

AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF
THE MUNICIPALITY OF JUNIK
FOR THE YEAR ENDED 31 DECEMBER 2015

Prishtina, June 2016

Grant Thornton LLC has conducted the audit of the Annual Financial Statements of the Municipality of Junik (the "Municipality") for the year ended December 31, 2015, on behalf of the Office of the Auditor General.

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

The OAG's mission is 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 Auditor General directly promote accountability as they provide a base for holding managers' of individual Budget Organizations to account.

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Executive Summary

Introduction

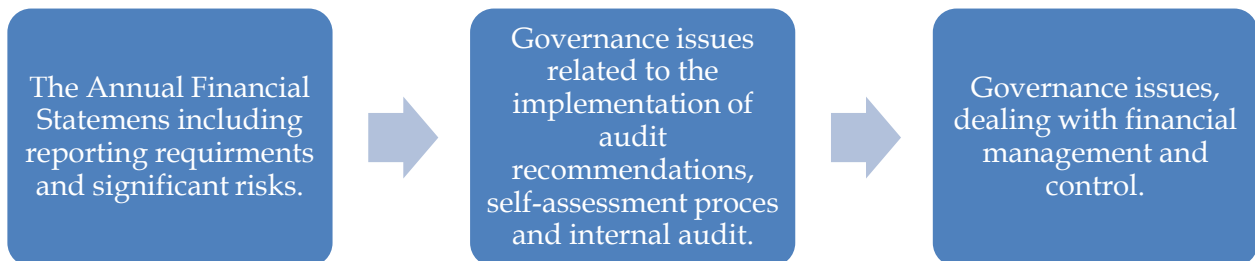
We, Grant Thornton LLC, have conducted the audit of the Annual Financial Statements of the Municipality of Junik (the "Municipality") for the year ended December 31, 2015, on behalf of the Office of the Auditor General ("OAG").

This report summarizes the key findings from the audit of the 2015 Annual Financial Statements of the Municipality of Junik disclosed in the Independent Auditors' Report issued by Grant Thornton LLC.

We would like to thank the Mayor of the Municipality and his team for their assistance during the audit process.

The examination of the 2015 financial statements was undertaken in accordance with the International Standards of Supreme Audit Institutions (ISSAI). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements.

Our audit focus has been on:



The level of work undertaken by us to complete the 2015 audit is a direct reflection of the quality of the internal controls implemented by management.

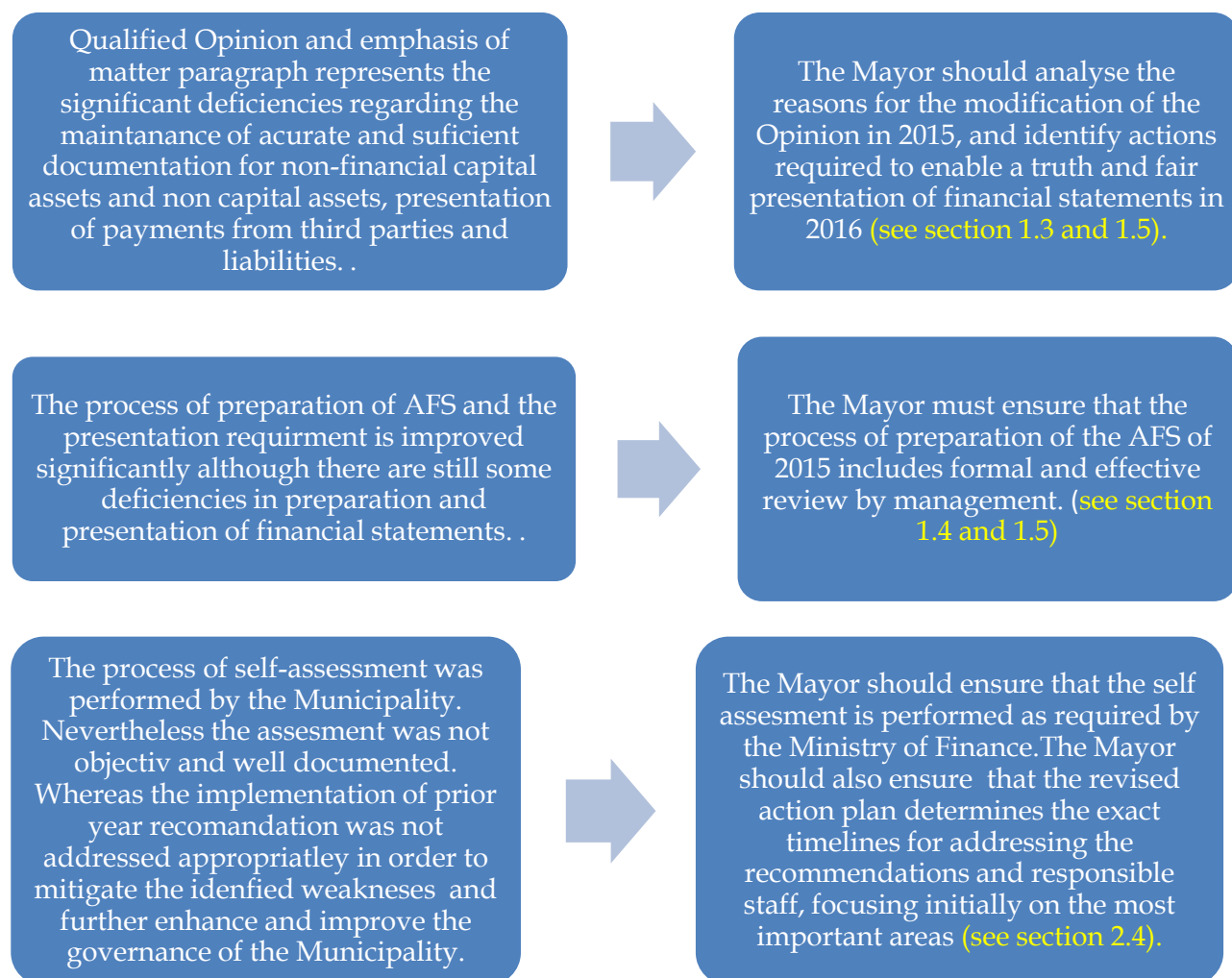
Opinion

Appendix II explains the different types of Opinions applied.

Our audit opinion, presented on pages from 8 to 10 of this Report is qualified due to the scope limitation regarding the balance of non-financial capital assets over EUR 1,000, scope limitation regarding the balance of non- capital assets under EUR 1,000, disagreement related to presentation of third party payments, and the balance presented under note 29 “Statement of outstanding invoices (liabilities) of budget organization” and emphasis of matter paragraph regarding noncompliance with the requirements of Financial Regulation No. 01/2013/MF.

Overall Conclusion

Our key conclusions and recommendations are:



There are significant deficiencies in relation to controls on the preparation of the Financial Report, procurement procedures, management of accounts receivable, management of accounts payable, revenue management, application of expense procedures and management of personnel files.



The Mayor should review existing controls of the overall governance and the quality of the internal reporting of the Municipality (see section 3).

There are material weaknesses in controls to confirm the completeness, accuracy and ownership of assets.



The Mayor must ensure that the register of capital and non-capital assets contains complete and accurate information and the asset stocktaking is conducted according to the legislation in force. (see section 3.7.1).

Mayor's Response - for 2015 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 Annex IV.

According to the Mayor's representations:

- He will discuss the audit report in the Municipal Assembly; and
- By the end of January 2017, he shall initiate discussions in the Municipal Assembly related to the implementation of the Action Plan regarding implementation of audit recommendations before the annual financial statements of 2016 have been submitted in the Ministry of Finance.

1 Annual Financial Statements and other External Reporting Obligations

1.1 Description

Our audit of the Annual Financial Statements (“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 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.

1.2 Auditor Opinion

Independent Auditors' Report

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To the Mayor of the Municipality of Junik

We have audited the accompanying financial statements of the Municipality of Junik (the "Municipality"), which comprise the Statement of Cash Receipts and Payments and Statement of Budget Execution for the year ended December 31, 2015, and a summary of significant accounting policies and other explanatory information.

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 "On Annual Financial Statements of Budget Organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI). 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 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 Municipality'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 Municipality'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

- i. Data related to non- financial capital assets worth over EUR 1,000 owned by the Municipality are disclosed in financial statements. However, there are many deficiencies and uncertainties which affect the Municipality's financial reporting of non- financial capital assets worth over EUR 1,000 as following:
 - The asset register regarding the non-financial capital assets is not complete and valid. Furthermore the Municipality has not properly registered non- financial capital assets worth over EUR 1,000, in the Kosovo Financial Management Information System. In fixed assets register of nonfinancial assets above EUR 1,000, are not included total purchases for the year 2015 and 2014 as presented in note 11“Capital Investments”. The Municipality has not prepared a detailed list of movements in 2015 and 2014 to ensure compliance of the information presented in the financial statements.
 - Moreover due to the deficiencies in the non-financial capital assets register for assets worth 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 in the note is correct.
 - We were not provided with the stocktaking report as required by article 19 of the regulation MF no. 02/2013 on management of non-financial assets by budget organizations.
 - Furthermore the Municipality has not performed valuation of its non-financial assets during 2015 as required by the regulation MF No.02/2013.

In addition, the Municipality has not received a detailed official report from government agencies relating to investments they have made in the Municipality, thus we were unable to obtain reasonable assurance that all investments of the current year and previous years are recorded and presented in the statement of cash receipts and payments and in note 30 “Summary of non- financial capital assets worth over EUR 1,000 in possession of the Budget Organization” and that the investments in question are owned by the Municipality.

Due to the nature of the records and other deficiencies as described in the paragraphs above, we were not able to satisfy ourselves with the disclosures, existence, completeness and accuracy of the Municipality’s non- financial capital assets worth over EUR 1,000 as of 31 December 2015.

- ii. The Municipality has not disclosed in the annual financial statements its non-capital assets worth less than EUR 1,000.
- iii. During our audit, we identified the amount of EUR 48 thousands of liabilities incurred in prior years and paid during 2015, which were not disclosed as unpaid liabilities in note 29 “Statement of outstanding invoices(liabilities) of budget organization” as at 31 December 2014.
- iv. In the statement of receipts and cash payments is presented the amount of EUR 42 thousand which is not presented in accordance with the policies disclosed in note 1.3 of the annual financial statements.

Qualified opinion

In our opinion, except for the possible effects of the matters referred in paragraphs i, ii and except for the effect of matters referred in paragraph iii and iv in the Basis for Qualified Opinion paragraph, the Municipality's financial statements for the year ended December 31, 2015 have been prepared in all material respects, in accordance with IPSAS "Financial Reporting under the Cash Basis Accounting" and with Regulation MF - No. 03 / 2013 "On Annual Financial Statements of Budget Organizations".

Emphasis of mater

We draw attention to Note 29 "Statement of outstanding invoices (liabilities) of the Budget Organization" where invoices in the amount of EUR 76 thousand are mostly unpaid invoices for more than 30 days and this is not in compliance with the requirements of Financial Regulation No. 01/2013/MF "Public funds expenditure". Our opinion is not further qualified for this matter.

Other matter

The financial statements of the Municipality for the year ended December 31, 2014 were audit by other auditor, which expressed a qualified opinion with emphasis of matter paragraph on those financial statements on June 24, 2015, due to the scope limitation regarding the balance of non-financial capital assets over EUR 1,000, scope limitation regarding the balance of non-capital assets under EUR 1,000, disagreement regarding the presentation of donations in the Statements of Cash Receipts and Payments, and Statement of Budget Executions and emphasis of matter paragraph regarding non-compliance with the requirements of Financial Regulation No. 01/2013/MF "Public funds expenditure".

Grant Thornton LLC

Pristina,
17 June 2016

1.3 Significant Risks to the Annual Financial Statements

Description

In our Audit Memorandum dated 04 December 2015, we identified significant risks to the Annual Financial Statements related to the completeness and ownership of assets, third party payments, and presentation of liabilities. The above risks are materialized and resulted in the modified opinion. During the final audit conducted we have identified additional significant risk related to the preparation of financial statements which resulted in the modification of the opinion.

The risks of material misstatement that we identified relating to the completeness and ownership of assets, third party payment and the preparation of the Annual Financial Statements occurred because no management action was taken to address the highlighted risks.

1.4 Compliance with AFS and other reporting requirements

The Municipality must comply with certain reporting framework and other reporting requirements. We have taken into consideration:

- Compliance with financial Regulation No. 03/2013;
- The requirements of LPFMA No. 03/L-048, (as amended),
- 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;
- Financial Rule No. 02/2013/MF "On reporting of arrears by Budget Organizations";
- Operating Reports (performance indicators);
- Report on the proposed and undertaken actions for the findings and recommendations of the previous year External Auditor; 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", the submission of AFS in Serbian language and some aspects of the Annual Financial Statements, as follows:

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- Note 29 "Statement of Outstanding Invoices (Liabilities) of Budget Organization" does not present all the liabilities as at 31 December 2015. From our sample tested we identified invoices in the amount of EUR 1,564 which were not presented as unpaid invoices.
 - In Note 37 "Disclosure of Original and Final Budget Appropriations" in the column Final Budget Allocations KFMIS" is presented total amount of EUR 1,941 thousand which is for EUR 22 thousand less than the final budget in free balance "KFMIS".
 - In note 8 "Good and services" are presented the amount of EUR 1,202 and EUR 3,900 which should have been categorized in capital investments.
 - The primary and 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 the Cash Basis of Accounting. These disclosures include revenues from fines, payments from third parties, receivables and unpaid and contingent liabilities;
 - The Municipality has not submitted the reports of outstanding obligation on monthly basis at the Ministry of Finance as required by Financial Rule No. 02/2013/MF "On the reporting of arrears by Budget Organizations".

The findings disclosed above show that the preparation of financial statements is poorly managed.

Considering what was disclosed above and in the audit opinion, the Declaration made by the Mayor and Chief financial Officer when submitting the Annual Financial Statements to the Government, can be considered incorrect due to the material weaknesses identified and other issues as disclosed throughout in this report.

1.5 Recommendations

The recommendation include all issue raised under subheading “Annual Financial Statements and other External Reporting Obligations”

Recommendation 1 High priority - The Mayor should ensure that an analysis has been made to determine the reasons for the qualified audit opinion and emphasis of matter paragraph. Action must be taken to address material weaknesses in a systematic and pragmatic order to mitigate those weaknesses as disclosed in the basis for qualified opinion paragraph.

Recommendation 2 High priority - The Mayor should take appropriate action to ensure full regulatory compliance of the process of preparation of annual financial statements (AFS). The Declaration made by the Mayor and Chief Financial Officer when the AFS are submitted to the Government should only be signed after a comprehensive management review has been undertaken on the content and accuracy of the AFS.

Recommendation 3 Medium priority - The Mayor of the Municipality must ensure that Municipality submits monthly reports related to outstanding liabilities as required by reporting regulation and submission of the annual financial statements in Serbian language.

2 Governance

2.1 Introduction

Effective governance arrangements are essential for the Municipality to manage successfully the challenges it faces and ensure providing better services to the benefit of taxpayers and other service users.

A key tool in support of effective governance is the implementation of audit recommendations as it shows that the management is trying to develop existing processes and controls. Furthermore the self-assessment checklist which should be completed by the municipality provides a framework for the development of enhanced governance arrangements.

We also consider areas of governance arrangements requiring significant improvements such as risk assessment, the Internal Audit system and financial management and control processes.

2.2 Overall conclusion over governance

Our audit approach is focused on understanding and assessment of actions taken by management to ensure effective and accountable governance and 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 also consider specific issues such as self-assessment application FMC and risk assessment. The part for financial management and control is presented under section 3 of this report.

We consider that the municipality needs improvement in addressing the prior year recommendations, completion of the self-assessment checklist, risk management processes and improve the management reporting and the effectiveness of the internal audit system.

2.3 Prior Year Recommendations

Prior year audit report has resulted in 20 recommendations given. Although Municipality implemented the requirement to produce an action plan after receiving the 2014 OAG audit report we noticed that the recommendations were only partially implemented. In the action plan were presented the findings, management comments and the steps to be undertaken to implement the recommendations. It should be noted that the action plan is general and the process of implementation is not specified adequately. Furthermore there is no evidence of monitoring over implementation of the recommendations. It must be mentioned that the prior year audit report was discussed in the assembly. For a more complete description of the recommendations and how they are addressed, see Annex III.

Recommendations

Issue 1 - Implementation of recommendations from the previous year - High Priority

- Finding** As disclosed in annex III, only a part of last year's recommendations have been implemented because the Municipality did not follow any formal process to manage and monitor the implementation of the recommendations.
- Risk** Insufficient implementation of prior year recommendations leads toward: incomplete assets register; non-compliance with the reporting requirements; Poor management of revenue due to lack of evidence and internal reporting; Lack of adequate information on the AFS; Limited benefit from the work of Internal Audit; Inadequate treatment of disclosure of accounts receivable; Inadequate treatment of debt disclosures.
- Recommendation 4** The Mayor has to revise Action Plan to address the recommendations of 2014. This plan must specify a reasonable time frame of implementation, responsible staff and mode of application, being initially focused on areas of high importance i.e. where material weaknesses were identified. Progress against the plan must be monitored directly by the Mayor.

2.4 The self-assessment checklist of MF

The Ministry of Finance has drafted a detailed list of self-assessment for budgetary organizations to support effective governance arrangement. The municipality has completed the self-assessment checklist for the year ended 31 December 2015. The Ministry of Finance has emphasised that the legal framework for financial management and control has entered into force lately and that certain aspects of FMC constitute innovation in Kosovo and a high self-assessment score, which means that no improvement of the system is necessary, would be unrealistic. Furthermore, the Ministry of Finance emphasis, that questioner should be completed truthfully and answers should be objective and documented.

Issue 2 - The self-assessment checklist - High Priority

Finding

We have examined numerous answers to the questions of five key components of the self-assessment questionnaire; Control environment, Risk management, control activity, information and communication and monitoring. From our examination the following issued have been identified:

Control Environment

The Municipality has assessed itself with grade 2.69 out of 3 in this component. From our review of questions we have identified that numerous answers were not appropriate and were not documented as it is required by the questionnaire.

Risk management

The Municipality has assessed itself with grade 2.15 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

Control activity

The Municipality has assessed itself with grade 2.82 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

Information and communication

The Municipality has assessed itself with grade 2.91 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

Monitoring

The Municipality has assessed itself with grade 2.56 out of 3 in this component. From our review of questions we have identified that numerous answers were not documented as it is required by the questionnaire.

Risk Weak governance arrangements diminish strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.

Recommendation 5 The Mayor should ensure that the self-assessment checklist is completed with objectivity and documented in order to identify the weaknesses and mitigated appropriately as required by the Ministry of Finance of the Republic of Kosovo.

2.5 Specific Governance issues

Our work in specific areas of governance is based on our audit planning, taking into account the legal environment within which municipalities operate and the challenges it faces.

2.5.1 Accountability arrangements

The municipality has formal accountability and reporting processes, although they lack in efficiency and effectiveness.

Issue 3 – Accountability processes – High Priority

Finding The Municipalities formal accountability and reporting processes need to enhance and improve.

Risk Lack of accountability and reporting processes may result in reduced effectiveness of financial management within the municipality. Furthermore this results in weakness in the budget building and execution and reduces the ability of management to respond to the financial challenges in time.

Recommendation 6 The Mayor should ensure that a review of the existing requirements of accountability and reporting of municipal departments and ensure improved arrangements to achieve specific targets within a year.

2.5.2 Risk Management

All budget organizations are expected to implement the risk assessment as required by the regulations and guidelines.

Issue 4 – The inapplicable requirements for risk management – High Priority

Finding The Municipalities procedures and systems of risk management were not yet operational.

Risk Risk management involves determining ahead of time just what might happen that you don't want to happen. Thus, lack of effective risk management will reduce the quality of service to citizens because of internal and external issues that have influence are not addressed in a timely manner.

Recommendation 7 The Mayor should ensure that procedure and systems of risk management are established and operational. Furthermore the responsibility for risk management is delegated directly to a relevant director and provides monthly reporting on the implementation of the requirements in this field and the risks are being managed.

2.5.3 Management Reporting

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 5 -Weakness in Management Controls - High Priority

Finding	The review that we have made to managerial 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, accounts payable management, revenue management, application of expenditure procedures 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 the activities of the Municipality, and undermines effective control budget.
Recommendation 8	The Mayor should review existing measures of general governance and the quality of internal reporting of the Municipality. Unimplemented requirements need to be addressed by the end of 2016. The quality of the reporting and budgetary surveillance must be reviewed critically and systematically to ensure the achievement of the Municipality's objectives.

2.6 The Internal Audit System

The Internal Audit Unit consists of one auditor which planed 5 activities for 2015. Up to 31 December 2015 they presented to us 5 completed reviews. Although the internal audit unit is functional there is no visible impact of the internal audit work. The absence of Audit Committee has impacted the work and effectivity of internal audit system.

Issue 6 – Functioning of Audit Unit and Lack of Audit Committee – High Priority

Finding There is no evidence for the implementation and follow-up of findings and recommendations. Furthermore the Municipality has not appointed the Audit Committee as required by the administrative instruction 11/2010.

Risk The internal audit system is a key part of internal control and as such it should provide assurance on the effectiveness of internal controls. The absence of Audit Committee increases the risk of failure in the independence of the internal audit, hence affecting the internal controls. In addition, it does not allow for the functions usually covered by the Audit Committee to be performed with the appropriate independence.

Recommendation 9 The Mayor should ensure that Audit Committee is appointed and execute its duties required by law. The Audit Committee should establish appropriate policies and procedures to ensure a high standard of monitoring the implementation of internal control system, the process of financial reporting and overseeing the work of internal audit department. Furthermore the Mayor must ensure that future activity of IA should be directed towards the development and implementation of audit strategy based on risk. Furthermore, in order the benefits to be visible, the Mayor should take measures to implement the IA finding within the Municipality.

3 Financial Management and Control

3.1 Introduction

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 have focused our review of financial management and control in our year-end audit on processes and systems such as;

- Budget management and execution
- Procurement procedures,
- Own source revenue management,
- Receivables management,
- Payable management
- Non - capital assets management,
- Human resources,

3.2 Conclusion on Financial Management and Control

During our audit we have identified weaknesses in the budget planning and execution and in managerial controls implemented in the system of governance of the Municipality. As such, the financial management and control require strengthening, in particular with regard to controls on: preparation of the Financial Statements (nine month and annual), completeness, accuracy and ownership of capital assets, procurement procedures and planning, management of accounts receivable and payable, revenue management, application of expenditure procedures and management of personnel files.

3.3 Budget Planning and Execution

We have considered the sources of budgetary funds for the Municipality, spending of those funds by economic categories and revenues collected as presented in the following tables:

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

Description	Initial Budget	Final Budget ¹	2015 Actual	2014 Actual	2013 Actual
Sources of funds:	1,285,347	1,963,355	1,785,539	1,340,425	1,643,000
Government Grant-Budget	1,193,780	1,242,470	1,241,339	1,174,805	1,271,000
Carried forward from previous year ²	-	23,850	20,850	19,116	19,000
Own Source Revenues ³	91,567	91,567	64,122	60,015	57,000
Domestic Donations	-	5,000		-	-
External Donations	-	600,468	459,228	86,489	296,000

Final Budget is higher than initial budget for EUR 678,008. This increase is a result of foreign donations in the amount of EUR 600,468 and own source revenues carried forward from previous year in the amount of EUR 23,850. Also, the Government Grant has increased for EUR 48,690, after budget review and in accordance with Government.

In 2015, the Municipality has used 91% of the final budget or EUR 1,785,539 (2014: 78% or EUR 1,340,425). Realization of budget remains at a satisfactory level and below are given the explanations for the actual position.

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

² Own source revenues of the Municipality not spent in the previous year and transferred to the current year

³ Receipts used from the Municipality for financing its own budget.

Table 2. Funds expended by economic category - actual versus budget (in EUR)

Description	Initial Budget	Final Budget	2015 Actual	2014 Actual	2013 Actual
Funds spent by economic category:	1,285,347	1,963,355	1,785,539	1,340,425	1,643,000
Wages and Salaries	965,076	1,124,463	1,091,463	895,100	878,000
Goods and Services	111,298	316,470	291,150	114,697	233,000
Utilities	30,000	30,000	29,232	26,981	33,000
Subsidies and Transfers	7,000	7,000	7,000	6,880	7,000
Capital Investments	171,973	485,422	366,694	296,767	492,000

The execution related to capital investment is presented at 76% (2014; 61%) although from the actual amount of EUR 366,694 the amount of EUR 48,305 relate to payments of prior years' payables and payments executed by court order. Furthermore the amounts of EUR 195,510 were grants from European commission regarding the construction of the factory for processing of wild fruits. Consequentially, actual capital investments in infrastructure and maintenance for 2015 are only EUR 122,879. The increase in realization of the capital expenditure is the main challenge which has to be addressed by the management.

Furthermore there are differences between planning of procurement for capital investment and realization of those investments. This is the main challenge which has to be addressed by the management.

Regarding realization of expenditures for the category Wages and Salaries, it can be seen that the budget was realized 97% in year 2015 (2014: 88%). This is expected since the projection of budget for salaries is quite accurate.

Regarding realization of expenditures for the category Goods and services, it can be seen that the realization of budget was 92% which is higher than prior year (2014: 58%). The amounts of EUR 111,164 expensed were grants from European commission regarding the services for the forest fruit processing plant.

The budget for Subsidies and transfers was expensed 100% (2014:98%).

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

Description	Initial Budget	Final Budget	2015 Actual	2014 Actual	2013 Actual
Own source revenues	91,567	91,567	77,573	83,865	76,000

Regarding own source revenues, it can be seen that the percentage of realization is 85% up to December 31, 2015; (2014; 94%). Own source revenue were used for capital expenditure 61%, goods and services 10%, subsidies and transfers 9% and salaries and wages 3%, whereas 17% of the amount was carried forward in year 2016.

Issue 7 - Budget Execution - High Priority

Finding The implementation of the budget for 2015 seems satisfactory, although more needs to be done in increase of capital investments and increase of own source revenues.

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 10 The Mayor of the Municipality should systematically and frequently monitor the budget performance and identify and address constraints to planned levels of budget execution. The Mayor of the Municipality should ensure that the implementation plan for own source revenues constitutes a realistic plan and coincides with the capabilities of the Municipality to collect revenues. Furthermore it should be ensured that all actions have been taken for collection of this revenue.

3.4 Procurement

The amount of contracts signed through procurement procedures for the period ended 31 December 2015 was EUR 175,544 . This includes Capital Investments and Goods and Services.

There are some aspects of the procurement process on which controls are not effectively implemented. We have identified cases where procurements performed during the year were not aligned with the procurement plan.

Our audit of procurement management identified the following issues:

Issue 8 – Systematic weaknesses in procurement – High Priority

Finding	<p>During the audit of procurement procedures we identified issues as following:</p> <ul style="list-style-type: none">- In fifteen procurement files, Statement of Needs and Determination of Availability of Funds was not filled appropriately. The completion of SNDAF is required by section 9 of the Law on Public Procurement No. 04/L-042.- In three contracts amounting EUR 22,795 the Municipality has not established a contract management plan as required by the Law on Public Procurement No. 04/L-042.- In three contracts amounting EUR 20,337 the contract management plan as required by the Law on Public Procurement No. 04/L-042 was not signed from the economic operator.- In two contracts amounting EUR 14,989 we identified that payment was made based on the irregular invoice issued by the economic operator (Invoices are missing , fiscal number, address of the seller and buyer etc.) What should contain one invoice is regulated with AI. No 15/2010.- In one contract case with amount of EUR 9,936, the standard form for notification of successful and unsuccessful bidders as required by the article 54 of the Law on Public Procurement No. 04/L-042, is missing.- In one contract case with an amount of EUR 23,177, the economic operator has not submitted for approval the work program, which is specified in article 8.1 of contract (Special Conditions of Contract).- In three procurement cases amounting EUR 16,507 the property tax document as it required with tender dossier is missing.
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- In one procurement process with contract amount of EUR 5,950, one of the members of bid evaluation committee was appointed as supervisor/project manager of the contract.
 - In one procurement case with the value of EUR 2,500 , the commitments of funds were made after signing the contract with the Economic Operator. This is not in compliance with the Public Procurement Law 04 / L - 042 and Financial Rule No. 01/2013 Ministry of Finance - Expenditure of Public Funds.

Risk As a result of weak procurement procedures, there is a risk of irregular payments can be made, delays in delivery of services, poor value for money expended, and contracts may not be implemented as per the required standards.

Recommendation 11 The Mayor has to identify the root causes of the deficiencies and take appropriate action to ensure procurement requirements are fully implemented.

3.5 Non Procurement Expenditure

3.5.1 Other expenses

We tested on sample bases some categories of goods and services and utilities in order to determine the validity and accuracy of the expenses incurred.

Issue 9 – No sufficient appropriate documents – High priority

Finding Following issues have been identified based on our interim audit of expenses categories goods and services and utilities;

- Expense no. 88102 amount Euro 3,930, the acceptance report was not signed by the appropriate personnel,

Risk Inefficient or non-existing controls can lead payments to be made without proper documentation, and / or not receiving the services and goods.

Recommendation 12 The Mayor should ensure that the Municipality takes further steps to improve controls over expenses and payments and strictly comply with the laws and local regulatory requirements.

3.5.2 Remunerations (Wages and Salaries)

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 lack of documentation as described below.

Issue 10 – Personnel Data - Medium Priority

Finding During audit of HR, we identified that personnel files are not maintained as required by Regulation No. 03/2011 “On civil servant files and central register”. In particular following has been identified;

- In 3 cases IDs were missing;
- In 3 cases birth certificates were missing;
- In 2 cases were missing the qualification and other trainings;
- In 11 cases files of previous employment are missing;
- In 14 cases references by previous employers are missing;
- In 19 cases files of medical examination are missing;
- In 8 cases application forms are missing;
- In 8 cases evaluation of application is missing;
- In 11 cases work evaluations are missing;
- In 9 cases annual leave forms are missing;
- In all 19 cases court investigation reports were missing;
- In 3 cases, the contract is no longer valid as of August 2015 and in 1 case contract is no longer valid as of August 2014.
- Most of CPOs are not signed from civil servants.

Risk Lack of documentation in the personnel files and lack of signatures/approvals required represents departure from the laws and regulations in force. Also inadequate procedures and incomplete documentation regarding the recruitment process could lead to hiring unskilled employees for the respective positions.

Recommendation 13 The Mayor should ensure that the Municipality takes further steps to improve controls over personnel files in order that files are properly organized and completed and take measure regarding the signing of payroll lists.

3.5.3 Subsidies and Transfers

Subsidies and transfers during the year ended 31 December 2015 amount to EUR 7,000, entirely financed by own source revenues.

Issue 11 - Supporting documents - High priority

Finding For the subsidies no. 271438 and 74569 amounting to Euro 1,940 and Euro 1,000, the documents showing the acceptance of the money by the beneficiaries were missing.

Risk Inefficient or non-existing controls can lead payments to be made without proper documentation, and / or not transferring to the monetary benefits to the appropriate beneficiaries.

Recommendation 14 The Mayor should ensure that the Municipality takes further steps to improve controls over subsidies and transfers and strictly comply with the laws and local regulatory requirements

3.6 Revenues (including own source revenues)

Own source revenues generated by the Municipality in 2015 amounted to EUR 78 thousand. 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. However, there is a need for improvement in some processes in order to ensuring the accuracy and completeness of revenues collection.

Issue 12 - Tax on Property, rent revenue and other revenues - High Priority

Finding

The Municipality has survey some properties until 31 December 2015 but did not verify 1/3 of the existing registered properties. Furthermore according to the Law on property tax 03 / L / 2014 article 13, paragraph 3 the Municipality shall review and follow the fair value of the property that is in its jurisdiction for every three to five years. We have received the report regarding the fair value of existing properties which was not prepared in accordance with AI 04/2011.

The Municipality did not take the restrictions for the payment of tax on property as required by Administrative Instruction No.07/2011 which forces withholding utility services to taxpayers who do not pay their dues.

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

The revenues invoiced for business tax as of 31 December 2015 are EUR 9 thousand. The percentage of collection as of 31 December 2015 is only 24%.

Risk

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

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

In the absence of surveys and verifications for 1/3 of the properties there is a risk of inaccurate and incomplete data related to the taxable property. As a result there is a risk that revenue from tax on property will decrease. Also, not conditioning the provision of services with payments of debt reduces the possibility for accepting debt.

Recommendation 15 We recommend the Mayor to take these steps:

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

To ensure that surveys, assessment and conditioning of provision of services are done as required with Administrative Instructions No. 03/2011 and No. 07/2011 and dhe 04/2011.

3.7 Assets and Liabilities

3.7.1 Capital and Non Capital Assets

Although the Municipality has taken steps to improve reporting for its assets, some uncertainties and material weaknesses in relation to the assets of the Municipality still exist and the prior year's recommendations are only partially implemented.

Issue 13 - Register of capital assets - High Priority

Finding The register of non – financial assets is not complete and valid. In addition the register of capital assets above EUR 1,000 does not contain the respective date when the asset was placed 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. There is a lack of ownership documents supporting non-financial capital assets worth above EUR 1,000.

The Municipality has not appointed/licenced the non –financial asset officer as required by article 16 of the regulation 02/2013.

Risk The Municipality does not have complete and accurate records on its assets. This may lead to assets being misappropriated and not being identified as such on a timely basis.

Recommendation 16 The Mayor should ensure the following timely and accurate recording of all assets in the relevant registers in accordance with the requirements of regulation 02/2013. It also should ensure that capital assets register contains complete information, including the date when the asset was put in use, so that the calculation of depreciation can be performed accurately. As well as determine the ownership status.

Issue 14 - Stocktaking of capital assets - High Priority

Finding For the year ended December 31, 2015 the Municipality was not able to provide us with the report on 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 nonfinancial assets".

Risk Not performing comprehensive stocktaking of the assets as required by the regulation, the Municipality results in not identifying the real factual situation of assets which may have been damaged or 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 17 The Mayor of the Municipality must ensure that the stocktaking of nonfinancial capital 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 - Disclosure of non-capital assets under EUR 1,000 - High Priority

Finding Non-capital asset worth 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 18 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 the financial statements.

Issue 16 - Lack of ownership documentation and information's for the investments made by third parties - High Priority

Finding The official transfer of ownership for a significant portion of assets financed by third parties this year and over the past years and presented in financial statements as "Payments from third parties" has not been finalized yet.

Risk Lack of supporting documentation for the non-capital assets owned by Budget Organizations can affect incorrect presentation of information in financial statements.

Recommendation 19 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 of the Municipality. Best practice would require that on an annual basis reconciliation of data is made between third parties and the Municipality for investments in the Municipality for the respective year.

3.7.2 Cash (and cash equivalents when applicable)

Issue 17 - Cash deposits - High Priority

Finding We noted that cash was not always deposited at bank on daily basis by the revenue officer as required by the Financial Rule 03/2010 Article 11 - Collection of revenues-at the end of the day the money collected in the cash-boxes of Budget Organizations shall be deposited in bank in total for each type of revenue accompanied by a summarizing invoice containing the "Uniref" and verification number.

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 legislation in force.

Recommendation 20 We recommend the Mayor ensure that daily cash deposits and controls are performed as required by the legislation in force.

3.7.3 Receivables

The Municipality does not have in place a robust process for identifying, recording and monitoring of invoices issued for its taxes.

Issue 18 - Aging of Receivables - High Priority

Finding The majority of business license receivables 82% of the balance disclosed in the financial statement as at 31 December 2015 are older than one year. The municipality has not taken necessary actions to collect these amounts.

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

Recommendation 21 The Mayor should ensure that accounts receivable are disclosed in a sufficient and detailed manner and the sufficient documents and information is retained. Furthermore 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 collected by the respective parties.

3.7.4 Debts

The balance of unpaid debts to suppliers as at the end of 2015 was EUR 76 thousand. These liabilities are carried forward to be paid in 2016.

Issue 19 - Unpaid debts - High Priority

Finding The Municipality did not perform its payment obligations within 30 days as required by Regulation 01-2013 "Public Funds Expenditure. Invoices totalling EUR 70 thousand presented on financial statements represent unpaid invoices for more than 30 days. Furthermore we identified the amount of EUR 48 thousands of liabilities incurred in the prior years and paid in current year, which were not disclosed as unpaid liabilities as at 31 December 2014.

From our sample tested we identified invoices in the amount of EUR 2 thousand which were not presented as unpaid invoices in note 29 of the annual financial statements. Furthermore comparative balances for 2014 and 2013 are not presented.

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

Recommendation 22 The Mayor should ensure that the Municipality will take further steps and develop action plans to execute the payments within the required period.

Annex I: Audit approach and methodology

Responsibilities of Auditors and those charged with governance are given in detail in the Opinion set out in Chapter 1.2 of this report.

While the key result of our work is the audit opinion, the report reflects the entirety of our work with special focus on governance issues including Financial Management and Control. The latter relies on our extensive program compliance audit based on risk.

Executive Summary aims to highlight key audit findings and key actions for which the Minister must ensure that they are taken to address identified weaknesses management / control.

Detailed Report offers an extensive summary of our audit finding with emphasis on determining the cause of audit findings and makes appropriate recommendations to address them. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

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 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 to 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 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 2014 may be found in Annex III.

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 represent significant deficiencies 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.

Annex II: 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 III: Prior Year Recommendations

No	Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
Recommendation 1	Investments made by other government agencies	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.		Addressed but not Implemented	
Recommendation 2	Non-Financial assets over EUR 1,000	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.			Not addressed
Recommendation 3	Investments made by third parties	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		Addressed but not Implemented	

No	Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
		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.			
Recommendation 4	Preparation of Financial Statements	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.		Addressed but not Implemented	
Recommendation 5	Compliance with AFS and other reporting requirements	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		Addressed but not Implemented	

No	Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
		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			
Recommendation 6	Reporting of unpaid obligation	The Mayor of the Municipality must ensure that Municipality submits monthly reports related to outstanding liabilities as required by regulation for reporting		Addressed but not Implemented	
Recommendation 7	Prior Year Recommendation	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.		Addressed but not Implemented	
Recommendation 8	Management controls	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		Addressed but not Implemented	

No	Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
		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.			
Recommendation 9	Budget Planning and Execution	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.		Addressed but not Implemented	
Recommendation 10	Procurement	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.			Not addressed
Recommendation 11	Personnel files	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.			Not addressed
Recommendation 12	Calculation of prohibitions for	The Mayor of the Municipality must ensure that this issue will be further	Implemented		

No	Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
	maternity leave	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			
Recommendation 13	Capital and non-capital assets	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			Not addressed
Recommendation 14	Stocktaking of capital assets	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		Addressed but not Implemented	
Recommendation 15	Capital and non-capital assets	We recommend the Mayor to ensure that the Municipality has an Officer of Property and take necessary actions		Addressed but not Implemented	

No	Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
		to ensure that the Municipality updates the asset register with new capital expenditures			
Recommendation 16	Capital and non-capital assets	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.		Addressed but not Implemented	
Recommendation 17	Accounts receivables	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 31 are collected by the respective parties.		Addressed but not Implemented	
Recommendation 18	Accounts Payable	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.		Addressed but not Implemented	
Recommendation 19	Cash and Cash equivalents	Lack of regular cash deposits at bank by the Municipality may result in			Not addressed

No	Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
		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 20	Internal Audit System	The Mayor must ensure that the Municipality has an independent and functional Audit Committee.			Not addressed

Annex IV: Management Response to 2015 Audit Findings

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
1	Recommendation 1 High priority - The Mayor should ensure that an analysis has been made to determine the reasons for the qualified audit opinion and emphasis of matter paragraph. Action must be taken to address material weaknesses in a systematic and pragmatic order to mitigate those weaknesses as disclosed in the basis for qualified opinion paragraph.	Agree		
2	Recommendation 2 High priority - The Mayor should take appropriate action to ensure full regulatory compliance of the process of preparation of annual financial statements (AFS). The Declaration made by the Mayor and Chief Financial Officer when the AFS are submitted to the Government should only be signed after a comprehensive management review has been undertaken on the content and accuracy of the AFS.	Partially agree	Financial Statements are reviewed always by management for their content and accuracy, but there should be more done about the issue of non-financial assets presented in the financial statements.	Auditor findings remain
3	Recommendation 3 Medium priority - The Mayor of the Municipality must ensure that Municipality submits monthly reports related to outstanding liabilities as required by reporting regulation and submission of the annual financial statements in Serbian language.	Agree	Municipality submits regularly monthly Reports related to outstanding liabilities, but there were not submitted financial statements in Serbian language.	Auditor findings remain

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
4	Finding 4: As disclosed in annex III, only a part of last year's recommendations have been implemented because the Municipality did not follow any formal process to manage and monitor the implementation of the recommendations.	Partially agree	Municipality of Junik has drafted an Action plan for implementing the recommendations and has begun to implement them, such as the stocktaking of non-financial assets has been done and we are in the process of Evaluation and Registration of them in KFMIS, a process which requires more time to be fully implemented.	Auditor findings remain
5	Finding 5: The self-assessment checklist - We have examined numerous answers to the questions of five key components of the self-assessment questionnaire; Control environment, Risk management, control activity, information and communication and monitoring.	Disagree	Checklist of self- assessment has not been part of the financial statements and also it was not an issue for which was discussed during the Audit. Moreover marked comments on all the mentioned components are generalized and we have no way to identify responses which have not been adequate and documented as required.	Auditor findings remain
6	Finding 6: The Municipalities formal accountability and reporting processes need to enhance and improve	Agree	Municipality has accountability and reporting processes, and it is normal that improvements can be made that these processes be more efficient.	
7	Finding 7: The Municipalities procedures and systems of risk management were not yet operational	Agree		
8	Finding 8: The review that we have made to managerial 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	Partially agree	Shortage which is more pronounced is the issue of evaluation and registration of non-financial assets in KFMIS, whereas other issues function properly according to the laws in force.	Auditor findings remain

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
	presentation of capital assets, procurement procedures, management of accounts receivable, accounts payable management, revenue management, application of expenditure procedures and management of personnel files.			
9	Finding 9: There is no evidence for the implementation and follow-up of findings and recommendations. Furthermore the Municipality has not appointed the Audit Committee as required by the administrative instruction 11/2010.	Partially agree	As required by administrative instruction the audit committee is not established, and as regards the implementation of internal audit recommendations is evident that there are improvements on various issues mentioned during the audit.	Auditor findings remain
10	Finding 10: The implementation of the budget for 2015 seems satisfactory, although more needs to be done in increase of capital investments and increase of own source revenues.	Disagree	Municipality is mainly financed by financial Government Grants and these grants are limited with which are covered operating costs and after the coverage of these costs, the remained part is destined for capital investments. Regarding the own source revenues we are a rural Municipality with small possibility of own source revenues collection.	Auditor findings remain
11	Finding 11: During the audit of procurement procedures we identified issues as following: <ul style="list-style-type: none"> - In fifteen procurement files, Statement of Needs and Determination of Availability of Funds was not filled appropriately. The completion of SNDAF is required by section 9 of the Law on Public Procurement No. 04/L-042. - In three contracts amounting EUR 22,795 the Municipality has not established a contract management plan as required by the Law on Public Procurement No. 04/L-042. - In three contracts amounting EUR 20,337 the contract management plan as required by the Law on Public Procurement No. 04/L-042 was not signed from the economic operator. 	Partially agree	-Needs statements are prepared in accordance with article 9 of the LPP. It was used the standard form and are signed by competent persons as required by law. Also, they are all submitted to the PPRC together with the contract award notice. Please find attached copies of SNDAF . -LPP foresees that the management plan should be prepared by the project manager within two days, and each manager has	Auditor findings remain

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
	<ul style="list-style-type: none"> - In two contracts amounting EUR 14,989 we identified that payment was made based on the irregular invoice issued by the economic operator (Invoices are missing , fiscal number, address of the seller and buyer etc.) What should contain one invoice is regulated with AI. No 15/2010. - In one contract case with amount of EUR 9,936, the standard form for notification of successful and unsuccessful bidders as required by the article 54 of the Law on Public Procurement No. 04/L-042, is missing. - In one contract case with an amount of EUR 23,177, the economic operator has not submitted for approval the work program, which is specified in article 8.1 of contract (Special Conditions of Contract). - In three procurement cases amounting EUR 16,507 the property tax document as it required with tender dossier is missing. - In one procurement process with contract amount of EUR 5,950, one of the members of bid evaluation committee was appointed as supervisor/project manager of the contract. - In one procurement case with the value of EUR 2,500 , the commitments of funds were made after signing the contract with the Economic Operator. This is not in compliance with the Public Procurement Law 04 / L - 042 and Financial Rule No. 01/2013 Ministry of Finance - Expenditure of Public Funds. 		<p>prepared the management plan, as required by LPP . Attached you have the evidences.</p> <p>Invoices (for the two cases mentioned in the report) contain the main elements on the basis of which the payment can be executed and also are supported by detailed situations of work progress.</p> <p>-To the contract "Drafting of the project for the regulation of green spaces along the river Erenik" the commitment of funds in amount of EUR 2,500 was made on 12 October 2015 and the contract was signed on 16 November 2015. Please find attached the copy of commitment and the copy of the contract.</p>	
12	<p>Finding 12: Following issues have been identified based on our interim audit of expenses categories goods and services and utilities;</p> <ul style="list-style-type: none"> - Expense no. 88102 amount Euro 3,930, the acceptance report was not signed by the appropriate personnel. 	Disagree	This mentioned case was audited during the nine-month audit, which was recorded as expense on April of 2015, when in this month has started the application of the new version in KFMIS and the Acceptance report is printed twice in two versions, one is signed, the other was not.	Auditor findings remain
13	Finding 13: During audit of HR, we identified that personnel files are not	Partially	It is important to note that the personnel	Auditor

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
	<p>maintained as required by Regulation No. 03/2011 "On civil servant files and central register". In particular following has been identified;</p> <p>In 3 cases IDs were missing; In 3 cases birth certificates were missing; In 2 cases were missing the qualification and other trainings; In 11 cases files of previous employment are missing; In 14 cases references by previous employers are missing; In 19 cases files of medical examination are missing; In 8 cases application forms are missing; In 8 cases evaluation of application is missing; In 11 cases work evaluations are missing; In 9 cases annual leave forms are missing; In all 19 cases court investigation reports were missing; In 3 cases, the contract is no longer valid as of August 2015 and in 1 case contract is no longer valid as of August 2014. Most of CPOs are not signed from civil servants.</p>	agree	<p>office manages only with staff personal files of the municipality administration, whereas files audited in education and health are managed by competent persons of education and respectively health where your recommendations will be taken into account for improvement.</p> <p>For administration files the following comment:</p> <ul style="list-style-type: none"> - In none of the cases are missing IDs, - In none of the cases are missing birth certificates; - In all cases are qualifications while trainings are put as much as has been committed, - It is not obligation to have previous employment files except those employed in civil service <p>The only issue that needs to be improved is:</p> <ul style="list-style-type: none"> - Medical certificate, - Certificates that employees are not under investigation 	findings remain
14	Finding 14: For the subsidies amounting to Euro 1,940 and Euro 1,000, the documents showing the acceptance of the money by the beneficiaries were missing.	Agree		
15	Finding 15: The Municipality has surveyed some properties until 31	Disagree	1. The municipality has committed new registrations as much as have been built,	Auditor findings

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
	<p>December 2015 but did not verify 1/3 of the existing registered properties. Furthermore according to the Law on property tax 03 / L / 2014 article 13, paragraph 3 the Municipality shall review and follow the fair value of the property that is in its jurisdiction for every three to five years. We have received the report regarding the fair value of existing properties which was not prepared in accordance with AI 04/2011.</p> <p>The Municipality did not take the restrictions for the payment of tax on property as required by Administrative Instruction No.07/2011 which forces withholding utility services to taxpayers who do not pay their dues.</p> <p>An automated billing system exists only for tax on property. For other categories of revenues for which the billing system is required, it is not applied. Instead only cash collections from such revenue streams are recorded.</p> <p>The revenues invoiced for business tax as of 31 December 2015 are EUR 9 thousand. The percentage of collection as of 31 December 2015 is only 24%.</p>		<p>so 28 registrations, we also have the registration's report.</p> <p>2. The municipality has modified approximately 1/3 of buildings, where has modified about 400 buildings of two neighbourhoods and as evidence we have surveys filled by the surveyors in field and also reports.</p> <p>3. The municipality implements Administrative Instruction 07/2011, also we have reports from relevant officials such as those dealing with vehicle registration, cadastre, procurement proving that they require property tax certificate, if citizens want to receive that service they must settle fully or partially obligations under Instruction 07/2011.</p> <p>I ask from auditors to require reports on the Property Tax Office for the identification of these cases.</p>	<p>remain</p>

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
16	<p>Finding 16: The register of non – financial assets is not complete and valid. In addition the register of capital assets above EUR 1,000 does not contain the respective date when the asset was placed 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. There is a lack of ownership documents supporting non-financial capital assets worth above EUR 1,000.</p> <p>The Municipality has not appointed/licenced the non –financial asset officer as required by article 16 of the regulation 02/2013.</p>	Agree	Municipality of Junik on 30.10.2015 with Decision no: 01/78 has appointed Assets Officer and now we are waiting for the invitation from Ministry of Finance for this Officer to carry out training.	
17	<p>Finding 17: For the year ended December 31, 2015 the Municipality was not able to provide us with the report on 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 nonfinancial assets".</p>	Partially agreed	The municipality has finished assets stocktaking process in which we had professional support from Swiss program DEMOS, and now we are in the process of Evaluating and Registration them in KFMIS.	Auditor findings remain
18	<p>Finding 18: Finding Non-capital asset worth 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.</p>	Agree		
19	<p>Finding 19: The official transfer of ownership for a significant portion of assets financed by third parties this year and over the past years and presented in financial statements as "Payments from third parties" has not been finalized yet.</p>	Disagree	The municipality has the documentation for funding made by third parties presented in the 2015 Annual Financial Statements.	Auditor findings remain
20	<p>Finding 20: We noted that cash was not always deposited at bank on daily basis by the revenue officer as required by the Financial Rule 03/2010 Article 11 - Collection of revenues-at the end of the day the money collected in the</p>	Agree		

No	Findings	Agree yes/no	Comments from the audited institution in case of disagreement	Auditor's viewpoint
	cash-boxes of Budget Organizations shall be deposited in bank in total for each type of revenue accompanied by a summarizing invoice containing the "UNIREF" and verification number.			
21	Finding 21: The majority of business license receivables 82% of the balance disclosed in the financial statement as at 31 December 2015 are older than one year. The municipality has not taken necessary actions to collect these amounts.	Agree		
22	Finding 22: The Municipality did not perform its payment obligations within 30 days as required by Regulation 01-2013 "Public Funds Expenditure. Invoices totalling EUR 70 thousand presented on financial statements represent unpaid invoices for more than 30 days. Furthermore we identified the amount of EUR 48 thousands of liabilities incurred in the prior years and paid in current year, which were not disclosed as unpaid liabilities as at 31 December 2014. From our sample tested we identified invoices in the amount of EUR 2 thousand which were not presented as unpaid invoices in note 29 of the annual financial statements. Furthermore comparative balances for 2014 and 2013 are not presented.	Agree		

Annex V: Annual Financial Statements

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