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**AUDIT REPORT**

**ON THE FINANCIAL STATEMENTS**  
**OF THE MUNICIPALITY OF MAMUSHE**  
**FOR THE YEAR ENDED 31 DECEMBER 2012**

Pristina, July 2013

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## **Executive Summary**

### ***Introduction***

KPMG has carried out an audit of the Annual Financial Statements ('AFS') of the Municipality of Mamushe ("Municipality"), on behalf of the Office of the Auditor General of Kosovo, for the year ended 31 December 2012.

This report summarises the key matters arising from our audit. We would like to thank the Mayor and his team for their assistance during the audit process.

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

Our focus has been on whether the amounts and disclosures in the AFS are sufficient to give a reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Our procedures included a review of the internal controls and accounting systems and procedures only to the extent considered necessary for the effective performance of the audit. Our findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

Our Overall conclusion on the Management of the Municipality is presented in Section VI of this report.

### ***Internal Control***

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

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

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

- A comprehensive list of its property, plant and equipment is maintained and reviewed;
- An automated billing system for all types of taxes is maintained;
- Measures are taken to increase the collection of revenues from various taxes; and
- The Law No. 04/L-042 'Law on Public Procurement in Kosovo' (amended) is fully complied with.

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 all our recommendations.

Refer to Annex 3 for management's comments to our recommendations and our responses to them.

## **Audit scope and methodology**

This audit relates to the annual financial statements of the Municipality of Mamushe as at and for the year ended 31 December 2012.

It is the responsibility of the Municipality to prepare financial statements in accordance with Financial Rule no. 07/2011 and International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”.

KPMG, on behalf of The Office of the Auditor General, is responsible for carrying out an annual audit on the Municipality financial statements as at and for the year ended 31 December 2012.

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.

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 2012;
- 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 no. 07/2011;
- Established a materiality level, as a threshold for assisting in determining the type of opinion to render on the financial statements;
- Used a combination of judgment and random sampling to select transactions for testing;
- Undertook substantive testing of financial transactions; and
- Relied on a combination of interviews, analytical reviews, document checking, and physical verification to assess the validity and propriety of financial transactions.

In this report we summarise the audit findings and provide our opinion on the Annual Financial Statement as at and for the year ended 31 December 2012.

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 Annex 1, which includes an extract from ISSAI 400.

## I. Opinioni i Auditimit

To Mamushe Municipality

Pristina, 2 July 2013

We have audited the accompanying financial statements of Municipality of Mamushe (“the Municipality”), which comprise the statement of cash receipts and payments for the year ended 31 December 2012, a comparison of budget and actual amounts, and a summary of significant accounting policies and other explanatory notes.

### *Management’s Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Cash Basis International Public Sector Accounting Standards (‘IPSAS’) *Financial Reporting Under the Cash Basis of Accounting* and with the Financial Rule No. 07/2011 *On Annual Reporting of Budget Organizations*. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors’ Responsibility*

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

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

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

### *Basis for Qualified Opinion*

- 1 Payments received from third parties disclosed in Section 12 of “Statement of Cash receipts and payments” in 2012 represent amounts that are not supported by documentation, while no such amounts were included in the comparative information for 2011 and 2010. The Municipality does not have in place any formal process that would ensure complete, adequate and reliable information for Payments received from third parties.
- 2 The comparative information for the years 2011 and 2010 is not complete and accurate. 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 Section 13 “Budget execution report”, and with Notes 8, 15, and 16 for 2011 and Notes 7 and 15 for 2010.
  - The comparative information for the years 2011 and 2010 does not agree with the audited financial statements for 2011. Inconsistent information was presented in Section 12, Section 13, Note 4, Note 9 and Note 15.
  - Note 35 “Balance of unused own source revenues” does not agree with Note 15 “Own source revenues” for 2010.

### *Qualified Opinion*

In our opinion, except for the omission of the information described in the paragraphs of the basis for qualified opinion, the financial statements present fairly in all material aspects the receipts and payments for the year ended 31 December 2012 in accordance with Cash Basis International Public Sector Accounting Standards ('IPSAS') *Financial Reporting Under the Cash Basis of Accounting* and with the Financial Rule No. 07/2011 *On Annual Reporting of Budget Organizations*.

### *Emphasis of Matter*

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

- The Municipality has not disclosed complete amounts in Section 16 "Disclosure of property, plant and equipment" and has not maintained a comprehensive register of its assets. For certain assets, there are uncertainties regarding ownership rights of the Municipality or various other Kosovo Government Agencies and lack of supporting ownership documentation. In addition, due 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 Balances presented in Note 34 "Receivables" represent an overall estimate by the Municipality for future collections from taxes and other charges, rather than detailed information based on taxes receivable from individual tax payers.

### *Other matters*

The financial statements of the Organization as at and for the year ended 31 December 2011 were audited by another auditor, whose report dated 29 June 2012 expressed a qualified opinion on those financial statements. Qualifications related to inaccurate and incomplete disclosures for the current and comparative information, including lack of information on payments from third parties, registration and valuation of property, plant and equipment, and disclosure of accounts receivables.

### **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.

- 1 The primary reliable source of information for the preparation of financial statements is Free Balance. However, since Free Balance is not being used to record payments from third parties and outstanding invoices, it cannot solely be used to produce comprehensive financial statements.
- 2 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 by 31 January 2013.
- 3 Since the Municipality has not implemented a comprehensive and automated billing system, there is uncertainty regarding completeness of both receivables and revenues that the Municipality can earn, and their ability to prepare a reliable and accurate budget, to report an accurate collection ratio, and monitor the collection of the own source revenues on a timely basis.
- 4 We identified a number of procurements that were presented as capital expenditure, rather than as expenditure for goods and services as per respective nature. Had these expenses been classified in the proper category, the budget for goods and services would have been exceeded by EUR 11 thousand.
- 5 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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## **II. Financial Statements - Compliance with the Reporting Framework**

Our review of the Annual Financial Statements ('AFS') considers both compliance with the reporting framework and the quality and accuracy of the information recorded in the financial statements. We also consider the Declaration made by the CEO and Chief Financial Officer when the draft AFS are submitted to the Government.

The declaration regarding presentation of financial statements incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the financial statements. A number of the declarations are intended to provide assurance to the Government that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

### **II.1 Compliance with the Reporting Framework**

The requirements in LPFMA No. 03/L-048 and Financial Rule no. 07/2011.

- The Municipality has prepared the financial statements according to Financial Rule 07/2011.
- The Financial Statements have been signed by the Chief Administrative Officer and Chief Financial Officer of the audited body;
- The Financial Statements were not signed within the required time frame on 31 January 2013 and Submitted to Ministry of Finance (MF);
- The Financial Statements were submitted to the Ministry of Finance only in the Albanian Language; and
- The Municipality has prepared and submitted regular quarterly reports to the Ministry of Finance during 2012.

#### **Recommendation 1**

The Municipality should prepare the Financial Statements in the Serbian Language on a timely basis.

### **II.2 Quality and Accuracy of Information Presented in the Annual Financial Statements**

#### **Findings**

The primary reliable source of information for the preparation of financial statements is Free Balance. However, since Free Balance is not being used to record payments from third parties, or outstanding invoices, it cannot solely be used to produce comprehensive financial statements for the year ended 31 December 2012.

- 1 The Municipality has not disclosed complete amounts in Section 16 "Disclosure of property, plant and equipment".
- 2 Payments received from third parties were not disclosed in Section 12 of "Statement of Cash receipts and payments" for 2011 and 2010.
- 3 Note 21 on the variances between the budgeted and actual expenditures do not explain the reason for such variances in the personnel cost category.
- 4 The comparative information for the years 2011 and 2010 is not complete and accurate. 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 Section 13 “Budget execution report”, and with Notes 8, 15, and 16 for 2011 and Notes 7 and 15 for 2010.
- The comparative information for the years 2011 and 2010 does not agree with the audited financial statements for 2011. Inconsistent information was presented in Section 12, Section 13, Note 4, Note 9 and Note 15.
- Note 35 “Balance of unused own source revenues” does not agree with Note 15 “Own source revenues” for 2010.

**Recommendation 2**

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

### **III. Prior Year Recommendations**

Our Report on the 2011 AFS included 11 main recommendations, only one of which was resolved, with regard to handling of debts. From the remaining 10 recommendations three were partly resolved during 2012 (see below), while the others remain to be addressed in the future and are listed below:

1. The financial statements should be prepared in compliance with the actual administrative instruction and IPSAS; Improved controls over the use of budgets and capital investments;
2. 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.
3. Improvements in the quality of information presented in the financial statements;
4. An automated billing system for all types of taxes should be put in place and measures should be taken to increase the collection of revenues from various taxes;
5. Improvements need to be implemented in the areas of expenditure and procurements (*partially addressed during 2012*);
6. Adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations with regard to subsidies and transfers; Additional resources (independent and certified appraisers) should be involved in the registration and valuation of the assets of the Municipality, as well as actions need to be taken on the recording of all assets in the relevant register and performing regular physical counts (*partially addressed during 2012*);
7. Establishment of adequate internal control procedures to fulfill requirements for external financial reporting (*partially addressed during 2012*);
8. Improvements in financial administrative and managerial controls; and
9. Improvements in internal controls and establishment of an Audit Committee and an Internal Audit function to review the current status and propose actions for improvement on significant areas. Audit committee should establish policies and procedures to ensure high standards of governance.

## IV. Financial Management and Control

### IV.1 Introduction

We developed an understanding and evaluation of the actions taken by management to ensure effective financial management and control. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be monitoring activity undertaken by senior management or lower level operational controls. We consider whether controls are well designed, have been implemented as planned and operate effectively.

### IV.2 Budget Planning and Execution

We have considered the source of budgetary funds for the Municipality, spending of funds by economic categories and Revenues collected. The analysis of Actual Outcome in the Financial Statements compared to the Approved Budget indicates:

Table 1: Overview of budget and actual spending in '000 EUR:

Description	Initial Budget	Reviewed Budget	Final Budget	2012 Actual	2011 Actual	2010 Actual
Government Grant	970	-	1,009	1,003	981	753
Carried forward from prior year	-	-	77	47	-	-
Own Source Revenues	58	-	58	6	6	17
Domestic Donations	-	-	1	1	-	-
External Donations	-	-	-	-	-	-
<b>I. Total of revenues and transfer of Donations</b>	<b>1,028</b>	<b>-</b>	<b>1,145</b>	<b>1,057</b>	<b>987</b>	<b>770</b>
Wages and Salaries	700	-	700	694	636	507
Goods and Services	79	-	161	160	86	112
Utilities	22	-	23	23	21	21
Subsidies and Transfers	3	-	3	3	1	1
Capital Investments	224	-	258	177	236	129
Reserves	-	-	-	-	-	-
<b>II. Total of Expenditures</b>	<b>1,028</b>	<b>-</b>	<b>1,145</b>	<b>1,057</b>	<b>980</b>	<b>770</b>
<b>Difference I-II</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>-</b>

The budgeted amounts are extracted from the following sections within the Financial Statements as at and for the year ended 31 December 2012: Section 13 *Budget Execution Report*, Section 12: *Statement of Cash Receipts and Payments*, and Section 18: *Reconciliation between Original and Final Budget Appropriations*.

## **Conclusion**

Actual total revenues and transfers of donations were lower than final budget by EUR 88 thousand due to lower realization of own source revenues by 82 thousand and lower Government Grants received by EUR 6 thousand.

Total cash outflows were lower than final budget by EUR 88 thousand due to Wages and salaries being lower by EUR 6 thousand, goods and services being lower by EUR 1 thousand, and capital expenditure being lower by EUR 81 thousand.

Initial budget was lower by EUR 117 thousand from the final budget due to following: higher initially anticipated government grant by EUR 39 thousand, own source revenues and own source revenues carried forward by EUR 77 thousand and grants and donors by EUR 1 thousand. All changes to the original budget were approved by the Mayor and Municipality Assembly. These changes are also supported by the assembly decision and mandated by the legal framework Law 03/L-048.

The unspent budget of the Municipality in 2012 is 7.7%.

Section 13 *Budget Execution Report* does not agree with Section 12: *Statement of Cash Receipts and Payments* for 2011 and 2010. A difference of EUR 7 thousand between revenues and expenditures results in 2011.

## **IV.3 Current reporting and timeliness in the overall budget process**

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

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

### **Findings**

No other findings to report in this area.

## **IV.4 Revenues (including own source revenues)**

### **Findings**

During our testing we noted the following:

- *Billing systems.* An automated billing system exists only for tax on property. The Municipality does not maintain billing records for other types of revenue. Instead only cash collections from such revenue streams are recorded.
- *Collection of revenues.* Except for taxes on property, the Municipality management does not maintain separate sub ledgers or lists of all its debtors from various taxes. Without sufficient, detailed, and accurate records of debtors, the Municipality is unable to prepare a reliable and accurate budget, to report an accurate collection ratio, nor follow up the collection of the own source revenues on a timely basis.

- *Weaknesses in the automated billing system.* The tax on property billing system is centralized and the Municipality has limited access to the system. Such limitations restrict the ability of the Municipality to generate regular and comprehensive reports on collection of revenue and related receivables, and as a result impair its ability to properly monitor and review such collections. Although such reports are automatically generated by the system on a centralized basis, the Municipality does not make regular use of them. Furthermore, the list of collections for the year generated from tax on property system was not reconciled and did not agree with the collections recorded in free balance.

### **Recommendation 3**

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

- Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of persons and with the authorization of management.
- Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and generate bills automatically. The generation of bills should also be authorized and reviewed.
- Automatically inter-connect the billing system with the accounting software so that information is automatically processed into the general ledger.
- Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed.

## **IV.5 Expenditures**

### **5.1 Procurement**

#### **Findings**

Expenses for Procurements no. 626 12 017 236, 626 12 018 236 and 626 12 003 236, are presented as capital expenditure, rather than as expenditure for goods and services as per respective nature. Had these expenses been classified in the proper category, the budget for goods and services would have been exceeded by EUR 11 thousand.

### **Recommendation 4**

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.

### **5.2 Other expenditures**

#### **Findings**

No exceptions were noted.

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

#### **Findings**

No exceptions were noted.

### **5.4 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.

#### **Recommendation 5**

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

## **IV.6 Assets**

### **6.1 Handling of cash and cash equivalents**

#### **Findings**

Collections were not deposited in bank accounts on a daily basis as required by the Regulation 04/2007 of Ministry of Health.

#### **Recommendation 6**

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

### **6.2 Handling of receivables**

#### **Findings**

The Municipality does not have in place a robust process for identifying, evidencing and following up on issued invoices for its taxes. The Municipality has disclosed an estimated amount of receivables in its financial statements. No supporting documents were provided on the financial statement figure and no detailed lists were found in the Municipality.

### **Recommendation 7**

We recommend the Mayor ensures a process is designed and established, which ensures that receivables are recorded upon issuing of each invoice and that overdue amounts are followed up regularly. Detailed lists should be maintained on each figure presented in the financial statements.

## **6.3 Capital and non capital assets**

### **Findings**

The Municipality has not maintained a comprehensive register of its property, plant and equipment, including date of purchase/disposal of the asset as well as the depreciation charge for the year. In addition the Municipality does maintain separate register for assets and has not recorded the same in Financial Management Information System in Kosovo and does not maintain separate register for assets under Euro 1,000. Further, the Municipality performed annual count and verification of physical existence of the assets as of 31 December 2012 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. The balance of non residential buildings has varied significantly during the years 2010, 2011 and 2012 and we were not provided with any explanations with regard to these changes.

Payments received from third parties disclosed in Section 12 of “Statement of Cash receipts and payments” in 2012 represent amounts that are not supported by documentation, while no such amounts were included in the comparative information for 2011 and 2010. The Municipality does not have in place any formal process that would ensure complete, adequate and reliable information for Payments received from third parties.

For certain assets, there are uncertainties regarding ownership rights of the Municipality or various other Kosovo Government Agencies and lack of supporting ownership documentation.

Due to a lack of supporting documentation for the measurement of a significant part of its property, plant and equipment, disclosed in Note 30, the Municipality sought to measure such items at fair value based on a valuation performed by an internally established committee.

The difference between the balances presented in Note 30 and Note 31 for the years 2011 and 2012, does not agree with the total additions for year 2012 presented in the Note 11. The Municipality has not prepared a detailed list of movements in 2012 to enable the reconciliation of information presented in the financial statements.

### **Recommendation 8**

We recommend the Mayor to involve additional resources in the registration, control and valuation of the assets of the Municipality.

## **IV.7 Handling of debts**

### **Findings**

No exceptions were noted.

## **V. Internal Audit System**

### **V.1 Internal Control Systems**

### **V.2 Audit Committee**

#### **Findings**

The Municipality does not have an Internal Audit Department or an Audit Committee.

#### **Recommendation 9**

We recommend that the Municipality should establish appropriate policies and procedures to ensure a high standard of corporate governance as well as an Internal Audit Department and an Audit Committee. 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
- Compliance with financial, regulatory and legal requirements;
- Internal Audit plan and follow-up of Internal Audit findings.



## **VI. Overall conclusion on the Management of Municipality of Mamushe**

### **General conclusions**

As discussed within this report, improvements need to be made in the areas of revenues, handling of receivables, payment of obligations within the required timeframe, measurement of capital and non-capital assets, internal controls system, internal audit and audit committee.

#### **Overall Recommendation**

- The financial statements should be prepared in compliance with the actual administrative instructions 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; and
- An Audit committee and Internal Audit Department should be established to conduct its duties and responsibilities and it should establish policies and procedures to ensure high standards of governance.

## **Annex 1 Different type of Audit Opinions applied by KPMG in the Annual Audit Report 2012**

(extract from ISSAI 400)

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 judgement, 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.

## Annex 2: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
Financial outcome compared to approved budget	<p>We recommend the Mayor to ensure that:</p> <ul style="list-style-type: none"> <li>• Internal control over the use of budget in compliance with planning is strengthened; and</li> <li>• Controls over planning, managing and monitoring of capital investments are strengthened in order to achieve higher efficiency of contract execution in a specified time.</li> </ul>			Recommendation not addressed.
Financial Statements- Compliance with reporting framework and the quality of information	<p>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.</p> <p>The Municipality should also prepare financial statements in Serbian language.</p>			Recommendation not addressed.
Financial Statements- Compliance with reporting framework and the quality of information	<p>Improvements need to be made in the quality of information received and presented in the financial statements.</p>			Recommendation not addressed.

<b>Audit Component</b>	<b>Recommendation given</b>	<b>Recommendation fully implemented</b>	<b>Partly addressed</b>	<b>Not addressed</b>
Financial Management	<p>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:</p> <ul style="list-style-type: none"> <li>• Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of persons and with the authorization of the management.</li> <li>• Automatically inter-connect the billing system with the accounting software so that the information is automatically processed into the general ledger.</li> <li>• 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.</li> <li>• Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed.</li> </ul>			Recommendation not addressed.

<b>Audit Component</b>	<b>Recommendation given</b>	<b>Recommendation fully implemented</b>	<b>Partly addressed</b>	<b>Not addressed</b>
Financial Management (continued)	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.			
Procurement	<p>We recommend the Mayor to ensure that:</p> <p>The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.</p> <p>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.</p> <p>This applies especially when the request to extend the deadline before it expires as determined in the contract, was not submitted.</p>		Recommendation partially addressed. The Municipality still needs to improve its controls on procurement and classify all expenditures in the respective category.	
Subsidies and transfers	The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.			Recommendation not addressed.
Handling of capital and non-capital assets	<p>The Municipality should consider the following:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Involve additional resources in the registration and valuation of the assets of the Municipality.</li> </ul>		Recommendation is partially addressed. Municipality has performed physical count of fixed assets, but amounts could	

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
Handling of capital and non-capital assets (continued)	<ul style="list-style-type: none"> <li>Involvement of independent and certified appraisers is recommended as the best practice in such cases.</li> </ul> <p>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.</p>		not be traced to the list of fixed assets or financial statements information.	
Handling of debts	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.	Recommendation is addressed.		
Current reporting and timeliness in the overall budget process	<p>We recommend the Mayor ensures that the Municipality considers the following:</p> <ul style="list-style-type: none"> <li>To establish adequate internal control procedures and takes appropriate responsibility to fulfil the requirements for external financial reporting.</li> <li>We recommend the Municipality to follow all reporting requirements of MF.</li> </ul>		Recommendation is partially addressed. The Municipality submitted its financial statements later than the required deadline for submission.	
Internal Control Systems	<p>We recommend the Municipality to ensure that:</p> <ul style="list-style-type: none"> <li>The overall financial administrative and managerial controls are strengthened; and</li> <li>Immediate actions are taken securing a better handling of shortcomings in the implementation of internal control.</li> </ul>			Recommendation not addressed.

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
Internal Audit system	<p>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:</p> <ul style="list-style-type: none"> <li>• Municipality’s accounting and financial reporting process;</li> <li>• Assessment of internal control systems implemented by management;</li> <li>• Internal and external audit processes;</li> </ul>			Recommendation not addressed.

### Annex 3 Municipality of Mamushe management comments and KPMG responses

<b><u>Recommendations</u></b>	<b>Agree</b>	<b>Partially agree</b>	<b>Do not agree</b>	<b>Comments from the Municipality</b>	<b>KPMG response</b>
<b><u>Recommendations 1:</u></b> The Municipality should prepare the Financial Statements in the Serbian Language.		X		Financial Statements in the Albanian language are prepared and delivered within the required deadline to the Ministry of Finance.	
<b><u>Recommendation 2:</u></b> We recommend the Mayor ensures that the preparation of the Municipality's financial statements should include procedures and tools that are designed to ensure that information required is recorded, processed, summarized and appropriately reported in the financial statements.		X		The Municipality has disclosed its assets in Section 16 and an evaluation report for 2012 properties from the Commission was provided electronically.  The expenses for salaries in 2012 were less than the budget by EUR 6 thousand due to a surplus resulting from all our programs.  Comparative information for the years 2010 and 2011 under Articles 12, 13, for OSR in 2010, and Notes 4, 9 and 15 are presented in the financial statements for 2012. There were no grants from donors for 2010, while for 2011 the amounts of grants were presented as total.  All recommendations will be reviewed carefully and will be addressed to the responsible persons.	



<b><u>Recommendations</u></b>	<b>Agree</b>	<b>Partially agree</b>	<b>Do not agree</b>	<b>Comments from the Municipality</b>	<b>KPMG response</b>
<p><b><u>Recommendations 3:</u></b>  We recommend the Mayor ensures that the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue. Improvement of the procedures related to such systems would enable management to monitor and manage significant risks, and to ensure that decisions related to budgeting, planning and collection of revenues are properly carried out.</p> <p>We recommend that the Municipality:</p> <ul style="list-style-type: none"> <li>• Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of persons and with the authorization of management.</li> <li>• Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and generate the bills automatically. The generation of bills should also be authorized and reviewed.</li> <li>• Automatically inter-connect the billing system with the accounting software so that the information is automatically processed into the general ledger.</li> <li>• Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed.</li> </ul>		X		<p>The Municipality has a program for the registration of taxes from businesses.</p> <p>Municipality of Mamusha is quite small as per number of employees as well as per budget. The officers who work with the collection of revenue keep the evidence in excel spreadsheets. There are no deviations in terms of own revenue collection and a reconciliation with Head of Revenues on a weekly basis is performed, who records all sorts of revenue in KFMIS.</p> <p>Reconciliation of Revenue is performed all bugdetary programs and for all departments. Meantime we are on process of determining a strategy to increase the collection of revenues.</p> <p>The Municipality has prepared and submitted regular quarterly reports to the Ministry of Finance during 2012</p>	

<b><u>Recommendations</u></b>	<b>Agree</b>	<b>Partially agree</b>	<b>Do not agree</b>	<b>Comments from the Municipality</b>	<b>KPMG response</b>
<b><u>Recommendations 4:</u></b> We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements.		X		When the budget is prepared according the economic categories, the category of Goods and Services is very low thus we were obliged to transfer part of these expenditures to the category of Capital Expenditure. The expenses are in accordance with the applicable legislation.	
<b><u>Recommendations 5:</u></b> The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations regarding subsidies and transfers.		X		Soon the Municipality will present to Municipal Assembly the Regulation for Subsidies and Transfers according to the guidance and applicable legislation.	
<b><u>Recommendation 6:</u></b> We recommend that the Mayor ensures that the Municipality takes further steps to improve controls and to comply with laws and local regulatory requirements regarding cash collections.		X		In the Department of Health, fees for participation from patients are consistent with fees set by regulation for fees and municipal taxes. The reasons why these are not deposited on a daily basis is that in Mamusha there are no financial institutions, where such revenues can be deposited. If the deposits were made at the nearest institution, we would incur additional daily fuel costs of EUR 10-20 which are not a necessity given the monthly revenue from health of EUR 300 - 400 only. All the receivables are recorded.	

<b><u>Recommendations</u></b>	<b>Agree</b>	<b>Partially agree</b>	<b>Do not agree</b>	<b>Comments from the Municipality</b>	<b>KPMG response</b>
<b><u>Recommendation 7:</u></b> We recommend the Mayor ensures a process is designed and established, which ensures that receivables are recorded upon issuing of each invoice and that overdue amounts are followed up regularly.		X		The Municipality has a program for revenues from taxes on businesses and can report the collections and also the businesses that have obligations.	
<b><u>Recommendation 8:</u></b> We recommend the Mayor to involve additional resources in the registration and valuation of the assets of the Municipality.		X		Although the Commission has worked with Excel spreadsheets, there is no loss or missapropriation of property.	
<b><u>Recommendation 9</u></b> We recommend that the Municipality should establish appropriate policies and procedures to ensure a high standard of corporate governance as well as an Internal Audit Department and an Audit Committee. The Audit Committee should review the current status and propose actions for improvement on the following: <ul style="list-style-type: none"> <li>• Municipality’s accounting and financial reporting process;</li> <li>• Assessment of internal control systems implemented by management;</li> <li>• Internal and external audit processes;</li> <li>• Compliance, reporting and control structures throughout the Municipality to ensure compliance with financial, regulatory and legal requirements;</li> <li>• Internal Audit plan and follow-up of Internal Audit findings.</li> </ul>		X		The Management will develop an action plan which will set clear and adequate strategies and policies for all activities and more particularly to address these recommendations.	



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

**KOMUNA MAMUSHË**  
**OPSTINA MAMUSHË**  
**MUNICIPALITY MAMUSHË**

**Financial Statements**

As at and for the year ended 31 December 2012

**MAMUSHË, 2013**

**Municipality of Mamushe**  
**Section 13. Budget Execution report**  
**for the year ended 31 December 2012**

**Section 11. DECLARATION REGARDING THE PRESENTATION OF FINANCIAL STATEMENTS**

For: **Mr. Fatmir Plakiqi , General Treasury Director**

From: **Administrative and Financial Chief Officer**

In our opinion, the attached financial statements and the notes to these statements for the year ended on 31 December 2012 have been prepared in accordance with the International Public Sector Accounting Standards "Financial Reporting Under the Cash Based Accounting", adhere to all reporting requirements of the Law on Public Finance and Accountability 03/L-048 and Law nr. 03/L-221 for meeting changes of LPFMA and are based on properly maintained financial records.

This declaration is provided in connection with the presentation of the Kosovo Consolidated Budget ("KCB") financial statements of the budget organizations for the year ending 31 December 2012.

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

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

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

The information regarding collection of revenues is accurate.

There are no bank accounts related to the KCB other than the bank accounts specified in the financial statements and this specification is complete and accurate as of 31 December 2012.

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

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

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

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

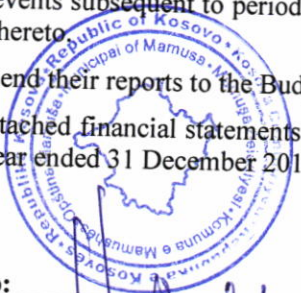
There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or Notes thereto.

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

In our opinion, the attached financial statements give a true and fair presentation of the finances and financial transactions for the year ended 31 December 2012 of Municipality of Mamushë.

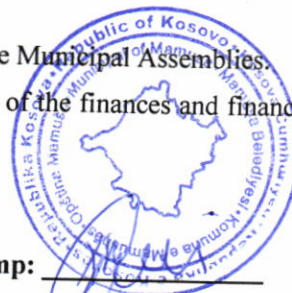
Date:02.07.2013

Signature and stamp:  
Arif Bütüç  
Chief Executive Officer



Date:02.07.2013

Signature and stamp:  
Xhevahire Gashi  
Chief Financial Officer



**Municipality of Mamushe**  
**Section 13. Budget Execution report**  
**for the year ended 31 December 2012**

		<u>2012</u>		<u>2011</u>		<u>2010</u>	
		<u>Single treasury account</u>	<u>Payments from third parties</u>	<u>Single treasury account</u>	<u>Payments from third parties</u>	<u>Single treasury account</u>	<u>Payments from third parties</u>
<u>Notes</u>		<u>KCB</u>	<u>€'000</u>	<u>KCB</u>	<u>€'000</u>	<u>KCB</u>	<u>€'000</u>
		<u>€'000</u>	<u>€'000</u>	<u>€'000</u>	<u>€'000</u>	<u>€'000</u>	<u>€'000</u>
<b>Receipts</b>							
Government Grant	2	1,003	-	981	-	753	-
Own Source Revenue	3	54	-	6	-	17	-
Fund designated for specific purpose		-	-	-	-	-	-
Designated Donor Grants	4	-	-	-	3	-	171
Borrowed Funds	5	-	-	-	-	-	-
Other receipts	6	-	355	-	-	-	-
<b>Total</b>		<b>1,057</b>	<b>355</b>	<b>987</b>	<b>3</b>	<b>770</b>	<b>171</b>
<b>Payments</b>							
<i>Operations</i>							
Wages and Salaries	7	694	-	636	-	503	-
Goods and Services	8	160	-	56	-	112	-
Utilities	9	23	-	21	-	21	-
		<b>877</b>	<b>-</b>	<b>713</b>	<b>-</b>	<b>636</b>	<b>-</b>
<i>Transfers</i>							
Transfers and subsidies	10	3	-	1	-	1	-
Capital expenditures		-	-	-	-	-	-
Property, plant and equipment	11	177	355	236	-	129	-
Other payments	12	-	-	-	-	-	-
Return of Loan	13	-	-	-	-	-	-
<b>Total</b>		<b>1,057</b>	<b>355</b>	<b>950</b>	<b>3</b>	<b>766</b>	<b>171</b>

**Municipality of Mamushe**  
**Section 13. Budget Execution report**  
**for the year ended 31 December 2012**

	Note	2012				2011	2010
		Original Budget (Appropriation)	Final Budget (Appropriation)	Actual	Variance	Payments	Payments
		A €'000	B €'000	C €'000	D=C-B €'000	E €'000	F €'000
<b>Cash inflows from Treasury account</b>							
Taxation	14	-	-	-	-	-	-
Owns Source Revenues	15	58	58	43	(15)	48	41
Donations	16	-	-	1	-	-	-
Capital Receipts	17	-	-	-	-	-	-
Privatization Fund	18	-	-	-	-	-	-
Borrowings	19	-	-	-	-	-	-
Other	20	-	-	-	-	-	-
<b>Total Receipts collected for KCB</b>		<b>58</b>	<b>58</b>	<b>44</b>	<b>(15)</b>	<b>48</b>	<b>41</b>
<b>Cash outflows from Treasury accounts</b>							
Wages and Salary	21	700	700	694	(6)	636	507
Goods and Services	22	79	161	160	(1)	86	112
Utilities	23	22	23	23	-	21	21
Transfers and Subsidies	24	3	3	3	-	1	1
Capital expenditures	25	224	258	177	81	236	129
Privatization Fund	26	-	-	-	-	-	-
Return of Loan		-	-	-	-	-	-
Other	27	-	-	-	-	-	-
<b>Total Payments made from KCB through STA</b>		<b>1,028</b>	<b>1,145</b>	<b>1,057</b>	<b>88</b>	<b>980</b>	<b>770</b>

The *General Fund* amounts totalling EUR 970 thousand for original budget, EUR 1,009 thousand for final budget and EUR 1,003 thousand for 2012 realisation (2011: EUR 981 thousand; 2010: EUR 753 thousand) have not been included in the *Cash inflows from treasury account* section in the above table, although they were used to help pay the various expenses of the Municipality presented under the *Cash outflows from treasury accounts* section. In previous years, such amounts were recorded as a separate category within the *Cash inflows from treasury account* in Section 13 *Budget Execution Report*.

# **Municipality of Mamushë**

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

### **31 December 2012**

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

#### **Note 1**

##### **General information on the budget organization and the accounting policies**

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

The financial statements have been prepared in accordance with Cash Basis IPSAS “*Financial Reporting Under The Cash Basis of Accounting*” and with the Administrative Instruction No. 07/2012 *On Annual Reporting Of Budget Organizations*. The notes to the financial statements are an integral part of these financial statements and are to be read in conjunction with them.

The accounting policies have been applied consistently throughout the period.

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

The financial statements are for the public sector entity: Municipality of Mamushe (‘the Municipality’).

These financial statements comprise the Municipality pursuant to the Law for the management of Public Finance and Responsibility (03/L-048 and 03/L-211). The Municipality of Mamushe is controlled by the Kosovo Government and all financial activities are financed from the Consolidated Budget of Kosovo (“KCB”).

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

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

###### **1.4 Treasury Single Account**

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

###### **1.5 Return of expenses from the previous year**

The funds returned to KCB from the previous year are reported as receipts in the current year and not as reductions to expenses in the year when the expense occurred.

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

The reporting currency is Euro (€)

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

The financial statements are authorized to be issued on 31 January 2013 and approved by Xhevahire Gashi, Chief Finance Director.



**Municipality of Mamushë**  
**Section 14. Notes to the financial statements**  
**31 December 2012**

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

**Note 2 General Fund Appropriation**

	2012	2011	2010
Economic classification	€'000	€'000	€'000
Wages and Salaries	694	636	508
Goods and Services	139	86	94
Utilities	23	21	21
Subsidies and transfers	3	1	1
Capital Outlays	144	237	129
<b>Total</b>	<b>1,003</b>	<b>981</b>	<b>753</b>

**Note 3 Own Source Revenue**

	2012	2011	2010
Economic classification	€'000	€'000	€'000
Wages and Salaries	-	-	-
Goods and Services	22	6	17
Utilities	-	-	-
Subsidies and transfers	-	-	-
Capital Outlays	32	-	-
<b>Total</b>	<b>54</b>	<b>6</b>	<b>17</b>

**Note 4 Designated Donor Grants**

	2012	2011	2010
Economic classification	€'000	€'000	€'000
Wages and Salaries	-	-	-
Goods and Services	-	-	-
Utilities	-	-	-
Subsidies and transfers	-	-	-
Capital Outlays	-	3	171
<b>Total</b>	<b>-</b>	<b>3</b>	<b>171</b>

**Note 5 Borrowed Funds**

Lender	2012	2011	2010
	€'000	€'000	€'000
	-	-	-
	-	-	-
	-	-	-
<b>There are no borrowed funds during 2012</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Municipality of Mamushë**  
**Section 14. Notes to the financial statements**  
**31 December 2012**

(Amounts in thousands of EUR, unless otherwise stated)

**Note 6 Other Receipts**

Economic Classification	2012	2011	2010
	€'000	€'000	€'000
Ministry of Infrastructure	30	-	-
USAID	24	-	-
ASB	88	-	-
USAID – DEMI	67	-	-
USAID – DEMI	82	-	-
Ceyhan Municipality	65	-	-
<b>Total</b>	<b>355</b>	<b>-</b>	<b>-</b>

**Note 7 Wages and Salaries**

Description	2012				2011	2010
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
<b>Payments</b>	-	-	-	-	-	-
Net Salaries	600	-	-	600	551	443
Payments to unions - 0.10% to 0.50%	-	-	-	-	-	-
Overtime payments	-	-	-	-	-	-
Part time payments	-	-	-	-	-	-
Night-shift salaries	-	-	-	-	-	-
Net salary for maternity leave	-	-	-	-	-	-
Daily payments for Assembly and committee members	-	-	-	-	-	-
Contracted payments	-	-	-	-	-	-
Personal Income Tax	28	-	-	28	25	17
Employer pension contribution	33	-	-	33	30	24
Employee pension contribution	33	-	-	33	30	24
Court decisions	-	-	-	-	-	-
<b>Total Payments</b>	<b>694</b>	<b>-</b>	<b>-</b>	<b>694</b>	<b>636</b>	<b>508</b>

**Municipality of Mamushë**  
**Section 14. Notes to the financial statements**  
**31 December 2012**

(Amounts in thousands of EUR, unless otherwise stated)

**Note 8 Goods and Services**

Description	2012				2011	2010
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
Payments from KCF	4	-	-	4	1	4
Travel expenses inside country	7	1	-	8	3	3
Telephone expenses	6	2	-	8	8	
Service expense	28	-	-	28	10	12
Furniture (below Euro 1,000)	-	-	-	-		
Other purchases of goods and services (Euro 1000-5000)	14	4	-	18	10	
Other purchases of goods and services	59	10	-	69	43	62
Fuel	-	-	-	-	2	2
Advances	2	-	-	2	2	-
Registration and insurance services	11	4	-	15	2	10
Maintenance	-	-	-	-		
Rent	3	-	-	3		5
Marketing expenses	4	1	-	5	5	10
Representation expenses	-	-	-	-		2
Court Decisions	-	-	-	-		2
<b>Total</b>	<b>138</b>	<b>22</b>	<b>-</b>	<b>160</b>	<b>86</b>	<b>112</b>

**Note 9 Utilities**

Description	2012				2011	2010
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
Electricity	15	-	-	15	14	14
Water	1	-	-	1	-	-
Waste	1	-	-	1	1	1
Telephone	6	-	-	6	6	6
Municipality expenses	-	-	-	-	-	-
<b>Total</b>	<b>23</b>	<b>-</b>	<b>-</b>	<b>23</b>	<b>21</b>	<b>21</b>

**Municipality of Mamushë**  
**Section 14. Notes to the financial statements**  
**31 December 2012**

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**Note 10 Transfers and Subsidies**

Description	2012				2011	2010
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
<b>Payments</b>						
Subsidies for public entities	3	-	-	3	1	1
Subsidies for cultural entities	-	-	-	-	-	-
Subsidies for non-public entities	-	-	-	-	-	-
Transfers for other governments	-	-	-	-	-	-
Payments for individual beneficiaries	-	-	-	-	-	-
<b>Total</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>1</b>

**Note 11 Property, Plant, and Equipment**

Description	2012				2011	2010
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
<b>Payments</b>						
Buildings	11	-	-	11	79	-
Road construction	54	23	-	77	64	50
IT equipment	-	-	-	-	3	4
Waste and water system	-	-	-	-	2	-
Water supply system	-	-	-	-	-	-
Educational Facilities	-	-	-	-	-	-
Medical Facilities	-	-	-	-	1	4
Energy, generation, transfer, and supply	-	-	-	-	11	-
Furniture	-	-	-	-	2	-
Other parts above 1,000 Euro	18	-	-	18	-	-
Other equipment	-	-	-	-	7	12
Cultural facilities	-	-	-	-	-	-
Sport facilities	-	-	-	-	-	-
Official Vehicles	-	-	-	-	15	-
Machinery	-	-	-	-	15	-
Other capital	62	9	-	71	37	-
Land	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Capital transfers to public entities	-	-	-	-	-	-
Capital transfers to non public entities	-	-	-	-	-	59
Court decisions	-	-	-	-	-	-
<b>Total</b>	<b>145</b>	<b>32</b>	<b>-</b>	<b>177</b>	<b>236</b>	<b>129</b>

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**Note 12 Other payments**

There were no other payments during the year 2012.

**Note 13 Return of loans**

Description	2012 €'000	2011 €'000	2010 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 14 Taxation**

Description	Note	2012 €'000	2011 €'000	2010 €'000	% of total 2012	% change from 2011
Tax Revenues 1		-	-	-	%	%
Tax Revenues 2		-	-	-	%	%
Tax Revenues 3		-	-	-	%	%
<b>Total</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>0%</b>	<b>%</b>

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

**Note 15 Own source revenues**

Description	Code	2012 €'000	2011 €'000	2010 €'000	% of total 2012	% change from 2011
Property Tax	4010	13	12	8	30%	8%
Revenues from taxes 1	5000	19	30	50	44%	-37%
Revenues from taxes 2	5040	5	-	-	12%	100%
Revenue from fines penalties 1		6	-	-	14%	100%
Revenues from fines 2		-	-	-	0%	0%
Revenue from licenses 1		-	-	-	0%	0%
Revenue from licenses 2		-	-	-	0%	0%
Revenues from sale of assets and services		-	-	-	0%	0%
Revenue from inspection		-	-	-	0%	0%
Revenues from property		-	-	-	0%	0%
Other Receipts		-	-	-	0%	0%
Revenues from participation		-	-	-	0%	0%
Revenues from contributions		-	-	-	0%	0%
<b>Total</b>		<b>43</b>	<b>42</b>	<b>58</b>	<b>100%</b>	<b>2%</b>

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**Note 16 Grants and Assistance**

<b>Project</b>	<b>Description</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
		<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
TEB	Humanitarian matters	1	-	-
Bechtel – Enka	Humanitarian matters	-	2	-
World Bank	Education support	-	4	-
<b>Total</b>		<b>1</b>	<b>6</b>	<b>-</b>

**Note 17 Capital receipts**

<b>Asset Type</b>	<b>Profit from Sale</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
Land	-	-	-
Buildings	-	-	-
Infrastructure	-	-	-
Machinery	-	-	-
Equipment	-	-	-
Transport vehicles	-	-	-
Other	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 18 Privatization fund**

<b>POE</b>	<b>Profit from Privatization</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>€'000</b>	<b>€'000</b>	<b>€'000</b>
POE #1	-	-	-
POE #2	-	-	-
POE #3	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

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**Note 19 Borrowings**

Description	2012 €'000	2011 €'000	2010 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 20 Other**

Receipt type	2012 €'000	2011 €'000	2010 €'000
Lottery games deposit	-	-	-
Regulatory committee deposit	-	-	-
Ministry of Justice deposit	-	-	-
Other deposit	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 21 to 27**

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

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

Payments on wages and salaries result lower than the budgeted amount by EUR 6 thousand.

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

There are no differences in this economic category.

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

There are no differences in this economic category.

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

There are no differences in this economic category.

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

Payments on capital expenditure result lower than the budgeted amount by EUR 81 thousand due to own source revenue carried over from 2011 and not expensed, amounting to EUR 68 thousand. Remaining amounts relate to projects not completed as forecasted.

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

There are no differences in this economic category.

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

There are no differences in this economic category.

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<b>Note 28 Statement of unpaid invoices (obligation) of budget organization</b>			<b>2012</b>
<b>Summary</b>			<b>Amount</b>
<b>Program Code</b>	<b>Department</b>		<b>€'000</b>
13220	Water expense		4
<b>Total unpaid invoices</b>			<b>4</b>

<b>Summary of unpaid invoices</b>			<b>2012</b>
<b>Economic Category</b>	<b>Description</b>		<b>€'000</b>
13130	Expense for travelling within the country		-
13140	Expense for travelling abroad		-
13210	Electricity expense		-
13220	Water expense		4
13230	Garbage expense		-
13250	Phone expense		-
13320	Mobile phone expense		-
13330	Postal expense		-
13460	Other contractual services		-
13620	Food supply expense		-
13780	Fuel expense		-
13951	Vehicle insurance expense		-
14010	Maintenance and repairs expenses		-
14040	Maintenance of Information Technology expense		-
14310	Business Lunch		-
21200	Subsidies for nonpublic entities		-
31900	Other capital expenditure		-
<b>Total</b>			<b>4</b>



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**Note 28 Statement of unpaid invoices (obligation) of budget organization (continued)**

<b>Details of unpaid invoices</b>							<b>2012</b>
<b>Invoice date</b>	<b>Invoice number</b>	<b>Economic code</b>	<b>Payment due date</b>	<b>Supplier</b>	<b>Description</b>	<b>Reasons for nonpayment</b>	<b>€000</b>
22.01.2013	454669	13320	30 days	Hidrogjeni Jugor	Water expense	Disagreement on the amount invoiced	4
<b>TOTAL</b>							<b>4</b>

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**Note 29: Contingent Liabilities**

Contingency Liability Type	Reason for Liabilities	Exact or estimated value		
		2012	2011	2010
		€'000	€'000	€'000
TV Diaspora	Outstanding obligation; Decision 1.C No.193/2011	3	-	-
		-	-	-
		-	-	-
		-	-	-
		-	-	-
<b>Total</b>		<b>3</b>	<b>-</b>	<b>-</b>

**Section 16 Disclosure of Property, Plant and Equipment**

**Note 30: Summary of non-financial capital assets (worth over 1000 Euros) in possession of a budget organization**

Assets Classification	2012	2011	2010
	€'000	€'000	€'000
Non residential building	107	1,943	700
Land	1,017	1,017	1,017
Equipment	27	244	234
Infrastructure	-	-	-
Machinery	-	-	-
Vehicle	-	-	-
Other	-	-	-
<b>Total</b>	<b>1,151</b>	<b>3,204</b>	<b>1,951</b>

Note:

- 1) Source of information is the property registry with value greater than 1,000 Euro in KFMIS.
- 2) See annex no. 2 for analytical data with regard to Property, plant and equipment

**Note 31: Summary of non-financial assets valued under 1,000 Euros with life of more than one year**

**Non capital assets (valued less than 1,000 Euro)**

Assets Classification	2012	2011	2010
	€'000	€'000	€'000
Equipment and furniture	22	10	-
<b>Total</b>	<b>22</b>	<b>10</b>	<b>-</b>

Note:

- 1) Source of information is the property registry with value less than 1,000 Euro in BO.
- 2) See annex no. 3 for analytical data.

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

Asset Classification	2012 €'000	2011 €'000	2010 €'000
Inventory	5	-	-
<b>Total</b>	<b>5</b>	<b>-</b>	<b>-</b>

Note:

- 1) Source of information is the property registry with value less than 1,000 Euro in BO.
- 2) See annex no. 4 for analytical data.

**Note 33: Unjustified Loans and advances**

Issue Date	No of CPO	Purpose	2012 €'000
<b>Total</b>			<b>-</b>

**Note 34 Receivables (applies to organizations that collect revenue)**

Invoice Date	UNIREF	Economic Code	Description	Term of payment	Debtor	2012 €'000
		40110	Municipality tax			15
		50002	Road tax			6
		50013	Tax on birth certificates			1
		50016	Tax for other certificates			4
			Health participation			4
			Tax on cadastre			2
<b>Total</b>						<b>32</b>

Note: 1) source of information is the register of accounts receivable to BO.

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

	2012 €'000	2011 €'000	2010 €'000
Own source revenues carried over from last year	77	41	41
Own Source Revenues received this year by section			
<i>Plus</i> 15	43	42	-
<b>Total available for sharing in the current year</b>	<b>120</b>	<b>83</b>	<b>41</b>
<i>Minus</i> The amount spent in the current year	(54)	(6)	-
<b>The amount left for transfer</b>	<b>66</b>	<b>77</b>	<b>41</b>

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**Section 18, Note 36 Reconciliation between Original and Final Budget Appropriations**

Appropriation Category	Changes authorized by LPFMA							Final Budget Appropriation KFMIS EUR '000	Adjustment from Original Budget
	Initial budget disposal of (Law on Budget) €'000	Changed according to article 29 Law nr. 03/L-048 €'000	Changed according to article 30 Law nr. 03/L-048 €'000	Changes according to article 31 Law nr. 03/L-048 €'000	Changes of own source revenue €'000	Changes for donor grants defined	Changes for other sources of finance		
<b>Revenues</b>									
Tax	-	-	-	-	-	-	-	-	0.0%
Own source revenues	58	-	-	-	-	-	-	58	0.0%
Designated donor grants	-	-	-	-	-	-	-	-	0.0%
Capital receipts	-	-	-	-	-	-	-	-	0.0%
Privatization funds	-	-	-	-	-	-	-	-	0.0%
Other	-	-	-	-	-	-	-	-	0.0%
	<b>58</b>	-	-	-	-	-	-	<b>58</b>	<b>0.0%</b>
<b>Expenses</b>									
Wages and Salaries	700	-	-	-	-	-	-	700	0.0%
Goods and services	79	39	27	-	-	16	-	161	103.8%
Public services	22	1	-	-	-	-	-	23	4.5%
Transfers and subsidies	3	-	-	-	-	-	-	3	0.0%
Capital expenditures	224	-	(27)	-	-	61	-	258	15.2%
Privatization funds	-	-	-	-	-	-	-	-	0.0%
Other	-	-	-	-	-	-	-	-	0.0%
	<b>1,028</b>	<b>40</b>	<b>1,115</b>	-	-	<b>77</b>	-	<b>1,145</b>	<b>11.4%</b>

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**Article 19. Number of employees**

Department	Total budgeted full time & part time No of employees	Actual nr of employees in the beginning of 2012		Actual number of employees at the end of 2012	
		Full time	Part Time	Full time	Part Time
Mayors' office 16014	10	10	-	10	-
Municipality's Council					
Administration	11	11	-	11	-
Budget and Finance	6	6	-	6	-
Roads Infrastructure	2	2	-	2	-
Fireman and inspections	10	10	-	10	-
Community office	2	2	-	2	-
Mortgage and geodesy	5	5	-	5	-
Health	2	2	-	2	-
Primary care	17	17	-	17	-
Social services	2	2	-	2	-
Education	5	5	-	5	-
Pre-school education	3	2	-	3	-
Elementary education	54	54	-	54	-
High schools	7	7	-	7	-
<b>Total</b>	<b>136</b>	<b>133</b>	<b>-</b>	<b>134</b>	<b>-</b>

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**Section 20.**

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

No	Recommendation or finding	Taken or proposed action	Deadline for implementation	Effect
1	<p><b>Financial outcome compared to approved budget</b></p> <p>We recommend the Mayor to ensure that:</p> <ul style="list-style-type: none"> <li>• Internal control over the use of budget in compliance with planning is strengthened ;and</li> <li>• Controls over planning, managing and monitoring of capital investments are strengthened in order to achieve higher efficiency of contract execution in a specified time.</li> </ul>	<p>Controls shall become more efficient in order to plan more effectively and achieve budgets in order to fulfill objectives defined, especially in public investments management.</p>	01/09/2012	<p>Budget planning, management and monitoring shall be more effective.</p>
2	<p><b>Financial Statements-Compliance with reporting framework and the quality of information</b></p> <p>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.</p> <p>The Municipality should also prepare financial statements in Serbian language.</p>	<p>Establishment of more effective controls such that all financial information are disclosed more adequately, within deadlines. Financial Statements shall be prepared in Serbian language as well.</p>	01/09/2012	<p>Financial information disclosed is in accordance with regulations.</p>
3	<p><b>Financial Statements - Compliance with reporting framework and the quality of information</b></p> <p>Improvements need to be made in the quality of information received and presented in the financial statements.</p>	<p>Establishment of more effective controls in order to fulfill all recommendations also based on applicable laws.</p>	01/09/2012	<p>Effective functioning of internal controls on budget management in accordance with objectives set.</p>
4	<p><b>Financial Management</b></p> <ul style="list-style-type: none"> <li>• We recommend the Mayor ensures the Municipality takes steps to improve the</li> </ul>	<p>Linking of billing system to the accounting software</p>	01/09/2012	<p>Improve accounts receivables; adequate controls</p>

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	<p>billing and accounting systems in order to ensure safe, efficient and effective controls on the billing and the revenue.</p> <ul style="list-style-type: none"> <li>• 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:</li> <li>• Implement a billing system that includes updated details about the payers, their current address, history and collection rating. Such information should be accessible only to a limited number of persons and with the authorization of the management.</li> <li>• Automatically inter-connect the billing system with the accounting software so that the information is automatically processed into the general ledger.</li> <li>• 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.</li> <li>• Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed.</li> <li>• 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.</li> </ul>			<p>in lowering debt amounts and depositing of cash as per limits set in the respective law.</p>
5	<p><b>Procurement</b></p> <p>We recommend the Mayor to ensure that:  The Municipality should establish sufficient</p>	<p>Establishment of more effective controls in order to achieve a more</p>	01/09/2012	<p>Implementing of procurement procedures in full compliance with</p>

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	<p>adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.</p> <p>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.</p>	<p>efficient monitoring in accordance with procurement law.</p>		<p>LPP and secondary laws approved by 'KRPP' which will result in performance in accordance with signed contracts articles.</p>
6	<p><b>Subsidies and transfers</b></p> <p>The Municipality should establish sufficient adequate control procedures for effective monitoring over the compliance with the applicable laws and regulations.</p>	<p>Establishment of adequate controls to ensure sufficient documentation on each subsidy and transfer.</p>	01/09/2012	<p>Awarding of subsidies and transfers in accordance with Financial Rule no. 2 and other applicable laws.</p>
7	<p><b>Handling of capital and non-capital assets</b></p> <p>The Municipality should consider the following:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Involve additional resources in the registration and valuation of the assets of the Municipality.</li> <li>• Involvement of independent and certified appraisers is recommended as the best practice in such cases.</li> <li>• 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.</li> </ul>	<p>Counting and reconciling of assets shall be performed in time and the achieved result shall be reflected in the asset register</p>	01/09/2012	<p>There shall not be losses for the Municipality.</p>
8	<p><b>Handling of debts</b></p> <p>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.</p>	<p>Establishment of adequate controls to ensure that payments are performed as per deadlines forecasted in the law.</p>	01/09/2012	<p>For each invoice assets are already forecasted, so they are not part of other obligations</p>
9	<p><b>Current reporting and timeliness in the overall</b></p>	<p>Establishment of adequate controls as</p>	01/04/2012	<p>There shall not</p>



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	<p><b>budget process</b></p> <p>We recommend the Mayor ensures that the Municipality considers the following:</p> <ul style="list-style-type: none"> <li>• To establish adequate internal control procedures and takes appropriate responsibility to fulfill the requirements for external financial reporting.</li> <li>• We recommend the Municipality to follow all reporting requirements of MF.</li> </ul>	per deadlines in Financial Rule and LMFPF.		be delays
10	<p><b>Internal Control Systems</b></p> <p>We recommend the Municipality to ensure that:</p> <ul style="list-style-type: none"> <li>• The overall financial administrative and managerial controls are strengthened; and</li> <li>• Immediate actions are taken securing a better handling of shortcomings in the implementation of internal control.</li> </ul>	Establishment of adequate controls as to fulfill objectives and respective laws.	01/04/2012	Efficient functioning of budget management.
11	<p><b>Internal Audit system</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• Municipality’s accounting and financial reporting process;</li> <li>• Assessment of internal control systems implemented by management;</li> <li>• Internal and external audit processes;</li> </ul>	A plan shall be put in place to address the recommendation.	2012/2013	The full implementation of recommendations shall improve the Municipality’s performance.