8
Utilities		-	-	-	-
Subsidies and transfers		-	-	-	-
Capital Investments		60	-	-	60

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Report of Receipts under Programs

Description	Code	Administration	Agriculture	Budget and Finance	Cadastre	Urban planning	Health	Education and culture	Emergency	Total
Tax for business registration	50006	-	-	19	-	-	-	-	-	19
Tax for Public Parking	50008	-	-	-	-	-	-	-	-	-
Tax for vehicle registration	50001	-	-	36	-	-	-	-	-	36
Tax for construction licenses	50009	-	-	-	-	17	-	-	-	17
Tax for registration of inheritance	50011	-	-	-	13	-	-	-	-	13
Tax for change in land destination	50012	-	9	-	-	-	-	-	-	9
Tax for birth certificates	50013	29	-	-	-	-	-	-	-	29
Tax for death certificates	50015	-	-	-	-	-	-	-	-	-
Tax for martial certificates	50014	7	-	-	-	-	-	-	-	7
Administrative Taxes	50019	-	-	-	13	-	-	-	-	13
Tax for Tender Participation	50020	3	-	-	-	-	-	-	-	3
Inspection fines	50104	-	-	-	-	-	1	-	-	1
Mine licenses	50203	-	1	-	-	-	-	-	-	1
Technical acceptance for shops	50205	-	-	-	-	-	-	-	-	-
Sanitary Consent	50501	-	-	-	-	-	-	-	-	-
Rent for trade buildings	50407	-	-	-	-	18	-	-	-	18
Rent from Public Buildings	50408	-	-	-	-	-	-	-	-	-
Tax for driving license certifications	50024	-	-	-	-	-	4	-	-	4
Participation in Health Department	50409	-	-	-	-	-	13	-	-	13
Participation in Education – Cultural activities	50409	-	-	-	-	-	-	9	-	9
Geodesy Activities	50504	-	-	-	11	-	-	-	-	11
Urban Planning and Inspection activities	50503	-	-	-	-	-	1	-	-	1
Hygiene – Sanitary Inspection	50507	-	-	-	-	-	-	-	-	-
Community Participation	56000	-	-	-	-	-	-	-	-	-
Property Tax	40110	-	-	150	-	-	-	-	-	150
Traffic Fines	50101	-	-	-	-	-	-	-	24	24
Court Penalties- Fines	50102	-	-	-	-	-	-	-	56	56
Tax on Forest Usage (Agency for Kosovo Forests)	50214	-	11	-	-	-	-	-	-	11
Total		39	21	205	37	35	19	9	80	445

Kaçaniku Municipality
Section 12 to 17. Notes to the financial statements
31 December 2009

(Amounts in thousands of EUR, unless otherwise stated)

Payments from the General Fund ('KCF') and Own Source Revenue ('OSR')

		Economic classification					Total
		Wages and salaries	Goods and services	Utilities	Subsidies and Transfers	Capital Outlays	
Functional classification	Social protection	17	12	2	-	-	31
	General public services	259	122	39	30	818	1,268
	Defense	-	-	-	-	-	-
	Public order and safety	-	15	1	3	-	19
	Economic affairs	79	2	-	6	-	86
	Environmental Protection	-	3	-	4	15	22
	Housing and Community Amenities	42	12	-	2	81	137
	Health	318	69	9	8	-	404
	Recreation, Culture and Religion	-	1	-	10	-	11
	Education	1,787	125	27	18	59	2,017
	TOTAL	2,502	362	78	80	973	3,995

Payments from Designated Grants

		Economic classification					Total
		Wages and salaries	Goods and services	Utilities	Subsidies and Transfers	Capital Outlays	
Functional classification	Social protection	-	-	-	-	-	-
	General public services	-	-	-	-	60	60
	Defense	-	-	-	-	-	-
	Public order and safety	-	-	-	-	-	-
	Economic affairs	-	-	-	-	-	-
	Environmental Protection	-	-	-	-	-	-
	Housing and Community Amenities	-	-	-	-	-	-
	Health	-	-	-	-	-	-
	Recreation, Culture and Religion	-	-	-	-	-	-
	Education	-	8	-	-	-	8
	TOTAL	-	8	-	-	60	68