



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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

Prishtina, June 2012

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List of Abbreviations

AC	Audit Committee
AD	Administrative Decision
AFS	Annual Financial Statements
AG	Auditor General
BO	Budget Organisations
CAO	Chief Administrative Officer
CPA	Central Procurement Agency
EO	Economic Operator
FR	Financial Rule released by Ministry of Finance
IA	Internal Audit
IAS	International Accountant Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KFMIS	Kosovo Financial Management Information System
LIA	Law on Internal Audit
LPFMA	Law no. 03/L-048 on Public Finance Management and Accountability
LPP	Law on Public Procurement no 03/L-241 as amended with Law no. 04/L-042 applicable from 05.10.2011
OAG	Office of the Auditor General
PIFC	Public Internal Financial Control
PRB	Procurement Review Body
VAT	Value Added Tax

Executive Summary

The Office of the Auditor General (OAG) has carried out an audit of the Annual Financial Statements of the Gjakova Municipality for the year that ended 31 December 2011.

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

In our opinion the financial statements in all material aspects *present a true and fair view*.

We would like to draw your attention to the fact that the Municipality of Gjakova has not completely and accurately disclosed the information on assets and stock. This has no impact on the opinion on the AFS prepared in line with the IPSAS Cash based accounting. **(ISSAI 400 Unqualified Opinion with an Emphasis of Matter)**

Notwithstanding the progress noticed in the presentation of AFS during 2011, our audit identified weaknesses within several areas of financial management. These weaknesses are described more thoroughly within this report, which should be addressed by the Management in order to improve the organisation's performance.

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

- Discussions are made with the Board of Directors regarding all weaknesses and shortcomings on financial management identified in this report in order to strengthen internal controls;
- All the issues raised by the audit are addressed and followed by appropriate measures;
- Procurement procedures are conducted in accordance with legal requirements;
- All disclosures are presented;
- Subsidies and transfers are used properly, and
- Assets registration and disclosure is complete.
- The Management of the Municipality has acknowledged our findings and conclusions presented in the audit report on the financial statements for the year 2011 and are committed to make every effort to address all given recommendations.

1 Introduction

This audit is related to the AFS of the Gjakova Municipality for the year ended on 31 December 2011.

It is the responsibility of Gjakova Municipality to prepare financial statements in accordance with the Financial Rules 07/2011 and International Public Sector Accounting Standards (IPSAS) for "Financial Reporting under the Cash Basis of Accounting".

The Office of the Auditor General is responsible for carrying out annual regularity audit of your institution.

A Regularity 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 have carried out an interim audit of the Gjakova Municipality. During that stage of the audit process we addressed the Kosovo's handling of recommendations given earlier and the quality of financial management. Based on this we have given advices to the management. This also included advice related to the preparation of the Annual Financial Statements. An audit memo was submitted in December 2011.

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

- Reviewed the Municipality Annual Financial Statements against the approved budget for 2011;
- Determined whether the Annual Financial Statements were prepared in accordance with IPSAS "Financial Reporting under the Cash Basis of Accounting";
- Established a materiality level of revenues and expenditures, 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;

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- We performed the evaluation of internal controls and their testing accordingly with needs;
 - Undertaken extensive substantive testing of financial transactions;
 - Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions; and
 - Assessed the quality of work of the Municipality Internal Audit.

In this report we summarise this year's audit and give a formal opinion on the Annual Financial Statement 2011.

In regard to our audit opinion for the annual financial statements of Municipality of Gjakova, ISSAIs set out specific criteria that govern the type of opinion that can be rendered.

These are explained further in Annex I.

2 Audit Opinion

In our opinion the financial statements in all material aspects *present a true and fair view*.

We would like to draw your attention to the fact that the Municipality of Gjakova has not completely and accurately disclosed the information on assets and stock. This has no impact on the opinion on the AFS prepared in line with the IPSAS Cash based accounting. **(ISSAI 400 Unqualified Opinion with an Emphasis of Matter)**

3 Status of Prior Years Recommendations

The audit opinion given on the AFS of 2010 was an *Unqualified opinion with emphasis of matter*. An Emphasis of Matter was due to incomplete disclosure of fixed assets and receivable accounts. Audit Report on the Annual Financial Statement 2010 resulted in ten (10) key recommendations, out of which, one was fully addressed; another one was partially addressed, while the others are in the implementation process. These are set out more fully in Annex II.

The current internal controls as an integral part of ICS were not at a satisfactory level. The fact that out of 10 (ten) recommendations given, only one was fully addressed indicate the lack of control performance and the willingness of Management to take actions for improvement. Audit advices regarding recommendations are given also in the audit memo on the first nine months period of 2011. Despite of this, the Management has not taken any action. The shortcomings outlined above will continue to exist as long as appropriate actions are not taken.

Failure in fully implementing our prior year recommendations resulted in the same problems as in the earlier years. We express our concern for all our unimplemented recommendations.

4 Financial outturn compared to approved budget

The analysis of the outturn in the AFS against the Approved Budget shows:

Table 1 Sources of Budget Funds and Expenditures

Description	Initial Budget	Final Budget	2011 Receipts/ Outturn	2010 Receipts/ Outturn
Government Grant - Budget	15,328,475	15,780,475	15,614,835	12,659,853
Own Source Revenues for 2011	2,644,990	2,644,990	2,382,421 ¹	2,394,701
Revenues carried forward from previous year		460,688	460,688 ²	294,746
Domestic Donations		140,432	140,432	75,680
External Donations		69,705	69,705	18,239
I. Total of Receipts and Transfer of Donations	17,973,465	19,096,290	18,668,081	15,443,219
Wages and Salaries	9,752,990	9,916,805	9,785,771	7,688,221
Goods and Services	1,309,064	1,449,721	1,373,883	1,260,333
Utilities	524,740	541,741	530,618	525,871
Subsidies and Transfers	314,059	447,059	446,838	336,351
Capital Investments	6,072,612	6,740,964	5,912,095	5,171,755
Reserves	0	0	0	
II. Total of Expenditures	17,973,465	19,096,290	18,049,205	14,982,531
Difference I-II	0	0	618,876	460,688

According to data presented in the table above, the final budget for 2011 of the Gjakova Municipality was €19,096,290. The total expenditures for 2011 were €18,049,205 or around 97% of the budget. The unspent budget by the end of 2011 was €518,365, or about 3%.

According to data presented in the table above, the final budget was higher than the initial budget for €1,122,825. The difference between the initial and final budget was due to the additional grant in the amount of €452,000 allocated to the Municipality, own

¹ Revenues collected in the year 2011

² Revenues carried down from the year 2010

source revenues collected in 2011 and carried forward from last year, and donations in the amount of €210,137.

The difference of €618,876 results from the unused own source revenues in the amount of €498,108 and unused donations in the amount of €120,768. These have been carried forward for use in 2012.

During 2011, the spent budget on capital investment was €5,912,095. Based on the payments analysis, we have noticed that most of payments were made for projects contracted in 2010.

We may say that the Municipality of Gjakova has spent the budget at the maximum level.

5 Financial Statements - Compliance with reporting framework and the quality of information

The Municipality has managed to prepare the AFS in accordance with Financial Rule no. 07/2011 on annual reporting of budget organizations, with exception of the disclosure of stocks and explanatory records for capital non-financial assets.

Based on LPFMA no. 03/L-48 and FR no. 07/2011

- The Financial Statements have been signed by the Chief Administrative Officer and Chief Financial Officer;
- The AFS have been signed within the time frame on 09/02/2012 and submitted to the MoF;
- The Financial Statements were prepared only in the Albanian Language;
- In recording 16 assets, there were not given additional explanations for capital assets over €1000; and
- Note 32: *Summary of stocks at the end of the period* – no value was presented therein.

Conclusion

Although AFS were prepared much better than last year, still there is lack of information within them. Such a lack does not enable the users to have a complete and clear view on financial activities of the Municipality of Gjakova.

Recommendation 1

We recommend the Mayor to ensure that:

- While drafting the AFS, all required information is complete and disclosed properly in compliance with the reporting framework.

6 Financial Management

6.1 Own source revenues

The planned own source revenues for 2011 were in the amount of €2,644,990. The collected revenues during year 2011 were in the amount of €2,382,421. We have tested the amount of €465,105, or about 19%. During testing we found the following shortcomings:

No construction licenses for the buildings under construction

The Department for Urban Planning did not keep records on fees to beneficiaries of construction licenses. We have checked whether decisions for two buildings under construction to see whether these buildings are legal or not. The Department for Urban Planning did not issue any licence for these two buildings, while the buildings were already built.

Director for management of markets does not keep records on fees

In regard to revenues from management of markets, we found that the responsible officer does not keep records on revenues and debts carried forward from previous years. The only evidence is that from accounting, where only collections in the amount of €10,220 are registered.

When it comes to the revenues from use of public property, i.e. from rental of premises, the Municipality does not keep an accounting register for the balance carried forward from the previous year and fees in the following year. The amount collected by end of the year 2011 was €56,211.

Problems with collection of businesses tax debts

During 2011, the Property Tax Directorate has billed the amount of €921,433 which together with debts carried forward from previous years amounted to a total of €8,618,627. From this billed total amount, €854,733 was collected. The municipality had

not taken any concrete actions to collect property tax debts from the business sector wherefrom total debts to the Municipality was €3,419,031.

Conclusion

Based on our findings, we may conclude that the Municipality has around €3.4millions of uncollected debts from property tax only. This indicates that the Management has not exercised sufficient control over own sourced revenues for many years. Collection rate for 2011 was good. A worse situation is in the management of own source revenues from old debts. Lack of accurate registers of the carried forward balance and tax burdens brings the reliability of financial reporting to a critical level. Besides damages of the city's regulatory plans, illegal constructions in the municipality indicate tax evasion.

Recommendation 2

We recommend the Mayor to:

- Thoroughly analyze the low level of collection and remaining debts and to take appropriate actions for significant improvement. An increase in responsibilities should be installed on all levels of management;
- Ensure that responsible officials keep accurate records of all tenants, users of public property and building permits; and
- Strengthen the inspection measures for the identification of illegal buildings and to require from citizens to obtain a construction and to pay the respective taxes.

6.2 Expenditures

6.2.1 Procurement

According to the analytical review, expenditures for Capital Investments during 2011 were €5,912,096, whilst expenditures for Goods and Services were €1,904,500. In order to test these expenditures, we used the non-statistical method. We tested 28 payments for Capital Investments in the amount of €2,976,966 or around 50%, and 20 payments from Goods and Services category in the amount of €204,422 or around 11%.

Contract signed without sufficient funds committed

In the project "Construction of the poultry farm - Rezine", the contract was entered into on 21.06.2010 in the amount of €423,325, whilst committed funds were just in the amount of €7,000. Another case of contract entered into without sufficient funds is identified in

the project "The construction of the road 'martiret e lirise'" which was contracted in the amount of €689,470, whilst just €6,000 were committed. Such cases have been identified in other projects as well.

Delays in implementation of projects

On 31.10.2008, a contract in the amount of €209,709 for the construction of the road "Ujë-Pnish" was entered into. Based on the review, we found that this project was not implemented within 45 days as provided by the EO in the dynamic plan. The implementation of this project, i.e. acceptance of works, was done 451 days in delay from EO's dynamic plan. Delays in implementation of projects according to the dynamic plan offered by the EOs were also found in all other projects. The municipality had not imposed any penalties against the economic operators for such delays.

Logistics still without a warehouse

Based on the analysis of stationery supplies, we found that the Municipality of Gjakova spent the amount of €191,985 for this purpose in 2011. Just like last year, this year supplies were not placed in the warehouse, because the Municipality has not solved the warehouse problem yet. Stationeries were purchased directly from the supplier and then distributed to the directorates as needed. At the time of audit, municipal officials have committed themselves to solve the warehouse problem by the end of this year.

Poor control over the receipt of fuel

During the period January to December 2011, the Municipality paid €182,037 for oil for heating. The Goods Receiving Commission received the fuel but did not provide any evidence that the supplied quantity was in compliance with supplier's delivery note. The Municipality has not provided any evidence that the fuel receiving commission measured the amount of fuel supplied. Thus, fuel for heating was received without any control at all.

Conclusion

Entering into contracts without securing sufficient funds increase the risk that the Municipality of Gjakova might fail to fulfil contractual obligations and be subject to eventual penalties.

Lack of analysis of expenditures for heating fuel, and receiving fuel without a meter cast doubts on whether the quantity paid for has been received.

Recommendation 3

We recommend the Mayor to ensure that:

- Projects are started and completed under the dynamic plan offered by the EO and that penalties are imposed for non-implementation of the plan;
- Stationery supplies are received and stored in depot by recording the inflow and outflow;
- Funds are committed for all projects started; and
- Upon receipt of fuel for heating, the supplied quantities and payments are verified.

6.2.2 Remunerations (Wages and Salaries)

Budget allocated for Wages and Salaries for 2011 was €9,916,805, whilst expenditures were €9,785,771. To test the regularity of payments and staff recruitment procedures, we selected 23 samples from the personnel files and found that the municipality does not have sufficient controls on Human Resource management. This part is described more thoroughly in the internal control chapter.

6.2.3 Subsidies and Transfers

In 2011, the budget for the Subsidies and Transfers category was €447,059. The budget allocated for this category was spent almost entirely (€446,838).

The municipality has no regulation on subsidies

In testing 22 samples from the Subsidies and Transfers category, we found that the municipality has not yet prepared an internal policy establishing terms and criteria to be met for having a subsidy granted.

Lack of suppliers selection procedures

During 2011, the Municipality had made three payments to economic operator in the amount €134,831 for supplies with corn and wheat seeds and artificial fertilizers. We have not found that the operator, i.e. the supplier, was selected based on the application of procurement procedures. The supply has been done by avoiding every procurement procedure and in the absence of a contract. In addition, the Municipality did not set clear criteria to be met.

Moreover, the bill dated 29.12.2010 in the amount of €8,160 was paid on 14.04.2011 for the printed calendars. We found no evidence how the operator was engaged to print desk and wall calendars.

Paid Invoices were not disclosed

On 22.09.2009, food items were supplied for 1965 families of the municipality of Gjakova in the amount of €51,188. The Mayor's decision to pay the outstanding liability from 2009 was taken on 11.05.2011. In order to verify whether the paid invoice was an old debt, we looked into the AFS of 2010 and found that there was no outstanding liability to the supplier.

Conclusion

Gjakova Municipality has no clear policies and procedures for granting of subsidies. The lack of a regulation on subsidies increases the uncertainty that the designated funds are spent for the intended purposes and in a rational way. Apart from the unclear reports on previous years' expenditures, procurement procedures have been skipped. This is in contradiction with Treasury Rules and such practice should not be repeated.

Recommendation 4

We recommend the Mayor to ensure that:

- No expenditure is allowed outside of proper procurement procedures;
- Subsidies are allowed and paid only after the Mayor's decision; and
- No payment is allowed without proper legal basis.

6.3 Assets

6.3.1 Handling of Receivables

Accounting system is not complete

Upon review of accounts receivable, we found that the Municipality uses a program to record all accounts receivables. According to our estimates, the program is not quite functional, since balances carried forward from previous year are not seen, but only charges and fees of the following year.

Conclusion

The program for registration of receivables is not sufficient if surpluses, i.e. balances, carried forward from the previous year are not seen. As such, the program cannot produce accurate reports and fair reporting of receivables.

Recommendation 5

We recommend the Mayor to ensure that:

- The program applied by the Finance Office produces accurate and complete information on all accounts receivable at any time, by presenting their historical situation as well.

6.3.2 Handling of capital and non capital assets

A complete register of capital assets is still lacking

According to the Accounting Register, the recorded value of fixed assets was €29,676,000. The Municipality has failed to fully records assets, such as land, buildings and equipments donated by the donors. This finding has been also claimed by the assets officer. According to the assets officer, the main reason was that they were not in possession of the respective documentation of the equipments received from donors. The Inventory Commission was established, but had not prepared any report on the inventory conducted yet.

Conclusion

Based on our findings, we may conclude that the Municipality had not fully recorded its assets. Besides the impact on the presentation of financial statements, failure in completely recording capital assets has also an impact on the good assets management. In such circumstances, assets are the subject to the risk of mismanagement or even loss.

Recommendation 6

We recommend the Mayor to ensure that:

- A special commission for assets registration, evaluation and inventory are established. Registration results are compared with the accounting balance sheet and a final assets register is issued. Also, the annual and accumulated value of depreciated assets should be presented in the AFS.

6.4 Handling of Debts

The statement of outstanding liabilities towards suppliers at the end of 2011 was €587,000. The amount of €828,000 was disclosed as contingent liabilities. Thus, the total amount of liabilities carried forward for payment, including possible loss of litigation in the fiscal year 2012, was €1,415,000.

No proper records on the payment of liabilities carried forward from 2010

The Municipality did not keep special accounting registers, which would present the invoices paid during 2011 for servicing debts carried forward from previous years.

Conclusion

Lack of detailed records on the paid invoices increases the risk that an invoice is paid more than once by the Municipality of Gjakova.

Recommendation 7

We recommend the Mayor to ensure that:

- Comprehensive and accurate records are kept by the Finance Department and all paid and outstanding invoices are registered in order to avoid the possibility that payment is made more than once.

6.5 Current reporting and timeliness in the overall budget process

During the 2011, the Municipality prepared an action plan for implementing recommendations from last year's audit. In addition, the municipality prepared quarterly reports, including nine monthly financial statements in time. The procurement plan was submitted on time as well.

7 Management Control

7.1 Internal Control Systems

The current internal controls system does not provide sufficient assurance for the Municipality to successfully meet its objectives. The last year's audit report resulted with ten recommendations on financial management and control. Out of which, one was fully addressed and one was partially addressed. This is an indication that the Municipality's Management had not duly considered the correction of errors and mistakes.

Maximum attention is paid to the execution of the budget. The performance level was 97% which shows a good performance as a whole. If we carefully analyze the revenues and expenditures, such performance requires improvements. We are presenting some of them:

- First, revenues management seems to be the key problem. Based on the initial plan, the Municipality collected 90% of annual planned amounts, but the amounts accumulated from previous years as old debts were around €3.4 million. Moreover, their complete recording is a problem itself. The software owned by the Municipality records the current charges and fees only. It does not record the surplus carried forward from previous years. This increases the risk that taxpayers' liabilities might be written off from the accounting registers.
- Second, the Municipality does not have complete evidence on the revenues from parking and rents of public property. The current evidences include only the collections during the year, and not the surplus carried forward from last year.
- Third, we have noticed the phenomenon of illegal construction within the city. This situation reflects directly with tax evasion by citizens.

Financial control weaknesses are also noticed invoices from 2009 were paid, which were not even disclosed in the annual financial statements as outstanding liabilities.

Besides financial controls, certain failures are also found in procurement controls. This is characterized by delays in implementation of projects and failure in imposing penalties to EOs, direct supplies without procurement procedures (supply with wheat and corn seed and fertilizers), lack of controls on receiving of goods (fuel), etc.

Handling of debts requires additional caution. Possible liabilities from legal disputes, which are estimated to be over €800,000, may have an impact on the budget balance. Together with other unpaid invoices (over €500,000), they exceed the annual budget by 7%.

Furthermore, the personnel office does not keep evidences for overtime work and have not found any internal regulation which regulates the recruitment of internship candidates. Procedures for selecting the personnel Manager were not adhered to.

Conclusion

We may conclude that the Municipality should carefully analyse the internal control situation. The current internal control does not provide sufficient assurance that the Management's objectives are met.

Recommendation 8

We recommend the Mayor to ensure that:

- The internal control system is reviewed and that proper measures are taken in order to make sure that controls are effective.

7.2 Internal Audit System

The municipality of Gjakova's Internal Audit Unit with one auditor who is the director of the unit at the same time.

The internal auditor has finalized four out of five planed audits during 2011; Audit of expenditure in the Directorates of Budget, Finance and Administration, Audit of procurement, and Audit of own revenues in department for economic development. All these audit reports had covered the period from January to December 2010. We have reviewed the internal auditor reports and assessed that despite the identification of several important issues, the results of audits performed were not sufficient to ensure the Management on the effectiveness of internal controls.

We have reviewed documents of IAU and noticed that they are not well organized and findings presented in its reports were not clearly documented. As a result, we cannot rely on its work.

Moreover, the IAU was not focused on audits of the following year and in high risk areas, such as revenues from building licenses, subsidies, transfers and assets.

The audit committee was non-functional

The municipality has established an Audit Committee. The Audit committee has held only one meeting during this year, on 28.03.2011, where the annual report regarding internal audit conducted for the period January to December 2010 was reviewed.

In reviewing the minutes of the meeting, we noticed that no measure was taken to address the last year's recommendations. An Audit Committee member has requested training for committee work.

More specifically, the Audit Committee was not working on the IAU and the OAG recommendations.

Conclusion

The Municipality of Gjakova has not paid sufficient attention to the IAU function. The top Management of the Municipality of Gjakova is responsible for implementation and effective functioning of internal audit.

The audit committee has failure to fulfil its obligations. As a result, an action plan for implementation of prior year's recommendations was not prepared.

Recommendation 9

We recommend the Mayor to ensure that:

- IAU handles the Municipality's operational activities of the current year by identifying high risk areas; and
- The Audit Committee is more functional in addressing audit issues and fulfilling of its obligations.

8 Overall conclusion on the Management of Gjakova

Overall Conclusions

Our overall conclusion is that the management should strengthen and improve both the design and the implementation of internal controls. The municipality must take measures to improve operational performance. Addressing of only two recommendations out of ten given last year, has caused the repetition of the same problems this year. Internal audit did not give the expected contributions.

The focus of achieving a better management should be extended especially on own sources revenues. Besides having not fulfilled the annual plan of receipts, it is facing reporting weakness and huge amounts of debt that aren't collected in previous years.

The certification of payments appears to be with shortcomings, because some payments are not made in accordance with law.

Spending of subsidy continues to be a problem, although addressed in previous years. Lack of clear criteria and conditions for their allocation causes uncertainty whether subsidies reach the right place. In addition, monitoring and reporting activities on completion of projects should be significantly improved.

Particular attention should be paid to the handling of outstanding liabilities. The municipality has reported outstanding debts at nearly €1,5 million. Such debts can bring the Municipality to financial difficulties and might lead to judicial disputes.

Recommendation 10

We recommend the Mayor to ensure that:

- All the weaknesses and shortcomings of financial management identified in this report and the need to strengthen controls are discussed with the Board of Directors, and adequate measures are proposed.

Annex I. Different types of Audit Opinions

(extract from ISSAI 400)

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

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

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

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

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

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

13. **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.

14. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.

15. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.

16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annex II. Recommendations of the prior year

Audit Component	Given Recommendations	Completely implemented recommendations	Partially addressed	Not addressed
4. Budget that is Spend	Subcontracting of sufficient funds and execution of projects on time.			Not implemented
5. AFS	Drafting of financial statements with all relevant information		AFS were better prepared than in last year, except for some disclosures on stock.	
6. Revenues	Functioning of labour inspectorate, the increase of property tax collection			No measures were not taken
6.2 Expenditures	That contracting is based on available funds.			The municipality has failed to fulfil this recommendation.
6.2.1 Other Purchases	The means taken to trips will be returned on account of Municipality	Is implemented		
6.3 Subventions	Develop an internal regulation for subsidies.			The regulation was not drafted
6.4 Assets	Complete registration of assets			Still not registered some of the equipment was received as a donation.

6.4.2 Debts	Complete registration of unpaid receipts.			Still lagging in terms of registration of unpaid bills.
7. Internal Control System	Increasing of Internal Control			No measures were undertaken
7.2 Internal Audit	Conduct periodic audits and involvement in the audit plan with high-risk areas			No measures were undertaken
Total	10	1	1	8