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OFFICE OF THE AUDITOR GENERAL

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

Prishtina, June 2012

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List of Abbreviations

AAR	Annual Audit Report
AC	Audit Committee
AFS	Annual Financial Statements
AG	Auditor General
CAO	Chief Administrative Officer
EO	Economic Operator
IA	Internal Audit
IAS	International Accountant Accounting Standards
IAU	Internal Audit Unit
ICS	Internal Control Systems
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
KFMIS	Kosovo Financial Management Information System
LIA	Law on Internal Audit
LPFMA	Law no. 03/L-048 on Public Finance Management and Accountability
LPP	Law on Public Procurement no 03/L-241 as amended with Law no. 04/L-042 applicable from 05.10.2011.
OAG	Office of the Auditor General
PIFC	Public Internal Financial Control
SAI	Supreme Audit Institution

Executive Summary

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

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

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

(ISSAI 400 Unqualified Opinion)

Our audit has identified weaknesses in several areas of financial management. These weaknesses are described more in depth in the report.

Our conclusion is that the municipality has not been able to build a good governance structure. Management of the municipality should conduct a more positive attitude towards the organization's internal controls. This should be addressed to improve organisation's performance.

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

- All the issues raised by the audit are addressed and followed by appropriate action measures;
- Budget performance is further improved;
- Better planning and strengthening of controls in the management of the own source revenues;
- Procurement procedures conform to procurement regulations and strengthening contract monitoring controls;
- Compiling a regulation for issue and use of subsidies;
- Prepare a comprehensive register of property, plant and equipment and record in the accounting; and
- A functional review of internal controls is made and the role of internal audit is strengthened.

1 Introduction

This audit relates to the annual financial statements of the Municipality of Prizren for the year ended on 31 December 2011.

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

The Office of the Auditor General is responsible for carrying out annual regularity audits.

A Regularity Audit is defined as an attestation of financial accounting, involving examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

We have carried out an interim audit of the Prizren Municipality. During that stage of the audit process we addressed the handling of recommendations given earlier, Nine-Month Financial Statements and the quality of financial management. Based on this we have given advices to the management about addressing of financial statements issues through audit memo submitted in December 2011.

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

Reviewed the Municipality Annual Financial Statements against the approved budget for 2011;

- Determined whether the Annual Financial Statements were prepared in accordance with IPSAS "Financial Reporting under the Cash Basis of Accounting";
- Eestablished a materiality level of revenues and expenditures, as a threshold for assisting in determining the type of opinion to render on the financial statements;
- Used a combination of judgment and random sampling to select transactions for testing;
- We performed the evaluation of internal controls and their testing accordingly with needs;
- Undertook extensive substantive testing of financial transactions;

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- Relied on a combination of interviews, analytical reviews, document reviews, and physical verification to assess the validity and propriety of financial transactions; and
 - Assessed the quality of work of the Internal Audit Unit.

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

In regard to our audit opinion on the AFS of Municipality of Prizren the international audit standards set out the specific criteria that govern the type of opinion that can be rendered.

These are set out more fully in Anex II.

2 Audit Opinion

In our opinion the financial statements in all material aspects *present a true and fair view.*
(ISSAI 400 Unqualified Opinion)

3 Status of Prior Years Recommendations

The Opinion on AFS 2010 was Unqualified Opinion with Emphasis of Matter. The Emphasis of Matter was related to incomplete and inaccurate registers of fixed assets and receivable accounts

For 2010 were given 10 recommendations. The municipality had prepared an Action Plan where 2 recommendations were fully addressed whereas 8 were not addressed.

This expresses a lack of control performance and the willingness of management to take improvement actions. Audit advices are given also in the audit memo for nine months period of 2011. Despite of this, management has not taken any action. And, as long as appropriate actions are not taken, the shortcomings outlined above will continue to exist.

Mayor and responsible managers of different areas where weaknesses and managerial shortcomings are identified should discuss an action plan of measures to address issues raised by the audit.

Failure to fully implement our recommendations resulted in the same problems as earlier years. We express our concern for all unimplemented recommendations.

4 Financial outturn compared to approved budget

The analysis of the outturn in the Financial Statement against Approved Budget shows:

Table 1: Overview of budget, receipts and expenditure In Euro
(€)

Description	Initial Budget	Final Budget	Outturn 2011	Outturn 2010
Government Grant -Budget	26,052,819	26,168,819	26,073,952	21,119,192
Own Source Revenues for year 2011	5,121,830	5,321,830	4,998,778	4,434,450
Revenues carried down from previous year 2010	0	1,458,621	1,458,621	792,641
Domestic Donations	0	224,888	224,888	284,122
External Donations	0	476,429	476,429	58,000
I. Total of Receipts and Transfer of Donations	31,174,649	33,650,587	33,232,668	26,688,405
Wages and Salaries	14,141,119	14,421,864	14,403,387	11,129,125
Goods and Services	2,076,942	2,381,734	2,133,270	2,340,381
Utilities	660,033	660,034	638,218	616,553
Subsidies and Transfers	360,979	370,977	351,636	372,004
Capital Investments	13,935,576	15,815,978	14,491,764	10,771,721
Reserves	0	0	0	0
II. Total of Expenditures	31,174,649	33,650,587	32,018,275	25,229,784
Difference I-II	0	0	1,214,393	1,458,621 ¹

Based on data in the table above, the final budget for 2011 was €33,650,587. Expenditures for fiscal year 2011 were €32,018,274 or 95% of the final budget. The difference of €1,214,393 is unspent own revenue in the amount of €1,127,998 and unspent domestic and external donations in the amount of €86,395 which are carried down for use in 2012.

The table shows that the final budget was €2,475,938 higher than the initial budget. This increase was due to the Government grant in the amount of €116,000, made on wages and salaries, own revenues in the amount of €1,658,621 and donations of €701,317.

¹ The unexpended own source revenues at the end of 2010. This amount is was carried for use in 2011

We have noticed a trend of increased expenditures on capital investment at the end of the financial year. Around 32% of total expenditures of this category were spent in the last quarter.

Conclusion

The municipality could not achieve to fully reconcile the budget with spending dynamics in time periods. From the total expenditures, 32% were spent in the last three months. We have consideration on the fact that the Assembly had delays in approving the budget and have not done half-year budget review and this has presented difficult challenge for all budget spenders. Despite this, the municipality has made a very good performance in managing the budget. Despite the high percentage of budget execution, budget performance further improvements are needed further on.

Recommendation 1

We recommend the Mayor of the Municipality to ensure that:

- Financial controls on budget management are strengthened, in particular to reconcile the cash flow plan with the dynamics of operational activities (capital projects, supplies with goods and services), and review on a regular basis the changes in budget items, analyzing all deviations from the planned objectives.

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

The municipality draft Annual Financial Statements prepared on 31.01.2012 for the year ended on 31 December 2011 were not in compliance with Financial Rule no. 07/2011. They were incomplete and inaccurate, so during the audit process we have required from the municipality to correct draft AFS. Municipal AFS were corrected after our request and sent for the second time in the Treasury, but some errors still remained uncorrected in the final AFS. Shortcomings of AFS are:

- Payment by external third parties in the amount of €6,430 was not disclosed.

Requirements in LPFMA No. 03/L-048 and Financial Rule no 7/2011.

- The municipality has prepared AFS according to Financial Rule no. 07/2011 on the annual reporting of budget organisations;
- AFS are signed within the timeline on 29/01/2012 and Submitted to MoF;
- AFS are prepared within the timeline;
- AFS were prepared only in Albanian Language;
- AFS are prepared in hard copy and electronic form; and

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- The municipality has prepared and submitted regular quarterly reports to the Minister of Finance during 2011.

Conclusion

Except the aforesaid shortcomings, which have no material impact, in general financial statements of the municipality provide information in accordance with financial reporting rules based on cash basis of accounting.

6 Financial Management

6.1 Revenues (including own source revenues)

The own source revenues planned for fiscal year 2011 were €5,321,830, while during this period €4,998,778 are collected. Annual Plan of revenue collection was carried out 94%.

We made several tests on the implementation of procedures for registration and collection of revenues and have identified the following:

Renewal of the contract without collecting previous debts

Municipality on 01/03/2011 has renewed lease contract with operator "Sharbegu" for the use of public property for a period of one year. Monthly rent was fixed €800 per month. The contract was renewed, although the tenant under the terms of the contract had not paid the amount remaining from the old contracts in the amount of €3,201.

Lack of own source revenues registers

We have found that property department keeps a record for tenants of the premises of the municipality, but the existing records do not contain data about the invoicing and collection time.

Registration in wrong codes

During the audit we found out that revenues from issuing birth certificates were not registered according to respective economic code.

Registration of new businesses without liquidation of debts

We have identified 5 cases of businesses that exercise their activity in the municipality of Prizren which do not respond and do not pay the remaining debts. Our concern was that the municipality, respectively the centre for business registration, allows these businesses to register new businesses without any prohibition and without any request for the liquidation of old debts.

Conclusion

The municipality has not established appropriate mechanisms of control over own source revenues. Lack of clear and sufficient evidence for all types of revenues results in incorrect and unreliable information for revenues. Recording of revenues in improper codes has as consequence their improper reporting.

There is an increase of municipal own source revenues to 13% more than in the previous year. The issue of revenues remains a major challenge for management. In the structure of the total municipal budget, own source revenues represent with 15%. Due to the large number of businesses operating in the municipality of Prizren and the large number of citizens who pay municipal taxes, municipal management should review the policies and plans for a higher degree of collection.

Recommendation 2

We recommend the Mayor of the Municipality to ensure that:

- Will not make contract with debtors who are in debt towards the Municipality;
- Will increase inspection controls for all businesses which do not respond to debt payments, and penalties are put in place and applied on businesses arrears;
- All revenues are registered in proper economic codes; and
- Will update all records of taxpayers (businesses and physical persons) of the municipal tax according to loaded data to enrich registers with the appropriate data, and strengthen the collection controls based on time periods.

6.2 Expenditures

6.2.1 Procurement

We have tested 60 samples that cover the amount of €6,308,885 of the payments of expenditures through procurement procedures. We have noticed in 17 samples that the municipality has undertaken procurement procedures which are not in accordance with the Law on Public Procurement:

This is described by the examples below:

Supplies are completed before the procurement procedures are conducted

In the contract made on 29/04/2011 - Supply with food items The War Invalids, we noticed that first were received food items, while the procurement procedures were performed later. The contracted and spent amount for these food items was €13,642. Supplier of food items was ITSH "Mak Pilar".

The second case of supplies with two food articles in the amount of €36,600 was made during 2010 on occasion of Eid, while the procurement procedures were conducted during 2011. In this case the supplier was "Benaf" Ltd.

In another case, the contract was signed on 21/03/2011 in the amount of €9,767 in the name of the decoration of the city for the end of the year 2010. We have noticed that the commission had accepted the works on 07/04/2011.

No justification of the professional consultancy services

During 2011 the municipality had contracted four private companies to provide professional consulting services by providing practitioners in the municipality, in the amount of €48,630. But even though the payment was made for the providing of professional consultancy services, we were not provided with any evidence to whom these services were provided.

Lack of eligible bidders

In the contract signed on 29/04/2011 "supply with wood for schools" divided in five lots, in total amount of €165,252, none of the four competitive economic operators participating in the tender had met the administrative requirements determined by the Contracting Authority.

Also, related to contract signed on the date 13/09/2011 in the amount of €51,083 "Rise of ten agricultural greenhouses in Prizren" none of the bidders did meet the administrative criteria for applying for tender placed by the Contracting Authority, evidence of financial turnover for 3 years.

Signing contracts without sufficient commitment of funds

Regarding the project "Construction of road and pavements in the Legjendë village " the contract was signed with the economic operator in the amount of €193,503, while for this project were committed only €6,550. Majority of the work contracts were signed without sufficient commitment of funds.

Acceptance of works by the same officials

We have noticed that for each capital project supervisory body is assigned, which except following the work in the field, also was a member of the commission for technical acceptance of works.

Non-application of penalties due to non delivery of goods within the prescribed period and completion of the work according to the contract

Contract for "Supply of construction material for the construction of nine (9) stables" was signed on 13/04/2011. According to dynamic plan, the goods should be accepted no later than 25/05/11. A part of the goods were received on 07/06/11 in the amount of €10,000,

with 13 days delay, and another part were received on 04/07/11 in the amount of €9,955, with 40 days delay.

We have observed that most of the projects that were initiated during 2010 were completed during 2011. For these delays the municipality has not applied offences or other penalties in any case.

Conclusion

The cases described above show shortcomings of activities control. Apparently, some processes are not well defined, such as process monitoring, segregation of duties and verification. Lack of internal rules and policies, and errors in the conduction of the procedures have caused failures in control procedures too.

Conducting of procurement procedures, after activities are performed, is a practice that is not recognized by law and as such should not happen. Also, making payments without achieving the contract objectives indicates a poor financial performance.

Being the supervisory body and member of commission for technical acceptance of works at the same time shows improper segregation of duties and leaves room for the influence of the supervisory body to be expressed even if errors occurred in the project.

Recommendation 3

We recommend the Mayor of the Municipality to ensure that:

- Procurement procedures begin in time and in accordance with legal requirements, and not primarily to perform the work or supplies, and then to conduct formal procedures. Also, no contract shall be signed with operators which do not meet legal requirements;
- All payments shall be executed in accordance with the requirements of the contract and only after appropriate verifications are made that the contracted goods/services have been received in proper quantity and quality;
- All started projects have sufficient financial funds to complete;
- Penalties are applied to all delays in the implementation of projects according to contract; and
- A clear segregation of duties will be done to avoid conflicts of interest.

6.2.2 Remunerations (Wages and Salaries)

The budget appropriation for wages and salaries was €14,421,864, where during this period €14,403,386 was spent. In order to test how payments for salaries and personnel recruitment procedures function, we selected 39 samples and we found the following irregularities:

- The municipality has failed to establish register of electronic files of civil servants;
- In 13 files of employees in education, job descriptions, approval forms of annual leave and annual appraisal forms for work, identification papers and bank accounts were missing;
- In the file of an employee was missing working contract for 2011;
- In the files of six employees the basic salary is not stated in contract; and
- In the new recruitment files was missing the relevant documentation which proves the determination of criteria for the written and verbal test.

Conclusion

From the weaknesses mentioned, obviously the municipality must improve human resource management, due to the fact that files are not well structured and completed with necessary documentation.

Recommendation 4

We recommend the Mayor of the Municipality to ensure that:

- Electronic register of files of civil servants with the necessary data in accordance with Regulation No.03/2011;
- The files of officials are updated with all relevant data, the workers appraisal carried out on a regular basis, description of works and form of annual leave are settled in the personal files of officers; and
- Each employee has the employment contract, where the basic salary is determined, Otherwise it will be removed from payroll.

6.2.3 Subsidies and Transfers

The budget appropriation for subsidies and transfers was €370,977 while expenditures were €351,635 or 95%.

We tested 16 samples in the amount of €154,420 in the category of subsidies and transfers, and we noticed that the Municipality of Prizren has no internal regulation for the allocation of subsidies that clearly defines the procedures and criteria for obtaining these funds. As a result we have found the following irregularities:

Distribution of subsidies without defined criteria for beneficiaries

In the case of subsidizing with the construction material for building of stables, the contract was signed on 13.04.2011 in the amount of €29,955, the municipality has not established criteria for beneficiaries. During the audit, we noticed that the amount of material obtained varies for different beneficiaries. As an example, there are beneficiaries

who have taken out 600 building blocks, but there are also beneficiaries of the 1500 building blocks.

Conclusion

The municipality has no special regulations for the purposes and procedures for granting of subsidies. The absence of such a regulation raises the risk that public money is not spent for proper purposes.

Granting of subsidies by the municipality, without determination of criteria on the basis of which would be the selection of beneficiaries, presents a risk that dedicated funds in the form of subsidies might not be addressed to people in need.

Also, lack of supervisory controls over expenses incurred, increases the risk that funds might not be used in accordance with allocations.

Recommendation 5

We recommend the Mayor of the Municipality to ensure that:

- Approval of internal regulation that will determine clear criterias and procedures for allocation of subsidies and transfers;, and
- Each beneficiary is completed with documentation and report to relevant Departments of the Municipality on expenditures of funds according to the request and projects offered.

6.3 Assets

Municipality of Prizren has the register of assets but the register is not updated with the changes that occurred during the year, and as such is not complete and comprehensive for the year 2011.

During the examination of assets, we noticed that the Mayor has established three committees: for inventarisation of equipment, property evaluation and managing of municipal assets, but this issue is ongoing and we were not offered with reports on work performed by these committees. A report on the inventarisation is completed, but not within the deadline, hence the changes in the accounting registers of the assets are not made based on the situation in the completed report.

Conclusion

The municipality did not manage its assets in accordance with Administrative Instruction no.21/2009 for registration and management of government assets. The municipality have not made necessary registrations at the end of the year to compare the accounting situation with real assets situation. The current registers do not provide complete picture of assets possessed by the municipality, therefore the physical existence of assets cannot be confirmed.

The same assets situation was last year and the management of the municipality has not taken any action to improve the situation, so we will repeat the previous given recommendation.

Recommendation 6

We recommend the Mayor of the Municipality to ensure that:

- A comprehensive registration of property, buildings, and equipments is made and the same are recorded and disclosed in the next year AFS; and
- Regular physical counting is carried out in order to ensure the existence of assets and reconcile the counting results with the accounting records and assets register.

6.4 Current reporting and timelines in the overall budget process

Prizren Municipality has submitted:

- Quarterly reports including nine month financial statements in time;
- Procurement plan in time;
- Reports on debts submitted to the MoF; and
- Action Plan on implementing recommendations.

7 Management Control

7.1 Internal Control Systems

The municipality has not yet built an effective system of internal control. Management does not encourage the establishment and strengthening of internal controls. Failure to implement the recommendations describes this conclusion the best. Accounting and evaluation policies are not set properly. This is obvious particularly in revenues and assets management. The municipality has not any specific policy for identifying and managing of the risk. Limited measures get taken just after deviations occur.

Clear segregation of duties and responsibilities does not seem to be good. Information and communication with management staff should be much more active than it is currently. Approach of internal and financial reporting should be changed. Managers should be kept informed about all operational activities, challenges and problems, in order to take preventive measures to prevent irregularities or improvement measures for actions that occurred. Information from the top-down and vice versa should be analyzed and returned with appropriate instructions on how to proceed further.

Activities control should be followed with complementary policies and procedures of controls, in particular the procurement process, revenues and assets management.

Conclusion

The Public Internal Financial Control (PIFC) refers to administrative, budget, and managerial systems which protect the interests of public finances. This document incorporates the principles of financial management and controls, such as: compliance with the law, performance management, and the principle of value for money and protection of assets.

Our conclusion is that the municipality has not been able to promote and implement the requirements of this document and adapt to its environment.

Recommendation 7

We recommend the Mayor of the Municipality to ensure that:

- The current internal control system is reviewed and, where failures are identified, the specific policies and procedures are compiled in order to improve controls.

7.2 Internal Audit

Internal Audit Unit (IAU) has an auditor who is the director of the unit at the same time. In Annual Audit Plan for 2011, the internal auditor planned and conducted six (6) audits..

Audits conducted in 2011, had as objective: the petty cash, the audit of municipal budget, an audit of a school expenditures, audit of Municipality expenditures, audit of centre for social issues, and the regularity of the procurement process.

Finalised reports have covered the period 2010 and 2011. IAU performed audits in accordance with internal audit standards. Our assessment is that the reports were of very good quality and provide to management good picture on the assurance level of internal controls and their effectiveness, but the recommendations of internal auditor were not fully addressed by the municipality.

Prizren has established audit committee which during this year has held two meetings and has reviewed the report of the auditor general and the report of internal auditor.

Conclusion

The internal audit services are not used enough. Handling of audit recommendations is not satisfactory. Also, the Audit Committee's work has not resulted in the expected effects. Changes from last year are almost invisible.

The internal auditor had not treated the own source revenue and assets, which seem to be the most problematic areas of business.

Recommendation 8

We recommend the Mayor of the Municipality to ensure that:

- The internal audit function is strengthened, the audit committee is more active and audit recommendations are implemented; and
- The internal audit will follow more the actual year processes rather than the past years', and will focus on high risk areas, such as revenues, assets and procurement.

8 Overall conclusion on the Management of Prizren Municipality

Overall conclusion

The municipality has not been able to build a good governance structure. Management of the municipality should conduct a more positive attitude towards the organization's internal controls. Monitoring of contracts is incomplete and insufficient. Obligations against regular and reliable reporting should be part of daily activities for everyone. Staff skills and their experience should be the starting point for segregation of duties and responsibilities. Regular training and promotions based on performance should also be practiced.

The municipality currently has shortcomings and weaknesses that need to be addressed without any delay. Strengthening of PIFC components, where financial management and control is included and internal audit should be permanent objectives of management. They should extend to the entire organization, and everyone should feel the obligation of responsibility and accountability.

Overall Recommendation

We recommend the Mayor that in order to improve the overall performance of the municipality to ensure that:

- The entire staff of the municipality together with the managers understands the relevance of laws relating to the framework of PIFC and a number of obligatory policy documents, manuals and Treasury regulations, FMC manual procedures and government's administrative instructions; and
- In particular, FMC procedures should be made clear to all, and followed by all.

Annex I. Different types of Audit Opinions

(extract from ISSAI 400)

9. An audit opinion is normally in a standard format, relating to the financial statements as a whole, thus avoiding the need to state at length what lies behind it but conveying by its nature a general understanding among readers as to its meaning. The nature of these words will be influenced by the legal framework for the audit, but the content of the opinion will need to indicate unambiguously whether it is unqualified or qualified and, if the latter, whether it is qualified in certain respects or is adverse (paragraph 14) or a disclaimer (paragraph 15) of opinion.
10. **An unqualified opinion** is given when the auditor is satisfied in all material respects that:
 - a) the financial statements have been prepared using acceptable accounting bases and policies which have been consistently applied;
 - b) the statements comply with statutory requirements and relevant regulations;
 - c) the view presented by the financial statements is consistent with the auditor's knowledge of the audited entity; and
 - d) there is adequate disclosure of all material matters relevant to the financial statements.
11. **Emphasis of Matter.** In certain circumstances the auditor may consider that the reader will not obtain a proper understanding of the financial statements unless attention is drawn to unusual or important matters. As a general principle the auditor issuing an unqualified opinion does not make reference to specific aspects of the financial statements in the opinion in case this should be misconstrued as being a qualification. In order to avoid giving that impression, references which are meant as "emphasis of matter" are contained in a separate paragraph from the opinion. However, the auditor should not make use of an emphasis of matter to rectify a lack of appropriate disclosure in the financial statements, nor as an alternative to, or a substitute for, qualifying the opinion.

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12. An auditor may **not be able to express an unqualified opinion when** any of the following circumstances exist and, in the auditor's judgement, their effect is or may be material to the financial statements:
- a) there has been limitation on the scope of the audit;
 - b) the auditor considers that the statements are incomplete or misleading or there is an unjustified departure from acceptable accounting standards; or
 - c) there is uncertainty affecting the financial statements.
13. **Qualified Opinion.** Where the auditor disagrees with or is uncertain about one or more particular items in the financial statements which are material but not fundamental to an understanding of the statements, a qualified opinion should be given. The wording of the opinion normally indicates a satisfactory outcome to the audit subject to a clear and concise statement of the matters of disagreement or uncertainty giving rise to the qualified opinion. It helps the users of the statements if the financial effect of the uncertainty or disagreement is quantified by the auditor although this is not always practicable or relevant.
14. **Adverse Opinion.** Where the auditor is unable to form an opinion on the financial statements taken as a whole due to disagreement which is so fundamental that it undermines the position presented to the extent that an opinion which is qualified in certain respects would not be adequate, an adverse opinion is given. The wording of such an opinion makes clear that the financial statements are not fairly stated, specifying clearly and concisely all the matters of disagreement. Again, it is helpful if the financial effect on the financial statements is quantified where relevant and practicable.
15. **Disclaimer of Opinion.** Where the auditor is unable to arrive at an opinion regarding the financial statements taken as a whole due to an uncertainty or scope restriction which is so fundamental that an opinion which is qualified in certain respects would not be adequate, a disclaimer is given. The wording of such a disclaimer makes clear that an opinion cannot be given, specifying clearly and concisely all matters of uncertainty.
16. It is customary for SAIs to provide a detailed report amplifying the opinion in circumstances in which it has been unable to give an unqualified opinion.

Annex II: Prior year recommendations

Audit Component	Recommendation given	Recommendation fully implemented	Partly addressed	Not addressed
5. Financial statements	Preparation of AFS in full accordance with Financial Rule No. 07/2011.			X
6.1 Revenue	Controls over and commitment to collection of outstanding debts are strengthened.			
6.1 Revenue	Reconciliation of revenues	X		
6.2.1 Expenditures	Procurement procedures are in compliance with LPP.			X
6.2.2	All employees' salaries are paid from the Wages and Salaries category rather than from Goods and Services category.			X
6.3 Assets	An overall register of assets.	X		
6.2.3 Subsidies and transfers	Subsidies and transfers are given based on evaluated requirements and criteria adhered to.			X
6.4.2	Outstanding liabilities are registered in accounting registers.			X
7.1 Internal control system	The level of financial control and overall controls is improved			X
7.2	The IAU is more functional in terms of having a sufficient number of auditors			X
Total	10	2	0	8