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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE MUNICIPALITY OF
JUNIK FOR THE YEAR ENDED 31 DECEMBER 2011

Pristina, June 2012

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I. Executive Summary

KPMG has carried out an audit of the Annual Financial Statements of the Municipality of Junik ("Municipality"), on behalf of the Office of the Auditor General of Kosovo, for the year ended 31 December 2011.

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

Below please find an extract taken from our audit opinion on pages 5-7 of this document:

In our opinion, except for the omission of the information described in the paragraph of the basis of qualified opinion, the financial statements present fairly in all material aspects the receipts and payments for the year ended 31 December 2011 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*.

The main message to the Mayor, which led to our qualification of the opinion, is:

- 1 The Municipality has not disclosed complete amounts in respect of property, plant and equipment in Note 30 to the financial statements. Only property, plant and equipment acquired by Municipality during the years 2009, 2010 and 2011 are disclosed. As such, there are a number of deficiencies and uncertainties which affect the Municipality's financial reporting of property, plant and equipment in the following ways:
 - The Municipality has not maintained a comprehensive register of its property, plant and equipment.
 - The Municipality has no detailed and comprehensive list of real estate property including ownership documentation of such property and information on the registration status in the Municipality's name in the local Real Estate Register or Court.

Due to the nature of the records and other deficiencies as described above, we were not able to determine which adjustments might be necessary to the financial information provided in the Municipality's financial statements.

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. These should be addressed to improve the Municipality's performance.

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

- A comprehensive list of property, plant and equipment is maintained;
- An automated billing system for all types of taxes is maintained;
- Reconciliations of revenues between the own source revenue officer and operational departments are performed;

- Measures are taken to increase the collection of revenues from various taxes; and
- The law no. 04/L-042 'Public Procurement Law in Kosovo' is fully complied with.

The Municipality's management was given the opportunity to provide comments on our findings presented in this report. Management has accepted our findings and conclusions presented in the audit findings report on financial statements as at and for the year ended 31 December 2011 and have pledged to make all efforts to address all recommendations given.

Refer to Appendix 3 for management's comments to our recommendations and our response to them.

II. Introduction

This audit relates to the annual financial statements of the Municipality of Junik as at and for the year ended 31 December 2011.

It is the responsibility of the Municipality to prepare financial statements in accordance with Financial Rule 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 2011.

An Audit is defined as an attestation of financial accounting, involving examination and evaluation of Financial Statements and other financial records and expression of opinions 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
- All matters arising from or relating to the audit.

We carried out an interim assessment of the Municipality. During that stage of the interim assessment we addressed the Municipality’s handling of recommendations given earlier and the quality of the interim financial statements. Based on this we have given advice to management. Our recommendations also included advice related to improvements for the financial statements to be in compliance with Financial Rule 07/2011 and International Public Sector Accounting Standards (IPSAS) for “Financial Reporting under the Cash Basis of Accounting”.

In order to fulfil our responsibilities for the audit of the Municipality, we have undertaken the following activities:

- Compared the Municipality’s Annual Financial Statements against the approved budget as at and for the year ended 31 December 2011;
- Determined whether the Municipality’s Annual Financial Statements were prepared in accordance with IPSAS “Financial Reporting under the Cash Basis of Accounting” and Administrative Instruction 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, checking of documents, 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 2011.

INTOSAI set out specific criteria that govern the type of opinion that should be rendered regarding our audit opinion for the Municipality's annual financial statements.

These are set out more fully in Appendix 1, which includes an extract from ISSAI 4000.

III. Audit Opinion

To Junik Municipality

Pristina, 25 June 2012

We were engaged to audit the accompanying financial statements of Municipality of Junik (“the Municipality”), which comprise the statement of cash receipts and payments for the year ended 31 December 2011, a comparison of budget and actual amounts, and a summary of significant accounting policies and other explanatory 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 international standards issued by the International Organisation of Supreme Audit Instructions (INTOSAI). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about and whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The Municipality has not disclosed complete amounts in respect of property, plant and equipment in Note 30 to the financial statements. Only property, plant and equipment acquired by the Municipality during the years 2009, 2010 and 2011 are disclosed. As such, there are a number of deficiencies and uncertainties which affect the Municipality’s financial reporting of property, plant and equipment in the following ways:

- The Municipality has not maintained a comprehensive register of its property, plant and equipment.
- The Municipality has no detailed and comprehensive list of real estate property including ownership documentation of such property and information on the registration status in the Municipality's name in the local Real Estate Register or Court.

Due to the nature of the records and other deficiencies as described above, we were not able to determine which adjustments might be necessary to the financial information provided in the Municipality's financial statements.

Qualified Opinion

In our opinion, except for the omission of the information described in the basis of qualified opinion paragraph, the financial statements present fairly in all material aspects, the receipts and payments for the year ended 31 December 2011 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*.

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, property, plant and equipment or 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 2012.
- 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, their ability to prepare a reliable and accurate budget, to report an accurate collection ratio, and monitor the collection of own source revenues on a timely basis.
- 4 We identified a number of non-compliances with Law No. 04/L-042 'Law on Public Procurement in Kosovo' (amended). Such non-compliance related to required procedures which were not performed and documented by the Municipality.

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IV. Status of Prior Years Recommendations

Our previous year management letter, as at and for the year ended 31 December 2010, identified five main recommendations. One of these recommendations, concerning establishment of the audit committee, has been addressed, while the remaining four recommendations have yet to be addressed, namely:

- The financial statements should be prepared in compliance with the actual administrative instruction and IPSAS;
- A comprehensive list of property, plant and equipment should be maintained;
- A number of non-compliances in the expenditure area were identified, including non compliances with Law No. 03/L-241 'Law on Public Procurement in Kosovo' (amended), non compliances in the areas of wages and salaries and other purchases. Such non-compliance related to required procedures which were not performed and documented by the Municipality; and
- 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;

Failure to fully address our given recommendations in 2011, has led us to have similar findings as in 2010.

V. Financial outcome compared to approved budget

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

Table 1: Overview of budget and actual spending

Description	Initial Budget	Reviewed Budget	Final Budget	2011 Actual	2010 Actual
Own Source Revenues	51,000	-	76,000	76,000	72,000
Domestic Donations	-	-	43,000	39,000	-
External Donations	-	-	-	-	-
I. Total of revenues and transfer of Donations	51,000	-	119,000	115,000	72,000
Wages and Salaries	744,000	-	785,000	774,000	603,000
Goods and Services	135,000	-	146,000	138,000	132,000
Utilities	34,000	-	34,000	32,000	31,000
Subsidies and Transfers	4,000	-	44,000	44,000	4,000
Capital Investments	339,000	-	597,000	550,000	597,000
Reserves	-	-	-	-	-
II. Total of Expenditures	1,256,000	-	1,606,000	1,538,000	1,367,000
Difference I-II	(1,205)	-	(1,487)	(1,423)	(1,295)

The budgeted amounts are extracted from the following sections within the Financial Statements as at and for the year ended 31 December 2011: Section 13 *Budget Execution Report*;

Conclusion

Actual total revenues and transfers of donations were lower than final budget by EUR 4 thousand due to realization of donations being lower by EUR 4 thousand.

Actual cash outflows from the treasury account were lower than final budget by EUR 68 thousand due to Wages and salaries being lower by EUR 11 thousand, goods and services being lower by EUR 8 thousand, utilities being lower by EUR 2 thousand, and capital expenditure being lower by EUR 47 thousand.

Initial budget was lower by EUR 68 thousand from the final budget due to lower initially anticipated own source revenues and donations. All changes to the original budget were properly 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 2011 was lower than 10%.

VI. Financial Statements

VI.1 Compliance with reporting framework and the quality of information

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

- The Municipality has prepared the financial statements according to FR 07/2011, except for completeness of disclosures of property, plant and equipment in Section 30 to the Financial Statements;
- 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 29 January 2012 and Submitted to the Ministry of Finance (“MF”);
- The Financial Statements were submitted only in the Albanian language; and
- The Municipality has prepared and submitted regular quarterly reports to MF during 2011.

Recommendation 1

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 the Serbian language.

VII. Budget Execution

VII.1 Revenues (including own source revenues)

Findings

- *Billing systems.* An automated billing system exists only for tax on property. For other categories of revenues for which the billing system is required, it is not applied. Instead only cash collections from such revenue streams are recorded.
- *Collection of revenues.* Except for taxes on property and business licenses, the Municipality management does not maintain separate and appropriate 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, or to follow up the collection of the own source revenues on a timely basis.
- *Revenue from business licenses.* The Municipality does not obtain from the Ministry of Trade and Industry the total updated number of active businesses in the Municipality. Therefore, inactive or terminated businesses might be charged, while active or new businesses might not get charged.
- *Weaknesses in the automated billing system.* The tax on property billing system is centralized and the Municipality cannot review and monitor the collection of revenue as it is automatically done by the system.

Recommendation 2

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:

- 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 the information is automatically processed into the general ledger.
- 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 the implementation of proper control procedures on cash collections.

VII.2 Expenditures

2.1 Purchases through Procurement

Findings

- For the large procurement procedures 636 10 02 85 21 procurement for repair of school garden and sports field, and 636 10 034 521 road reconstruction procurement, the guarantee for the execution of the contract was missing. Article 63, point 3, of the Procurement Law requires that large and middle size contracts be supported by an execution guarantee prior to signing of the contract.
- For procurement procedure 636 11 031 521 for road reconstruction, the estimated budget was significantly lower than the amount in the actual contract because of improper estimation.
- For procurement procedure 636 11 002 211 for local roads maintenance, the statement of needs and determination of availability of funds was missing.
- For procurement procedure 636 10 034 521 for road reconstruction, we were not provided with the official evaluation form of the tender procedure. Instead the procurement manager provided us with an informal document consisting of the information that should be presented in the official tender evaluation form. This informal document was signed by the responsible individuals and was used instead of the official form of the tender procedure, which was missing. The bid amounts in this unofficial document matched the tender bids and the selection of the tender winner was correctly made as the lowest price.

Recommendation 3

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.

2.2 Other purchases

Findings

No findings to report in this area.

2.3 Remunerations (Wages and Salaries)

Findings

No findings to report in this area.

VII.3 Subsidies and Transfers

Findings

No findings to report in this area.

VII.4 Assets and Debts

4.1 Cash and cash equivalents

Findings

No findings to report.

4.2 Handling of receivables

Findings

The Municipality does not have in place a process for identifying, evidencing and following up on issued invoices for its taxes. In addition, we noted that many outstanding receivable amounts are more than one year old.

Recommendation 4

We recommend the Mayor ensures a process is designed and established, which ensures that receivables are recorded upon issuing of each invoice. Also the receivables register should be updated according to payments received in respect of invoices released by the Municipality. In addition, we recommend that the Municipality follow up regularly on outstanding receivables to ensure timely collection.

4.3 Capital and non capital assets

Findings

The Municipality has not maintained a comprehensive register of its property, plant and equipment up to 31 December 2011.

Furthermore, the Municipality has not prepared a detailed and comprehensive list of real estate property including documentation of the ownership of such property and information about registration status in the Municipality's name in the local Real Estate Register or at Court. The Municipality only has a list of property, plant and equipment purchased during the years 2009, 2010 and 2011.

Although the Municipality has established a registration and valuation committee in 2011, the registration and valuation of the assets by the Municipality has not started. The registration and valuation committee did not conclude any work and accordingly assets purchased prior to 2009 have not been registered or valued as at 31 December 2011. No physical fixed asset count was performed for the year 2011, without such physical count we were not able to verify the physical existence of the assets.

Recommendation 5

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

- 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. Best practice would require that valuations be performed by certified appraisers. However, the Municipality should consider the cost vs. benefits prior to engaging such appraisers.
- 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.

4.4 Debts

Findings

The Municipality does not have in place a robust process for identifying, evidencing and following up on unpaid invoices. This may lead to incorrect disclosures of the unpaid invoices.

The total of outstanding liabilities not paid to suppliers as at the end of 2011 was EUR 35 thousand. These liabilities are carried forward to be paid in 2011.

In accordance with Law No. LPFMA 03/L-048, Article 39.1, a budget organization is responsible for ensuring that each valid invoice and request for payment for goods and services supplied and/or works completed for the budget organizations are to be paid within thirty (30) calendar days after receipt of invoice or request for payment by the concerned budget organization. We noted that many of the invoices presented have been outstanding by more than 30 days as at the year-end.

Recommendation 6

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. All efforts should be made to make payments within year-end.

4.5 Current reporting and timeliness in the overall budget process

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

- Budget requests were completed on a timely basis;
- Quarterly reports including the nine month financial statements were submitted on a timely basis to MF.
- Action Plan on implementing recomandations was not properly completed in the annual financial statements of the Municipality.

Findings

Draft procurement plan was not submitted to MF on time. It was submitted on 25 February 2011.

Recommendation 7:

We recommend the Mayor ensures that the Municipality submits the draft procuremrnt plan on the time frame decided by local laws and regualtions.

VIII. Management Control

VIII.1 Internal Control Systems

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, property, plant and equipment or outstanding invoices, it cannot solely be used to produce comprehensive financial statements for the year ended 31 December 2011.

Although the Municipality was able to present payments from third parties in the financial statements based on manual records maintained from them, the following was omitted or improperly disclosed in the financial statements as at 31 December 2011:

- Note 30 'Non-financial assets'

Recommendation 8

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.

VIII.2 Audit Committee and Internal Audit

Findings

During our audit we noted that the entity established the audit committee during the year 2011. Although we understand that auditing 2011 events and transactions might not be possible at the beginning of the year 2011.

We noted that the internal audit work was entirely oriented in auditing procedures, events and transactions that occurred in 2010.

Recommendation 9

We recommend to the Audit Committee to ensure that the internal audit work in later months of 2011, cover 2011 events and transactions in order to provide timely feedback to various departments within the Municipality.

IX. Overall conclusion on the Management of Municipality of Junik

General conclusions

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

Overall Recommendation

- The financial statements should be prepared in compliance with the actual administrative instructions and IPSAS;
- A comprehensive list of property, plant and equipment should be maintained;
- 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;
- Improvements should be made to controls over expenses and payments to ensure strict compliance with laws and local regulatory requirements;
- Internal Audit work should focus on current year transactions and events in order to provide timely and useful feedback.

Appendix 1. Different types of Audit Opinions based on ISSAI 4000

(Extract from ISSAI 4000)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.

10. **An unqualified opinion** is given when the auditor is satisfied in all material respects that:

- (a) The financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
- (b) The statements comply with statutory requirements and relevant regulations;
- (c) The view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
- (d) There is adequate disclosure of all material matters relevant to the financial statements.

11. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

12. An auditor may **not be able to express an unqualified opinion when** any of the following circumstances exist and, in the auditor's judgment, their effect is or may be material to the financial statements:

- (a) There has been limitation on the scope of the audit;
- (b) The auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
- (c) There is uncertainty affecting the financial statements.

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.

Appendix 2. Prior year recommendations

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
VI.1 Compliance with external reporting	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 the Serbian language.		The recommendation is partially addressed. We have noted issues in 2011 as well. In addition, the Municipality has not prepared financial statements in the Serbian language	
VII.1 Revenues	Implement a billing system and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue.			The recommendation is not addressed.
VII.1 Revenues	Perform regular reconciliations of the revenues as per free balance and revenues as per billing system or as per department data.	The recommendation is fully addressed by the municipality		
VII.2 Expenditure – Capital expenditure	Municipality should take further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements.		The recommendation is partially addressed. We have noticed several control deficiencies in 2011.	
VII.4 Assets and debts – Capital and non capital assets	Maintain a comprehensive register of property, plant and equipment. Perform regular physical counts of the assets. Make additional efforts in relation to confirming the ownership and registration of real estate.			The recommendation is not addressed.

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
VIII.2 Internal audit	The Municipality should establish the internal audit committee.	Fully addressed.		

Appendix 3. Municipality of Junik management comments and KPMG response

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<p><u>Recommendations 1:</u></p> <p>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.</p> <p>The Municipality should also prepare financial statements in the Serbian language.</p>	X			<p>Based on the information available, Municipality has followed all the standards in summarising that information in notes to the financial statements.</p> <p>Regarding the preparation of financial statements in Serbian language, we agree that we have not prepared them.</p>	The Municipality has agreed with our findings.
<p><u>Recommendations 2:</u></p> <p>We recommend the Mayor ensures that the Municipality takes steps to improve the billing and accounting systems in order to ensure safe, efficient and effective controls on 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>		X		The Municipality has no response because the recommendation is too general and does not provide enough suggestions on which the Municipality may act to impact the advanced billing system, setting and monitoring of revenue, because the tax on property is a unique system under direct control by the MEF - Department of Property on Tax, whereas, during 2011 Municipality has managed to have a program for the invoices from the administration tax and the other revenues which the Municipality collects in cash.	The Municipality has partially agreed with our findings.

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<p><u>Recommendations 2 (continued):</u></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 processed into the general ledger. 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. 				<p>Planning for these revenues is based on preliminary analysis of income in accordance with tax regulations, charges and municipal fines and economic development trends of the Municipality</p>	

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<u>Recommendation 2 (continued):</u> <ul style="list-style-type: none"> • Ensure the implementation of proper control procedures on cash collections. 					
<u>Recommendation 3:</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.		X		<p>The procurement procedures with ref. Nr. 636 10 028 521 and 636 10 034 521 are not procedures with a high price as mentioned in the first finding but are procedures with a middle price and this is deteremed by the ref no 521.</p> <p>The procurement procedure ref. no 636 11 031 521 the planed price of the contract according to procurement law, is used to classify the prices of the procurements high, middle or low. Since the procurement is planned as a middle price, the amount in the contract does not exceed the value of the middle price and we also have the verification of the declaration on the available funds after the opening of the offer from the CAO and CFO we do not consider a violation of the law.</p> <p>Procedure ref. no. 636 10 034 521, the standard form of reporting of the value could be hidden somewhere in the documentation since it was done in an electronic form.</p> <p>The documentation ofered was not a non official documant but it was a physical record signed by the commission assembly.</p>	<p>Based on the Procurement Law Guarantee for execution of the contract is also required for medium price contracts.</p> <p>The Municipality has partially agreed with our findings.</p>

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<p><u>Recommendation 4:</u></p> <p>We recommend the Mayor ensures a process is designed and established, which ensures that receivables are recorded upon issuing of each invoice. Also the receivables register should be updated according to payments received in respect of invoices released by the Municipality. In addition, we recommend that the Municipality follow up regularly on outstanding receivables to ensure timely collection.</p>		X		<p>Regarding the collection of municipality taxes, Junik Municipality possesses the unified payment slips and based on them collects the revenue depending from the type and also there are reconciliation reports at the Budget and Finance department and revenue officer respectively.</p>	<p>The Municipality has partially agreed with our findings.</p>
<p><u>Recommendation 5:</u></p> <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. Best practice would require that valuations be performed by certified appraisers. However, the Municipality should consider the cost vs. benefits prior to engaging such appraisers. 		X		<p>We partially agree with the recommendation. Property, plant and equipments have not been disclosed in the financial statements because these properties are not valued on monetary value due to lack of professional and material capacity.</p> <p>The Municipality during 2011 has created a commission for asset registration and it has started registration of property at the end of the year 2011, but it did not manage to record all of the properties in KFMIS.</p>	<p>The Municipality has partially agreed with our findings.</p>

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<ul style="list-style-type: none"> • <u>Recommendation 5 (continued)</u>: 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><u>Recommendation 6:</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. All efforts should be made to make payments within year-end.</p>		X		The Municipality maintains monthly evidence for unpaid invoices and reports them at MF, whereas, regarding the payment of invoices within 30 days there could be invoices which were not paid within 30 days period because of the allocation of the funds and the limitation of commitments during the period of November and December, as a result, unpaid invoices that are received after the commitment period in November, will be paid in the second half of January after the allocation of the commitment funds for the following year.	The Municipality has partially agreed with our findings.
<p><u>Recommendation 7:</u> We recommend the Mayor ensures that the Municipality submits the draft procurement plan on the time frame decided by local laws and regulations.</p>				No comment received.	Issue remains to be resolved.
<p><u>Recommendation 8:</u> The preparation of the Municipality's financial</p>		X		Based on the information available, the Municipality has followed all the standards in statements	The Municipality has partially agreed with our findings.

<u>Recommendations</u>	Agree	Partially agree	Do not agree	Comments from the Municipality	KPMG response
<u>Recommendation 8 (continued):</u> 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		summarising that information in the financial statements.	
<u>Recommendation 9:</u> We recommend to the Audit Committee to ensure that the internal audit work in later months of 2011, cover 2011 events and transactions in order to provide timely feedback to various departments within the Municipality.	X			We agree.	The Municipality has agreed with our findings.



Republika e Kosovës
Republika Kosova-Republic of Kosovo

KOMUNA JUNIK
OPSTINA JUNIK
MUNICIPALITY JUNIK

Financial Statements

As at and for the year ended 31 December 2011

Junik, 2011

Section 11. DECLARATION REGARDING THE PRESENTATION OF FINANCIAL STATEMENTS

For: **Mr.Zilif Lufi , act. as 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 2011 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 2011.

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 2011.

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 2011 of Municipality of Junik.

Date:

Signature and stamp: _____
Agron Kuçi
Chief Executive Officer



Date:

Signature and stamp: _____
Avdyl Gjota
Chief Financial Officer



Municipality of Junik
Section 12. Statement of Cash Receipts and Payments
for the year ended 31 December 2011

	Notes	2011		2010		2009	
		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	1,420	-	1,289	-	778	-
Own Source Revenue	3	79	-	78	-	71	-
Fund designated for specific purpose		-	-	-	-	-	-
Designated Donor Grants	4	39	-	-	-	-	-
Borrowed Funds	5	-	-	-	-	-	-
Other receipts	6	-	330	-	239	-	320
Total		1,538	330	1,367	239	849	320
Payments							
<i>Operations</i>							
		-	-	-	-	-	-
Wages and Salaries	7	774	-	603	-	489	-
Goods and Services	8	138	-	132	-	102	-
Utilities	9	32	-	31	-	19	-
		944	-	766	-	610	-
<i>Transfers</i>							
Transfers and subsidies	10	44	-	4	-	4	-
Capital expenditures	11	550	330	597	239	235	300
Other payments	12	-	-	-	-	-	20
Return of Loan	13	-	-	-	-	-	-
Total		1,538	330	1,367	239	849	320

Municipality of Junik
Section 13. Budget Execution Report
for the year ended 31 December 2011

	Note	2011				2010	2009
		Original Budget (Appropriation)	Final Budget (Appropriation)	Realization	Variance D=C-B	Payments E	Payments F
		A	B	C	D=C-B	E	F
		€'000	€'000	€'000	€'000	€'000	
Cash inflows from Treasury account							
Taxation	14	-	-	-	-	-	
Owns Source Revenues	15	51	76	76	-	72	
Donations	16	-	43	39	(4)	-	
Capital Receipts	17	-	-	-	-	-	
Privatization Fund	18	-	-	-	-	-	
Borrowings	19	-	-	-	-	-	
Other	20	-	-	-	-	-	
Total Receipts collected for KCB		51	119	115	(4)	72	
Cash outflows from Treasury accounts							
Wages and Salary	21	744	785	774	(11)	603	
Goods and Services	22	135	146	138	(8)	132	
Utilities	23	34	34	32	(2)	31	
Transfers and Subsidies	24	4	44	44	-	4	
Capital expenditures	25	339	597	550	(47)	597	
Privatization Fund	26	-	-	-	-	-	
Other	27	-	-	-	-	-	
Total Payments made from KCB through STA		1,256	1,606	1,538	(68)	1,367	

The *General Fund* amounts totaling EUR 1,205 thousand for original budget, EUR 1,434 thousand for final budget and EUR 1,430 thousand for 2011 realisation (2010: EUR 1,289 thousand; 2009: EUR 778 thousand) have not been included in the *Cash inflows from treasury account* section in the above table, although they were used to help pay the various expenses of the Municipality presented under the *Cash outflows from treasury accounts* section. In previous years, such amounts were recorded as a separate category within the *Cash inflows from treasury account* in Section 13 *Budget Execution Report*.

Municipality of Junik

Section 14. Notes to the financial statements

31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 1

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 Financial Rule No. 07/2011 *On Annual Reporting Of Budget Organizations*

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 Junik ('the Municipality'). The financial statements are prepared according to the Law for the management of Public Finance and Responsibility (03/L-048 and 03/L-211). The Municipality of Junik is controlled by the Kosovo Government and all financial activities from the Consolidated Budget of Kosovo.

1.3 Payments by Third Parties

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

1.4 Treasury Single Accounts

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

1.5 Return of expenses from last year

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

1.6 Reporting currency

The reporting currency is Euro (€)

1.7 Authorization Date

The financial statements are authorized to be issued on 13 January 2012 and approved by Avdyl Gjota.

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 2 General Fund Appropriation

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Economic classification	€'000	€'000	€'000
Wages and Salaries	774	603	489
Goods and Services	132	132	102
Utilities	32	31	19
Subsidies and transfers	40	-	4
Capital Outlays	442	523	164
Total	1,420	1,289	778

Note 3 Own Source Revenue

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Economic classification	€'000	€'000	€'000
Wages and Salaries	-	-	-
Goods and Services	1	-	-
Utilities	-	-	-
Subsidies and transfers	4	4	-
Capital Outlays	74	74	71
Total	79	78	71

Note 4 Designated Donor Grants

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Economic classification	€'000	€'000	€'000
Wages and Salaries	-	-	-
Goods and Services	5	-	-
Utilities	-	-	-
Subsidies and transfers	-	-	-
Capital Outlays	34	-	-
Total	39	-	-

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 5 Borrowed Funds

Lender	2011 €'000	2010 €'000	2009 €'000
	-	-	-
	-	-	-
	-	-	-
There are no borrowed funds during 2011	-	-	-

Note 6 Other Receipts

Economic Classification	2011 €'000	2010 €'000	2009 €'000
Ministry of Labor and Social welfare	125	40	300
Ministry of Local Government	95	7	20
Cultural heritage	-	-	-
Ministry of Agriculture, Forest and rural	7	32	-
K.U.R - Hidrodrini	-	160	-
IOM	56	-	-
USAID	22	-	-
KFOR-I	25	-	-
Total	330	239	320

Note 7 Wages and Salaries

Description	2011			Total €'000	2010 €'000	2009 €'000
	KCB €'000	OSR €'000	DDG €'000			
Payments	668	-	-	668	524	425
Net Salaries	2	-	-	2	1	2
Payments to unions -0.10% to 0.50%	-	-	-	-	-	-
Overtime payments	-	-	-	-	-	-
Part time payments	-	-	-	-	-	-
Night-shift salaries	-	-	-	-	-	-
Net salary for maternity leave	-	-	-	-	-	-
Daily payments for Assembly and committee members	-	-	-	-	-	-
Contracted payments	-	-	-	-	-	-
Personal Income Tax	30	-	-	30	20	16
Employer pension contribution	37	-	-	37	29	23
Employee pension contribution	37	-	-	37	29	23
Court decisions	-	-	-	-	-	-
Total Payments	774	-	-	774	603	489

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 8 Goods and Services

Description	2011				2010	2009
	KCB €'000	OSR €'000	DDG €'000	Total €'000	€'000	€'000
Payments from KCF						
Travel expenses inside country	1	-	-	1	1	1
Other Travel expenses inside country	1	-	-	1	7	3
Travel expenses abroad	4	-	-	4	-	-
Other Travel expenses abroad	1	-	-	1	-	-
Telephone expenses	7	-	-	7	5	5
Postal services	1	-	-	1	-	-
Other contractual services	-	-	-	-	13	4
Printing services	-	-	-	-	-	-
Technical services	-	-	-	-	1	-
Part time contractual services	24	-	-	24	-	3
Membership expenses	1	-	-	1	1	-
Furniture (below Euro 1000)	-	-	1	1	-	7
Computer less than 1000 Euro	-	-	4	4	-	-
Medical specialized supplies <1000	-	-	-	-	-	-
Traffic supplies <1000	-	-	-	-	1	-
Other supplies <1000	-	-	-	-	2	5
Copy machine	-	-	-	-	-	-
Other supplies 1000-5000	11	-	-	11	-	-
Office supply	12	-	-	12	14	14
Expenses for changes in Statute	-	-	-	-	-	-
Medical supply	10	1	-	11	9	7
Cleaning supply	2	-	-	2	3	3
Clothing	1	-	-	1	2	-
Funeral expenses	-	-	-	-	-	-
Oil for central heater	2	-	-	2	5	2
Wood	7	-	-	7	9	6
Generator fuel	7	-	-	7	2	2
Vehicle fuel	12	-	-	12	10	6
Registration of vehicles	2	-	-	2	-	-
Insurance of vehicles	-	-	-	-	3	3
Vehicle maintenance	9	-	-	9	5	4
Building maintenance	2	-	-	2	6	1
Road infrastructure maintenance	2	-	-	2	1	-
IT maintenance	-	-	-	-	1	-
Furniture and equipment maintenance	-	-	-	-	2	1
Rent for buildings	2	-	-	2	14	13
Marketing and Advertising	1	-	-	1	7	7
Publications	-	-	-	-	-	-
Representation expenses	10	-	-	10	8	5
Total	132	1	5	138	132	102

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 9 Utilities

Description	2011			Total €'000	2010	2009
	KCB €'000	OSR €'000	DDG €'000		€'000	€'000
Electricity	14	-	-	14	31	19
Water	6	-	-	6	-	-
Waste	8	-	-	8	-	-
Telephone	4	-	-	4	-	-
Municipality expenses	-	-	-	-	-	-
Total	32	-	-	32	31	19

Note 10 Transfers and Subsidies

Description	2011			Total €'000	2010	2009
	KCB €'000	OSR €'000	DDG €'000		€'000	€'000
Payments						
Subsidies	-	-	-	-	4	4
Subsidies for public entities	-	-	-	-	-	-
Subsidies for non-public entities	-	-	-	-	-	-
Transfers for other governments	-	-	-	-	-	-
Payments for individual beneficiaries	40	4	-	44	-	-
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	-	-	-	-	-	-
Trepca provisional pensions	-	-	-	-	-	-
Court Decisions	-	-	-	-	-	-
Total	40	4	-	44	4	4

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 11 Property, Plant, and Equipment

Description	2011			Total €'000	2010	2009
	KCB €'000	OSR €'000	DDG €'000		€'000	€'000
Payments						
Other structure	-	-	-	-	-	64
Buildings	23	10	-	33	4	2
Road construction	331	50	-	381	160	152
IT equipment	10	-	-	10	-	10
Waste and water system	3	-	-	3	308	-
Water supply system	-	-	-	-	18	-
Educational Facilities	10	-	-	10	16	-
Medical Facilities	35	-	-	35	-	-
Energy, generation, transfer, and supply	10	-	-	10	23	-
Furniture	7	-	-	7	-	-
Other parts	7	-	-	7	-	-
Cultural facilities	-	-	-	-	5	-
Sport facilities	-	14	34	48	37	-
Official Vehicles	6	-	-	6	22	-
Machinery	-	-	-	-	-	7
Other capital	-	-	-	-	4	-
Total	442	74	34	550	597	235

Note 12 Other payments

There were no other payments during the year 2011 or 2010 (EUR 20 thousand in 2009).

Note 13 Return of loans

Description	2011 €'000	2010 €'000	2009 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
Total	-	-	-

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 14 Taxation

Description	Note	2011	2010	2009	% of total 2011	% change from 2010
		€'000	€'000	€'000		
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")

Note 15 Own source revenues

Description	Note	2011	2010	2009	% of total 2011	% change from 2010
		€'000	€'000	€'000		
Revenues from administration		27	22	20	36%	23%
Tax on property		29	28	21	38%	4%
Revenue from business licenses		1	2	-	1%	-50%
Tax on registration and inheritance		-	-	-	0%	0%
Fees for demolition		-	-	-	0%	0%
Fees for registration of heritage		-	-	-	0%	0%
Revenues from contributions		-	-	-	0%	0%
Revenues from the sale of service		9	-	-	12%	0%
Revenues from participation - Health		-	7	3	0%	-100%
Building permit fees		-	-	-	0%	0%
Revenue from construction licenses		-	7	5	0%	-100%
Traffic fines		2	2	1	3%	0%
Court fines		-	1	-	0%	-100%
Revenues from the exploitation of forest		8	3	6	11%	167%
Revenues from last year		-	59	73	0%	-100%
Revenues from public services		-	-	-	0%	0%
Total		76	72	56	100%	6%

Own source revenues presented in Section 13, for the years 2010 and 2009 have been restated from EUR 28 thousand and EUR 71 thousand respectively, to EUR 72 thousand and EUR 56 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 the years 2009 and 2010 amounted to negative EUR 15 thousand and EUR 44 thousand respectively.

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 16 Grants and Assistance

			2011	2010	2009
			€'000	€'000	€'000
	Description				
UN-HABITAT	Regulation of assembly Junik	96003	34	-	-
World Bank			6	-	-
UNDP	Support to Decentr. Kosovo	96573	3	-	-
UNOPS	Support for Reg.Pop.	96701	-	-	-
Total grants provided by donors			43	-	-

Note 17 Capital receipts

Asset Type	Profit from Sale		
	2011	2010	2009
	€'000	€'000	€'000
Land	-	-	-
Buildings	-	-	-
Infrastructure	-	-	-
Machinery	-	-	-
Equipment	-	-	-
Transport vehicles	-	-	-
Other	-	-	-
Total	-	-	-

Note 18 Privatization fund

POE	Profit from Privatization		
	2011	2010	2009
	€'000	€'000	€'000
POE #1	-	-	-
POE #2	-	-	-
POE #3	-	-	-
POE #4	-	-	-
POE #5	-	-	-
Total	-	-	-

Municipality of Junik
Section 14. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 19 Borrowings

Description	2011 €'000	2010 €'000	2009 €'000
Lender 1	-	-	-
Lender 2	-	-	-
Lender 3	-	-	-
Lender 4	-	-	-
Lender 5	-	-	-
Total	-	-	-

Note 20 Other

Receipt type	2011 €'000	2010 €'000	2009 €'000
Lottery games deposit	-	-	-
Regulatory committee deposit	-	-	-
Ministry of Justice deposit	-	-	-
Other deposit	-	-	-
Total	-	-	-

Municipality of Junik

Section 14. Notes to the financial statements

31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 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

The difference between the payment and final budget for the category of wages and salaries of EUR 11,000 is related to the department of education. During the year there was no need for this fund and the Municipality was not permitted to transfer the amount to other budget lines, therefore, these funds were left unspent.

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

The difference between payments and final budget for the category of goods and services of EUR 8,000, is due delays in allocation invoices for payment by 31 December 2011.

23. Difference between payments and final budget for utilities

The difference between payments and final budget for the utilities category is EUR 2 thousand, which represent utilities payments planned for the last month of the year, but due to not receiving invoices for December 2011 the amount remained unspent.

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

There are no differences in this economic category.

25. Difference between payments and final budget for capital expenditure

The difference between payments and final budget for capital investments is EUR 47 thousand. These are unspent funds from own revenues. These funds remained unspent due to unfulfilled plans by contractors and all these unspent funds will be transferred to the following year.

26. Difference between payments and final budget for privatization fund

There are no differences in this economic category.

27. Difference between payments and final budget for other funds

There are no differences in this economic category.

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Note 28 Reporting obligations under the LPFMA

Summary

		2011
Economic category	Description	€'000
14010	Vehicle Service	2
13780	Fuel	11
13610	Office Supply	3
14310	Official lunch	1
14020	Building maintenance	2
13460	Other contractual service	3
13140	Travel expenses abroad	-
13130	Travel expenses inside country	-
13330	Postal expenses	-
13220	Water	1
13210	Electricity	1
31130	Other building structure	11
Total		35

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Note 28 Reporting obligations under the LPFMA

Statement of Outstanding Invoices

Invoice Date	Invoice Number	Economic Number	Term of payment	Supplier	Description	Reason for unpaid invoice	€'000
07.08.2011	OOO8157			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.055
29.07.2011	OO14087			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.05
19.07.2011	OO14081			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.294
12.07.2011	OO14085			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.555
19.10.2011	OOO8155			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.11
09.11.2011	OOO8161			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.101
11.08.2011	OO14086			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.09
31.10.2011	OOO8159			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.135
31.10.2011	OO14093			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.223
31.10.2011	OO14094			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.2
31.10.2011	OO14092			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.114
31.10.2011	OOO8160			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.06
31.10.2011	OO14096			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.11
31.10.2011	OOO8154			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.229
17.10.2011	OOO8156			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.075
31.10.2011	OOO8158			N . T . Sh Besina	Vehicle Service	Closing of payment period in KFMIS	0.05
25.06.2011	47			N . T Zem-Zem	Fuel	Closing of payment period in KFMIS	1.638
13.09.2011	11323			N . T Zem-Zem	Fuel	Closing of payment period in KFMIS	1.684
15.10.2011	O11349			N . T Zem-Zem	Fuel	Closing of payment period in KFMIS	1.189
26.10.2011	40			N . T Zem-Zem	Fuel	Closing of payment period in KFMIS	0.802

Municipality of Junik
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Note 28 Reporting obligations under the LPFMA

Statement of Outstanding Invoices (Liabilities)

Invoice Date	Invoice Number	Economic Number	Term of payment	Supplier	Description	Reason for unpaid invoice	€'000
26.10.2011	39			N .T Zem-Zem	Fuel	Closing of payment period in KFMIS	0.777
08.11.2011	OO8213			N .T Zem-Zem	Fuel	Closing of payment period in KFMIS	0.39
08.11.2011	OO8214			N .T Zem-Zem	Fuel	Closing of payment period in KFMIS	0.463
08.11.2011	OO8215			N .T Zem-Zem	Fuel	Closing of payment period in KFMIS	0.463
08.11.2011	OO8216			N .T Zem-Zem	Fuel	Closing of payment period in KFMIS	0.463
16.11.2011	OO8217			N .T Zem-Zem	Fuel	Closing of payment period in KFMIS	0.463
19.10.2011	266/6.2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.582
19.10.2011	266/8.2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.527
19.10.2011	266/2.2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.354
19.10.2011	266/1.2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.402
26.10.2011	301/2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.352
26.10.2011	209/2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.2
26.10.2011	302/2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.28
26.10.2011	210/2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.495
26.10.2011	208/2011			N.P.G Agimi De	Office Supply	Closing of payment period in KFMIS	0.3
20.10.2011	OO49452			OJQ "Rrenja"	Official Lunch	Closing of payment period in KFMIS	0.492
04.11.2011	OO17257			NPH "Ereniku"	Official Lunch	Closing of payment period in KFMIS	0.289
30.11.2011	OO49354			NPH "Ereniku"	Official Lunch	Closing of payment period in KFMIS	0.07
30.11.2011	OO49355			NPH "Ereniku"	Official Lunch	Closing of payment period in KFMIS	0.053
31.10.2011	Nr 5/11			OMI IMPEX	Building maintenance	Closing of payment period in KFMIS	0.396

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Section 15-20. Notes to the financial statements
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Note 28 Reporting obligations under the LPFMA

Statement of Outstanding Invoices (Liabilities)

Invoice Date	Invoice Number	Economic Number	Term of payment	Supplier	Description	Reason for unpaid invoice	€'000
31.10.2011	Nr6/11			OMI IMPEX	Building maintenance	Closing of payment period in KFMIS	0.396
05.12.2011	Nr7/11			OMI IMPEX	Building maintenance	Closing of payment period in KFMIS	0.396
18.11.2011	NR55/11			Gazeta Zyrtare	Gazeta Zyrtare	Closing of payment period in KFMIS	0.036
16.12.2011	204485			NTH Kroi	Official Lunch	Closing of payment period in KFMIS	0.042
28.12.2011	NR 12/2011			Atlandita-L "ShPK"	Pupil Transport	Closing of payment period in KFMIS	0.868
28.12.2011	NR 13/2011			Atlandita-L "ShPK"	Pupil Transport	Closing of payment period in KFMIS	0.672
16.12.2011	Pa numer			Udhxim Jasht Vendit	Abroad travel	Closing of payment period in KFMIS	0.125
20.12.2011	Petichesh			Travel inside country	Travel inside country	Closing of payment period in KFMIS	0.028
16.12.2011	Nr 11/2011-KKJ			PTK	Invoice delivery	Closing of payment period in KFMIS	0.027
TOTAL							18.165

Municipality of Junik
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Note 29: Contingent Liabilities

Contingency Liability Type	Reason for Liabilities	Exact or estimated value		
		2011	2010	2009
		€'000	€'000	€'000
		-	-	-
		-	-	-
		-	-	-
		-	-	-
		-	-	-
Total		-	-	-

Section 16 Disclosure of Property, Plant and Equipment

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

Assets Classification	2011	2010	2009
	€'000	€'000	€'000
Non residential building	516	390	-
Land	-	-	-
Equipment	10	-	-
Infrastructure	1,156	442	235
Machinery	-	-	-
Vehicle	6	-	-
Other	24	-	-
Total	1,712	832	235

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 1000 Euros with life of more than one year

Non capital assets (valued less than 1000 Euro)

Assets Classification	2011	2010	2009
	€'000	€'000	€'000
Equipment and furniture	25	-	-
Total	25	-	-

Municipality of Junik
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Note 32: Summary of inventory at end of period

Inventory	2011	2010	2009
Asset Classification	€'000	€'000	€'000
Inventory	-	-	-
Total	-	-	-

Note 33: Unjustified Loans and advances

Issue Date	No of CPO	Purpose	2011
			€'000
Total			-

Note 34 Receivables (applies to organizations that collect revenue)

						2011
Invoice Date	UNIREF	Economic Code	Description	Term of payment	Debtor	€'000
04.04.2011		50019	Business operational license	31.12.2011	N.T. Belladona	0.1
04.04.2011		50019	Business operational license	31.12.2011	D.P.T. Gjocaj	0.2
04.04.2011		50019	Business operational license	31.12.2011	D.P.T.Linda	0.2
04.04.2011		50019	Business operational license	31.12.2011	D.P.T. Liridoni-HG	0.1
04.04.2011		50019	Business operational license	31.12.2011	N.T.Sh.P.Ardi-J	0.6
04.04.2011		50019	Business operational license	31.12.2011	D .P .T Computer Line	0.2
04.04.2011		50019	Business operational license	31.12.2011	N.T.Sh. Rinija	0.6
04.04.2011		50019	Business operational license	31.12.2011	N.P.T. Juniku-AS	0.1
04.04.2011		50019	Business operational license	31.12.2011	D.P.Z.Sofra	0.3
06.04.2011		50019	Business operational license	31.12.2011	N.T.Sh.P.Kosova e Lirë	0.5
06.04.2011		50019	Business operational license	31.12.2011	N.T.Sh. Besina	0.3
06.04.2011		50019	Business operational license	31.12.2011	N.R -ES-Ardi-AS	0.1
06.04.2011		50019	Business operational license	31.12.2011	West - Union	0.2
06.04.2011		50019	Business operational license	31.12.2011	D.P.Z.Sofra-T	0.2
06.04.2011		50019	Business operational license	31.12.2011	N.T.P. "Tujaha"	0.1
06.04.2011		50019	Business operational license	31.12.2011	D.P.T.Shqiponja	0.06
06.04.2011		50019	Business operational license	31.12.2011	Limitx.Sh.P.K	0.2
06.04.2011		50019	Business operational license	31.12.2011	D . P . Z . Dita	0.1
06.04.2011		50019	Business operational license	31.12.2011	N.P.T.Sh.P. Tofaj	0.3
07.04.2011		50019	Business operational license	31.12.2011	N.T. Burimi - M	0.2

Municipality of Junik
Section 15-20. Notes to the financial statements
31 December 2011

(Amounts in thousands of EUR, unless otherwise stated)

Note 34 Receivables (applies to organizations that collect revenue)						2011
Invoice Date	UNIREF	Economic Code	Description	Term of payment	Debtor	€'000
07.04.2011		50019	Business operational license	31.12.2011	N.T.P Miroci	0.1
07.04.2011		50019	Business operational license	31.12.2011	N.Sh.H Gjeravica	0.7
07.04.2011		50019	Business operational license	31.12.2011	N. P.Sh.Genti	0.16
07.04.2011		50019	Business operational license	31.12.2011	N.T.P. Sigma	0.2
07.04.2011		50019	Business operational license	31.12.2011	N.T.H. Gentonisi	0.3
07.04.2011		50019	Business operational license	31.12.2011	N.P.T.Zam-Lina	0.05
07.04.2011		50019	Business operational license	31.12.2011	N.N.T .Oda e Junikut	0.4
07.04.2011		50019	Business operational license	31.12.2011	O.P.S. Mem-Dent	0.3
07.04.2011		50019	Business operational license	31.12.2011	D.T.P Andrimi-M	0.05
07.04.2011		50019	Business operational license	31.12.2011	N.P.H. "Ereniku"	0.1
		50019	Business operational license	31.12.2011	N.T.P "Gurra"	0.1
		50019	Business operational license	31.12.2011	N.T.P. "Jeta"	0.2
		50019	Business operational license	31.12.2011	N.T.P. "Qestaj-AG	0.1
		50019	Business operational license	31.12.2011	Zyra e per."Jerina"	0.05
		50019	Business operational license	31.12.2011	N.T.Sh. Ardiana	0.8
		50019	Business operational license	31.12.2011	Auto Taxi	0.5
		50019	Business operational license	31.12.2011	Real Sport	0.15
		50019	Business operational license	31.12.2011	D.P.Z Te Toni	0.07
		50019	Business operational license	31.12.2011	Idea Desing	0.04
Total						9

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

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

	2011	2010	2009
	€'000	€'000	€'000
Own source revenues carried over from last year	53	59	74
<i>Plus</i> Own Source Revenues received this year by section 15	76	72	56
Total available for sharing in the current year	129	131	130
<i>Minus</i> The amount spent in the current year	(79)	(78)	(71)
The amount left for transfer	50	53	59

Municipality of Junik
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Section 18, Note 36 Reconciliation between Original and Final Budget Appropriations

Changes authorized by LPFMA

Appropriation Category	Initial budget disposal of (Law on Budget) €'000	Changed according to article 29 Law nr. 03/L-048 €'000	Changed according to article 30 Law nr. 03/L-048 €'000	Changes according to article 31 Law nr. 03/L-048 €'000	Changes of own source revenue €'000	Changes for donor grants defined	Changes for other sources of finance	Final Budget Appropriation KFMIS EUR '000	Adjustment from Original Budget
Revenues									
Tax	-	-	-	-	-	-	-	-	0.0%
Own source revenues	51	-	-	-	25	-	-	76	49.0%
Designated donor grants	-	43	-	-	-	-	-	43	0.0%
Capital receipts	-	-	-	-	-	-	-	-	0.0%
Privatization funds	-	-	-	-	-	-	-	-	0.0%
Other	-	-	-	-	-	-	-	-	0.0%
	51	43	-	-	25	-	-	119	233%
Expenses									
Wages and Salaries	642	143	-	-	-	-	-	785	0.0%
Goods and services	129	16	-	-	1	-	-	146	0.0%
Public services	34	-	-	-	-	-	-	34	0.0%
Transfers and subsidies	4	36	-	-	4	-	-	44	0.0%
Capital expenditures	447	77	-	-	73	-	-	597	25.12%
Privatization funds	-	-	-	-	-	-	-	-	0.0%
Other	-	-	-	-	-	-	-	-	0.0%
	1,256	272	-	-	78	-	-	1,606	14.3%

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Article 19. Number of employees

Department	Total full time & part time no. of employees	Actual no. of employees in the beginning of 2011		Actual number of employees at the end of 2011	
		Full time	Part Time	Full time	Part Time
Office of the Mayor	8	8	-	8	-
Administration and Personnel	13	13	-	13	-
Budget and Finance	8	8	-	8	-
Public Service	8	8	-	10	-
Economic development	10	10	-	8	-
Urbanization	7	7	-	7	-
ZLK	1	1	-	1	-
Health	27	27	-	27	-
Education	85	83	2	83	2
Total	167	165	2	165	2

Municipality of Junik
Section 15-20. Notes to the financial statements
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Section 20.

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

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
VI.1 Compliance with external reporting	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 the Serbian language.		The recommendation is partially addressed.	
VII.1 Revenues	Implement a billing system and accounting systems in order to ensure safe, efficient and effective controls on billing and revenue.			The recommendation is not addressed.
VII.1 Revenues	Perform regular reconciliations of the revenues as per free balance and revenues as per billing system or as per department data.	The recommendation is fully addressed by the municipality		
VII.2 Expenditure – Capital expenditure	Municipality should take further steps to improve controls over expenses and payments and strictly comply with laws and local regulatory requirements.		The recommendation is partially addressed. We have noticed several control deficiencies in procurement procedure in 2011.	

Municipality of Junik
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Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
VII.4 Assets and debts – Capital and non capital assets	Maintain a comprehensive register of property, plant and equipment. Perform regular physical counts of the assets. Make additional efforts in relation to confirming the ownership and registration of real estate.			The recommendations not addressed.
VIII.2 Internal audit	The Municipality should establish the internal audit committee.	Fully addressed.		