



Financial Statements and Independent Auditors' Report

Municipality of Mamusha

31 December 2011

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Executive Summary

Grant Thornton LLC, on behalf of the Office of the Auditor General, has carried out an audit of the Annual Financial Statements of the Municipality of Mamusha for the year ended 31 December 2011.

Our audit was carried out in accordance with international auditing standards issued by 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 in page 7 of this document:

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs 1 to 5, the financial statements present fairly, in all material respects, the receipts and payments of the Municipality for the year ended 31 December 2011 in accordance with the International Public Sector Accounting Standards – IPSAS “Financial Reporting Under the Cash Based Accounting”, with the Financial Rule No. 07/2011 on Annual Reporting of Budget Organizations.

The main messages to the Mayor, which led to qualification of our audit opinion, are:

1. Certain disclosures required by the IPSAS Financial Reporting Under The Cash Basis of Accounting and the Financial Rule 07/2011 On Annual Reporting of Budget Organizations were not made by the Municipality in preparing the financial statements as at and for the year ended 31 December 2011. In particular, the following was omitted or improperly disclosed in the financial statements
 - Section 12 Statement of Cash receipts and payments does not agree with actuals reported in SIMFK.
 - Section 12 Statement of Cash receipts and payments is not properly completed and does not agree with Notes 2 and 8.
 - Payments from third parties for the year ended 31 December 2011, in section 12 of Statement of Cash receipts and payments are not disclosed.
 - Section 13 Budget Execution Report is not properly completed.
 - Receivables (used for revenue collecting organizations) are not appropriately completed.
 - Law No.03/L-221 - Report on the taken and proposed actions on findings and recommendations of the auditor for the year 2010 is not appropriate completed.

Therefore we were unable to obtain reasonable assurance over the completeness and regulatory compliance of the financial information presented in the Municipality’s financial statements as

at and for the year ended 31 December 2011.

2. The Comparative information for the years 2010 and 2009 is not appropriately presented:
 - Data presented in financial statements for the year ended 31 December 2011 are presented in EUR whereas a comparative data are presented in EUR thousand.
 - Section 17 Balance of unexpended own source revenue is not properly disclosed for the year 2010.
3. The Municipality does not 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 procedures to verify the completeness of the payments from third parties recognized for the year ended 31 December 2011.
4. Data related to property, plant and equipment owned by the Municipality are disclosed in financial statements. However, there are many deficiencies and uncertainties which affect the Municipality's financial reporting of property, plant and equipment as following:
 - The balance of property, plant and equipment as disclosed in the Note 27 of Municipality's financial Statements as of 31 December 2011 does not reconcile with the assets registry. Further, the Municipality has not registered property, plant and equipment in the Kosovo Financial Management Information System (referred to as "KFMIS").
 - The Municipality has not appointed the Property valuation Committee and has not performed any evaluation of its assets as of 31 December 2011. They should have performed evaluation of all categories of assets: in use, damaged assets, property of non-transferred value, and evaluate requests for property alienation.

Due to the nature of the records and other deficiencies as described above, we were not able to satisfy ourselves with the disclosures, existence, completeness, accuracy and valuation of the Municipality's property, plant and equipment as of 31 December 2011.
5. As of 31 December 2011, the Municipality has not properly disclosed in its accounts receivables related to the property tax, tax on business licence and other tax receivables which is required by the Financial Rule 07/2011. Additionally, the Municipality does not maintain complete and accurate debtors' records. Accordingly we were unable to satisfy ourselves as to account receivables balances as of 31 December 2011.

Internal Controls

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 control systems are not properly designed to eliminate evident weaknesses and are not appropriately implemented. In order to improve the functioning of the financial management system and internal controls, we recommend thje management to ensure:

- The Financial statements are prepared in compliance with the actual administrative instruction and IPSAS;
- A comprehensive list of its property, plant and equipment is maintained;
- An automated billing system for all type of taxes is maintained;
- Measures are taken to increase the collection of revenues from various taxes;
- Law No.03/L-241 amended 04/L-042 'Law on Public Procurement in Kosovo' is fully complied with; and
- An Audit Unit and Audit Committee are established.

Management of the Municipality was given the possibility to comment on the findings presented in this report. Management has agreed to make all efforts to address our recommendation regarding internal control system, financial statements, wages and salaries, procurement, debts, handling of receivables and establishment of an Audit Unit and Audit Committee.

Furthermore, at the end of 2010 and beginning of 2011 PEFA (Public Expenditures and Finances Accountability) assessment, similar to the one of the national level Government was developed for five municipalities of Kosovo, which resulted in developing an action plan to reform PFM (Public Finance Management) for the municipalities participating in this process. The Municipality of Mamusha was one of the participants. The assessment was done on public finance management performed on four main categories such as Budget Credibility, Key Cross cutting issues - Comprehensiveness and transparency, Budget Cycle and Donor Practice. The overall conclusion was that Public Financial Management of the Municipality of Mamusha has weak fields in all categories mentioned above and needs improvements.

1. Introduction

This audit relates to the Annual Financial Statements of the Municipality of Mamusha for the year ended 31 December 2011.

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

Grant Thornton LLC, on behalf of The Office of the Auditor General, is responsible for carrying out an annual regularity 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.

OAG carried out an interim audit of the Municipality. During that stage of the audit process they have addressed the Municipality’s handling of recommendations given earlier and the quality of financial management. Based on this they gave recommendations to the management. Their recommendations also included advice related to improvements for the financial statements to be in compliance with Financial Rule 07/2011 and International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”. This also included advice related to the preparation of the Annual Financial Statements. The Office of the Auditor General’s recommendations were submitted through an audit memorandum dated December 2011.

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 Financial Rule 07/2011;
- Established level a materiality, as a threshold for assisting in determining the type of opinion to render on the financial statements;
- Used a combination of judgement and random sampling to select transaction for testing;
- Undertook substantive testing of financial transactions; and
- Relied on a combination of interviews, analytical reviews, documents checking and physical verification to assess the validity and propriety of financial transactions;

This report summarises 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.

2. Audit Opinion

Independent Auditors' Report

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To the Municipal Assembly
Mamusha Municipality, Kosovo

We have audited the accompanying financial statements of Municipality of Mamusha ("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 information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Public Sector Accounting Standards – IPSAS “Financial Reporting Under the Cash Based Accounting”, with the Financial Rule 07/2011 on Annual Reporting of Budget Organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

Auditor's 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor 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 qualified opinion.

Basis for Qualified Opinion

1. Certain disclosures required by the IPSAS Financial Reporting Under The Cash Basis of Accounting and the Financial Rule 07/2011 *On Annual Reporting Of Budgeted Organizations* were not made by the Municipality in preparing the financial statements as at and for the year ended 31 December 2011. In particular, the following was omitted or improperly disclosed in the financial statements:
 - Section 12 Statement of Cash receipts and payments does not agree with actuals reported in SIMFK.
 - Section 12 Statement of Cash receipts and payments is not properly completed and does not agree with Notes 2 and 8.
 - Payments from third parties, in section 12 of Statement of Cash receipts and payments are not disclosed for the year ended 31 December 2011.
 - Section 13 Budget Execution Report is not properly completed.
 - Receivables (used for revenue collecting organizations) is not appropriately completed.
 - Law No.03/L-221 - Report and taken and proposed actions on findings and recommendations of the auditor for year 2010 is not appropriate completed.

Therefore we were unable to obtain reasonable assurance over the completeness and regulatory compliance of the financial information presented in the Municipality's financial statements as at and for the year ended 31 December 2011.

2. The Comparative information for the years 2010 and 2009 is not appropriately presented:
 - Data presented in financial statements for the year ended 31 December 2011 are presented in EUR whereas a comparative data are presented in EUR thousand.
 - Section 17 Balance of unexpended own source revenue is not properly disclosed for the year 2010.
3. The Municipality does not 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 procedures necessary to verify the completeness of the payments from third parties recognized for the year ended 31 December 2011.
4. Data related to property, plant and equipment owned by the Municipality are disclosed in

financial statements. However, there are many deficiencies and uncertainties which affect the Municipality's financial reporting of property, plant and equipment as following:

- The balance of property, plant and equipment as disclosed in Note 27 to the Municipality's financial Statements as of 31 December 2011 does not reconcile with its assets registry. Further, the Municipality has not registered property, plant and equipment in the Kosovo Financial Management Information System (referred to as "KFMIS").
- The Municipality has not appointed the Property valuation Committee and has not performed any evaluation of its assets as of 31 December 2011. They should have performed evaluation of all categories of assets: in use, damaged assets, property of non-transferred value, and evaluate requests for property alienation.

Due to the nature of the records and other deficiencies as described above, we were not able to satisfy ourselves with the disclosures, existence, completeness, accuracy and valuation of the Municipality's property, plant and equipment as of 31 December 2011.

5. As of 31 December 2011, the Municipality has not properly disclosed in its accounts receivables related to the property tax, tax on business licence and other tax receivables which is required by the Financial Rule 07/2011. Additionally, the Municipality does not maintain complete debtors' records. Accordingly we were unable to satisfy ourselves as to account receivables balances as of 31 December 2011.

Qualified Opinion

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs 1 to 5, the financial statements present fairly, in all material respects, the receipts and payments of the Municipality for the year ended 31 December 2011 in accordance with the International Public Sector Accounting Standards – IPSAS "Financial Reporting Under the Cash Based Accounting", with the Financial Rule No. 07/2011 on Annual Reporting of Budget Organizations.

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.

Management's Responsibility for compliance

Management is responsible for the design and implementation of internal control to ensure that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them.

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 conclusion.

Conclusion and compliance

Based on our review, because of the possible effect on the financial statements of the matters discussed in the Basis for Qualified Opinion paragraphs 1 to 5 and other matters noted in points 3 to 8 of this report, the activities, financial transactions and information reflected in the financial statements that have come to our notice during the review, are not 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 receivables, it cannot 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 did not submit a final draft of financial statements in Serbian language by the end of our audit, and they should do this by 31 January.
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. Although receivables are required to be disclosed, no such disclosure was made in the Municipality's 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. We identified two cases of non-compliance with Law No.03/L-241 and 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.

Grant Thornton LLC

Prishtina, Kosovo
29 June 2012

3. Status of Prior Years Recommendations

Our management letter, for the year ended 31 December 2010, identified five main recommendations. One of these recommendations related to employees file has been resolved while recommendation related to property plant and equipment has been partially resolved. Other four recommendations still remain to be addressed:

- The financial statements should be prepared in compliance with the actual administrative instruction and IPSAS;
- 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;
- Compliance with Law on Public Procurement in Kosovo should be ensured; and
- An Audit Committee and internal audit function should be established.

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

4. Financial outcome compared to approved budget

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

Table 1: Overview of budget and actual spending

Description	Initial Budget	Final Budget	Receipts/ Expenditures 2011	Receipts/ Expenditures 2010
I.Total of receipts and transfer of donations	1,033,579	1,108,631	979,097	770,182
Government Grant-Budget	966,262	993,262	966,867	753,671
Own source revenue	67,317	108,722	6,200	16,511
Domestic Donations	-	-	-	-
External Donations	-	6,647	6,030	-
II.Total of Expenditures	1,033,579	1,108,631	979,097	770,182
Wages and salaries	631,432	658,432	636,208	507,555
Goods and services	75,123	87,970	83,493	111,097
Utilities	21,122	21,122	21,037	20,972
Subsidies and Transfers	1,547	1,547	1,547	1,430
Capital Investments	304,355	339,560	236,812	129,128
Reserves	-	-	-	-
Difference I-II	-	-	-	-

According to the data presented in the table above, the final budget of Municipality of Mamusha was Euro 1,108,631 during 2011. The total expenditures for the year 2011 were in the amount of Euro 979,097, or around 88.32% of the final budget. The unspent budget by the end of the year 2011 was in the amount Euro 129,534 or 11.68 %.

The final budget was higher than the initial budget in the amount of Euro 75,052 because during the year category goods and services has increased in the amount Euro 6,647 and category capital investment has increased in the amount Euro 41,405, while the rest of the difference from the General Fund refers to the budget increase for salaries decided on government level.

Conclusion

According to our assessment, the Municipality not spent the overall budget for 2011 in accordance with the projections and ceilings set by the Assembly of Kosova.

The low level of implementation of the program for capital investment shows that there are weaknesses in the processes of planning, managing and monitoring the execution of contracts for Municipal capital investment.

1 Recommendations

We recommend the Mayor to ensure that:

- Internal control over the use of budget in compliance with planning is strengthened ;and
- Controls over planning, managing and monitoring of capital investments are strengthened in order to achieve higher efficiency of contract execution in a specified time.

5. Financial Statements-Compliance with reporting framework and the quality of information

Requirements in LPFMA No. 03/L-048 and Financial Rule 07/2011.

- Financial Statements have been signed by the Chief Administrative Officer and Chief Financial Officer of the Municipality of Mamusha;
- Financial Statements are signed within the required time frame on 31/01/2012 and Submitted to MF;
- The financial Statements were submitted only in the Albanian language; and
- The Municipality has not prepared and submitted regular quarterly reports to MF during 2011.

2 Recommendations

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

The Municipality should also prepare financial statements in Serbian language.

Quality Information

Findings

Our audit findings and throughout this document indicate that improvements need to be made in the quality of information received and presented in the financial statements.

3 Recommendations

Please see our recommendations throughout this document for advice on how quality of information can be improved.

6. Financial Management

6.1 Revenues (including own source revenues)

Findings

- *Billing systems.* An automated billing system exists only for tax on property. For other categories of revenues for which the billing system is required, it is not applied. Instead only cash collections from such revenue streams are recorded.

Weaknesses in the automated billing system. 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. Cases could exist 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.

The billing system related to tax on property does not show all invoiced debtors and receivables as of 31 December 2011.

- *Revenue from business licenses.* The Municipality has taken action and requested to confirm number of businesses operated in the Municipality with list of businesses as per Tax Authorities or Business Registration Centre in Ministry of Trade and Industry but has not yet obtained information from relevant authorities. Therefore, inactive or terminated businesses might be charged, while active or new businesses not charged.
- Based on Financial Rule 07/2011, as of 31 December 2011 the Municipality is obliged to report its accounts receivables related the property tax, tax on business licence and other tax receivables but the disclosures were incorrect as at 31 December 2011
- The reconciliation between Own Source Revenue Officer and Treasury Department was done quarterly for the total amount of revenues. During 2011 we identified that no reconciliation has been performed between the accounting records, records provided by own source revenue officer and the operational departments, so that differences exist when comparing data from these two sources.
- Collection of revenue from participation from Health department is not transferred to bank on daily basis.

Conclusion

Lack of accuracy and completeness of accounts receivables ledgers will impact the revenues that the Municipality can earn. Without sufficient, detailed, and accurate records of debtors and reports on collections, the Municipality is unable to prepare a reliable and accurate budget, to neither report an accurate collection ratio, nor follow up the collection of the own source revenues on a timely basis. Furthermore, the low level of collection of revenues will impact the investing capacity of the Municipality.

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 the Free Balance. Consequently, except for taxes on property, the Treasury and Municipality are not provided with a detailed list 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.

4 Recommendation

We recommend the Mayor ensures the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on the billing and the revenue. Improvement of the procedures related to such systems would enable the 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 the Municipality:

- 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 the management.
- Automatically inter-connect the billing system with the accounting software so that the 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.
- To obtain information from Business Registration Centre in Ministry of Trade and Industry regarding businesses which operate in the Municipality and to charge them for the taxes prescribed by Laws and Regulations.

6.2 Expenditures

6.2.1 Remunerations (Wages and Salaries)

Findings

No findings to report in this area.

6.2.2 Procurement

Findings

During our inspection of source documents for our sample of procurement files that cover 52% of the total payments of capital investments, we noted several instances of non-compliance with procedures as required by Public Procurement Law. These non-compliances are described below:

- In the project “Supply with electricity transformers” with ID No. 626/11/012/121 and contract value EURO 19,998 and “Construction of road with concrete domes” with_ID no. 626/11/006/521 and contract value EURO 38,957 and Annex Contract 3830, there was a delay in finishing the work (the former for 18 days and the latter for 24), and the Municipality did not receive information for the delay. Also the Municipality did not apply penalties as it is foreseen in contract agreement in case when work is not finished on time.

4 Recommendations

We recommend the Mayor to ensure that:

The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.

We advise the Mayor to ensure the Municipality to apply properly the contractual terms and conditions and to apply the penalties when the contractor will not finish the project on time. This applies especially when the request to extend the deadline before it expires as determined in the contract, was not submitted.

6.2.3 Subsidies and transfers

Findings

The Municipality does not have written policy on subsidies, that will contain criteria and the procedures for subvention allowance, so the subsidies are allowed only based on the Municipality Chairman decision.

Conclusion

Lack of timely communication and approvals from authorities or incomplete documentation may lead to non-compliance with Laws or Contract requirements and to significant losses.

5 Recommendation

We recommend the Mayor to ensure that:

The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.

6.3 Assets

6.3.1 Handling of capital and non-capital assets

We have reviewed whether the process of registration, keeping records, and management of non-financial assets in PRB complies with the requirements of the Administrative Instruction no.21/2209 on the Management and registration of government assets. We noted several instances of non-compliance with Administrative instruction:

Finding

The Municipality does not have documented procedures for recognition and accounting for its property, plant and equipment. In addition the Municipality does maintain separate register for assets and has not recorded the same in Financial Management Information System in Kosovo (FMISK) and does not maintain separate register for assets under Euro 1,000. Moreover, the Municipality performed annual count and verification of physical existence of the assets as of 31 December 2011 but did not reconcile its books with the physical count records which is not in compliance with the requirements of the Administrative Instructions No. 21/2009 on Management of Government Property.

Inventory committee has not prepared the Inventory report related the inventorying of PPE as below:

- They did not prepare the separate reports related the assets with non – transferred value, on damaged and disposed assets.
- They did not perform the reconciliation between the physical check of PPE with accounting records.

Conclusion

The Municipality does not have complete and accurate records on assets. This weakness in the internal controls over these assets 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.

6 Recommendation

We recommend the Mayor to ensure that:

the Municipality considers the following:

- Concrete actions are to be taken, enabling immediate recording of all assets in the relevant registers in accordance with the requirements of AI no. 21/2009 and that they are accurately and completely reported.
- 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.

6.4 Handling of debts

The balance of outstanding payables to suppliers at the end of 2011 was Euro 10,738. These liabilities are carried forward for payment in 2012.

Findings

During our audit, we identified several cases where payments were made more than 30 days after the invoice receipt date which is not in accordance with provisions of Treasury Guidelines and financial rule 02-Expenditure of public money.

Conclusion

Considering the above, various legal claims could be asserted in the future and hence there is a risk of additional penalties to be imposed against the Municipality.

7 Recommendations

We recommend the Municipality's Mayor to follow all provisions of Treasury Guidelines and financial rule 02 – Expenditure of public money issued from the Government of Kosovo and to settle the liabilities within 30 days.

6.5 Current reporting and timeliness in the overall budget process

The Municipality has fulfilled its external reporting obligations. The fulfilled obligations are:

- Budget request;
- Quarterly reports including timely nine month financial statements;
- Timely draft procurement plan; and
- Reports on debts submitted to the MF.

Findings

During our audit, we identified that Municipality has not prepared and submitted regular quarterly reports to MF during 2011.

Conclusions

Municipality of Mamusha has not fulfil legal requirement regarding the external reporting. Management of Municipality should take immediate measures to address them.

8 Recommendations

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

- To establish adequate internal control procedures and takes appropriate responsibility to fulfil the requirements for external financial reporting.

We recommend the Municipality to follow all reporting requirements of MF.

7. Management Control

7.1 Internal Control Systems

We identified shortcomings in the annual financial statements, revenues management, procurement procedures and asset management during our audit as mentioned in this report.

Conclusions

The current implementation of internal controls is at an insufficient level.

7 Recommendations

We recommend the Municipality to ensure that:

- The overall financial administrative and managerial controls are strengthened; and
- Immediate actions are taken securing a better handling of shortcomings in the implementation of internal control.

7.2 Internal Audit system

Findings

The Municipality has not established Audit Committee and an Internal Audit function which is also, required by the current forcible regulation law no 03/L-128 and administrative instruction 11/2010 on the establishment and function of internal audit committee. No action was undertaken by responsible to address this issue which was reported in our prior year audit.

Risk

The absence of an Audit Committee and an Internal Audit function 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.

9 Recommendation

We recommend the Mayor ensures Municipality considers the establishment of an Internal Audit function and an 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;

8. Overall conclusion on the Management of Municipality

General conclusion

Our overall conclusion is that the Municipality Management has not managed yet to establish fully efficient internal control systems. Apart from some improvements in the field of financial and assets reporting, weaknesses were noted in several areas of Financial Management.

The Municipality Management should raise the managers' and staff's awareness on the need of controls. The PIFC framework should serve as a platform for establishing control. The need to increase transparency and accountability at all levels of the organization is one of the basic requirements for building a good governance structure.

The Municipality Management should permanently provide reliable financial reporting and assess the risk of material errors and mistakes in the financial statements. Risk should also be assessed when it comes to assets and revenues management where complete registers and records are missing.

10 Recommendation

We recommend the Municipality to ensure that:

- Clear policies on all Municipality's important activities are issued and that an action plan specifying immediate actions to be taken is drafted.
- To implement our recommendations on points 3 to 7.

Annex I. Different types of Audit Opinion based on ISSAI 400

(Extract from ISSAI 400)

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 or a disclaimer of opinion.

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.

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.

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.

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.

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.

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.

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.

Annex II. Prior year Recommendations

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
1. Preparation of Financial statements	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.	No	The Municipality took action to implement recommendations in relation to assets but not fully implemented.	
2. Property , plant and equipment	<p>We recommend the Mayor ensures that the Municipality considers the following:</p> <ul style="list-style-type: none"> ▪ Reconcile and maintain comprehensive asset register with Financial Statements. ▪ 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 	Partly		

	<p>cases.</p> <ul style="list-style-type: none"> ▪ 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 add values on capitalized assets. 			
3. Revenue	<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 the billing and the revenue. Improvement of the procedures related to such systems would enable the 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:</p> <p>-Implement a billing system that includes</p>	No	With exception of taxes where we did not find any non-compliances.	

	<p>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 the management.</p> <ul style="list-style-type: none">- 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.- Automatically inter-connect the billing system with the accounting software so that the 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			
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	<p>cleared in a timely manner.</p> <ul style="list-style-type: none">- We advise the Municipality to take actions and use efforts to put in billing centralized system also the identified customers after 31 March current year. The entering of data and centralized control over the approved tariffs and tax rates in the system should also be established in order to calculate and generate the bills automatically. The generation of bills should also be authorized and reviewed.- 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.- We advise the Municipality			
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	<p>to maintain permanent communication with Business Registration Centre in Ministry of Trade and Industry regarding businesses which operates in the Municipality and to charge them for the taxes prescribed by Laws and Regulations.</p> <p>- Ensure a proper segregation of duties.</p>			
4. Expenditures	<p>Municipality should be aware and pay attention to make payments from adequate economic code in order to comply with requirements of with Law of Public Financial Management and Accountability (the “LPMFA”) nr.03/L-048 and Treasury Administrative Instruction 02/2009. In addition, all payments should be supported with original documentation.</p>	Yes		
4.1 Remunerations(wages and salaries)	<p>The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance</p>	Yes		

	with the applicable laws and regulations.			
4.2 Procurement	The Municipality should have within their team technical professional staff or to engage from outside professional staff for certain projects in order to certificate the quality of works as they are determinates on Municipality requirements. 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.	No	We found new cases of delay of work which are not in compliance with Laws or Regulatory requirements	
4.3 Subsidies and transfers	The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.	No	The Municipality did not take action to establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.	
5.Internal Audit	We recommend the Mayor	No	The Municipality did	

	<p>ensures Municipality considers the establishment of an Internal Audit function and an 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:</p> <ul style="list-style-type: none"> ▪ Municipality's accounting and financial reporting process; ▪ Assessment of internal control systems implemented by management; ▪ Internal and external audit processes; 		<p>not take action to establish Audit Committee and an Internal audit function.</p>	
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Annex III. Municipality of Mamusha comments and Auditors' response

Recommendations	Agree	Partially agree	Do not agree	Comments from the Municipalities	Auditor response
Recommendations 1:				No coments	
Recommendations 2:				No coments	
Recommendations 3:				No coments	
Recommendations 4:				No coments	
Recommendations 5:				No coments	
Recommendations 6:				No coments	
Recommendations 7:				No coments	
Recommendations 8:				No coments	
Recommendations 9:				No coments	
Recommendations 10:				No coments	



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