



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF  
THE MINISTRY OF ENVIRONMENT, SPATIAL PLANNING AND  
INFRASTRUCTURE FOR THE YEAR 2024

Prishtina, June 2025

## TABLE OF CONTENT

Audit Opinion.....	3
Findings and recommendations.....	7
3 Summary on budget planning and execution .....	23
Progress in implementing recommendations.....	25
Annex I: Letter of confirmation.....	31
Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report.....	32

## Audit Opinion

We have completed the audit of the financial statements of the Ministry of Environment, Spatial Planning and Infrastructure for the year ended on 31 December 2024 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion on the financial statements and conclusion on compliance with authorities<sup>1</sup>.

### Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Ministry of Environment, Spatial Planning and Infrastructure (MESPI) which comprise the Statement of cash receipts and payments, Budget execution report, and Explanatory notes to financial statements, including a summary of important accounting policies and other reports<sup>2</sup> for the year ended as of 31 December 2024.

In our opinion, except for the effects of the matter/s described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Ministry of Environment, Spatial Planning and Infrastructure give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting, the Law no.03/L-048 on Public Finance Management and Accountability (amended/supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

### Basis for Qualified Opinion

- B1 The capital assets register presented in the AFS was overstated by a net effect of €30,855,845 as a result of errors in the registration of capital assets and the failure to apply depreciation to completed projects, and the non-capital assets register was understated by €228,289 as a result of the failure to register non-capital assets;
- B2 Contingent liabilities presented in the AFS were understated by a net effect of €4,193,072;
- B3 Expenditures amounting to €2,974,407 were misclassified, leading to an overstatement/understatement of inadequate categories;
- B4 MESPI had executed payments totaling to €465,568 to 62 employees for whom there were no work attendance records.

*For more detailed information see subchapter 2.1 Issues with impact on the audit opinion*

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other

<sup>1</sup> Compliance with authorities – compliance with all the public sector laws, rules, regulations, and relevant standards and good practices

<sup>2</sup> Other reports as required in Regulation no.01/2017 on Annual Financial Report, Article 8

requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusion on Compliance**

We have also audited if the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our conclusion, transactions carried out in the process of execution of the Ministry of Environment, Spatial Planning and Infrastructure's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee related to the use of financial resources.

### **Basis for Conclusion**

- B5 The Ministry, despite the rules, has applied the threshold or ceiling of plus/minus thirty percent (30%) for positions in unit price contracts. This has led to the value of these positions being exceeded by €1,326,027 (in total value);
- B6 In ten (10) contracts, amendments were made to the contracted quantities by increasing/decreasing the quantity acquired without prior approval, and consequently, the quantities were exceeded in up to 49 positions or in value up to €429,011.

*For more information see subchapter 2.2 Issues with impact on the compliance conclusion*

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### **Other Issue**

- 1 Audit samples that were classified information or were under investigation were not covered by audit procedures.

### **Responsibilities of Management and Those Charged with Governance for the AFS**

The Secretary General is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, the Secretary General is responsible for establishing internal controls which he determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The Minister is responsible to ensure the oversight of the Ministry of Environment, Spatial Planning and Infrastructure's financial reporting process.

## Management's Responsibility for Compliance

The Ministry of Environment, Spatial Planning and Infrastructure's management is also responsible for the use of the Ministry of Environment, Spatial Planning and Infrastructure's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.<sup>3</sup>

## Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Our objective is also to express an audit opinion on compliance of respective The Ministry of Environment, Spatial Planning and Infrastructure's authorities with the applicable policies, rules and regulations as regards making use of financial resources of the audited organisation

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Ministry of Environment, Spatial Planning and Infrastructure's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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<sup>3</sup> Collectively referred to as compliance with authorities

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The audit report is published on the NAO's website, except for information classified as sensitive or other legal or administrative prohibitions in accordance with applicable legislation.

## 2 Findings and recommendations<sup>4</sup>

During the audit, we have identified areas for improvement, including internal control, which are presented below for your consideration in the form of findings and recommendations.

The areas requiring more focus are the issues with an impact on the financial opinion that are mainly related to an inaccurate presentation of disclosures, namely to the assets and contingent liabilities balance. In regard to expenses, this year too, cases of misclassification of expenses, as well as of compensation of employees in the absence of work attendance records, have been identified.

As regards compliance with applicable legislation and regulations, special focus should be paid to the management of road maintenance contracts by avoiding exceeding the allowed values of expenses and changing contractual terms. Additional actions related to implementation delays in in the management and implementations of capital projects are also necessary.

In the context of payments, it is necessary to prevent expenses arising from court decisions that mainly concern expropriation disputes, which are continuously causing additional costs, relating to interest and legal expenses, to the ministry. Concrete measures are also be taken to better manage accounts receivable, namely, to ensure efficient mechanisms for assessing and collecting debts that contribute to the increase of revenues.

The purpose of the findings and recommendations is for necessary corrections to be made to the financial information presented in the financial statements, including disclosures in the form of explanatory notes, and to improve internal controls relating to financial reporting and compliance with authorities with regard to the management of public sector funds.

This report has resulted in 13 recommendations, all of which are repeated recommendations. We shall follow up on (review) these recommendations during the next year's audit.

For the status of the previous year's recommendations and the level of their implementation, see Chapter 4.

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<sup>4</sup> Issue A and Recommendation A - means new issue and recommendation  
Issue B and Recommendation B - means repeated issue and recommendation  
Issue C and Recommendation C - means partly repeated issue and recommendation

## 2.1 Issues with impact on audit opinion

### Issue B1 – Shortcomings in the asset registration process

#### Finding

Article 10 of Regulation No. 02/2013 on Management of Non-financial Assets stipulates that “All non-financial assets, after being owned and supervision by the budget organization, regardless of if they are paid or partially paid, shall be recorded in the accounting registers and are subject to inventory and evaluation”. Article 11.3 stipulates that “Upon completion of the investment process, capital non-financial assets shall be classified as non-financial assets in use. Depreciation shall apply from the moment of utilizing the asset”. Further, Article 6.3 of this regulation stipulates: “Capital assets must be recorded in KFMIS, while the non-capital assets and stocks in the “e-assets” system.

We have identified several shortcomings regarding the recording of assets, which have led to the capital assets register being overstated by €30,855,845 as a consequence of errors in the registration of capital assets, and the non-capital assets register being understated by €228,289 as a consequence of the failure to record non-capital assets.

The identified shortcomings include:

- The "Extending the runway, setting up the instrument landing system and radiocommunication systems at Prishtina International Airport Adem Jashari" project is recorded in the capital assets register of MESPI as an asset in use with a contract/payment in value of €33,566,305. This project was financed by MESPI but was not owned by it. Because, on the basis of the contract signed between MESPI and Limak Kosovo International Airport, we have noticed that the contract stipulates that the user maintains the extended part of the runway, taxiways and lighting system (AGL) without the right to compensation. The contract also specifies that the rest of the project – equipment, systems and groups of systems – are owned by the Air Navigation Services Agency (ANSA) and maintained by ANSA. Consequently, the capital assets register is overstated by the net value of €30,881,001 (after applying depreciation). Moreover, in relation to this project, the capital assets register was also overstated by the value of payments to the independent engineer for project implementation, which were recorded as ongoing investments in the amount of €1,093,437;
- The “R6 Highway Prishtina – Hani i Elezit” project was recorded in the capital assets register as a completed project on 24.12.2019, while the report on the completion of this project was prepared in October 2019. Consequently, the net value in the asset book was overstated due to the effect of having not applied the depreciation of €5,964,667. It should be noted that a recommendation on the same issue was also provided last year. The correction of the project in the registers was not applied properly, therefore it influenced the overstatement of the register again;

- In six (6) cases, payments amounting to €7,193,800 related to various capital projects were not recorded in the capital assets register, leading to an understatement of capital assets by the same amount;
- The Ministry continues to maintain as an ongoing investment a capital project worth €2,947,732, which was completed, and the technical acceptance was carried out in March 2024. As a result of its registration under the inadequate class and the failure to apply depreciation, the asset was overstated in the registers by a net amount of €110,540;
- 14 payments for the purchase of IT equipment and other equipment totaling €228,289 were not recorded in non-capital assets register, thus causing an understatement of non-capital assets by this value. Of these, 6 payments date back to 2022 and were addressed in the audit report for the previous two years.

This situation resulted from carelessness and non-functioning of internal controls in the asset management process, as well as a lack of knowledge related to the capitalization of expenses in the asset registration process.

#### **Impact**

Errors in asset registration, failure to register them in the correct class, and capitalization of expenses that do not meet the criteria for capital expenses have led to the overstatement/understatement of asset registers and represent an untrue and inaccurate presentation of assets in the AFSs.

#### **Recommendation B1**

The minister should increase controls on asset registration and ensure that the asset register is complete, assets are recorded correctly, and they reflect their accurate value in the registers. Moreover, he/ she must ensure that relevant departments cooperate with the asset officer to identify all completed projects so that assets are recorded as being in use and their depreciation is calculated.

**Entity management response (Agree)**

**Issue B2 - Inaccurate disclosure of contingent liabilities in the AFS****Finding**

Pursuant to Article 18 of Regulation No. 01/2017 on Annual Financial Reporting, "Budgetary organizations in accordance with the LPFMA shall report all contingent liabilities".

Contingent liabilities disclosed by the Ministry mainly relate to judicial disputes over expropriation. Therefore, for the presentation of their value in the AFSs, the Ministry for 2024 has used the assumed method by calculating about 50% of the estimated value according to the final Government decision on expropriations. We have identified that the contingent liabilities presented in the AFSs were understated/overstated as a result of the following shortcomings:

- In five (5) cases, the value of complaints and court claims was lower than the value presented in the AFSs, leading to an overstatement of contingent liabilities by €1,158,872; and
- In four (4) cases, the value of complaints and court claims was higher than the value presented in the AFS, which led to the understatement of the value of contingent liabilities by €5,422,511.
- In three (3) identified cases, the list of contingent liabilities includes cases for which there is no longer a real financial exposure. Namely, in two of these cases, the cases have been closed, and payments have been executed by the Ministry, one in the amount of €70,567 while for the other one there was no monetary value recorded in the register. In the third case, the plaintiff withdrew the lawsuit, thereby excluding the possibility of creating a financial liability towards the institution.

This has occurred as a result of shortcomings in the functioning of internal controls during the processing of cases related to the reporting of contingent liabilities in the AFSs.

**Impact**

The inaccurate presentation of the values of contingent liabilities results in stakeholders or users of the AFSs not being fairly and accurately informed regarding these liabilities, and at the same time, leads to poor budget planning for the following year.

**Recommendation B2**

The Minister should ensure that contingent liabilities are presented in accurate amounts and that complete records with supporting evidence with respect to the matters that are under judicial proceedings are maintained.

**Entity management response (Agree)**

**Issue B3 - Inadequate classification of expenses****Finding**

According to Article 18, point 3 of the Financial Regulation No. 01/2013 on Public Funds Expenditure, expenditures should have the adequate codes, as defined under the Administrative Instruction for the chart of accounts, as well as the Treasury Chart of accounts Guideline, which defines the relevant codes and categories of expenditures that BOs must apply.

Expenditures in the amount of €2,974,407 were misclassified, leading to the overstatement/understatement of inadequate categories. Namely:

- From the category of capital investments, €2,766,595 were paid for goods and services. While the payments were related to the payment of interest expenses and other procedural expenses as well as compensation for damages caused to the economic operator by the ministry; and
- From the category of goods and services, €207,812 were paid for capital investments as a result of the execution of payments for expropriations.

Inadequate classification of expenditures was a result of poor functioning of internal controls in budget planning and its execution.

**Impact**

Payments made from inadequate economic categories lead to untrue presentations of expenditures by providing inaccurate information to the readers of the AFS. As well as result in the overstatement/understatement of economic categories by the value of these expenditures.

**Recommendation B3**

The Minister should ensure that all necessary actions are taken to ensure that payments and the recording of expenditures are made in the respective economic codes, to enable their correct reporting in the AFSs in accordance with the chart of accounts.

**Entity management response (Agree)**

**Issue B4 - Lack of work attendance records****Finding**

Article 9 of Regulation (GRK) No. 10/2022 on Working Hours and Leave of Public Officials, stipulates that “Every public official shall be obliged to be recorded in the work attendance book or the electronic register, depending on which one the institution uses”. Likewise, Article 17.2 of the new Regulation (GRK) No. 04/2024 on Working hours, Leave and Attendance of Public Officials, stipulates that “The public official’s attendance shall be evidenced through registration in the electronic system administered in accordance with the relevant applicable legislation on the protection of personal data”. Moreover, Article 17.3 stipulates that “When it is not applicable, a public official’s attendance shall be evidenced through registration in the record books”.

MESPI has not yet resolved the issue of staff (62 employees of the Serbian community) who are paid but do not attend work. Although this situation is recurring, the ministry has not yet managed to take concrete measures to systematize, engage and monitor this category of employees. The budget spent on their salaries for 2024 was €465,568.

For the ministry, this issue is quite challenging in terms of their systematization in defined work positions, for the fact that they do not have defined work objectives and therefore do not carry out any activities in the ministry.

**Impact**

Payments to employees in the absence of work attendance records and in the absence of commitment to performing official duties are considered as unjustified payments and damage the ministry's budget.

**Recommendation B4**

The Minister should analyse the situation created by ensuring that all options for finding a solution have been assessed and actions in line with legal requirements are taken.

**Entity management response (Agree)**

## 2.2 Issues with an impact on the compliance conclusion

### Issue B5 - Exceeding item payments for unit price contracts

#### Finding

Article 54.15 of Regulation No. 001/2022 on public procurement, stipulates that whenever the Contracting Authority does not know the indicative quantities, or unit price contracts, the CA must determine the weights based on the importance of each “service category” or each “item” in order for the Contracting Authority to determine what is the lowest bid. In these cases, the threshold or ceiling plus/minus thirty percent (30%) is not applicable.

In 13 cases we have identified that the ministry has used<sup>5</sup> public framework contracts with unit prices specifying indicative quantities/estimated value for one year and, contrary to the rules, has applied the threshold or ceiling plus/minus thirty percent (30%) to the items. This resulted in exceeding the value of these items from two (2) positions to 58 positions with a total value of €1,326,027, of which in five (5) cases the estimated value of the contracts for one year was exceeded.

This occurred as a result of poor controls by contract managers related to legal compliance during the execution of contracts.

#### Impact

Failure to comply with legal provisions according to the type of contracts leads to excess expenses and, at the same time, causes difficulties in the implementation of other projects of the ministry.

#### Recommendation B5

The Minister should ensure, through responsible officials, appropriate controls on compliance with legal provisions, namely the payment conditions foreseen according to the type of contracts, in order for the ministry not to incur expenses beyond their contractual planning.

**Entity management response (Agree)**

**Issue B6 - Changes to the bill-of-quantities without prior approval****Finding**

Articles 61.22 and 61.23 of the Rules and the OGPP state that where a contract is amended in order to change the original terms and conditions of the contract the amendment shall be prepared by the procurement department, and the contract amendment shall not be issued to the economic operator prior to obtaining approval from the CAO.

We have identified ten (10) contracts in which there were amendments to the contracted quantities by increasing/decreasing the quantity acquired but without increasing the total contract price. The amendments ranged from one (1) to 49 positions or in value from €5,684 to €429,011. It is worth mentioning that, in three of them, the excesses were for positions that pertained to the annex contract.

The necessary approvals from the CAO were not obtained for these amendments.

These shortcomings had occurred as a result of poor project planning and the failure to implement appropriate controls related to the supervision of these projects.

**Impact**

Amendments to the designed and contracted bill-of-quantities in the absence of appropriate approvals risk that the execution of the works will not be in compliance with project requirements. This may impact the quality of the works performed and the fulfilment of the contract according to the defined objectives, as well as increase the possibility for manipulating positions and the bill of quantity of the initial tender.

**Recommendation B6**

The Minister, through contract managers, should ensure that prior consents and respective approvals are required for any deviation from the terms and conditions of contracts in accordance with applicable rules.

**Entity management response (Agree)****2.3 Findings on financial management and compliance issues****2.3.1 Capital Investments**

The final budget for capital investments was €225,179,189, of which €176,032,919 or 78% were spent. These expenses mainly relate to the construction and asphaltting of roads, payments for land expropriations, co-funding of projects based on Memorandums with municipalities, river regulation, etc.

**Issue B7 - Delays in project implementation****Finding**

The contracts signed between the ministry and economic operators specify the timeframe for the completion of the works.

In seven (7) cases, we have noticed that the works were not completed according to the dynamic plan as foreseen in the contract. The cases identified are:

- The project “Construction of Transit Road in Malishevë”, lot 1, worth €959,026, was signed on 14.06.2019. According to the contract, the works were scheduled to commence on 04.07.2019, while the deadline for completion of works was 180 working days. The value of the works completed by the end of 2024 was €142,496, or 15% of the contracted value. The delays in contract implementation occurred due to property-related problems.
- The contract “Construction of Highway A7.1- Dheu i Bardhë-Udhëkryqi Bresalc Loti 1”, in the value of €18,468,427, was signed on 13.02.2018. According to Article 7 of the contract, the deadline for completion of the works is 30 months from the date of the contract being signed. In relation to this project, an annex contract amounting to a total of €1,843,392 was also signed on 14.06.2019, with a deadline of 60 days for the completion of the works. The value of the works completed by the end of 2024 was €16,446,607, or 89%.
- The contract “Asphalting of the local road from the intersection N25 - Grejkoc-Rrafshi Livadheve” worth €2,980,445 was signed on 06.05.2020 (annex contract worth €297,248 on 03.12.2021), while the deadline for completion of the works was for 15 months. The value of the works completed by the end of 2024 was €1,775,963, or 54% of the contracted value.
- The contract “Expansion of the National Road N9.1, segment Dollc-Gjakovë - Lot 1” in the value of €4,616,601 was signed on 11.03.2019. According to the special conditions of the contract, the deadline for completing the works is 200 days. In relation to this project, an annex contract in the amount of €460,273 was also signed on 17.09.2019, with a deadline of 35 days for completing the works. The value of the works completed by the end of 2024 was €4,436,671, or 87%.
- The contract “Construction of Highway A7.1 Cross-level Intersection A6/A7.1 (Banullë) Dheu i Bardhë Lot 8”, worth €11,913,157, was signed on 13.02.2018. According to the contract, the deadline for completion of the works is 30 months from the date of the contract being signed. In relation to this project, also three annex contracts amounting to €1,191,160 were signed. The value of the works completed by the end of 2024 was €8,374,944, or 64%.

- The contract "Construction of Highway A7.1 Cross-level Intersection A6/A7.1 (Banullë) Dheu i Bardhë Lot 6" worth €11,633,267 was signed on 19.12.2017. According to the contract, the deadline for completion of the works is 30 months from the date of the contract being signed. In relation to this project, also an annex contract worth €1,138,818 was signed in 2022. The value of the works completed by the end of 2024 was €10,164,130, or 80%.
- The contract "Asphalting of the road Livadhet e Istogut-Mokna, phase I", worth €855,185, was signed on 28.12.2020. According to the contract, the deadline for completion of the works is 01.12.2022. The value of the works completed by the end of 2024 was €715,982, or 84%.

This situation occurred due to the initiation of capital projects in the absence of a proper analysis. Also, the problems with land expropriation and errors in the drafting of executive projects have influenced this situation where, during the implementation of the works, it resulted that they do not correspond to the condition of the terrain, etc.

**Impact**

Delays in the completion of projects lead to the ministry's failure to achieve the objectives set, create difficulties for citizens in traveling around on certain roads, and can also cause budgetary difficulties for subsequent years.

**Recommendation B7**

The Minister should ensure that prior to initiating projects, the process of expropriation of the lands on which the projects are planned is carried out and that importance is given to the drafting/preparation of executive projects so that the implementation of the works is completed pursuant to dynamic plans.

**Entity management response (Agree)**

**Issue B8 - Shortcomings in payments on expropriation****Finding**

Article 16.2 of Law No. 03/L-205 on amending and supplementing Law No. 03/L-139 on the expropriation of immovable property states that “The Expropriating Authority shall pay or shall require the applicant or the anticipated Beneficiary – if any – to pay, the amount of compensation specified in the Final Decision to the affected Owners or Interest Holders. The compensation required in the Final Decision shall be: 2.1. the amount established in the concerned valuation determination plus; 2.2. interest on that amount that has accrued from the date of entry into force of the Final Decision and the date of payment. Such interest shall accrue at a rate of seven percent (7%) simple annual interest and compound annually.

In four (4) tested cases worth €1,014,976, there were delays in the payment of expropriations ranging from 11 months to 13 years after the date of the final decision. It should be mentioned that, except for cases based on court/enforcement decisions or court settlements, the Ministry had not paid the legal interest of 7% for delays in compensating the owners of expropriated land in any case. The total value of payments performed during 2024 that were not made according to court/enforcement decisions is €17,768,463.29 (including payments made to the trust account at the CBK).

The Ministry has not taken any action even though this issue has been raised in previous years, too.

**Impact**

The failure to apply interest to expropriation payments is in contradiction with the law and damages the beneficiaries, namely the owners of the expropriated lands.

**Recommendation B8**

The Minister should ensure sufficient budget for meeting financial expropriation obligations and ensure that compensation is carried out in accordance with applicable legislation. Moreover, the Minister should set up a commission that will analyse the legal basis in respect of payments and simple annual interest related to expropriations.

**Entity management response (Agree)**

**Issue B9 - Payments through court decisions****Finding**

Article 39.1 of LPFMA No. 03/L-048, obliges the Ministry to pay any valid invoice within 30 calendar days from the date of receipt of such an invoice or demand for payment. Similarly, Article 40.1 states “Whenever a court issues an order or judgment requiring a public authority to pay any type of monetary compensation to a person, and the order or judgment is not subject to the right of appeal by the public authority or the public authority has not properly or timely exercised its right to appeal, the court shall immediately provide a copy of such order or judgment to the Ministry of Justice and the respective Ministry, for the enforcement of the payment in question”.

Payments enforced through court decisions in 2024 totaled €2,318,367 and generally relate to the payment of expropriations. In four (4) tested cases of these payments in the amount of €836,024, the ministry, in addition to the principal debt in the amount of €457,181, had paid additional expenses for interest and court proceedings in the amount of €378,843.

This phenomenon has occurred mainly as a result of numerous complaints over the years from parties dissatisfied with the valuation of properties in the final expropriation decision, an assessment that is carried out by the Property Tax Department/Ministry of Finance.

**Impact**

This situation has led to increased costs for the ministry, creating difficulties in implementing approved projects for the respective/following year.

**Recommendation B9**

The Minister, in cooperation with the stakeholders involved in the expropriation process, should identify weaknesses in this process and take measures to avoid numerous legal disputes so as not to damage the ministry's budget with additional costs.

**Entity management response (Agree)**

**2.3.2 Capital and non-capital assets**

The value of capital assets presented in the AFSs is €1,977,276,834 of non-capital assets is €99,898, and of stocks is €36,067.

**Issue B10 - Maintaining assets in the wrong class in the asset register****Finding**

Article 5 of Regulation No. 02/2013 on Management of Non-financial Assets has determined the overall classification of assets. While Article 6.1 stipulates that “Each budget organization shall put in place and update a register of non-financial assets under its management. The register must be maintained separately for each asset individually and in aggregate form pursuant to the categories classified according to the chart of accounts”.

We have identified that the Ministry has started the registering of expropriated lands in the respective asset class “Land”, in the value of €123,918,719, which includes payments performed during the years 2022, 2023 and 2024. However, the process has not been implemented in full compliance with accounting requirements, since the registering of payments for expropriations has been done in a grouped manner, covering several different payments in a single registration, depending on the period or type of payment. Namely, several land plots that are not related to the same project were registered with the same identification number, which creates inaccuracies in the accurate reflection and management of assets.

It is worth mentioning that, even after the start of registration in the correct class (asset class ‘Land’), a part of the expropriated lands, worth €241,996,975, still appears incorrectly recorded in the asset class ‘Investment in progress’, thereby continuing to present an inaccurate reflection of the state of the institution's assets.

The Ministry justifies the registering of payments for land expropriation as ongoing investment due to delays in the process of transferring ownership of the expropriated lands to the Ministry, as well as due to the linkage of the expropriations with the capital projects for which the land was expropriated. Irrespective of this, due to the fact that a grouped registration of lands not related to a project has been implemented, and the land should not at all be registered as ongoing investment, there appears to be a lack of knowledge about the requirements of the chart of accounts and the regulation on the management of non-financial assets.

**Impact**

Failure to register assets in the appropriate class and in accordance with expropriated parcels has resulted in the understatement of the ‘Land’ asset class and in inaccurate reflection of the state of the institution's assets.

**Recommendation B10**

The Minister should ensure that all expropriated lands for which compensation to owners has been completed and the registration conditions have been met are registered in the asset class ‘Land’, as envisaged in the chart of accounts. The registration of assets should be carried out individually for each unit of expropriated land, or it can be grouped only in cases where the lands are directly related to the implementation of a specific project, such as the construction of a specific road. Relevant trainings for assets officers that would have an impact on increasing controls for maintaining accurate and complete records of non-financial assets are to be held beforehand.

**Entity management response (Agree)**

**Issue B11 - Shortcomings in the stocktaking and evaluation process of non-financial assets**

**Finding**

Article 19.4.3 of Regulation 02/2013 on Management of Non-financial Assets stipulates that a comparison of the situation of inventory with the condition of non-financial in the asset registers must be carried out at the end of each year. While Article 21 of the same regulation has stipulated the requirements for the evaluation of non-financial assets.

Although decisions were issued to set up Non-Financial Assets Evaluation Commissions, the process of stocktaking non-financial assets was not finalized. Consequently, the difference between the accounting and stocktaking status is unknown. Reporting of assets in the AFSs was done according to the accounting register. Also, the evaluation of non-financial assets was not done at all according to the requirements of the regulation.

This situation resulted mainly due to the commission's negligence and lack of knowledge related to the requirements of the regulation on asset management.

**Impact**

Failure to carry out the asset stocktaking and evaluation process makes it impossible to obtain assurance in relation the accuracy and completeness of asset records.

**Recommendation B11** The Minister should ensure that the Asset Stocktaking Commission has the necessary training and knowledge relating to assets and the stocktaking process, and that after this process all changes are reflected in the asset register. He/she must also ensure that asset evaluation is carried out in accordance with the requirements of the guideline for the management of non-financial assets.

**Entity management response (Agree)**

### 2.3.3 Receivables

In 2024, MESPI has disclosed in AFSs receivables amounting to €4,820,625. These relate to uncollected obligations of water utility companies, invoices for fuel stations, business premises entry and exit fees, etc.

#### Issue B12 - Failure to take actions to collect debts

##### Finding

Article 4 of Administrative Instruction 1/2014 on Determining the Tariffs for the Land Use of National and Regional Roads stipulates that: “The fees for use of land for the establishment of installations and connections in the national and regional roads, rent land use and placement of temporary facilities, shall be determined according to the determines tariffs”. Moreover, Article 6 - Transitional Provisions stipulates that upon the entry into force of this Administrative Instruction, the Ministry shall modify all contracts for land use that are property of National and Regional roads in the time period of six (6) months.

Also, the deadlines for collection of receivables shall be determined according to the agreements signed with the users of public properties.

In three (3) cases of testing accounts receivable, with a joint value of €225,843, we have identified that the Ministry had invoiced contractors over the years but had not collected the debts.

In all three cases tested, the contracts for the use of the roadside (land strip) were concluded in 1999 and 2000, while the operators had not performed payments since the date of contracting, except in one case, where the Ministry managed to collect an amount of €12,096.

Furthermore, upon the entry into force of Administrative Instruction No. 01/2014 in 2014, the Ministry had invoiced contractors at new rates but had not taken measures to modify contracts according to the statutory deadline set in the new administrative instruction.

There have been recommendations in relation to this issue in the previous audit years as well. According to the documents provided, the ministry had attempted in several cases to collect debts through enforcement and court procedures, but as a result of outdated contracts and debts and invoices not signed by the recipients, the debt could not be collected.

##### Impact

Failure to take concrete measures to collect debts may lead to failure to fulfill the budget plan due to non-collection of revenues.

##### Recommendation B12

The Minister should ensure the renewal of contracts with users of public properties in accordance with relevant legislation and establish effective mechanisms for debt collection.

Entity management response (Agree)

### 2.3.4 Internal Audit Function

The internal audit function is established by the Statute of the Audit Unit (IAU). This unit operates with 5 auditors (director and 4 auditors). The IAU had prepared the annual audit plan. Out of seven (7) planned audits, it has conducted five (5) audits. These reports resulted in 34 recommendations, of which 18 were implemented, 12 are in progress, and four (4) are not implemented.

#### Issue B13 - Dysfunctional audit committee

**Finding** Article 4.1 of AI MF-No. 01/2019 on Establishment and Functioning of Audit Committee at Public Sector Entity provides that any public sector entity which has established internal audit unit in level of main body according to the legislation into force, establishes an Auditing Committee.

In October 2022, the Ministry repealed the decision to establish the Audit Committee, as it did not hold any meetings and was not functional as required by the relevant instruction. Even during 2024, no actions were taken in respect of the establishment of the Audit Committee.

This situation is a result of the lack of action taken by the ministry to establish the new committee as required by legal provisions.

**Impact** Such a situation diminishes the impact of internal control processes relating to governance and risk assessment, as well as makes it impossible to oversee the work of internal audit and its relationship with management in terms of improving internal controls.

**Recommendation B13** The Minister should ensure that the Audit Committee is operationalized as soon as possible in accordance with legal requirements, in order to have oversight and support to the IAU implemented by ensuring the independence of this unit.

**Entity management response (Agree)**

### 3 Summary on budget planning and execution

This chapter gives a summarised information on the sources of budget funds, spending of funds and revenues collected, by economic categories. This is highlighted in the following tables:

**Table 1. Expenditures by sources of budget funds (in €)**

Description	Initial budget	Final budget <sup>5</sup>	2024 Expenditures	2023 Expenditures	2022 Expenditures
<b>Sources of funds</b>	<b>265,445,995</b>	<b>264,587,723</b>	<b>205,796,197</b>	<b>158,165,293</b>	<b>127,999,741</b>
Government Grants – Budget	227,303,097	215,925,237	181,347,792	144,758,446	113,850,439
Funding through borrowing	17,182,118	17,582,118	13,933,866	804,621	1,801,248
Funding through borrowing-investment clause	20,960,780	31,060,780	10,504,013	12,592,573	12,077,653
Domestic donations	0	3	0	0	0
External donations	0	19,585	10,526	9,653	270,401

The final budget compared to the initial budget has been reduced by €858,272. This change has come as a result of new appropriations and budget cuts by government decisions.

In 2024, MESPI spent 205,796,197, or 78% of the final budget, which represents an increase of 30% compared to the previous year. This is a result of not spending the funds allocated from the Investment Clause, where from this source of funds in 2024, out of the planned €31,060,780, only €10,504,013, or about 34%, were spent. Therefore, the budget execution in general remains at an unsatisfactory level, and the expenditures for the current position are detailed below.

**Table 2. Spending of funds by economic categories (in €)**

Description	Initial budget	Final budget	2024 Spending	2023 Spending	2022 Spending
<b>Spending of funds by economic categories</b>	<b>265,445,995</b>	<b>264,587,723</b>	<b>205,796,197</b>	<b>158,165,293</b>	<b>127,999,741</b>
Wages and Salaries	5,212,527	4,744,564	4,736,244	4,418,972	3,618,297
Goods and Services	34,940,148	32,335,666	23,510,129	19,063,632	17,243,070
Utilities	481,490	484,490	194,850	244,868	250,641
Subsidies and Transfers	1,643,814	1,843,814	1,322,059	1,121,754	1,172,636
Capital Investments	223,168,016	225,179,189	176,032,915	133,316,067	105,715,097

The explanations for the changes in the budget categories are given below:

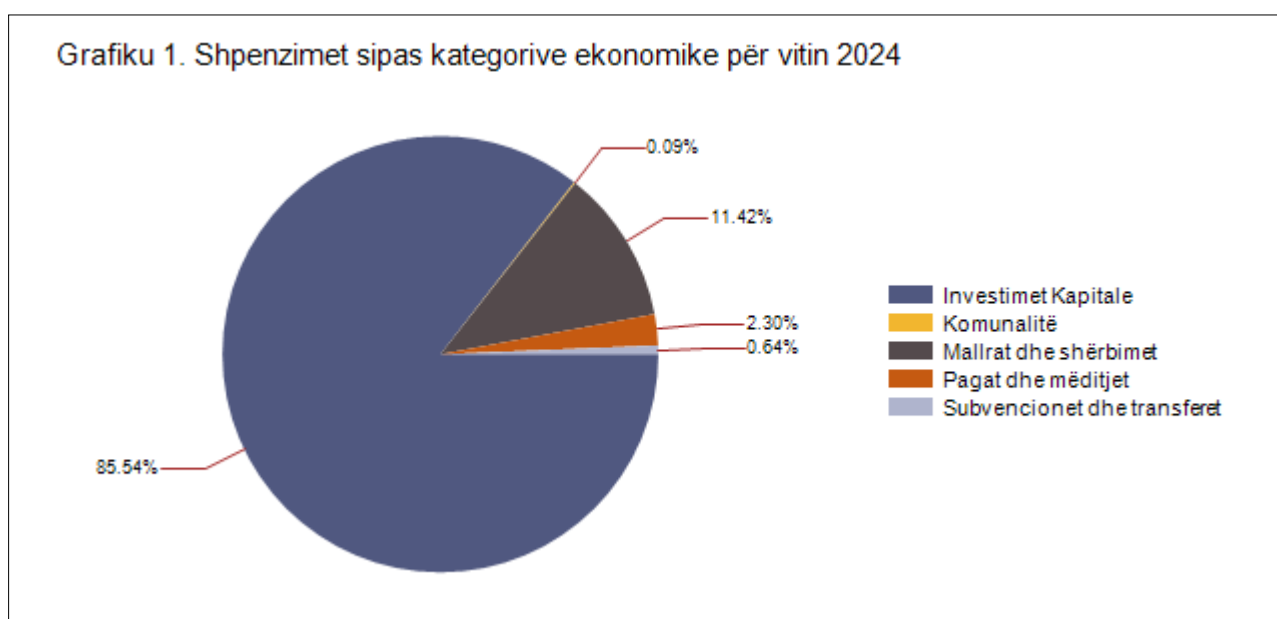
The final budget for wages and salaries compared to the initial budget was reduced by €467,963. This decrease was a result of the Government's decision for savings of €486,809 as well as appropriations from designated donor funds amounting to €18,846. The final budget execution in this category was 100%.

The final budget for goods and services (including utility costs) compared to the initial budget was reduced by €2,604,482. This change was a result of the Government's decisions for appropriations and decisions for savings. The final budget execution was 72%.

The final budget for subsidies and transfers was increased by €200,000 as a result of budget appropriations by Government decision. The final budget execution in this category was 72%.

The final budget for capital investments compared to the initial budget increased by €2,011,173. This change was a result of Government decisions for savings in the amount of €18,669,249. There were also new appropriations in this category by Government decisions in the amount of €20,680,422. The budget execution rate was 78%. As regards the unsatisfactory execution of budget expenditure in this category, there were several factors that influenced this category, such as the prolongation of procurement procedures for new projects as a result of numerous complaints from operators to the PRB. Also, the budget for capital investments has mainly been oriented towards ongoing projects that have been contracted prior to 2024.

**Chart 1. Expenditures by economic categories for year 2024**



The revenues collected by MESPI in 2024 amounted to €4,702,067. Non-tax revenues mainly relate to revenues generated from driving license fees, goods transport licenses, water use revenues, forest use licenses, other business licenses, etc., while other revenues relate to revenues from the return of funds from the previous year.

**Table 3. Revenues (in €)**

Description	Initial budget	Final budget	2024 Receipts	2023 Receipts	2022 Receipts
<b>Total of revenues</b>	<b>6,249,811</b>	<b>6,249,811</b>	<b>4,702,067</b>	<b>5,071,471</b>	<b>4,691,164</b>
Non-tax revenues	6,249,811	6,249,811	4,695,844	5,001,101	4,658,223
Other revenues	0	0	6,224	70,370	32,942

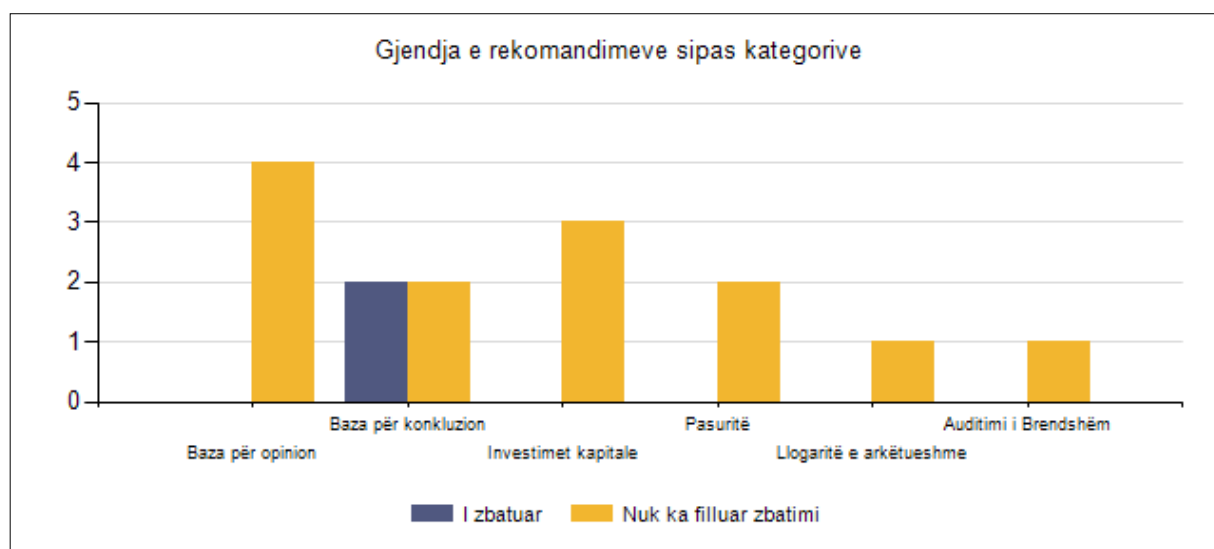
## Progress in implementing recommendations

The audit report on the 2023 AFS of the MESPI has resulted in 15 key recommendations. The Ministry had prepared an Action Plan outlining how it would implement the recommendations provided.

However, the actions taken to address the recommendations were not sufficient, as by the end of our 2024 audit, only two (2) recommendations had been implemented, and 13 other recommendations had not yet been implemented.

For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations).

**Chart 2. Progress in implementing prior year's recommendations**



**Table 4. Summary of the previous year's recommendations**

No.	Audit area	2023 Recommendations	Actions undertaken	Status
1	Basis for Opinion	The Minister should enhance controls over asset registration and ensure that the relevant departments cooperate with the asset officer to identify all completed projects so that assets are recorded as assets in use and their depreciation is	This year, several unregistered assets and incorrect registrations of non-capital assets	Implementation has not started.

		calculated. Furthermore, it should ensure that the asset register is complete, assets are accurately recorded, and their values are correctly reflected in the records. Additionally, it should ensure that all expenditures that do not meet the criteria for capital expenditures but have been recorded as capital assets are removed from the asset register. With increased focus, all payments recorded in the asset register related to the expropriation process carried out over the years, based on court/enforcement decisions, should be addressed.	in KFMIS have been identified.	
2	Basis for Opinion	The Minister should ensure that contingent liabilities are presented in accurate amounts and that complete records with supporting evidence are maintained regarding cases that are under judicial proceedings.	This year too, the disclosure of contingent liabilities was not accurate.	Implementation has not started.
3	Basis for Opinion	The Minister should ensure that all necessary actions are taken so that payments and the recording of expenditures are made under the appropriate economic codes, in order to enable their accurate reporting in the AFS in accordance with the chart of accounts.	This year too, we have identified misclassification of expenses in the Goods and Services and Capital Investment categories.	Implementation has not started.
4	Basis for Opinion	The Minister should analyse the situation by ensuring that all possible solutions have been assessed and take actions that are in compliance with legal requirements.	The situation compared to the previous year in respect of this category of employees was the same.	Implementation has not started.
5	Basis for Conclusion	The Minister should ensure, through the responsible officials, proper controls over compliance with legal provisions, specifically the payment terms set out according to the type of contracts, in	This year too, there was an excess of contract values.	Implementation has not started.

		order to prevent expenditures from exceeding their contractual planning.		
6	Basis for Conclusion	The Minister, through the contract managers, should ensure that for any deviation from the terms and conditions of the contracts, prior consents and the relevant approvals are obtained in accordance with the applicable regulations.	Even this year, we have encountered exceeding of contracted quantities without prior approval from the CAO.	Implementation has not started.
7	Basis for Conclusion	The Minister should ensure that appropriate control measures are applied to provide assurance that the requirements of Article 35.3 of the PPL are implemented, and that proper procurement procedures are carried out.	We have not identified any such shortcomings during the current year.	Implemented
8	Basis for Conclusion	The Minister should ensure that the Responsible Procurement Officer exercises oversight over the evaluation committees, so that in cases where a bid contains abnormally low prices, it is ensured that the contract awardee will stand behind their offer. This should be done through confirmed actions as prescribed by procurement rules, and the contract award decision should be made only after obtaining assurance that all requirements have been fulfilled.	We have not identified any shortcomings in procurement procedures during the current year.	Implemented
9	Capital Investments	The Minister should ensure that prior to the initiation of projects, the expropriation process of the lands designated for the projects is completed, and that proper attention is given to the preparation of executive project plans so that the execution of works is carried out according to the dynamic schedules.	This year too, we have encountered delays in the implementation of capital projects. Of the five projects highlighted in the previous report, three of them continue to be delayed, while four projects pertain to the current year.	Implementation has not started.

10	Capital Investments	The Minister, in cooperation with the actors involved in the expropriation process, should identify weaknesses in this process and take measures to avoid multiple legal disputes in order to prevent additional costs that would harm the Ministry's budget.	Similar cases have been identified this year as well.	Implementation has not started.
11	Capital Investments	The Minister should ensure that sufficient budget is allocated for fulfilling the financial obligations related to expropriations and that compensation is made in accordance with the applicable legislation. Furthermore, the Minister should establish a commission to analyze the legal basis concerning payments and the annual simple interest related to expropriations.	This year too, the situation is the same.	Implementation has not started.
12	Assets	The Minister should ensure that the asset inventory commission has the appropriate preparation and knowledge regarding the assets and the inventory process, and that after this process all changes are reflected in the asset register. Additionally, the Minister should establish a commission that will carry out the valuation of assets in accordance with the requirements of the guideline for the management of non-financial assets.	This year too, shortcomings have been identified in the process of stocktaking/ evaluation of assets.	Implementation has not started.
13	Assets	The Minister should ensure that all expropriated lands for which owner compensation has been completed and registration conditions fulfilled are recorded under the asset class 'Land,' as provided by the chart of accounts.	Despite the actions taken, we have again identified similar shortcomings in the current year.	Implementation has not started.
14	Accounts Receivable	The Minister should ensure the renewal of contracts with users of public properties in accordance with the relevant legislation, as well as establish effective mechanisms for the collection of debts.	Even during 2024, the ministry had not renewed contracts and had failed to collect debts.	Implementation has not started.

15	Internal Audit	The Minister should ensure that the Audit Committee is operational as soon as possible in accordance with legal requirements, in order to implement oversight and support for the Internal Audit Unit while ensuring the independence of this unit.	This year too, the audit committee was not operational.	Implementation has not started.
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\*This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Vlora Spanca, Auditor General

Mjellma Dibra, Head of Audit

Ylber Sadiku, Team leader

Refiqe Morina, Team member

Hysen Restelica, Team member

Lumturije Sopi, Team member

# Annex I: Letter of confirmation

REPUBLIKA E KOSOVËS / REPUBLIKA KOSOVA / REPUBLIC OF KOSOVO MINISTRIA E MJEDISIT, PLANIFIKIMIT HAPËSINOR DHE INFRASTRUKTURËS MINISTARTVO ŽIVOTNE SREDINE, PROSTORNOG PLANIRANJA I INFRASTRUKTURE MINISTRY OF ENVIRONMENT, SPATIAL PLANNING AND INFRASTRUCTURE			
Njësia org. Org. Jedinica Org. Unit	SP-02	Nr. i Prot. Broj Prot. Prot. No.	4599/25
Nr. i Faqeve Br. Stranica No. Pages	- 01 -	Data Datum Date	12.06.25
PRISHTINË / A			No. 1

## LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2024 dhe për zbatimin e rekomandimeve

Për: Zyrën e Kombëtare të Auditimit

REPUBLIKA E KOSOVËS - REPUBLIKA KOSOVA - REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE			
DATE PRANIMI / DORËZUAR: DSTUPRI PRIML / DORËZANJE DATE RECEIVED / DELIVERED:		12-06-2025	
Nr. i Prot. Br. Prot. Prot. No.	Nr. i Faqeve Br. Stranica No. Pages	Nr. i Prot. Br. Prot. Prot. No.	Nr. i Faqeve Br. Stranica No. Pages
03	47	948	1

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Ministrisë së Mjedisit Planifikimit Hapësinor dhe Infrastrukturës, për vitin 2024 (në tekstin e mëtejshëm “Raporti”);
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit;
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

Z. Izedin Bytyqi

Ud. Sekretar i Përgjithshëm,

Data: 12.qershor.2025



## Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

Auditor's Report on the financial statements<sup>5</sup> should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities<sup>6</sup>. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

For the purpose of concluding whether an opinion on the financial statements is modified or unmodified an auditor should assure himself/herself whether audit results include or not (a) detected material or pervasive misstatement(s) or potential one(s) presumed in the event of a limitation of scope.

A misstatement is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

**(extract from ISSAI 200)**

### Forms of opinion

#### **Unmodified opinion**

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

Limitation of scope occurs when an auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

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

#### Modifications to the opinion in the auditor's report

The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement

<sup>5</sup> Financial statements in the public sector include also the statement(s) of budget execution

<sup>6</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

### **Qualified opinion**

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

### **Adverse opinion**

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

"Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

### **Disclaimer of opinion**

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

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

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

An Emphasis of Matter paragraph should:

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

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