

Document No: 30-06-2015-04

AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF
JUNIK FOR
THE YEAR ENDED 31 DECEMBER 2014

Prishtina, June 2015

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

Deloitte Kosova sh.p.k. has conducted the audit of the Annual Financial Statements of the Municipality of Junik ("the Municipality") for the year ended December 31, 2014, on behalf of the Office of the General Auditor.

The Office of the General Auditor undertakes both Regularity and Performance Audits. The Acting General Auditor, is the head of the Office of the General Auditor which employs around 145 staff. The General Auditor and the Office of the General Auditor are independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

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

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

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Executive Summary

Introduction

Deloitte has conducted the audit of the Annual Financial Statements of the Municipality of Junik (the "Municipality") for the year ended December 31, 2014, on behalf of the Office of the Auditor General ("OAG").

This report summarizes the key findings from our audit of the 2014 Annual Financial Statements of the Municipality which determine the Opinion given by Deloitte Kosova sh.p.k. We would like to thank the Mayor and his team for their assistance during the audit process.

The examination of the 2014 financial statements was undertaken in accordance with the Basic Principles and Guidelines on Auditing of the International Organization of Supreme Audit Institutions (INTOSAI). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 17 November 2014.

Our audit focus has been on:



The level of work undertaken by us to complete the 2014 audit is a direct reflection of the quality of the internal controls implemented by management.

Opinion

Appendix I explains the different types of Opinions applied.

Our audit opinion is:

According to our opinion, the Annual Financial Statements present *a true and fair view, in all material aspects*, except for the following issues:

1. In the Statement of Budget Execution, the Municipality has presented as realization for donations the amount expensed during the year, EUR 86,489, instead of the allocated amount for the year, EUR 397,294. Further, in the note 4 in the Statement of Cash Receipts and Payments, is presented the amount allocated during the year in the amount of EUR 397,294 instead of the amount expensed during the year in the amount of EUR 86,489.

This presentation is not in compliance with Regulation MF -03/2013 "On the Annual Financial Statements of Budget Organizations."

2. Given that the Municipality has not received a detailed official report from the government agencies relating to investments they have made in the Municipality, we were unable to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented in note 31 "Summary of non-capital assets over EUR 1,000 in possession of the budget organization" and that the investments in question are owned by the Municipality. In addition, besides the investments of other government agencies, many of the Municipality assets' are not owned by the Municipality and are not registered in the cadastral register.

Further, the Municipality has not recorded the assets purchased during 2014 in the fixed asset register, which consequently are not presented in note 31 "Summary of non-financial capital assets over EUR 1,000 in possession of the budget organization".

Due to the deficiencies in the register of capital assets over EUR 1,000, we were not able to determine whether the depreciation calculated from the system and respectively net book value of the assets presented is correct.

3. The Municipality has not disclosed in the Annual Financial Statements its non-capital assets less than EUR 1,000.

Emphasis of Matter

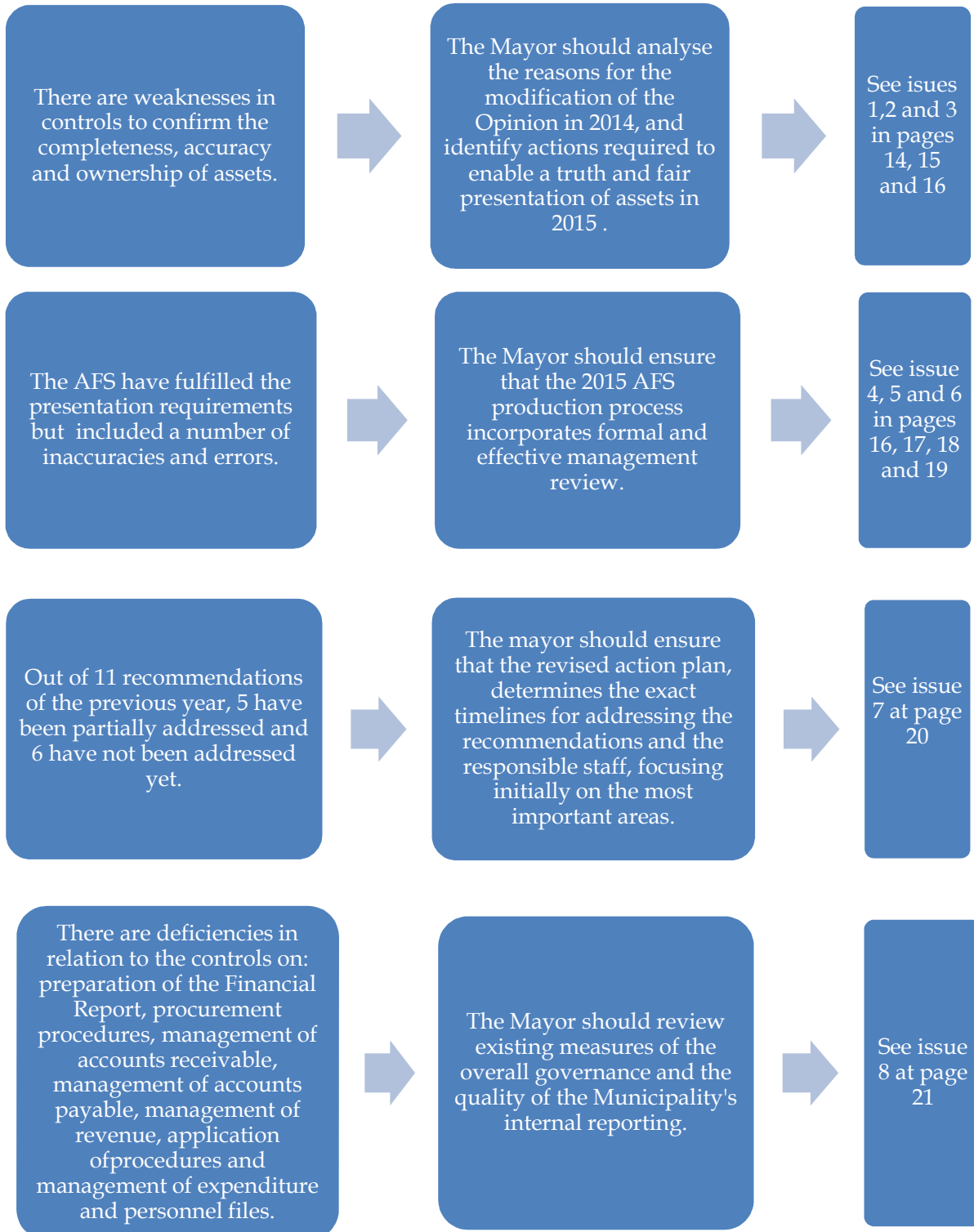
We draw attention to note 29 "Statement of unpaid invoices of Budget Organization" where the invoices in the amount of EUR 68,249 (81% of total outstanding debts) represents unpaid debts more than 30 days, which is not in accordance with the requirements of Regulation MF - No. 01/2013 "Expenditure of public funds". Our opinion is not qualified for this matter.

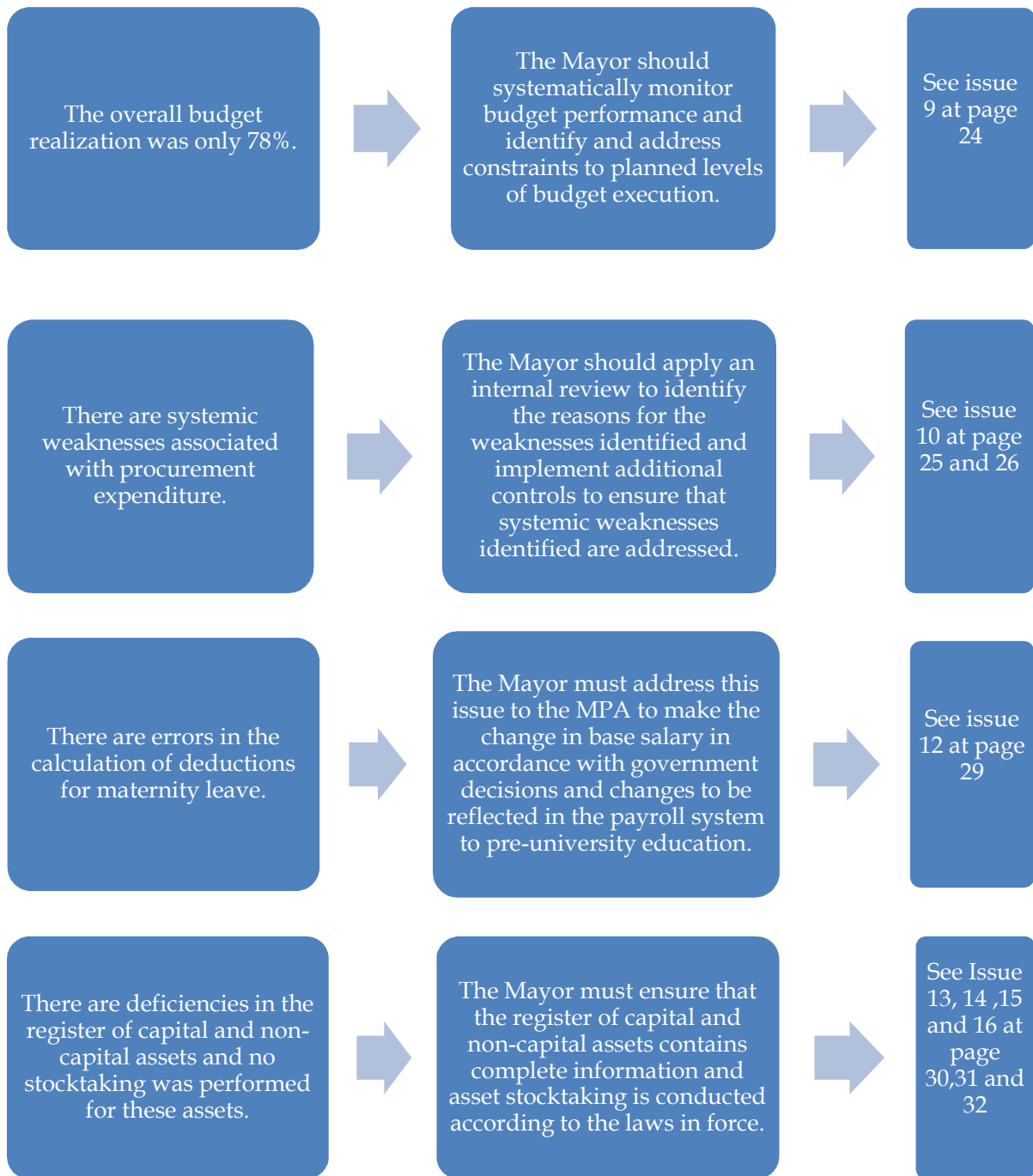
Other Matter

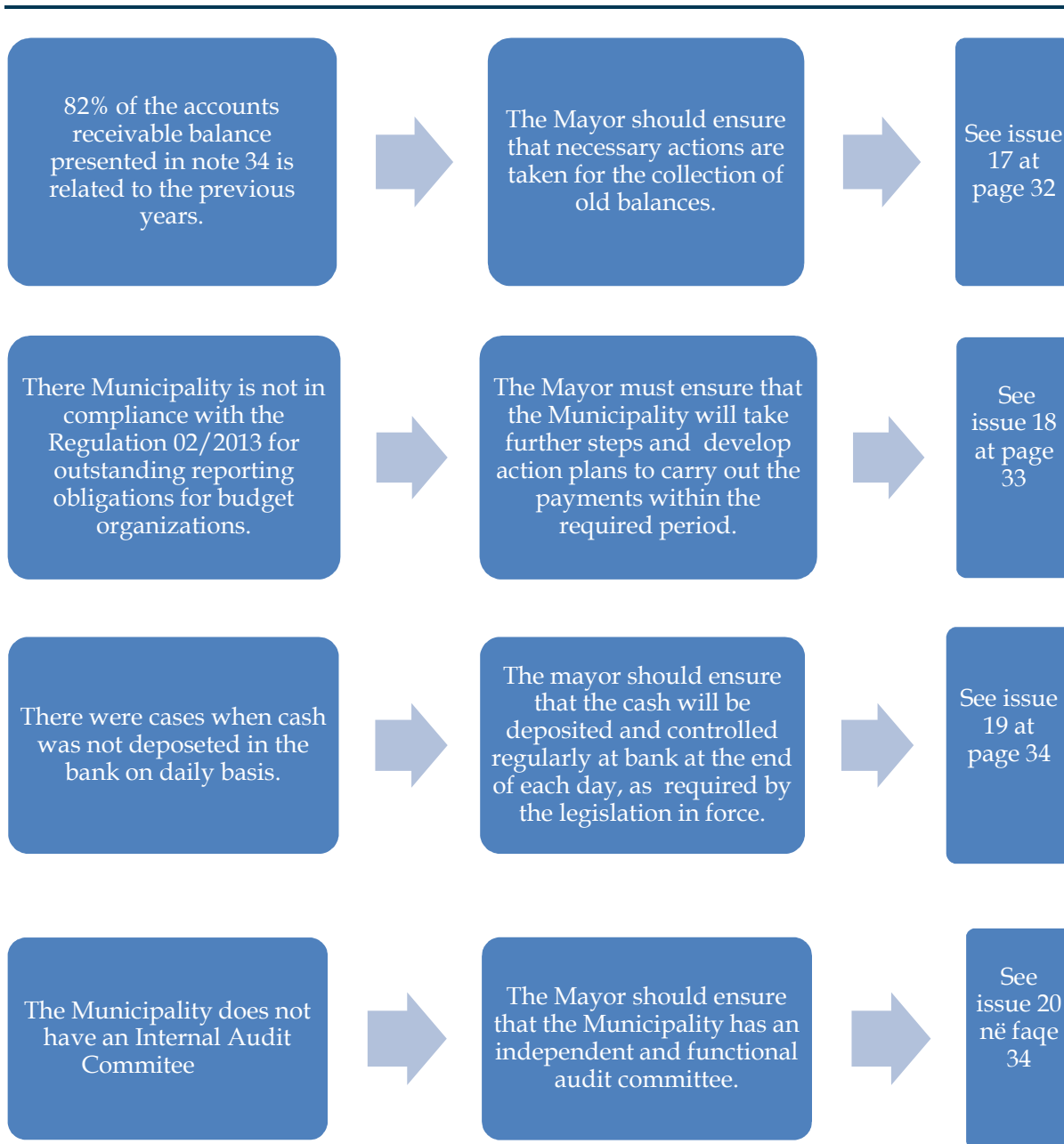
The financial statements of the Municipality for the year ended December 31, 2013 are audit by an other auditor, who has expressed an unqualified opinion for those financial statements on June 6, 2014.

Overall Conclusion

Our key conclusions and recommendations are:







Mayor's Response - 2014 audit

The detailed audit findings and conclusions in this report have been considered by the Mayor. The Mayor's responses where we have not reached a common position are detailed in Appendix III.

1 Audit Scope and Methodology

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

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

We have considered the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the our audit opinion. Management activity also determines the focus of our compliance audit and good governance audit which do not directly impact on the opinion.

Our audit approach towards governance is focused on evaluating the actions taken by management to secure effective financial management and control and the results of this action in efficiently delivering high quality operational outputs. 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. This requires an assessment of structures, processes and accountability lines introduced by management including the role undertaken by Internal Audit and Audit Committees as well as inbuilt system controls.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of how the Management has addressed recommendations made in the report on 2013 may be found in Appendix II.

Our findings are defined as:

High Priority - issues which may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls, and issues that may have an impact on losses and/or committed revenue; and

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

Findings considered low priority will be reported separately to finance staff.

Our procedures included a review of the internal controls and accounting systems and associated substantive testing only to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.

2 Annual Financial Statements and other External Reporting Obligations

Description

Our audit of the AFS considers both compliance with the reporting framework and the accuracy of the information recorded in the financial statements. We also consider the Declaration made by the Chief Administrative Officer (CAO) and Chief Financial Officer (CFO) when the draft AFS are submitted to the Government.

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the financial statements. A number of 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.

Overall Conclusion

We have determined a qualified opinion, including also an Emphasis of Matter paragraph. We have also identified a number of immaterial errors which did not have an effect in the audit opinion, but are only included as issues in the report. Other reporting obligations not related to the AFS were met, except the cases described in point 2.3 of this report. Our qualified opinion indicates that the statement made by the CAO and CFO, to which we referred above, was not accurate in all respects.

2.1 Audit Opinion

For the Municipality of Junik

We have audited the accompanying financial statements of Municipality of Junik (the "Municipality"), which comprise Statement of Cash Receipts and Payments and Budget Execution Report for the year ended December 31, 2014, and a summary of significant accounting policies and other explanatory information in relation with these statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under Cash Basis of Accounting", and with Regulation MF - No.03/2013 "For the Annual Financial Statements of budget organizations." This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation 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 the Basic Principles and Guidelines on Auditing of the International Organization of Supreme Audit Institutions (INTOSAI). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 considers 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 policies 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 audit opinion.

Basis for qualified opinion

1. In the Statement of Budget Execution, the Municipality has presented as realization for donations the amount expensed during the year, EUR 86,489, instead of the allocated amount for the year, EUR 397,294. Further, in the note 4 in the Statement of Cash Receipts and Payments,

is presented the amount allocated during the year in the amount of EUR 397,294 instead of the amount expensed during the year in the amount of EUR 86,489.

This presentation is not in compliance with Regulation MF -03/2013 "On the Annual Financial Statements of Budget Organizations."

2. Given that the Municipality has not received a detailed official report from the government agencies relating to investments they have made in the Municipality, we were unable to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented in note 31 "Summary of non-capital assets over EUR 1,000 in possession of the budget organization" and that the investments in question are owned by the Municipality. In addition, besides the investments of other government agencies, many of the Municipality assets' are not owned by the Municipality and are not registered in the cadastral register.

Further, the Municipality has not recorded the assets purchased during 2014 in the fixed asset register, which consequently are not presented in note 31 "Summary of non-financial capital assets over EUR 1,000 in possession of the budget organization".

Due to the deficiencies in the register of capital assets over EUR 1,000, we were not able to determine whether the depreciation calculated from the system and respectively net book value of the assets presented is correct.

3. The Municipality has not disclosed in the Annual Financial Statements its non-capital assets less than EUR 1,000.

Qualified opinion

In our opinion, except for the possible effects of the matters as referred in paragraph 2, and except of the effect of the matter referred in paragraph 1 and 3, as described in the Basis for Qualified Opinion paragraph, the Municipality's financial statements for the year ended December 31, 2014 have been prepared in all material respects, in accordance with IPSAS "Financial Reporting under the Cash Basis of Accounting" and with Regulation MF - No. 03 / 2013 "On the Annual Financial Statements of budget organizations".

Emphasis of mater

We draw attention to note 29 "Statement of unpaid invoices of Budget Organization" where the invoices in the amount of EUR 68,249 (81% of total outstanding debts) represents unpaid debts more than 30 days, which is not in accordance with the requirements of Regulation MF - No. 01/2013 "Expenditure of public funds". Our opinion is not qualified for this matter.



Prishtina, Kosova.

June 24, 2015

2.2 Significant Risks to the Annual Financial Statements

Description

Our Audit Planning Memorandum dated 17 November 2014 identified 3 significant risks to the AFS related to the completeness of assets. During the audit conducted we have identified another risk in relation to the preparation of the Annual Financial Statements. These are risks of material misstatement that may result in a modification of the opinion.

The risks of material misstatement that we identified relating to the completeness of assets and the preparation of the financial statements occurred because no management action was taken to address the highlighted risk.

Issue 1 - Lack of ownership documentation and incomplete presentation of investments made by other government agencies - High Priority

Identified Risk

Lack of ownership documentation which may create uncertainty regarding the rights of ownership of assets between the Municipality and other government agencies of the Government of Kosovo and difficulties in the use of these assets in the future.

Deficiencies can result in material value assets not included in the financial statements of the Municipality or included with unrealistic values.

Audit response and findings

We have assessed the controls implemented by management to prove the completeness of assets' data and clarifying ownership issues for investments made by various agencies of the Government for 2014 and previous years. We have given advice to management for actions needed to ensure that the fair value of assets in the Annual Financial Statement was correct. However, the risk identified is materialized because management has failed to apply the necessary improvements in internal control and we were unable to confirm whether the values of assets recorded in the AFS was accurate.

Article 31 "Disclosure of non-financial capital assets (less than EUR 1000) owned by the Organization": the Municipality does not possess the ownership documentation for properties under the ownership of the Municipality, including investments from Municipality and other government agencies. Furthermore, except the building of elementary school "Edmond Hoxha", other properties are not recorded in the cadastral registry.

Regarding the problem of investments made by other government agencies, as the Municipality has not received a detailed official report from government agencies relating to investments they have made in the Municipality, we were not able to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented in the financial statements as well as investments in question are owned by the Municipality.

Furthermore, the Municipality has not made an assessment of its capital non-financial assets during 2014. This is not in compliance with Regulation No. 02/2013 “On management of non-financial assets by budget organizations” which specifies that the budget organization must assess the non-financial assets to prove the necessity of non-financial assets to the organization, the physical condition and the ability to use them in other units of the organization.

Recommendation 1 The Mayor of the Municipality should analyse the reasons for the deficiencies that are described above that form one of the points of the qualified opinion and identify appropriate actions to address the weaknesses of controls in order to enable a fair presentation of assets in 2015.

Issue 2 - Uncertainties concerning the completeness of the note "Disclosure of non-financial capital assets (less than EUR 1,000) owned by the Organization" and the absence of a reconciliation of information involved from all sources in the financing of assets - High Priority

Identified Risk

Disclosure of assets is not complete because not all property, plant and equipment are included in the disclosure. Movement (supplements) of assets may not be in accordance with the information presented in the Statement of cash receipts and payments.

Audit response and Findings

The Municipality has not registered the assets in the asset register since the end of 2013. In the absence of an assets officer, all capital expenditures in 2014 have not passed in the asset register during 2014 and therefore have not been included in total assets in note 31. While total capital expenditures set forth in Article 12 is EUR 297,765, note 31 presents a net decrease of EUR 67,977.

Recommendation 2 We recommend the Mayor of the Municipality to ensure that the Municipality constantly records and presents all assets in note 31, as well as reconciles information from all sources involved in the financing of assets.

Issue 3 -Lack of ownership documentation for the investments made by third parties - High Priority

Identified Risk

Incomplete records of payments from third parties in the central information systems of Municipality and lack of coordination and reconciliation between the data with third parties may result in incomplete presentation and data errors in statements of Municipality.

Audit response and Findings

During 2014, there were no investments made by third parties in the Municipality. However, it should be noted that even in 2014 the Municipality has not received a detailed official report of third parties relating to investments they have made in previous years in the Municipality.

Recommendation 3 We recommend the Mayor of the Municipality to ensure that the Municipality is making maximum efforts for the obtainment of data from third parties, with particular emphasis on those parties known to have carried out significant investments in the Municipality. The data obtained should be correctly presented in the asset register. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments made in the Municipality for the year.

Issue 4 - Deficiencies in the preparation of the Annual Financial Statements - High Priority

Identified Risk

Annual Financial Statements may not be prepared in accordance with the requirements of Regulation MF- No. 03/2013 “ On the Annual Financial Statements of budget organizations”..

Audit Response and Findings

We have reviewed the measures taken by management to ensure that the reporting process is done in accordance with relevant regulations. We have reviewed whether the Annual Financial Report meets the requirements of Regulation MF - No. 03/2013 and identified some material deficiencies which form the basis for the qualified opinion. A description of this material and other non material deficiencies are described in section 2.3 below.

Recommendation 4 The Mayor of the Municipality must ensure that the process of preparation of the Annual Financial Statements fully addresses the requirements of Regulation MF - No. 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft Annual Financial Statements are submitted to the Government must only be signed after a comprehensive review of the management regarding the content and accuracy of AFS. All other reporting requirements must be met.

2.3 Compliance with AFS and other reporting requirements

Description

The Municipality must comply with certain reporting framework for the reporting and other requirements. We take into consideration:

- Compliance with financial regulation No. 03/2013;
- The requirements of LPFMA No. 03/L-048;
- Deadline of submission of reports to the Ministry of Finance;
- Requirements for signature of AFS from CAO ("Mayor") and Chief Financial Officer;
- Requirements to prepare AFS in hard and electronic copies;
- Submission of quarterly reports to the Assembly of the Municipality and the Ministry of Finance;
- Reports on arrears;
- Operating Reports (performance indicators);
- The report of the actions taken and proposed actions on findings and recommendations of the Auditor General for the previous year; and
- The submission of AFS in Albanian and Serbian language.

From our audit we noted that from the above requirements, the Municipality is not in compliance with the requirements of Financial Rule No. 02/2013/MF "On reporting of arrears by Budget Organizations" as well as some aspects of the Annual Financial Statements, as follows.

Issue 5 - Compliance with Annual Financial Statements- High Priority

Finding The issues raised in our interim audit memo of 17 December 2014, in connection with the reporting framework have been partially addressed by management. In the context of the AFS, we have identified the following inconsistencies:

- In column "Execution" in the Budget Execution Report the Municipality has not presented the allocated amount of revenue from grants, in the amount of EUR 397,294, but instead it has presented only the amount expensed during the year, EUR 86, 489.
- The column "Final Budget" on the Statement of Budget Execution, in the section of the divisions according to economic categories, besides current year's budget contains also an amount of EUR 25,639 which is allocated during the previous year, and which should not be presented as part the current years' budget.

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- The primary reliable source of information for the preparation of financial statements is Free Balance, which is not used to record and report all disclosures that are not reported under Cash Basis of Accounting. These disclosures include revenues from fines, payments from third parties, receivables and unpaid and contingent liabilities.
 - The balance presented in Note 35 "Receivables from business licenses" is based on a billing report maintained manually by the officers of the Municipality. Such report does not detail billing for each of the businesses. While according to another report held by the Municipality in which the revenue from the licenses is detailed, the balance of those receivables is for approximately EUR 1,906 less.
 - Between the total actual number of employees according to AFS and payroll lists in 2014, there are 2 employees less in payroll list at the end of 2014, and 1 employee less at the beginning of the year.
 - In Note 4 "Designated donor grants" the Municipality has presented the budgeted amount for grants which is EUR 397,294, rather than the amount expensed from this category which is EUR 86,489.
 - Note "Disclosure of Original and Final Budget Appropriations" is not prepared in full compliance with Accounting Manual Volume III. On this note, for own revenues, the initial budget approved by the Kosovo Consolidated Budget (EUR 89,250) is presented in column "Original Budget", which is a fair presentation. However, in column "Final Budget Allocations KFMIS" an amount of EUR 102,761 is presented, which differs from the final budget for EUR 13,511.
 - We noted that there are differences between the financial statements data presented in the audit report of 2013 and those presented as comparative figures on the financial report for 2014 for the previous year. More specifically, in Note 2, Wages and Salaries are presented for EUR 13,000 more in the 2014 report; in Note 3, Wages and Salaries and Capital Expenditures are presented for EUR 5,000 and EUR 23,000, respectively, more in the 2014 report; in Note 4, Wages and Salaries and Capital Expenditures are presented for EUR 11,00 and EUR 13,000, respectively, more in the 2014 report; in Note 11 cultural buildings value is presented for EUR 9,000 less in the report of 2014; in Note 16, grants from UN Habitat and the European Union are presented for EUR 8,000 and EUR 25,000, respectively, less in 2014 report. Since the values of 2013 presented as comparative figures in the two main statements of 2014, are consistent with values of the previous year audit report and the differences exist only with the respective Notes, this has led to that the figures of the 2013 financial report do not reconcile with respective notes.
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- The AFS have not been prepared and submitted in the Serbian language version, but only in Albanian language.

Risk Incorrect presentation of the financial statements and errors in the amounts recorded may lead to a misrepresentation of the financial position of the Municipality and may have potential negative impact on the accuracy of future budgetary requirements.

Recommendation 5 The Mayor of the Municipality must ensure that the process of preparation of the AFS fully addresses the requirements of Regulation MF - No. 03/2013. The statement made by the Mayor and Chief Financial Officer, when the draft annual financial statements is submitted to the Government must be signed only after a comprehensive review of the management is done regarding the content and accuracy of AFS. All other reporting requirements must be fulfilled.

Issue 6 - Outstanding reporting obligations

Finding The Municipality has not submitted the reports of outstanding obligations on monthly basis at the Ministry of Finance as required by Financial Regulation No. 02/2013/MF "On reporting of arrears by budget organizations".

Risk Non-reporting obligations on a monthly basis conflicts with applicable regulatory requirements and other reporting requirements of the Municipality.

Recommendation 6 The Mayor of the Municipality must ensure that Municipality submits monthly reports related to outstanding liabilities as required by regulation for reporting.

3 Prior Year Recommendations

Description

Audit Report on the 2013 AFS of Municipality of Junik resulted in 11 key recommendations. The Municipality had prepared an Action Plan which sets out the way how to address the recommendations. At the end of our 2014 audit, 5 recommendations are partially addressed; and 6 have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Appendix II.

Issue 7 – Addressing Prior Year Audit Recommendations – High Priority

Finding Only a proportion of prior year recommendations have been implemented because the Municipality has not implemented any formal process to manage and monitor the progress of implementation of recommendations by the Auditor of the previous year.

Risk Not addressing the audit recommendations resulted in continued weaknesses in key financial systems with the following consequences:

- Compliance with AFS reporting requirements;
- Budget planning and execution;
- Weaknesses in procurement procedures;
- Incomplete fixed asset register;
- Weaknesses in cash management;
- Inadequate treatment of accounts receivable disclosure;
- Inadequate treatment of debts disclosure;
- Limited benefit from the work of Internal Audit.

Recommendation 7 The Mayor must provide a revised action plan to address the remaining recommendations of 2013 and 2014. This plan must specify a reasonable time frame of implementation, responsible staff and mode of application, being initially focused on areas of great importance and where significant weaknesses were identified. Progress against the plan must be monitored directly by the Mayor.

4 Governance

Overall Conclusion

Our audit approach is focused on understanding and assessment of actions taken by management to ensure effective financial management and control. We assess whether the controls are well designed, are implemented according to plan or function effectively. To do this requires the assessment of structures, processes and lines of accountability presented by management. We consider specific issues such as self-assessment application FMC and risk assessment.

We consider that although there have been positive improvements in some areas of internal control in the last year, we have identified that specific improvements are required in the following areas:

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- Controls over the preparation of the Financial Report (nine month and annual);
 - Controls in relation to the stocktaking, valuation and presentation of the capital assets;
 - Controls over procurement procedures;
 - Controls over the management of accounts receivable;
 - Controls over the management of accounts payable;
 - Controls over the management of personnel files.

4.1 Good Governance

Management has implemented a series of internal controls to ensure that financial systems function properly. It is important that they include the right to the management reporting to enable an effective and timely response to operational problems identified.

Issue 8 - Managerial Controls - High Priority

Finding The review that we have made to the management controls implemented in the main municipal financial system has highlighted weaknesses in higher-level controls. As such, the governance arrangements require strengthening, in particular with regard to controls on: preparation of the Financial Report (nine month and annual), stocktaking, valuation and presentation of capital assets, procurement procedures, management of accounts receivable, management of accounts payable, management of revenue, application procedures for expenditure and management of personnel files.

Risk Poor quality of financial reporting to senior management reduces the ability of management to react in time and actively manage municipal activities, and undermines effective budget control.

Recommendation 8 The Mayor must review the existing measures of the general government and the quality of internal reporting to the Municipality. Unimplemented requirements need to be addressed by the end of 2015. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the objectives of the Municipality.

4.2 Budget Planning and Execution

Description

We have reviewed the sources of budgetary funds for the Municipality of Junik, expenditure of funds by economic category and own source revenue. This is presented on the tables below:

Table 1. Source of budgetary funds – actual versus budget (in EUR)

Description	Initial Budget	Final Budget ¹	2014 Expenses	2013 Expenses	2012 Expenses
Source of funds:	1,181,325	1,709,830	1,340,423	1,643,000	1,581,000
Government Grant - Budget	1,092,075	1,204,170	1,174,805	1,271,000	1,460,000
Transferred from the previous year ² -	-	19,116	19,116	19,000	50,000
Own source revenues ³	89,250	89,250	60,015	57,000	59,000
Domestic donations	-	-	-	-	-
Foreign donations	-	397,294	86,489	296,000	12,000

Final Budget is higher than initial budget for EUR 528,505. This increase is a result of domestic and foreign donations in amount of EUR 397,294 and own source revenues transferred from prior year in the amount of EUR 19,116. Also, the Government Grant has increased for EUR 112,095, after budget review and in accordance with Government decision.

In 2014, the Municipality has used 78% of the final budget or EUR 1,340,423 (2013: 95% or EUR 1,642,536). The main reason for this unsatisfactory percentage are foreign donations, from which category only EUR 86,489 were expensed out of EUR 397,294 which were budgeted. This has happened because the funds have been received from the donor at the end of 2014.

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

² Municipalities own revenues unspent in the previous year carried forward into the current year .

³ Receipts used by the entity to finance its budget

Table 2. Funds spent by economic category – actual versus budget (in EUR)

Description	Initial Budget	Final Budget ⁴	2014 Expenses	2013 Expenses	2012 Expenses
Funds expended by economic category	1,181,325	1,735,469	1,340,425	1,643,000	1,581,000
Wages and Salaries	783,150	1,014,945	895,100	878,000	826,000
Goods and Services	127,873	197,181	114,697	233,000	284,000
Utilities	32,006	32,006	26,981	33,000	36,000
Subsidies and Transfers	7,000	7,000	6,880	7,000	5,000
Capital Investments	231,296	484,337	296,765	492,000	430,000

Explanations for changes on budget categories are given as follow:

- In the above figures, a non-satisfactory realization can be seen in the category of Capital Investments, which in 2014 have had a realization percentage of 61% (2013: 93%). Moreover, it should be noted that this category includes last year's projects, payments for which were conducted during the current year, such as paving local roads in Shafrane-Ulëz, reconstruction of the road Moronica - Center- Qestaj, development of the natural park in Moronica, the construction of the case for the power substation 35 kV, etc.
- Regarding realization of expenditures for category Wages and Salaries, it can be noted a good realization of budget of 88% (2013: 97%), although this partially reflects the increase of wages for 25% implemented on April 2014, which was not reflected in the budget. As the other Budget Organizations, Municipality of Junik should address this increase, as well as the reduction from 15% in Goods and Services, implemented from Government.
- The Municipality has also received donations from external donors in the amount of EUR 397,294, the majority of which were allocated for capital expenditures (EUR 373,786), while the remaining for wages and salaries and goods and services. Regarding the portion allocated to capital expenditure, they are specifically allocated for the construction of a factory for processing mountain fruits, the development of the natural park in Moronica, etc.

⁴ Please note that the column Final Budget according to the table 1 and 2 do not correspond with each other. This is due to the incorrect presentation that we have explained in point 2 of issue 5 (page 18 of this report)

Table 3. Own source revenues of Municipality of Junik – actual versus budget (in EUR)

Description	Initial Budget	Final Budget	2014 Receipts	2013 Receipts	2012 Receipts
Own source revenues	89,250	89,250	83,865	76,000	79,000

Regarding own source revenues, it can be noted that the percentage of realization is 94% up to 31 December 2014. This is a satisfying percentage, considering the fact that also EUR 19,116 of own source revenues of 2013 were used in the current year.

Issue 9 – Budget Execution – High Priority

Finding The overall budget execution was not at the expected level, with only 78% of the budget being executed. The main reason for this unsatisfying percentage are foreign donations, from which category were spent only EUR 86,489 out of EUR 397,294 which were budgeted. In addition, only 88% of the budgeted amount for wages and salaries was realized.

Risk Inadequate budget planning and a low budget execution level will result in a failure to meet organizational objectives and result in current year obligations being funded from future year budgets.

Recommendation 9 The Mayor should systematically monitor budget performance on a monthly basis and identify and address constraints to planned levels of budget execution. Where initial budget assumptions are found to be incorrect this should be fully reflected in the final budget position.

4.3 Revenues (including own source revenues)

Description

Own source revenues generated by the Municipality in 2014 amounted to EUR 83,865. This category includes revenues from tax on property, administrative and road taxes, construction permits, etc.

Municipality has a range of controls for collection and reporting of some of its revenues.

We have not encountered any findings in relation to this area.

Recommendation

We have no recommendation in this area.

4.4 Expenditures

4.4.1 Procurement

Description

Signed contracts through procurement procedures for 2014 were in the amount of EUR 67,186. This includes capital investments and goods and services. There are some aspects of the procurement process on which controls are not applied effectively.

Issue 10 – Weaknesses in procurement- High Priority

Finding Our audit of procurement management identified the following issues (our conclusions are based on evaluation of individual files and full details are provided to management):

- In two cases of contracts with a total value of EUR 1,692 EUR, the commitment of funds is made after signature of the contract and this is not in compliance with the Law on Public Procurement No. 04/L-042 and Financial Regulation MF - No. 01/2013/Ministry of Finance “Expenditure of public funds”.
- In three cases with a total value of EUR 24,416, we have noted that the commitment of funds before signing the contract was not made for the total forecasted amount of the contract to be realized in 2014. The value of funds committed before the signing of the contract does not cover the value of contracts for EUR 21,232, respectively.
- In three contracts, with a total value of EUR 25,336, standard forms for notification of successful and unsuccessful tenderers required by the Law on Public Procurement No. 04/L-042 and Operational Procurement Guidelines were missing.
- In six cases of signed contracts, with a total value of EUR 60,793, we noted deficiencies in the information included in the SNDAF. Functional specifications and benefits that will be arrived were not specified in the Statement of Needs and Determination of Availability of Funds, and were not attached to SNDAF, as an annex, as required by the Law on Public Procurement No. 04/L-042.
- In two cases of signed contracts, whose total value was EUR 10,828, the date when the confirmation of the availability of the funds in section 3 of the SNDAF took place, was not specified. Therefore we were unable to get

assurance if availability of funds was reconfirmed before signing the contract, according to the Law on Public Procurement No. 04/L-042.

Additionally, we have identified one case, with contract value of EUR 29,845 where the signature of the procurement officer was missing in section 3 of the SNDAF.

- In two cases, with a total value of EUR 19,796, we identified contradictions between the amount as per the signed contract and the amount forecasted in the SNDAF.
- In one case of the signed contract with a value of 700 EUR, the procedure for notifying the Central Procurement Authority for the reason of exclusion in the Procurement Planning was not followed, even though it could not be realized through a common procedure.
- In one case of the contract that constituted the amount of EUR 29,845, the contract management as required by the Law on Public Procurement No. 04/L-042, was missing.
- In 10 cases of contracts signed to be completed during a period of more than one year for which procurement was done in 2013 or even earlier, the commitment for them was not made before signature of the contract. Moreover, for these contracts in question, for the foreseen expenditure to be realized during 2014 the commitment of funds was not made at the beginning of the year. Commitment to all cases referred to was made only upon receipt of invoice. The total value of such contracts represents the amount of EUR 777,208.

Risk

As a result of weak procurement procedures irregular payments can be made, delays in delivery of services, poor value for money spent, and contracts may not be implemented according to the required standards.

Recommendation 10 The Mayor of the Municipality must conduct an internal review to determine why the procurement requirements are not addressed in all procurement cases and implement additional controls to ensure that systemic weaknesses identified are addressed.

4.4.2 Non Procurement Expenditure

Description

Other expenditures are expenditures which are not subject to procurement procedures. We have not encountered any findings in relation to the category of other expenditures.

4.4.3 Remunerations (Wages and Salaries)

Description

Expenditures for Wages and Salaries are paid through the centralized government system (payroll). Controls that operate in local level relate with: a) authorization of payroll lists; b) verification of possible changes; and c) the budget review for this category and reconciliation with the Treasury.

We have noted a lack of documentation and errors in the calculation of the prohibition for maternity leave.

Issue 11 – Personnel Files - Medium Priority

Finding

During the audit of personnel files, we have noted a lack of some documents which are required with Regulation No. 03/2011 “On civil servant files and central register”. Documents that were missing are and other issues identified are:

- Most forms of payment orders for commitment (CPO) were not signed by the administrative and authorizing officer;
- A significant part of payroll lists are not signed by the employees;
- Procurement Officer is in the position of Acting Procurement Officer for a period of more than 3 months which is contrary to Law No. 03 / L - 149 “On civil service of the Republic of Kosovo”;
- Nomination letters do not state the Grade in all personnel files (according to Law No. 03/L-147 “For salaries of civil servants”);
- In 2 cases, recruitment documents were missing in the file;
- In 2 cases, annual leave forms were missing in the file;
- In 4 cases, identification documents were missing in the file;

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- In 5 cases, annual evaluation forms were missing;
 - In 4 cases, birth certificates were missing;
 - In 13 cases, court certifications for individuals under investigation were missing;
 - In 1 case, qualification documentations were missing;
 - In 6 cases, job descriptions were missing;
 - The high school director has a contract in his file, in which the gross salary is stated, i.e. not nomination and coefficient. This is not in compliance with payroll list in CPO, where the coefficient is stated instead of the gross wage.

Risk

Lack of documentations in the personnel files and lack of signatures/ approvals which are required is against the laws and regulations in force. Also negligence of procedures and completion of documentation according to the rules on the recruitment process risks that the Municipality hires unqualified employees for the respective positions.

Recommendation 11

The Mayor of the Municipality must undertake a systematic review of personnel files to ensure that all necessary documentation is included within a specified period of time.

Issue 12 – Calculation of deduction for maternity leave – High Priority

Finding	<p>The calculation of deductions for maternity leave is not made according to Law on labor. We have noticed some errors that were made to salary payment by the Ministry of Public Administration and Municipalities that is related to the calculation of basic salary in education and restrictions on salary calculation for maternity leave. This relates to the fact that the base salary in the pre-university education has not changed in the system since 2010, although there were two times base salary increases according to government decisions. The first increase was in January 2011 for 50% and the second increase in March 2014 for 25% in the basic salary. These changes were not reflected in the payroll in the column of base salary but only as a supplement included in gross salary. The issue is that payroll applies a double standard when calculating the basic salary. Wage growth in 2014 is applied to the basic salary of 2011 while in the case of maternal compensation, payroll applies the deduction from 30% in 2010 base salary by allowing so to the maternity leave employees 70% of base salary (2010) and by adding also the two increases that had occurred that are being handled as additions to the salary. Under Law on labor, pregnant women should be paid by the employer in the first six months with 70% of base salary. As a result of the failure to comply with Law on labor in connection with maternity leave prohibitions, the budget of the Municipality is damaged for EUR 1,067 for 2014.</p>
Risk	<p>Non-application of wage changes in the basic salary and erroneous of deduction for maternity leave risks that compensation for maternity leave further damages the budget of the Municipality.</p>
Recommendation 12	<p>The Mayor of the Municipality must ensure that this issue will be further considered by the administration of payroll, in order not to allow the damage to the budget of the Municipality. The Mayor of the Municipality must address this issue to the MPA in order to make the changes in the base salary in accordance with government decisions and make sure that changes are reflected in the payroll system for pre-university education.</p>

4.4.4 Subsidies and Transfers

Description

The Municipality has distributed subsidies with a total amount of EUR 6,880 in 2014, or almost 100% of the planned budget. We have not encountered any findings about the category of Subsidies and Transfers.

Recommendation

We have no recommendation in this area.

4.5 Assets and Liabilities

4.5.1 Capital and non-capital assets

Description

Although the Municipality has taken actions to improve reporting on its properties, some uncertainties and weaknesses in relation to the assets of the Municipality still exist and previous year recommendations are only partially addressed.

Issue 13 -Register of capital assets - High Priority

Finding	Register of capital assets above 1,000 euro does not contain the respective date when the asset was put in use, but only the year when the asset was purchased, therefore we could not determine whether the depreciation calculated from the system and, respectively, net book value of assets presented in Note 31 is correct.
Risk	Since capital assets are held in net value in the note for capital assets owned by Budget Organizations, improper calculation of depreciation can affect incorrect presentation of net value of capital assets in this note.
Recommendation 13	The Mayor of the Municipality should ensure that the register of capital assets contains complete information, including the date when the asset was placed in use, so that the calculation of depreciation can be performed and be accurate.

Issue 14 - Stocktaking of capital assets - High Priority

Finding For the year ended December 31, 2014 the Municipality has not performed the process of stocktaking and assessment of non-financial capital assets, with values above EUR 1,000 as required by the Regulation MF - No. 02/2013 "On management of non-financial assets by budget organization", which requires that "Budget organizations must check at least once a year the non-financial assets to verify and assess the factual situation of non-financial assets".

Risk Not performing the stocktaking of the assets by the Municipality results in not identifying the real factual situation of assets which may have been damaged or are completely missing. This may result in keeping the assets in the financial statements that may not exist or have lower value than the one with which they are held in the financial statements.

Recommendation 14 The Mayor of the Municipality must ensure that the stocktaking of non-financial assets was conducted in accordance with the Regulation in force for non-financial assets of Budget Organizations and ensure that stocktaking is conducted on an annual basis.

Issue 15 - Non-recording of capital assets in the asset register - High Priority

Finding The Municipality has not registered incurred capital expenditures in the asset register since 2013. Total capital expenditure in 2014 was EUR 297,765. Therefore the disclosure of assets in the financial statements for 2014 does not include capital expenditures for the period.

Also the Municipality has not presented in the fixed assets register 222 parcels of land which are under its management and it does not have any information with regard the value of the land. Therefore the parcels are not included in the disclosure of the assets.

Risk Non recording of capital assets in the asset register results in incompleteness of financial disclosures and is not in compliance with the laws in force.

Recommendation 15 We recommend the Mayor to ensure that the Municipality has an Officer of Property and take necessary actions to ensure that the Municipality updates the asset register with new capital expenditures.

Issue 16 – Disclosure of non-capital assets under 1,000 EUR – High Priority

Finding Non-capital asset under EUR 1,000 is held in the system E - Pasuria. The Municipality has not disclosed non-capital assets with cost less than EUR 1,000 in the financial statements. This is because the Municipality has no access for recording and extracting reports of assets under EUR 1,000 from the system.

Risk Non recording of capital assets in the respective system results in incompleteness of the financial disclosures and is not in compliance with the Regulation MF - No. 02/2013 “On management of non-financial assets by budget organization”.

Recommendation 16 The Mayor of the Municipality must ensure that the Municipality maintains accurate and complete information in relation to non-capital assets and ensure that they are presented in their correct value in the financial statements of the Municipality.

4.5.2 Handling of receivables

Description

The Municipality has not implemented an adequate process for planning, identifying, reporting and collecting of invoices issued for its taxes.

Issue 17 – Aging of Receivables – High Priority

Finding The majority of receivables (89% of the total balance) disclosed in the financial statements relate to previous years. The Municipality has not taken necessary actions to collect these amounts and no aging analysis is performed. Delivered warnings at the end of the year have not resulted in a collection that had considerable influence in the debts before 2014.

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

Recommendation 17 The Mayor of the Municipality must ensure that the Municipality takes further actions for the collection of revenues and that the necessary controls exist which ensure that old balances disclosed in Note 15 are collected by the respective parties.

4.5.3 Handling of debts

Description

Statement of unpaid debts to suppliers at the end of 2014 was over EUR 84,645. These liabilities are carried forward to be paid in 2015.

81% of unpaid debts are older than 30 days.

Issue 18 - Unpaid debts - High Priority

Finding We have identified that the Municipality did not perform its payment obligations within 30 days as defined by the Regulation MF - No. 01/2013 "Expenditure of Public Funds". Invoices totaling EUR 68,249 presented on note 29 include unpaid invoices for more than 30 days. This amount represents 81% of the total amount of unpaid debts.

Risk As a result of delayed payments, the ability of the Municipality to anticipate and manage liquidity needs may be impaired, and the Municipality may face additional costs of interests and penalties, required by third parties.

Recommendation 18 The Mayor of the Municipality must ensure that the Municipality will take further actions and develop action plans to execute the payments within the required period. The Mayor must ensure that the Municipality does not incur expenses, enter into contractual agreements, and perform procurements before committing the funds for the respective expenses.

4.5.4 Handling of cash (and cash equivalents when applicable)

Description

In certain cases, cash was not deposited at bank on a daily basis.

Issue 19- Handling of Cash- High Priority

Finding Cash was not always deposited at bank by the Revenue Officers on a daily basis.

Risk Lack of regular cash deposits at bank by the Municipality may result in misappropriations of cash and unidentified errors in reporting cash balances, and in addition, such practice is not in compliance with the requirements of the legislation in force.

Recommendation 19 We recommend the Mayor ensure that daily cash deposits and controls are performed as required by the legislation in force.

4.6 Internal Audit System

Description

The internal audit system is a key part of internal control and because of its importance it is presented here separately. We take into account the scope of internal audit work and the activities of the Audit Committee. In addition, we review the actions taken by senior management as a result of work performed by internal audit and Audit Committee..

Internal Audit Unit (IAU) has an annual audit plan, and has completed all (5 out of 5) audits expected to be completed during 2014.

Issue 20 - Lack of Audit Committee - High Priority

Finding The Municipality does not have an Audit Committee. The only appointment of the Audit Committee was in 2010, without renewal of the mandate, while according to the Administrative Instruction No. 11/2010 Internal Audit Committee has a mandate of three years.

Risk Lack of Audit Committee undermines the authority of the IAU and is not in accordance with the laws in force.

Recommendation 20 The Mayor must ensure that the Municipality has an independent and functional Audit Committee.

Appendix I: Explanation of different types of opinions applied

(Extract from ISSAI 200)

Form of opinion

147. The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

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

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

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

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

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

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

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

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

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 170519 provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

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

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading “Emphasis of Matter” or another appropriate heading;
- include a clear reference to the matter being emphasized and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor’s opinion is not modified in respect of the matter emphasized.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor’s judgment, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading “Other Matter,” or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.

Annex II: Prior Year Recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Financial Statements	<p>We recommend that the Mayor ensures that the preparation of financial statements will include procedures and tools designed to ensure that information required is recorded, processed, summarized and appropriately reported in the financial statements. Municipality should prepare financial statements in Serbian language.</p> <p>Information about third party payments, the amounts of receivables and contingent liabilities must be regularly updated and reviewed to ensure the accuracy and completeness of such disclosures in the financial statements.</p>		Partially solved	
Revenue (including own sources revenue)	<p>We recommend the Mayor ensures that the Municipality takes steps to improve the system of accounting and billing in order to ensure safe, efficient and effective controls for billing and revenue collected. 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 the Mayor to consider the following points:</p> <ul style="list-style-type: none"> • Implement a billing system that includes updated details about the payers, their current address, history and rate of revenue collection from these payers. 			To be solved

Audit Component	Recommendation given	Recommendation fully addressed	Partially addressed	Not addressed
Revenue (including own sources revenue) (continued)	<p>Access to such information should be limited to a number of persons and with the authorization of management.</p> <ul style="list-style-type: none"> • Create and centrally control the approved tariffs and tax rates in the system to calculate and generate bills automatically. The generation of bills should also be authorized and reviewed. • An automatic link has to exist between the system of billing and accounting system so that the data are processed in the general ledger automatically. • Automatically link the operational billing 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 in cases where a great number of transactions are executed. 			
Procurement	<p>We recommend the Mayor to ensure that :</p> <ul style="list-style-type: none"> • The Municipality will take further steps to improve controls over expenses and payments and to ensure that all required documentation is received and presented strictly in accordance with laws and local regulatory requirements. • In case of exceeding the committed funds, for additional funding new commitments should be made. • There will be a review of audit findings in which processes are not applied effectively, and determine why the failures occurred in them. Actions/ processes needed to be implemented to ensure that such failures will not occur in the future. 		Partially solved	

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Capital and non-capital assets	We recommend the Mayor to include additional resources in the registration, control and evaluation of assets of the Municipality and to ensure that the Municipality steadily records and presents in its financial statements all assets, and reconciles information from all sources included in estate financing.			To be solved
Third party payments	We recommend the Mayor ensures that the Municipality is making maximum efforts to provide such data by third parties with special emphasis on those parties that have completed significant investments in the Municipality. The data provided must fairly be presented in the register of assets of the Municipality. Best practice would require that on an annual basis a reconciliation of data between third parties and the Municipality should be made for investments in the Municipality for the year.			To be solved
Handling of cash (and cash equivalents, if applicable)	We recommend the Mayor to ensure that money in the bank will be deposited and regularly checked at the end of each day as required by law.			To be solved
Handling of receivables	We recommend the Mayor ensures that the Municipality takes further steps to improve controls and that they comply with laws and local regulatory requirements regarding the collection of revenue.			To be solved
Treatment of debt	We recommend the Mayor to ensure that the Municipality takes further steps and develop action plans to carry out the payments within the required period, and also to provide all disclosures required for unpaid bills.			To be solved

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Internal audit system	<p>We recommend operationalizing the activity of the Audit Committee and the Mayor to ensure that responsibilities are carried out with the appropriate level of independence. In addition, the Mayor should make an Action Plan to be implemented to ensure that internal audit work is done and reported on a timely basis and to address the resulting advice, detailing the responsible officers and the timetable for implementation .</p> <p>The Mayor should work with Internal Audit to provide enough activities on the financial systems of the year, before the draft of AFS is issued. Fulfillment of planned audit activities should be monitored every two months and take proactive action in order to address deviations in due time.</p>		Partially solved	

Appendix III: Management Response to current year Audit findings

Findings	Agree/Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 4 and 5 - Compliance with Annual Financial Statements</p> <ul style="list-style-type: none"> The primary reliable source of information for the preparation of financial statements is Free Balance, which is not used to record and report all disclosures that are not reported under Cash Basis of Accounting. These disclosures include revenues from fines, payments from third parties, receivables and unpaid and contingent liabilities. Note "Disclosure of Original and Final Budget Appropriations" is not prepared in full compliance with Accounting Manual Volume III. On this note, for own revenues, the initial budget approved by the Kosovo Consolidated Budget (EUR 89,250) is presented in column "Original Budget", which is a fair presentation. However, in column "Final Budget Allocations KFMIS" an amount of EUR 102,761 is presented, which differs from the final budget for EUR 13,511. 	Partially agree	<p>All municipalities of Kosovo obtain revenue from fines from the Ministry of Internal Affairs and not the Free Balance system.</p> <p>This is related with the non-appointment of two directors of the Department of Education and Health.</p>	<p>The finding remains valid.</p> <p>The finding remains valid.</p>

Findings	Agree/Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 8 - Managerial Controls</p> <p>The governance arrangements require strengthening, in particular with regard to controls on: preparation of the Financial Report (nine month and annual), stocktaking, valuation and presentation of capital assets, procurement procedures, management of accounts receivable, management of accounts payable, management of revenue, application procedures for expenditure and management of personnel files.</p>	Partially agree	The Mayor constantly controls the issues mentioned in this finding, hence we cannot completely agree, but it is understandable that this issue requires more stringent controls to ensure that we are moving towards excelling our work.	Finding remains valid.
<p>Issue 9 - Budget Execution</p> <p>The overall budget execution was not at the expected level, with only 78% of the budget being executed. The main reason for this unsatisfying percentage are foreign donations, from which category were spent only EUR 86,489 out of EUR 397,294 which were budgeted. In addition, only 88% of the budgeted amount for wages and salaries was realized.</p>	Partially Agree	Donations were transferred in the Municipality's account at the end of the fiscal year, when the period of payment and payment system was closed by the Ministry of Finance. Consequently we were not able to realize more expenses.	We recommend the Municipality to ensure that donations and other categories are realized as budgeted and such deviations do not exist between the budgeted funds and the realization.

Findings	Agree/Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 11 - Personnel Files</p> <p>During the audit of personnel files, we have noted lack of some documents which are required with Regulation No. 03/2011 "On civil servant files and central register" Documents that were missing are:</p> <ol style="list-style-type: none"> 1. Most forms of payment orders for commitment (CPO) were not signed by the administrative and authorizing officer; 2. A significant part of payroll lists are not signed by the employees; 3. Procurement Officer is in the position of Acting Procurement Officer for a period of more than 3 months which is in contrary to Law No. 03 / L - 149 "On civil service of the Republic of Kosovo";; 4. Nomination letters do not state the Grade in all personnel files (according to Law No. 03/L-147 "For salaries of civil servants"); 	<p>We disagree and we are surprised how some findings are stated regarding documentation which has not been requested from the human resource department.</p>	<ol style="list-style-type: none"> 1. This was an issue that was not audited in the Personnel Department. 2. Also regarding this issue, the documents were not required from the Department of Personnel and neither had you discussed this finding with the Officer of the Personnel. 4. Nomination letters do not state the Grade in all personnel files (according to Law for Salaries of Civil Servants); <p>The Law on the salaries of the Civil Servants is currently applicable but is not being implemented. Act of Appointments are distributed from the MPA to all the institutions and we are obligated to use this form.</p> <p>The grades are determined with the catalogue of work place which is currently not being implemented, i.e. we are still obligated from the MPA to use the coefficient and not the grade, with which is related the finding.</p>	<p>All findings included in the report are tested and are documented. All the findings remain valid.</p> <p>Regarding the directors' contract, article 4 of the Law on Civil Servants of the Republic of Kosova, exempts from the civil servant's status only the academic staff and not directors. The finding remains valid.</p>

Findings	Agree/Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 11 – Personnel Files (continued)</p> <p>5. In 2 cases, recruitment documents were missing in the file;</p> <p>6. In 2 cases, annual leave forms were missing in the file;</p> <p>7. In 4 cases, identification documents were missing in the file;</p> <p>8. In 4 cases, birth certificates were missing;</p> <p>9. In 13 cases, court certifications for individuals under investigation were missing;</p> <p>10. In 13 cases were missing the health certificates; In 1 case, qualification documentations were missing;</p> <p>11. In 6 cases, job descriptions were missing;</p> <p>12. In 5 cases, annual evaluation forms were missing;</p> <p>13. The high school director has a contract in his file, in which the gross salary is stated, i.e. not nomination and coefficient. This is not in compliance with payroll list in CPO, where the coefficient is stated instead of the gross wage.</p>		<p>5. In all the files of the administration of the Municipality are the recruitment documentation, except for the files that are inherited from the Municipality of Deçan.</p> <ul style="list-style-type: none"> ● Regarding the missing evaluation forms, birth certificate, etc. <p>During the last audit, all the evaluation forms were completed.</p> <p>13. The selection of the school directors is not made according to the Law on Civil Servants, instead according to the Administrative Guidance MEST [1] 19/2002, therefore the directors have employment contract instead of act of appointment.</p>	

Findings	Agree/Disagree	Comments from the audited institution in case of disagreement	Deloitte Kosova sh.p.k. view
<p>Issue 12 - Calculation of deduction for maternity leave</p> <p>The calculation of deductions for maternity leave is not made according to Law on labor. We have noticed some errors that were made to salary payment by the Ministry of Public Administration and Municipalities that is related with the calculation of basic salary in education and restrictions on salary calculation for maternity leave. This relates to the fact that the base salary in the pre-university education has not changed in the system since 2010, although there were two times base salary increases according to government decisions. The first increase was in January 2011 for 50% and the second increase in March 2014 for 25% in the basic salary. These changes were not reflected in the payroll in the column of base salary but only as a supplement included in gross salary. The issue is that payroll applies a double standard when calculating the basic salary. Wage growth in 2014 is applied to the basic salary of 2011 while in the case of maternal compensation, payroll applies the deduction from 30% in 2010 base salary by allowing so to the maternity leave employees 70% of base salary (2010) and by adding also the two increases that had occurred that are being handled as additions to the salary. Under Law on labor, pregnant women should be paid by the employer in the first six months with 70% of base salary. As a result of the failure to comply with Law on labor in connection with maternity leave prohibitions, the budget of the Municipality is damaged for EUR 1,067 for 2014.</p>	Disagree	The salary system in the Ministry of Public Administration is responsible for the calculation of salaries, and after that we calculate maternity leave deduction based on payroll list.	As explained at the recommendation s' section above, the issue should be addressed to the competent authorities and the necessary actions should be taken for improvement. The finding remains valid.