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AUDIT REPORT

ON THE FINANCIAL STATEMENTS
OF THE MUNICIPALITY OF HANI ELEZIT
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 Hani Elezit ("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 opinion 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; and
- Take measures to increase the collection of revenues from various taxes.

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 Hani Elezit 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. Audit Opinion

To Hani Elezit Municipality

Pristina, 2 July 2013

We have audited the accompanying financial statements of Municipality of Hani Elezit (“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 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 opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects, 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 qualifying our opinion, we draw attention to Section 16 Disclosure of property, plant and equipment. For certain properties, there could be uncertainty regarding ownership rights of the Municipality and various other Kosovo Government Agencies, and lack of supporting ownership documentation. In addition, the Municipality has not disclosed comparative information for payments from third parties in 2011 and has not included the corresponding assets in Section 16.

Review of Compliance

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

Auditor's Responsibility

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

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

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

Conclusion on Compliance

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

Other matters

We draw attention to the following:

- 1 The primary reliable source of information for the preparation of financial statements is Free Balance. However, since Free Balance is not being used to record payments from third parties and outstanding invoices, it cannot solely be used to produce comprehensive financial statements.
- 2 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 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 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, while Serbian version was not prepared; 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.

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 In 2011, the Municipality did not disclose information on payments from third parties.

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 six main recommendations, only one of which was fully resolved while another one was only partly resolved during 2012:

1. The financial statements preparation procedures and tools that are designed to ensure that information required is recorded, processed, summarized and appropriately reported in the financial statements. The Municipality should prepare the Financial Statements in Serbian Language: *to be addressed*;
2. A comprehensive list of property, plant and equipment should be maintained, also additional resources should be involved in the registration and valuation of the assets of the Municipality: *to be addressed*;
3. 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: *partly addressed* for the regular reconciliations between Revenues Officer and Operational Department;
4. Improvements need to be implemented in the areas of expenditure and payments: *addressed*;
5. 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: *to be addressed*; and
6. The Municipality should establish an Audit Committee, an Internal Audit Department and policies and procedures to ensure high standards of governance: *to be addressed*.

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 EUR '000

Description	Initial Budget	Final Budget	2012 Actual	2011 Actual	2010 Actual
Government Grant	1,437	1,537	1,536	1,438	1,151
Carried forward from prior year	-	88	82	-	-
Own Source Revenues	250	250	169	320	251
Domestic Donations	-	134	133	62	27
External Donations	-	-	-	-	-
I. Total of revenues and transfer of Donations	1,687	2,009	1,920	1,820	1,429
Wages and Salaries	1,034	1,043	1,043	1,008	748
Goods and Services	152	257	257	177	185
Utilities	31	39	39	34	31
Subsidies and Transfers	17	47	41	37	30
Capital Investments	453	623	540	564	435
Reserves	-	-	-	-	-
II. Total of Expenditures	1,687	2,009	1,920	1,820	1,429
Difference I-II	-	-	-	-	-

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 89 thousand due to lower realization of EUR 1 thousand in Government Grant, lower realization of own source revenues of the current year and brought forward by EUR 87 thousand and lower realization in donations by EUR 1 thousand.

Total cash outflows were lower than final budget by EUR 89 thousand due to capital expenditure being lower by EUR 83 thousand and subsidies and transfers being lower by EUR 6 thousand.

Initial budget was lower by EUR 322 thousand from the final budget due to following: higher initially anticipated own source revenues and own source revenues carried forward by EUR 88 thousand and grants and donors by EUR 134 thousand. Also Government Grant was anticipated lower by EUR 100 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 4.4%.

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 major exceptions noted.

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

During our inspection of the documents for our sample of procurement files we noted one non-compliance with procedures, as required by Public Procurement Law PL 04/L-042. This non-compliance is described below:

- Procurement No. KKHE-001/2012-236: Expenses for Winter Road Maintenance were classified as capital expenditure rather than as services based on their nature. Had this amount been classified as per its nature budget line would have been exceeded by EUR 10 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 major exceptions noted.

5.3 Remunerations (Wages and Salaries)

Findings

No major exceptions noted.

5.4 Subsidies and Transfers

Findings

No major exceptions noted.

IV.6 Assets

6.1 Handling of cash and cash equivalents

Findings

No major exceptions noted.

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. This may negatively impact monitoring and collection of receivables.

Recommendation 5

We recommend the Mayor ensures a process is designed and established, which ensures that receivables are appropriately recorded upon issuing of each invoice and that overdue amounts are followed up regularly.

6.3 Capital and non capital assets

Findings

Although the Municipality has prepared and disclosed a list of real estate property in Note 30, for certain assets, there are uncertainties regarding ownership rights of the Municipality or various other Kosovo Government Agencies and lack of supporting ownership documentation.

The difference between balances presented in Section 16 Disclosures of property, plant and equipment for the years 2011 and 2012, should agree with the movements in such assets for the period. However, such difference does not agree with the additions for year 2012, presented in 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 and has not maintained a comprehensive register information such as the date of purchase and disposal of the asset, and the depreciation charge for the year.

Recommendation 6

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 major exceptions noted.

V. Internal Audit System

V.1 Internal Control Systems

V.2 Audit Committee

Findings

The Municipality has not established an Audit Committee and an Internal Audit function.

Recommendation 7

We recommend that the Municipality should establish an Internal Audit Department and an Audit Committee as well as appropriate policies and procedures to ensure a high standard of corporate governance. The Audit Committee should review the current status and propose actions for improvement on the following:

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

VI. Overall conclusion on the Management of Municipality of Hani Elezit

General conclusions

As discussed within this report, improvements need to be made in the areas of revenues, handling of receivables, measurement of capital and non-capital assets, internal audit function 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
- Audit committee and Internal Audit Department should be established in order to conduct their duties and responsibilities and 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:

the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;

the statements comply with statutory requirements and relevant regulations;

the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and

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:

there has been limitation on the scope of the audit;

the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or

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 statements	<p>Preparation of the Financial Statements 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>Preparation of the Financial Statements in Serbian Language.</p>			Recommendation is not addressed.
Revenues	<p>The implementation of an automatic billing system for all types of revenues that includes updated details about the payers, their current address, history and collection rating, that is accessible only to a limited number of persons and with the authorization of management.</p> <p>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.</p> <p>Automatically inter-connect the billing system with the accounting software so that information is automatically processed into the general ledger.</p> <p>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.</p>		Recommendation is partly addressed. Reconciliations are performed on a monthly basis between Revenues Officer and Operational Department.	

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
Revenues (continued)	<p>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.</p> <p>Ensure property tax is charged based on the most up-to-date list.</p> <p>Ensure proper segregation of duties in the property tax department.</p>			
Capital and non capital assest	<p>We recommend the Mayor ensures that the Municipality considers the following:</p> <ul style="list-style-type: none"> ● Maintain a comprehensive register of property, plant and equipment. ● Involve additional resources in the registration and valuation of the assets of the Municipality. ● Involvement of independent and certified appraisers is recommended as the best practice in such cases. ● Perform regular physical counts to ensure the existence of the assets and their condition and agree the results of the counts with the accounting records and the register. ● Make additional efforts in relation to confirming the ownership and registration of real estate. 			Recommendation is not addressed.

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
Handling of debts	Further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements. All efforts should be made to make payments within the required time limits.	Recommendation is addressed.		
Internal Audit	<p>We recommend the Municipality to ensure that:</p> <ul style="list-style-type: none"> • The overall financial administrative and managerial controls are strengthened; and • Immediate actions are taken securing a better handling of shortcomings in the implementation of internal control. 			Recommendation is not addressed.
Audit Committee and Internal Audit	<p>We recommend the Mayor ensures that the Municipality considers the establishment of an Internal Audit function and an Audit Committee with members having relevant expertise of financial reporting and internal controls. The Audit Committee should establish appropriate policies and procedures to ensure a high standard of corporate governance. The Audit Committee should review the current status and propose actions for improvement on the following:</p> <ul style="list-style-type: none"> • Municipality’s accounting and financial reporting process; • Assessment of internal control systems implemented by management; • Internal and external audit processes; • Compliance, reporting and control structures throughout the Municipality to ensure compliance with financial, regulatory and legal requirements; and • Internal Audit plan and follow-up of Internal Audit findings. 			Recommendation is not addressed.

Annex 3 Municipality of Hani Elezit management comments and KPMG responses

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<u>Recommendations 1:</u> The Municipality should prepare the Financial Statements in the Serbian Language.	X			The financial statements were not prepared in the Serbian language, because we do not have any officer to translate in Serbian language.	
<u>Recommendation 2:</u> 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		No comments.	
<u>Recommendations 3:</u> 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: <ul style="list-style-type: none"> • 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. 		X		We do not fully agree with this point because we consider that the Municipality has records for all debtors, while other payments are made when the service is performed. The Municipality has purchased an accounting program and has requested the Ministry of Finance to install the software in the Government’s network and still has not received any answer on this request.	

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<p><u>Recommendations 3 (continued):</u></p> <ul style="list-style-type: none"> • Enter and centrally control the approved tariffs and tax rates in the system in order to calculate and generate 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. 		X			
<p><u>Recommendations 4:</u> We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements.</p>		X		No comments.	
<p><u>Recommendation 5:</u> 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.</p>		X		We consider that the Municipality has records of all debtors, while other payments are made when the service is performed.	

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<p><u>Recommendation 6:</u> We recommend the Mayor to involve additional resources in the registration and valuation of the assets of the Municipality.</p>	X			<p>The committee was established, but were unable to complete summarized and comprehensive records of property, plant and equipment up to date and hope to finish in 2013.</p> <p>We hope that soon will establish a database in which the entire municipal property will be stated and based on which we will also be able to complete the physical count.</p>	
<p><u>Recommendation 7</u> We recommend that the Municipality should establish an Internal Audit Department and an Audit Committee as well as appropriate policies and procedures to ensure a high standard of corporate governance. The Audit Committee should review the current status and propose actions for improvement on the following:</p> <ul style="list-style-type: none"> • Municipality’s accounting and financial reporting process; • Assessment of internal control systems implemented by management; • Internal and external audit processes; • Compliance, reporting and control structures throughout the Municipality to ensure compliance with financial, regulatory and legal requirements; 	X			<p>Lack of staff and limitations in the number of employees did not enable us to have an internal audit function, because we were not allowed to increase the number of employees. This remains to be accomplished in the future in cooperation with the Ministry of Finance.</p>	



Republika e Kosovës
Republika Kosova-Republic of Kosovo

KOMUNA HANI I ELEZIT
OPSTINA HANI ELEZIT
MUNICIPALITY OF HANI ELEZIT

Financial Statements

As at and for the year ended 31 December 2012

Hani Elezit, 2013

Section 11. DECLARATION REGARDING THE PRESENTATION OF FINANCIAL STATEMENTS

For: **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 Hani Elezit.

Date:

Signature and stamp: 
Rufki Suma
Chief Executive Officer

Date:

Signature and stamp: 
Shabi Rexhallari
Chief Financial Officer



Municipality of Hani Elezit
Section 12. Statement of Cash Receipts and Payments
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

	Notes	2012		2011		2010	
		Single treasury account	Payments from third parties	Single treasury account	Payments from third parties	Single treasury account	Payments from third parties
		KCB €'000	€'000	KCB €'000	€'000	KCB €'000	€'000
Receipts							
Government Grant	2	1,537	-	1,438	-	1,151	-
Own Source Revenues	3	250	-	320	-	251	-
Fund designated for specific purpose		-	-	-	-	-	-
Designated Donor Grants	4	133	-	62	-	27	-
Borrowed Funds	5	-	-	-	-	-	-
Other receipts	6	-	649	-	497	-	378
		-	-	-	-	-	-
Total		1,920	649	1,820	497	1,429	378
Payments							
<i>Operations</i>							
Wages and Salaries	7	1,043	-	1,008	-	748	-
Goods and Services	8	257	-	177	-	185	-
Utilities	9	39	-	34	-	31	-
		1,339	-	1,219	-	964	-
<i>Transfers</i>							
Transfers and subsidies	10	41	-	37	-	30	-
Capital expenditures		-	-	-	-	-	-
Property, Plant and Equipment	11	540	-	564	497	435	-
Other payments	12	-	649	-	-	-	378
Return of Loan	13	-	-	-	-	-	-
Total		1,920	649	1,820	497	1,429	378

Municipality of Hani Elezit
Section 13. Budget Execution Report
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

	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
Cash inflows from Treasury account							
Taxation	14	-	-	-	-	-	
Owns Source Revenues	15	250	338	231	(107)	303	215
Donations	16	-	101	101	-	62	27
Capital Receipts	17	-	-	-	-	-	-
Privatization Fund	18	-	-	-	-	-	-
Borrowings	19	-	-	-	-	-	-
Other	20	-	-	-	-	-	-
Total Receipts collected for KCB		250	439	332	(107)	365	242
Cash outflows from Treasury accounts							
Wages and Salary	21	1,034	1,043	1,043	-	1,008	748
Goods and Services	22	152	257	257	-	177	185
Utilities	23	31	39	39	-	34	31
Transfers and Subsidies	24	17	47	41	(6)	37	30
Capital expenditures	25	453	623	540	(83)	564	435
Privatization Fund	26	-	-	-	-	-	-
Return of Borrowings		-	-	-	-	-	-
Other	27	-	-	-	-	-	-
Total Payments made from KCB through STA		1,687	2,009	1,920	(89)	1,820	1,429

The *General Fund* amounts totaling EUR 1,437 thousand for original budget, EUR 1,537 thousand for final budget and EUR 1,536 thousand for 2012 realisation (2011: EUR 1,438 thousand; 2010: EUR 1,151 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 2010, such amounts were recorded as a separate category within the *Cash inflows from treasury account* in Section 13 *Budget Execution Report*.

Note 15 and 16 disclose own source revenue and receipts from domestic and foreign donors of 2012 only. Revenues brought forward have not been included.

Municipality of Hani Elezit

Section 15-20. Notes to the financial statements

for the year ended 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 Hani Elezit (‘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 Hani Elezit 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 Hani Elezit 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 Hani Elezit 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 Hani Elezit 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 and issued on 31 January 2013 and approved by Shabi Raxhallari, Director of Finance and Rufki Suma, CEO.

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 2 General Fund Appropriation

Economic classification	2012 €'000	2011 €'000	2010 €'000
Wages and Salaries	1,034	993	748
Goods and Services	234	146	169
Utilities	39	30	29
Subsidies and transfers	27	8	8
Capital Outlays	203	261	197
	1,537	1,438	1,151

Note 3 Own Source Revenue

Economic classification	2012 €'000	2011 €'000	2010 €'000
Wages and Salaries	9	15	-
Goods and Services	-	19	16
Utilities	-	5	2
Subsidies and transfers	14	28	22
Capital Outlays	227	253	211
Total	250	320	251

Note 4 Designated Donor Grants

Economic classification	2012 €'000	2011 €'000	2010 €'000
Wages and Salaries	-	-	-
Goods and Services	23	12	-
Utilities	-	-	-
Subsidies and transfers	-	-	-
Capital Outlays	110	50	27
Total	133	62	27

Note 5 Borrowed Fund

Lender	2012 €'000	2011 €'000	2010 €'000
	-	-	-
	-	-	-
	-	-	-
There are no borrowed funds during 2012	-	-	-

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 6 Other Receipts

Economic Classification	2012 €'000	2011 €'000	2010 €'000
Ministry of Local Government	-	100	136
Caritas Luxemburg	40	-	-
Community Development Initiatives	-	-	217
USAID	37	-	25
European Commission	-	267	-
Ministry of labour and social welfare	285	130	-
Ministry of Administration of Public Jurisdiction and Ministry of Infrastructure	180	-	-
Regional Environmental Center	40	-	-
Community Development Fund	62	-	-
Civil Initiative Forum and Safeworld	5	-	-
Total	649	497	378

Note 7 Wages and Salaries

Description	2012			Total €'000	2011 €'000	2010 €'000
	KCB €'000	OSR €'000	DDG €'000			
Payments						
Net Salaries	891	9	-	900	870	650
Payments to unions -0.10% to 0.50%	2	-	-	2	2	2
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	41	-	-	41	40	24
Employer pension contribution	50	-	-	50	48	36
Employee pension contribution	50	-	-	50	48	36
Court decisions	-	-	-	-	-	-
Total Payments	1034	9		1043	1,008	748

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 8 Goods and Services

Description	2012			Total €'000	2011	2010
	KCB €'000	OSR €'000	DDG €'000		€'000	€'000
Payments from KCF						
Travel expenses	6	-	-	6	7	14
Telecommunication expenses	7	-	-	7	6	4
Contractual expenses	29	-	17	46	23	27
Furniture and equipment	8	-	1	9	10	8
Equipment for IT <1,000	-	-	-	-	13	-
Other Expenses	-	-	-	-	10	44
Supply for office	54	-	1	55	22	-
Fuel Expenses	83	-	-	83	46	46
Advances	-	-	-	-	-	-
Other equipment	-	-	-	-	-	-
Lack of cash in Cash Box	-	-	-	-	-	-
Maintenance	16	-	3	19	24	18
Marketing and Advertising	5	-	1	6	-	2
Representation expenses	22	-	-	22	16	22
Court Decisions	-	-	-	-	-	-
Taxes	-	-	-	-	-	-
Service of debt	-	-	-	-	-	-
Registering and security	4	-	-	4	-	-
Total	234	-	23	257	177	185

Note 9 Utilities

Description	2012			Total €'000	2011	2010
	KCB €'000	OSR €'000	DDG €'000		€'000	€'000
Electricity	31	-	-	31	22	25
Water	-	-	-	-	-	-
Waste	1	-	-	1	6	-
Telephone	7	-	-	7	6	6
Total	39	-	-	39	34	31

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 10 Transfers and Subsidies

Description	2012				2011	2010
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
Payments						
Subsidies for public entities	2	1	-	3	1	5
Subsidies for cultural entities	-	-	-	-	-	-
Subsidies for non-public entities	-	2	-	2	4	1
Transfers for other governments	-	-	-	-	-	-
Payments for individual beneficiaries	17	10	-	27	23	16
Base pensions	-	-	-	-	-	-
Disabled pensions	-	-	-	-	-	-
Pensions or social assistance	-	-	-	-	-	-
Pensions of TMK	-	-	-	-	-	-
Pensions of I category (family members)	-	-	-	-	-	-
Pensions of II category (family members)	-	-	-	-	-	-
Payments for war invalids	-	-	-	-	-	-
Payments for civil invalids	-	-	-	-	-	-
Payments for war victims families	8	1	-	9	9	8
Trepca provisional pensions	-	-	-	-	-	-
Court Decisions	-	-	-	-	-	-
Total	27	14	-	41	37	30

Note 11 Property, Plant, and Equipment

Description	2012				2011	2010
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
Payments						
Buildings	3	5	20	28	32	37
Land	-	7	-	7	8	23
Road construction	114	89	26	229	182	75
Pavement of roads	-	-	-	-	47	20
Waste and water system	-	-	-	-	61	56
Water supply system	-	-	-	-	10	127
Energy, generation, transfer, and supply	-	-	-	-	7	1
Equipment over EUR 1,000	21	1	-	22	-	-
Vehicles	-	-	-	-	-	-
Machinery	-	-	-	-	42	-
Other capital	45	64	37	146	145	90
Equipment for IT	-	-	-	-	10	6
Other Equipment	-	-	-	-	20	-
Transfers for nonpublic entities	20	61	27	108	-	-
Total	203	227	110	540	564	435

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 12 Other payments

Economic Classification	2012 €'000	2011 €'000	2010 €'000
Water and waste system in Paldenica village	-	-	136
Water supply "Dinca"	-	-	217
Purchase for equipment for the Municipality	-	-	25
Ministry of Local Government	-	-	-
Caritas Luxemburg	40	-	-
Community Development Initiatives	-	-	-
USAID	37	-	-
European Commission	-	-	-
Ministry of labour and social welfare	285	-	-
Ministry of Administration of Public Jurisdiction and Ministry of Infrastructure	180	-	-
Regional Environmental Center	40	-	-
Community Development Fund	62	-	-
Civil Initiative Forum and Safeworld	5	-	-
Total	649	-	378

Note 13 Return of loans

Description	2012 €'000	2011 €'000	2010 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
Total	-	-	-

Note 14 Taxation

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

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

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 15 **Own source revenues**

Description	Note	2012	2011	2010	% of total 2012	% change from 2011
		€'000	€'000	€'000		
Tax on property		60	70	54	26.0%	(14.3%)
Income from Administrative tax		53	39	30	22.9%	35.9%
Revenue from fines and penalties		-	16	15	0.0%	(100.0%)
Revenue from fines and penalties 2		-	-	-	0.0%	0.0%
Revenues from licenses		99	95	100	42.9%	4.2%
Usage of public property		-	17	-	0.0%	(100.0%)
Revenues from sale of services and assets		11	-	-	4.8%	0.0%
Revenues from inspections		1	3	-	0.4%	(66.7%)
Revenues from participation		-	5	3	0.0%	(100.0%)
Change in the land destinations		-	48	13	0.0%	(100.0%)
Fees for accreditation		-	-	-	0.0%	0.0%
Traffic fines and penalties		6	-	-	2.6%	100.0%
Court fines and penalties		1	-	-	0.4%	100.0%
Tax on construction licenses		-	10	-	0.0%	(100.0%)
Other revenues		-	-	-	0.0%	0.0%
Total own source revenues		231	303	215	100.0%	(23.8%)

Own source revenues presented in Section 13, for have been restated from EUR 251 thousand to EUR 215 thousand respectively.

A change was made to the presentation in the current year such that *Own Source Revenues* recorded in Section 13 *Budget Execution Report* comprise only OSR collected in the year, and no adjustment was made for the net of OSR carried and brought forward which for 2010 amounted to negative EUR 36 thousand.

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 16 Grants and Assistance

Donor	Project		2012	2011	2010
			€'000	€'000	€'000
Swiss Government	Supply with containers	84270	40	-	-
Swiss Government	Investing in infrastructure	86405	24	-	-
Swiss Government	Investing in infrastructure	83389	-	22	-
UN- Habitat	Support the spatial planning of the Municipality	96006	-	31	-
UNDP	Cadastral border	96573	10	-	-
World Bank	IT equipment for secondary school	96701	-	8	-
UNOPS	Support in population census		-	1	
Contribution from the Community	SHF "K.Diturise"		-	-	20
Greek Government	Investing in infrastructure	86428	27	-	-
LOGOS-i			-	-	7
Total grants provided by donors			101	62	27

Note 17 Capital receipts

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

Note 18 Privatization fund

POE	Profit from Privatization		
	2012	2011	2010
	€'000	€'000	€'000
POE #1	-	-	-
POE #2	-	-	-
POE #3	-	-	-
POE #4	-	-	-
POE #5	-	-	-
Total	-	-	-

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 19 Borrowings

Description	2012 €'000	2011 €'000	2010 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
Lender 4	-	-	-
Lender 5	-	-	-
Total	-	-	-

Note 20 Other

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

Notes 21 to 27

Unlike notes 11 -16, these notes are used to explain material difference in column D, on the Budget Execution Report, ie 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

There are no differences in this economic category.

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

The difference between payments and final budget for transfers and subsidies is EUR 6 thousand mainly due to an additional transfer to this category of EUR 10 thousand from the Local Government of the Republic of Kosovo. The newly transferred funds were used fully expensed during the year while revenues from own funds were carried forward for the coming year.

25. Difference between payments and final budget for capital expenditure

The difference between payments and final budget for capital investments is EUR 83 thousand. EUR 60 thousand relate to own source revenues which were not utilised (EUR 190 thousand was utilised from EUR 250 thousand

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

budgeted), EUR 20 thousand relate to unfinished projects, and will be carried forward in 2013. The remaining difference relates to cash remaining from previously implemented projects.

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.

Note 28 Reporting obligations under the LPFMA

Summary		2012
Economic category	Description	€'000
13650	Clothes	0.61
14220	Publishing	0.10
13780	Fuel	0.08
14010	Vehicle maintenance	0.09
Total		0.88

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 28 Reporting obligations under the LPFMA (continued)

Statement of Outstanding Invoices

Invoice Date	Invoice Number	Economic Number	Term of payment	Supplier	Description	Reason for unpaid invoice	€'000
16.11.2012	6617	13780	1 month	Bubeari Petroll	Fuel	Lack of funds availability	0.08
20.11.2012	225	13650	1 month	Sankos SH.P.K	Clothes	Lack of funds availability	0.61
27.11.2012	2425/12	14220	1 month	Interpress	Publishing	Lack of funds availability	0.10
30.11.2012	040-11/2012	14010	1 month	Alba-Oil	Vehicle maintenance	Lack of funds availability	0.09
TOTAL							0.88

Municipality of Hani Elezit
Section 15-20. Notes to the financial statements
for the year ended 31 December 2012

(Amounts in thousands of EUR, unless otherwise stated)

Note 29: Contingent Liabilities

<u>Contingency Liability Type</u>	<u>Reason for Liabilities</u>	Exact or estimated value		
		2012	2011	2010
		€'000	€'000	€'000
		-	-	-
		-	-	-
		-	-	-
Total		-	-	-

Section 16 Disclosure of Property, Plant and Equipment

Note 30: Summary of non-financial capital assets (worth over 1,000 Euros) in possession of a budget organization

<u>Assets Classification</u>	2012	2011	2010
	€'000	€'000	€'000
Building	325	33	56
Land	23	-	23
Equipment and inventory	39	-	-
Infrastructure	431	140	40
Sewer	238	68	56
Water	186	9	127
Sidewalk	62	-	45
Equipment	14	40	-
Machinery	-	21	-
Transport vehicles	51	21	-
Camera installation	-	-	3
Other structures	187	-	-
Other	189	-	57
Total	1,745	332	407

Note:

- 1) Source of information is the property registry with value greater than 1,000 Euro in KFMIS

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)

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

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Note 32: Summary of inventory at end of period

Inventory

Asset Classification	2012 €'000	2011 €'000	2010 €'000
Inventory	-	-	-
Total	-	-	-

Note 33: Unjustified Loans and advances

Issue Date	No of CPO	Purpose	2012 €'000
Total			-

Note 34 Receivables (applies to organizations that collect revenue)

Economic Code	Description	2012 €'000
4010	Tax on property	60
5000	Taxes	53
5020	Licenses	99
5040	Sale of property/services	11
5050	Revenue from inspection	1
50101	Revenue from traffic fines	6
50102	Revenue from Court	1
Total		231

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	88	105	140
<i>Plus</i> Own Source Revenues received this year by Note 15	231	303	215
Total available for sharing in the current year	319	408	355
<i>Minus</i> The amount spent in the current year	(251)	(320)	(250)
The amount left for transfer	68	88	105

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Section 18 Note 36 Reconciliation between Original and Final Budget Appropriations

Appropriation Category	Changes authorized by LPFMA							Final Budget Appropriation on 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 owns source revenue €'000	Changes for donor grants defined €'000	Changes for other sources of finance €'000		
Revenues									
Tax	-	-	-	-	-	-	-	-	-
Own source revenues	250	-	-	-	88	-	-	338	35%
Designated donor grants	-	-	-	-	-	101	-	101	100%
Capital receipts	-	-	-	-	-	-	-	-	0%
Privatization funds	-	-	-	-	-	-	-	-	0%
Other	-	-	-	-	-	-	-	-	0%
Total	250	-	-	-	88	101	-	439	76%
Expenses									
Wages and Salaries	1,034	-	-	-	9	-	-	1,043	1%
Goods and services	152	82	-	-	-	23	-	257	69%
Public services	31	8	-	-	-	-	-	39	26%
Transfers and subsidies	17	10	-	-	20	-	-	47	176%
Capital expenditures	453	-	-	-	59	111	-	623	38%
Privatization funds	-	-	-	-	-	-	-	-	0%
Total	1,687	100	-	-	88	134	-	2,009	19%

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Section 19. Number of employees

Department	Total full time & part time no. of employees	Actual no. of employees in the beginning of 2012		Actual number of employees at the end of 2012	
		Full time	Part Time	Full time	Part Time
Office of the Mayor	-	-	-	-	-
Administration and Personnel	55	52	-	53	-
Budget and Finance	-	-	-	-	-
Public Service and Emergency	-	-	-	-	-
Municipal Office of Community	-	-	-	-	-
Economic Development Planning	-	-	-	-	-
Urbanization and Environment Planning	-	-	-	-	-
Total of Municipal Administration	-	-	-	-	-
Health and Social Welfare	35	35	-	35	-
Education Science and Culture	125	124	-	125	-
Total	215	211	-	213	-

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Section 20.

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

No	Recommendations or findings	Taken or proposed actions	Deadline for implementation	Effect
1	<p>Compliance regarding the external reporting 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. The Municipality should also prepare financial statements in Serbian language.</p>	<p>2012 FS have been prepared in accordance with Ministry of Finance instructions No.07/2011, Treasury Manual, Part 3.</p>	<p>Financial Statements of -2012</p>	<p>Fair presentation as per related standards.</p>
2	<p>Revenues (including own source revenues) 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:</p> <ul style="list-style-type: none"> • 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 the bills automatically. The generation of bills should also be authorized and reviewed. • Automatically inter-connect the billing system with the accounting software so that the information is automatically 	<p>At the end of 2011 the Municipality purchased accounting software. Further, the process of revenue reconciliation among departments was performed this year.</p>	<p>A request was sent to the Ministry of Finance to install the new software in order for its beginning to operate in the Municipality.</p>	

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No	Recommendations or findings	Taken or proposed actions	Deadline for implementation	Effect
	<p>processed into the general ledger.</p> <ul style="list-style-type: none"> • Perform regular reconciliations of the billing system and accounting software on a regular basis for all types of revenues. Any reconciling differences should be promptly followed up and cleared in a timely manner. • Automatically link the operational and billing units and perform regular reconciliations between them, in cases where the billing is directly related to services supplied by the operational units. This is especially important where a high volume of transactions is executed. • Ensure property tax is charged based on the most up to date list. • Ensure proper segregation of duties in the property tax department. 			
3	<p>Capital and non capital assets We recommend the Mayor ensures that the Municipality considers the following:</p> <ul style="list-style-type: none"> • Maintain a comprehensive register of property, plant and equipment. • Involve additional resources in the registration and valuation of the assets of the Municipality. • Involvement of independent and certified appraisers is recommended as the best practice in such cases. • Perform regular physical counts to ensure the existence of the assets and their condition and agree the results of the counts with the accounting records and the register. • Make additional efforts in relation to confirming the ownership and registration of real estate. 	<p>Based on decision No. 02/556/2011 dated 23 December 2011 a commission was established for this purpose.</p>	<p>Process of properties registering continues and is expected to complete at the end of June 2013.</p>	
4	<p>Debts We recommend the Mayor ensures that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements.</p>			