



**REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVA
ZYRA E AUDITORIT TË PËRGJITHSHËM / KANCELARIJA GENERALNOG
REVIZORA/OFFICE OF THE AUDITOR GENERAL**

Document no: 22.36.01-2010-08

AUDIT REPORT

**ON THE ANNUAL FINANCIAL STATEMENT OF THE
MUNICIPALITY OF PARTESH FOR THE YEAR ENDED ON 31
DECEMBER 2010**

Prishtina, July 2011

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List of Abbreviations

AFS	Annual Financial Statements
AI	Administrative Instruction
IA	Internal Audit
IAS	International Accounting Standards
IAU	Internal Audit Unit
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KFMIS	Kosova Financial Management Information System
LAI	Law on Internal Audit
LPFMA	Law No. 03/L-048 on Public Financial Management and Accountability
LPP	Law nr.02/L-99 on Public Procurement as amended and supplemented on 8th of February 2007. This includes the new Law no. 03/L-241 in place as of 01 December 2010.
MEF	Ministry of Economy and Finance
MLGA	Ministry of Local Government Administration
OAG	Office of the Auditor General
PPA	Public Procurement Agency

Executive Summary

The Office of the Auditor General (OAG) shall annually carry out statutory regularity audits of Annual Financial Statements (AFS) from Budget Organisations.

The Municipality of Partesh was established in the middle of 2010. The municipality did not have an own budget code during the year. It had a budget line under the Municipality of Gjilan. Most of the financial management was carried out from the municipality of Gjilan. In the last four month of the year the Municipality have equipped itself with a Procurement Officer and a Financial Officer. Successively some administration have been taken over.

The Annual Financial Statements (AFS) for the year 2010 for the Municipality of Gjilan includes what is spent in the Municipality of Partesh during the first eight months of 2010. But this is not done as a separate disclosure covering the totality of the business of the Municipality of Partesh. Thus, it is not possible to get a true picture of how the Municipality of Partesh have used the funds received from the Kosova budget.

Due to the lack of a specific AFS we are *unable to arrive at an opinion* regarding the information quality in the AFS (ISSAI 400: *Disclaimer of Opinion*).

Nevertheless, we have also analysed the challenges related to Financial Management and Controls that the Municipality of Partesh is facing in establishing the municipality, and the quality of the operations up till the end of 2010.

In doing this we have identified shortcomings in several areas of financial management. These shortcomings are described more in depth in the report. We take it for granted that the management take this into consideration in the further establishment of the municipality administration.

Our main recommendation to the Mayor of Partesh is to ensure that clear administrative guidelines and procedures are developed and implemented. A fundamental aspect in this is to ensure that relevant staff are getting aware of and trained as needed.

We recommend you to particularly ensure:

- That an initial value for 2011 is established by establishing a proper financial statement per 2010;
- That immediate preparations are taken preparing a 9 month financial statement per 2011;
- Special focus in preparing internal regulations and guidelines regarding invoicing and collection of own source revenues, procurement processes and asset handling;
- Secure sufficient training for staff involved in these fields;
- Plan the procurement in a business wise way and based on the requirements in the LPP; and
- A solution regarding the Internal audit services are elaborated.

The Management of the Municipality Partesh has been given the opportunity to give comments on the draft of this audit report. It has committed itself to make every effort to address all given recommendations in this audit report.

I. Introduction

The Office of the Auditor General (OAG) is responsible to carry out the audits on Public Institutions of Republic of Kosova.

The Municipality of Partesh is a new municipality in Kosova, which is established in August 2010 under the Law on Local Self Government 03/L-40. Ever since its establishment, the Municipality of Partesh has approved a number of regulations and other decisions related to functioning of the Municipality.

The Municipal Assembly of Partesh adopted the Municipality's Statute which is the highest legal act, regulating the internal organisation of the Municipality.

In 2010, the Municipality of Partesh did not begin with the collection of revenues. Some of the projects of the Municipality of Partesh in 2010 have been carried out by the Municipality of Gjilan, including several procurement procedures, payments and other financial procedures. In 2010, the Municipality of Partesh did neither have its own organizational code nor its own account. It mainly dealt with staff recruitment process.

In 2010, all expenditures and revenues of the Municipality of Partesh were processed through the Municipality of Gjilan and we were not able to present the exact value of the initial budget. As a result, the Municipality did not prepare financial statements for 2010.

In lack of annual financial statements, the OAG has audited the financial management of Municipality of Partesh for the year ended on 31 December 2010.

It is the responsibility of the Municipality management to establish adequate controls over financial management and build an efficient and effective system of internal controls.

This audit is related to the quality of internal controls and financial management of the Municipality of Partesh for the year ended on 31 December 2010.

The audit scope is focused on the responsibilities of financial management related to:

- Whether the accounting data and internal reporting are sufficient;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls functions; and
- Management controls on the applications of internal control system.

At the end of 2010, we visited the Municipality of Partesh with the purpose of getting familiar with the financial and administrative activities. During the visit, we got familiar with the activities of the Municipality from its establishment until the end of 2010.

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

1. Reviewed the Municipality of Partesh financial reports against the approved budget for 2010;
2. Undertaken extensive substantive testing of financial transactions;
3. Used a combination of judgment and random sampling to select transactions for testing;
4. Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions; and
5. Assessed the quality of the Municipality's internal controls.

II. Audit Opinion

Due to the lack of a specific AFS we are *unable to arrive at an opinion* regarding the information quality in the AFS (ISSAI 400: *Disclaimer of Opinion*).

III. Status of prior years recommendations

The Municipality of Partesh was established in August 2010. The OAG carried out for the first time the Regularity Audit of the Municipality of Partesh in 2010.

IV. Financial outcome compared to the approved budget

In regard to the Municipality of Partesh budget 2010, we are not able to present the exact value, because the Municipality did not prepare Financial Statements. In the lack of its organizational code, all the payments of the Municipality of Partesh were processed through the Municipality of Gjilan. The Municipality of Gjilan prepared Financial Statements including revenues and expenditures of the Municipality of Partesh. Due to this, we will present a table of financial outcome based on reports received from the management of these two municipalities:

Table 1: Overview of budgets and spending

in (€)

Description	Initial Budget	Reviewed Budget	Final Budget	2010 Outcome
Government Grant – Budget	1,400,029	1,401,199	1,401,199	1,401,199
Own Source Revenues	-	-	-	-
Domestic Donations	-	-	-	-
External Donations	-	-	-	-
I. Total of revenues and transfer of Donations	1,400,029	1,401,199	1,401,199	1,401,199
Wages and Salaries	83,830	53,750	53,750	53,403
Goods and Services	75,000	101,050	101,050	95,693
Utilities	-	-	-	-
Subsidies and Transfers	-	-	-	-
Capital Investments	1,161,199	1,246,399	1,246,399	767,621
Reserves	80,000	-	-	-
II. Total of Expenditures	1, 400,029	1,401,199	1,401,199	916,717
Difference I-II	0.00	0.00	0.00	484,481

The initial budget, i.e. the revised budget represents the expenditures ceiling for the Municipality of Partesh approved by the Assembly of Kosova.

As indicated in the above table, the amount of €53,402 is spent for Wages and Salaries. The remaining part in the amount of €31,250 due to the fact that it was not spent for Wages and Salaries, was transferred to the category of Goods and Services.

Budget planning for capital investment was €1,246,399. Out of which, the amount of €767,621 or 62% of the budget was spent during the August - December period.

Compared to the budget 2010, it is noticed that the Municipality of Partesh spent about 65% of the 2010 planned budget.

Conclusion

The Municipality of Partesh spent only 2/3 of its budget, approved by the Assembly of Kosovo. In a way, this is reasonable if one takes into account the difficulties faced by the Municipality of Partesh as a newly established Municipality. During this period, the Municipality was in the process of organizational consolidation and recruitment of staff.

Recommendation 1

We recommend the Mayor of Municipality Partesh, that when planning the budget for the incoming years to ensure that:

- A sustainable budget is prepared, harmonizing priority needs of the Municipality with necessary funds, based on reliable estimates;
- A executable cash flow plan is made in accordance with the spending periods, aligned with operational plan of activities, and
- A financial report is prepared for 2010, explaining in details all the expenditures for the year 2010.

V. Financial Statements

V.1 Compliance regarding the external reporting

Based on regulations of the LPFMA No. 03/L-048 and Administrative Instruction No.16/2010, all budgetary organizations should prepare their Annual Financial Statements.

The Municipality of Partesh did not prepare financial statements for 2010. They did not have its own organizational code in the Treasury. All transactions were made through Gjilan Municipality account. Neither the Municipality of Gjilan made a separate disclosure in their 2010 AFS covering the totality of the business of the Municipality of Partesh.

Conclusion

We conclude that the Municipality of Partesh did not meet the requirements for financial reporting for 2010. The Ministry of Finance has issued a Financial rule No.06/ 2011 that requires from all Budgetary Organisations to prepare reports of receipts and expenditures as well and for investments and liabilities , for the period of nine months each year.

Recommendation 2

We recommend the Mayor to ensure that:

- An initial value for 2011 is established by establishing a proper financial statement per 2010; and
- Immediate preparations are taken preparing a 9 month financial statement per 2011.

VI. Budget Execution

VI.1 Revenues

The only revenues that Municipality had, were from the Kosovo budget, i.e. Government grants. Municipality has not completed all necessary regulation or internal guideline that would regulate the issue of revenues collection.

Conclusion

Revenues of the Municipality of Partesh continued to be collected by the Municipality of Gjilan by the end of 2010.

Recommendation 3

We recommend the Mayor to ensure that:

- Relevant regulations and guidelines for collection of own source revenues are completed; and
- Collection of taxes, utilities and other municipal fees has started.

VI.2 Expenditures

2.1 Purchases through procurement

During the audit, we observed that the Municipality of Partesh while performing procurement procedures did not fully comply with LPP and good management practices. The Municipality of Partesh in 2010 carried out procurement procedures in value of €863,314. Procurement procedures in amount of €521,227 are run by Municipality of Partesh and procedures in amount of €342,087 are run by Municipality of Gjilan. We have audited a procurement sample in value of €513,149 or in percentage 59%, of procurement procedures executed during the year 2010.

Municipality of Partesh has not prepared a final procurement plan which shall be submitted and approved by PPA. Furthermore has neither prepared a final procurement list for the procurements executed during the year 2010. The amount of procurement contracts shown above is taken from data provided by Municipality of Gjilan January - August 2010, and from data provided by Municipality of Partesh for period August - December 2010.

Considering that expenses for Municipality of Partesh for the year 2010 are registered in different economic codes, we were not able to confirm accuracy of data provided.

Our work highlighted other shortcomings related to development of procurement procedures.

2.1.1 Construction of the riverbed in Partesh, Budrige e ulet and Pasjan

During the audit, we examined the level of the works performed in the field, whether the works are completed in accordance with the contract and work acceptance reports.

The contract “Construction of riverbed in Partesh, Budrige e ulet and Pasjan” is signed on 30.11.2010 in amount of €355,264. Article 12.1 of the contract regulates the payment terms under the contract, where: 50% of the contract price to be paid after completion of 75% of the total works, 40% of the contract price to be paid upon receipt of temporary works while, 10% of the contract price to be paid after final acceptance of works.

During the physical examination of this project on 14.06 2010, we have observed that the works were not fully completed. While the Municipality of Partesh, on 25.12.2010 has paid the amount of €319,738, respectively 90% of the total value of contract.

Upon the invoice received on 09.12.2010, the Project Supervisory Body has signed the first instalment stating completion level of 75% of works, respectively 50% of the contract price in the amount of €177,632 is paid. For the invoice received on date 09.12.2010, the Project Supervisory body signed the second instalment stating provisional acceptance of the project, respectively, 40% of the contract price in the amount of €142,106 was paid.

Some of the partially completed works are as follows:

- Removal of humus layer 20-30 cm thick using machinery at the part of the river under construction, with the contract value of €5,400;
- Excavations using machinery, category II and III at the new place of the riverbed under construction with the dimensions given in the project, the contract value €12,600;
- Transportation of 6m³soil using motor vehicles.
- Construction works have not been completed for the three (3) river bridges respectively; cement works, armature and other works were not completed in line with the contract. The contracted price for construction of three bridges is €11,406.

Some of the uncompleted works are as follows:

- Supply and transportation of sand 0-31mm for the basement of the river have not been completed, with a contract value of €11,208 as well as the expansion and compacting of the sand, with a value of €1,868, and
- Grass planting of the crown in amount of €1,952 and final flattening of the crown in the value €1,952 has not been completed.

2.1.2 Supply of vehicles for the Municipality of Partesh

The Municipality of Partesh, on date 02.12.2010 has signed the contract “Supply of vehicles for the needs of the Municipality” in the amount of €126,330. The economic operator, winner of the tender was not administratively responsive because it did not meet all the criteria required by the tender dossier.

According to the tender dossier for the contract “Supply of cars”, the awarded company had to provide performance security for the coverage of the contract period in amount of 10% of the total value of the contract.

- The Municipality of Partesh at the moment of audit failed to present the required bank guarantee for the tender performance security over the purchase of vehicles; and
- At the Contract “Supply of cars” as well as the opened bids for the tender is signed by a person not authorized by the Contractor. The employment contract of the person who signed the open tender bid and the contract for “Supply of cars” in behalf of the contractor have expired ever since 01.04.2010, respectively 7 months before signing the contract for the supply of cars.

The Municipality of Partesh contracted the EO with the higher value than the value of funds committed for the purchase. The value of the contract for the purchase of seven (7) light vehicles and one (1) jeep was €126,330, while the total value of commitments was €116,524. Until the date of the audit, the difference of €9,805 was still outstanding liability.

2.1.3 The Municipality of Partesh did not set criteria for the distribution of social assistance

The Municipality of Partesh has carried out the procurement activity with price quotation procedure for “Social assistance for the food and hygienic supplies” for the citizens of the Municipality of Partesh. While testing, regularity of the distribution of social assistances, we have observed the following shortcomings:

The Municipality of Partesh has distributed social assistances such as food and hygienic supplies for the citizens of the Municipality with severe social conditions from economic code goods and services. The value paid from this economic code is €8,968.

The Municipality of Partesh did not provide any agreement or decision by the Management of the Municipality concerning the provision of social assistance. We have found no written evidence on how the criteria are set for the 59 beneficiary families of social assistance in the

value €8,968. Furthermore, we have not found any list of names of beneficiaries and the evidence regarding the distribution of social assistance.

2.1.4 Purchase order issued after receipt of goods

In several cases we have noticed that the purchase orders were issued after receipt of goods. Based on the Treasury Rule 02 - Expenditure of Public Money, Article 27 paragraph 1 and 3, liabilities are mainly received in the form of Purchase Order signed by the Budget Organization to be sent to the supplier, through which it is required the delivery of goods and services.

2.1.5 Signing of contract without commitment of funds

At three (3) audited samples we have observed that the contract was signed before commitment of funds for this contract.

Conclusion

The management of the Municipality of Partesh has no sufficient procedures and controls over the management of procurement activities. Payments made in amount of €320,000 for the construction of riverbed, within 25 days from the day of signing the contract are quite suspicious. Furthermore, for the uncompleted works it is not sure how they will be funded and how the project will be finalized.

Identified shortcomings increase the risk that public funds are not used for the intended purposes.

Provision of social assistances from the Municipality by not initially determining the criteria on the basis of which the selection of beneficiaries would be made, represent a risk that funds allocated in the form of subsidies are not addressed to the persons in need.

Recommendation 4

We recommend the Mayor to secure that:

- An internal guideline for the procurement processes is produced. Then, a sufficient management controls are taken over process and secure that involved people understands it;
- The supervisory body has carefully analysed the developments related to project implementation on the construction of riverbed and depending on the situation adequate measures are proposed. Controls on the certification of payments are further strengthened;
- Performance security is made in line with LPP and is one of the preconditions for signing the contract;
- The commitment of sufficient funds is initially made and that the development of procurement procedures initiates afterward;

- Upon the provision of assistance to the people in need, clear criteria are defined for beneficiaries and relevant evidences are provided for the regularity of distribution of these benefits, and
- All the purchases are made in line with Treasury rule and procurement legal framework.

2.2 Remunerations (wages and salaries)

Planned budget for wages and salaries for 2010 was €53,750. In 2010, the Municipality of Partesh spent €53,403 or 99% of the budget for wages and salaries.

Apart from the Mayor, the Municipality of Partesh has fifteen (15) municipal advisers whilst, the municipal administration is organised into seven directories:

- Administration and personnel;
- Finance, Economy and Development;
- Urban planning, Cadastre and Geodesy;
- Public Services, Security and Extraordinary Situations;
- Health, Education, Social Care, Youth and Sports;
- Agriculture, Forestry, Rural Development and Advisory Services; and
- Office for Return and Communities.

At the end of 2010, the Municipality of Partesh had 31 employees. The Municipality of Partesh in 2010 had engaged a number of staff with special service contracts.

All the documents in the Municipality of Partesh were in Serbian language because they didn't establish yet the position of translator.

Conclusion

The organisational structure of the Municipality of Partesh is not yet filled in with all necessary job positions in order to secure better functioning of the Municipality.

Recommendation 5

We recommend the Mayor to ensure that:

- All necessary job positions are filled in with qualified staff for the functioning of the Municipality; and
- A translator is recruited in order to follow the Law of Kosova on the use of languages further, the Municipality documentation to be translated in Albanian language and vice versa.

VI.3 Assets and Debts

3.1 Capital and non capital assets

The Municipality of Partesh does not possess an asset register for the assets owned by Municipality, where it is presented the total value of its assets. This Municipality did not yet appoint an Asset Officer.

Conclusion

The Municipality of Partesh could not manage its assets in accordance with the applicable laws and regulations. If the management does not have full information on the status of the assets in possession, would not be able to protect them from damage, loss or potential misuse. Failure to appoint an Asset Officer and failure to timely record the assets in the relevant registers creates the possibility of abuse of public assets and also disables efficient management and appropriate controls over the assets of the Municipality.

Recommendation 6

We recommend the Mayor to ensure:

- An Asset Officer is appointed as soon as possible and necessary trainings are organized for the asset module; and
- All the assets owned by the Municipality are recorded by the relevant officer in line with AI No. 21/2009 and that accurate reports on the assets of the Municipality are drafted.

3.2 Unpaid bills

4.3.1 Unpaid bills of the Municipality of Partesh

The Statement of outstanding liabilities to suppliers at the end of 2010 was €128,853. These liabilities are carried forward to be paid in the financial year 2011. Value of unpaid bills of the Municipality of Partesh relates to: Capital Investments €121,441 and Goods and services €7,357.

Unpaid bills for capital investments are the following:

Unpaid bill of €9,805 relates to the contract for the purchase of vehicles, in this case the Municipality committed less funds than the amount of the contract. The other part of the unpaid bills in amount of €111,636 is for the sewage project of Pasjan.

Outstanding liabilities of €7,357 relates to the expenditures from the category of goods and services, such as: unpaid internet services in the value of €2,000 and other outstanding liabilities due to suppliers incomplete documentation.

VII.Management Control

VII.1 Internal Control Systems

During our audit, we examined the internal controls system in order to assess the adequacy and appropriateness of internal controls. Administration of the Municipality of Partesh is yet not filled with all necessary positions to carry out the business in a sufficient way.

Our assessments are that the Management of the Municipality up till now have not established an internal legal framework, with decisions, guidelines and necessary procedures to effectively implement internal controls and establish a clear basis for the rights and obligations of the citizens in the Municipality. The administration of Municipality is in consolidation process and it is understandable that this could not be achieved within a short period of time. Control failures have been observed specifically in:

- Failure to comply with the Treasury Rules and Public Procurement Law due to signing of contracts without commitment of sufficient funds and as a results carrying forward the unpaid debts;
- Lack of Asset Officer, register and annual inventory of municipal assets. This has hindered the proper asset management;
- Irregular certification of payments and failure to properly verify the evidences, and
- Poor management and monitoring over the contract execution process.

Conclusion

Lack of an internal procedures and controls, hampers the proper administration of Municipality in producing services to citizens. The current employees are not sufficiently familiar with duties and responsibilities. The Municipality should continue with the procedures of completing the administration with necessary staff.

Recommendation 7

We recommend the Mayor to ensure that:

- Immediate measures are taken on drafting internal Guidelines and clear procedures to all sectors of the Municipality;
- Duties and responsibilities are clearly defined for each official of the Municipality, according to this, controls and accountability measures are strengthened, and
- All staff training needs are analysed and that trainings in the relevant field are attended.

VII.2 Internal Audit

The Municipality of Partesh has not yet established Internal Audit Unit. It is understandable that internal audit may not have been a priority of the Management of Municipality.

The Internal Audit has an active role to assist the management in managing the risk in the control systems. Internal controls are numerous and internal audit identifies areas in which the degree of risk may be higher. By identifying these areas, it makes the analysis, reviews transactions and operational activities and proposes appropriate measures, which should be addressed by the Management of the Municipality.

The Law no. 03/L-040 on Local Self Government explicitly states that municipalities have a legal obligation to perform an internal audit at least once a year.

Conclusion

The assessment of efficiency and effectiveness in internal controls should assist the Management of Municipality to understand what are the shortcomings associated with daily operations, and taking appropriate measures for improvement.

Given that the Municipality of Partesh is newly formed Municipality and has small budget, establishment of IAU can be considered early and currently impossible. The Law on Local Self Government No. 03/L-040 regulates the issues regarding the audit services for municipalities.

Recommendation 8

We recommend the Mayor to ensure that:

- Manage a solution regarding the Internal audit services.

VIII. An overall conclusion on the Management of the Municipality of Partesh

As stated above, the Municipality of Partesh is in the early stage of establishment and consolidation. It is difficult to conclude about the quality of financial management and controls after few months of operation. The Municipality is making the first steps of establishing the administration. Most of the activities of the Municipality were carried out with the assistance of the Municipality of Gjilan. Difficulties related to the establishment and complete consolidation of administrative Departments still exist. Lack of skills and lack of working knowledge is reflected in some errors and irregularities in financial management. Furthermore, poor controls are also identified in the procurements as well, specifically in managing and monitoring contracts for capital projects.

All these lead to the conclusion that the management of the Partesh Municipality needs to make serious efforts to eliminate the identified shortcomings and build an effective municipal administration.

Overall recommendation

We recommend the Mayor to ensure that:

- A set of decisions, guidelines, clear policies and procedures is issued that would constitute a sufficient legal basis to achieve its objectives, its operational performance and internal control systems. The use of models and experiences of municipalities with many years of tradition and good practice would be a great help to the management of the Municipality.

Annex I. Comments of Municipality Partesh and OAG response

The Management of Partesh has acknowledged our findings and conclusions presented in the audit report on the financial management for the year 2010.

The management of the Municipality Partesh has committed to make every effort to address all given recommendations in this audit report.

Annex II. 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 (paragraph 15).

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 basis and policies which have been consistently applied (sustainable);
- (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;
- (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.