



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE HANI I ELEZIT MUNICIPALITY FOR THE YEAR 2022

Prishtina, May 2023

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1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Hani i Elezit for the year ended on 31 December 2022 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 the financial statements and conclusion on compliance with authorities¹.

Unmodified Opinion on the Annual Financial Statements

We have audited the annual financial statements of the Municipality of Hani i Elezit, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as at 31 December 2022.

In our opinion, the annual financial statements of Municipality of Hani i Elezit give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for the 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 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.

Audit Conclusion on Compliance

We have also audited whether 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 opinion, except for the matters described in the Basis for Compliance Conclusion section, transactions carried out in the process of execution of Municipality's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

Basis for the Conclusion

- C1 Commitment of funds and purchase orders in KFMIS after receipt of invoices
- B1 Delays in the payment of financial liabilities

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

² Other reports are required under Article 8 of Regulation no.01/2017 on Annual Financial Report

For more details, see subchapter 2.1 Issues with impact on 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.

Responsibilities of Management and Those Charged with Governance for the Annual Financial Statements

The mayor 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 mayor 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 mayor is responsible to ensure the oversight of the Municipality of Hani i Elezit's financial reporting process.

Management's Responsibility for Compliance

Hani i Elezit Municipality's Management is also responsible for the use of the Municipality's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.³

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 authorities of the Hani i Elezit's Municipality with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

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

³ Collectively referred to as compliance with authorities

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 Municipality of Hani i Elezit's internal control.
- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

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 recommendations⁴

During the audit, we have identified areas of possible improvement including internal control which are presented for your consideration below in the form of findings and recommendations. These findings and recommendations are intended to and improve internal controls relevant to financial reporting and compliance with authorities in connection to the management of public sector funds. We will follow up these recommendations during next year's audit.

This report has resulted in five (5) recommendations, of which one (1) is a new recommendation, two (2) are repeated and two (2) partly repeated.

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

2.1 Issues with impact on compliance conclusion

Issue C1 - Commitment of funds and purchase orders in KFMIS after receipt of invoices

Finding The Financial Rule no. 01/2013 on Public Funds Expenditure, Article 22 stipulates the general procedures for processing payments. It is required that the commitment and purchase order precede the acceptance of the works, goods and services, as well as the receipt of the invoice.

For five payments for the category of Goods and Services, in the aggregate amount of €23,893, the commitment of funds and the preparation of the purchase orders in KFMIS were made late, respectively after the receipt of supplies and invoices. Whilst for seven⁵ other payments, in the aggregate amount of €62,269, three for goods and services and four for capital investments, the purchase orders were prepared late or after receipt of invoices. Delays ranged from 1 to 84 days.

This occurred due to insufficient controls in the commitment of funds and the preparation of purchase orders on time in KFMIS.

Impact Delayed preparation of commitment of funds and purchase orders may lead to difficulties in the financial management process and paying on time the liabilities to contractors.

Recommendation C1 The mayor should ensure that commitment of funds in KFMIS precedes the purchase process and then further continue with the preparation of the purchase order for the contracted works, supplies or services.

Response of the Auditee`s Management (Agree)

⁴

⁵

Issue B2 – Delays in the payment of financial liabilities

Finding The Law on Public Finance Management and Accountability and Financial Rule no. 01/2013 Public Funds Expenditures stipulate that each valid invoice and request for payment of delivered goods and services and/or executed works are paid within thirty (30) calendar days upon receipt of the invoice.

Delays in the executions of payments were identified in five payments for other contracting services; computer, less than €1,000, vehicle maintenance; road maintenance and fuel for cars, €24,609. Delays ranged from 11 to 60 days after the set deadline of 30 days.

This occurred due to insufficient controls in managing and processing the payments.

Impact Failure to pay on time the financial liabilities increases the risk for the Municipality to be subject to possible lawsuits or complaints by the contractors and this may cause additional financial costs for the Municipality.

Recommendation B1 The mayor should ensure that financial liabilities to the contractors are paid within 30 days from the date of receipt of invoices.

Response of the Auditee`s Management (Agree)

2.2 Other financial management and compliance issues

2.2.1 Goods and Services and Utilities

The final budget for Goods and Services including Utilities in 2022 was €478,460, of which €464,300 were spent. Those mainly relate to contracting services, office supply and equipment, maintenance of road infrastructure and facilities, fuel, telephone utility expenses.

Issue A1 - Oversupply of contracted quantities

Finding With the public contract no. 659-22-2575-1-2-1 for the supply of administrative and printing material of the CPA list for the needs of Municipality's institutions, schools, FMC, kindergarten, among others, the contracted quantities for each item have been determined by the supply contract.

In the payment for the supply of administrative material in the amount of €5,264, we have identified that for 16 items/products there were oversupplies compared to the contracted quantities. The oversupplies for different items ranged from 6 to 5,006 units, whilst the total overrun was €1,608.

This was as a result of the requesting unit's failure to properly analyse or plan the real needs for supplies during the planning process.

Impact Oversupplies for some products may prevent the supply of other contracted products upon reaching the total value of the contract.

Recommendation A1 The mayor should ensure that the requesting units analyse and plan the annual supply needs and contracts are implemented according to contracted terms and quantity.

Response of the Auditee`s Management (Agree)

2.2.2 Subsidies and Transfers

The final budget for subsidies and transfers was €87,000, of which €85,967 were spent. They mainly relate to subsidies for individual beneficiaries and non-governmental organisations in culture, youth and sport area.

Issue C2 – Incomplete commission and use of non-standard forms in the process of financial support of Non-Governmental Organizations (NGOs)

Finding Regulation no. 04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs sets forth the standard forms that should be used by Budget Organisation when evaluating requests for financial support. Moreover, Article 8 defines that the evaluation committee should consist of five members.

In three processes of subsidising NGOs, A.C.A Sharri for the project worth €3,000; K.F Sharri for the project worth €11,000 and Dardania Wrestling Club for the project worth €3,000, the committee members had not used the standard forms for the evaluation of funding requests and the request evaluation committee consisted only of three members.

This occurred due to poor information by the directory and the respective committee members regarding the regulations' requests and procedures for subsidising NGOs.

Impact Such shortcomings may undermine the proper review of the funding requests by the evaluating committee or increase the possibility of irregularities during the subsidy process.

Recommendation C2 The mayor should ensure that the evaluation committee uses the standard evaluation forms for subsidy requests and that the evaluation committee composition is in compliance with the regulation on public funding of NGOs.

Response of the Auditee`s Management (Agree)

2.2.3 Receivables

Accounts receivable disclosed in the 2022 AFS were in the amount of €716,602. This is made of for property tax, business tax, waste collection tax and public property uses tax.

Issue B2 – Increased accounts receivable

The Law no.06/L-005 on Immovable Property Tax, Article 26, stipulates that the Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competences to collect outstanding tax liabilities exceeding the amount of €10. Moreover, Article 27 stipulates that if a taxpayer or debtor fails to fully pay the tax and fine according to statutory deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to have been received by the debtor.

The accounts receivable disclosed by the municipality in the 2022 financial statements amounted to €716,602. The lion share of accounts receivable relates to property tax, €440,629 or around 62%; business tax, €266,032 or around 37% and public property use, €9,940 or around 1%. There has been an increasing trend of accounts receivable in comparison to the previous year, an increase of €73,455.

This was due to insufficient controls over revenue collection, failure to undertake legal measure towards debtors as well as transfer of old business tax debts.

Impact Failure to timely collect tax revenues has a negative impact on the Municipal Budget and on the funding and implementation of municipal projects.

Recommendation B2 The mayor should ensure the improvement of accounts receivable management process by undertaking legal or other informing measures in order to increase efficiency in revenue collection.

Response of the Auditee`s Management (Agree)

3 Summary on budget planning and execution

In this chapter we have presented a summary 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 budgetary funds (in €)

Description	Initial Budget	Final Budget ⁶	2022 Outturn	2021 Outturn	2020 Outturn
Sources of Funds	2,759,758	2,997,869	2,704,228	2,634,282	3,087,212
Government Grant -Budget	2,378,411	2,417,451	2,318,493	2,253,482	2,710,574
Funding through borrowing	0	20,286	20,286	6,157	17,955
Carried forward from previous year	0	72,738	62,486	57,002	84,716
Own Source Revenues	381,347	381,347	243,823	253,181	187,496
Domestic Donations	0	30	0	0	0
External Donations	0	106,018	59,140	64,459	86,471

The final budget was by €238,111 higher than the initial budget. This is a result of carried forward revenues from the previous year, €57,780; external donations, €106,047; funding through borrowing, €20,286 and Government decisions for economic recovery, €39,040.

In 2022, the Municipality of Hani i Elezit spent 91% of the final budget or €2,704,228, a decrease of 8% compared to 2021. Explanations for the current position are given in more details below:

Table 2 – Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2022 Outturn	2021 Outturn	2020 Outturn
Spending of funds by economic categories	2,759,758	2,997,869	2,704,228	2,634,282	3,087,212
Wages and Salaries	1,756,083	1,782,140	1,694,968	1,644,863	1,577,267
Goods and Services	385,975	410,760	396,616	348,741	382,355
Utilities	67,700	67,700	67,684	64,900	61,959
Subsidies and Transfers	80,000	87,000	85,967	72,465	155,946
Capital Investments	455,000	650,270	458,992	503,312	909,685
Reserves	15,000	0	0	0	0

Explanations for changes in budget categories are given below:

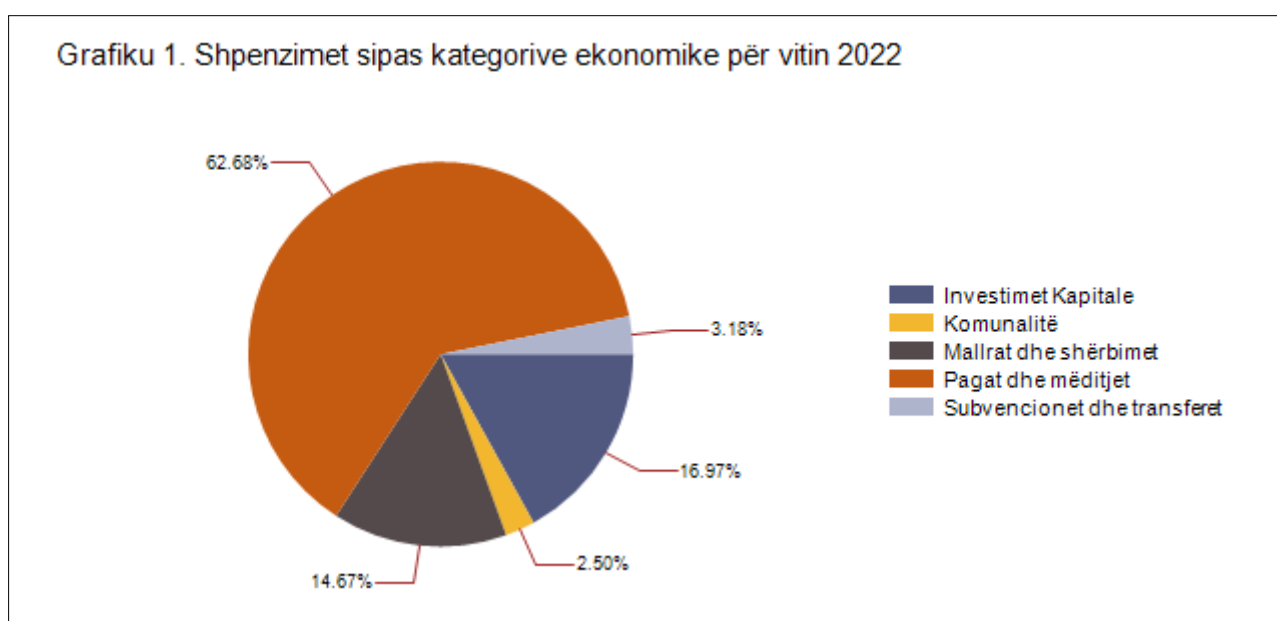
- The final budget for Wages and Salaries increased by €26,057. This was as a result of fundings through borrowing for the purpose of economic recovery dedicated for the health sector, €20,286; external donations, €3,881 and Government decisions, €1,890.

⁶ Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

- The final budget for Goods and Services increased by €24,784. This was as a result of carried-forward revenues of €21,800, external donations of €2,984.
- The final budget for Subsidies and Transfers increased by €7,000 as a result of revenues carried forward from the previous year.
- The final budget for Capital Investments increased by €195,270 as a result of: external donations of €99,182; revenues of €43,938 carried forward from the previous year; €15,000 transferred from the reserve fund; and €37,152 from the Government Decision. Despite an increase in the capital expenditure budget during the year, only 71% of the budget was spent. The program of Public Investments includes 14 ongoing projects from the last year and 14 new projects for the current year.

The Municipality of Hani i Elezit has benefited €21,789 from the economic recovery program, which were used to fund the wages and salaries for the primary health services.

Chart 1. Expenditures by economic categories in 2022



Planned revenues for year 2022 were in the amount of €381,347, whilst the collected revenues amounted to €334,000 or around 10%. These revenues are mainly related to property tax, business tax, licencing fee, co-payments, construction permit fee, administrative fee etc.

In 2022, the Municipality of Hani i Elezit has also collected revenues of €24,670 from the traffic fines and €156 from Forestry Agency. These revenues are not presented in the following table because these are planned and collected by the respective institutions but are allocated on a quarterly basis to the Municipality of Hani i Elezit for spending them.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2022 Receipts	2021 Receipts	2020 Receipts
Total of revenues	381,347	381,347	334,002	316,657	230,239

Tax revenues	225,572	225,572	163,301	139,134	97,071
Non-tax revenues	155,775	155,775	170,700	177,523	133,168

4 Progress in implementing recommendations

Our audit report on 2021 AFS of Municipality of Hani i Elezit resulted in nine (9) key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented and periodic reports regarding the progress of implementation of 2021 recommendations. The audit report for 2021 as well as the action plan for addressing the recommendations was deliberated by the Municipal Assembly.

By the end of our 2022 audit, five (5) recommendation have been implemented, two (2) were under implementation and two (2) have not been addressed yet, as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 3 (or the recommendations table)

Chart 2. Progress on implementation of prior year's recommendations

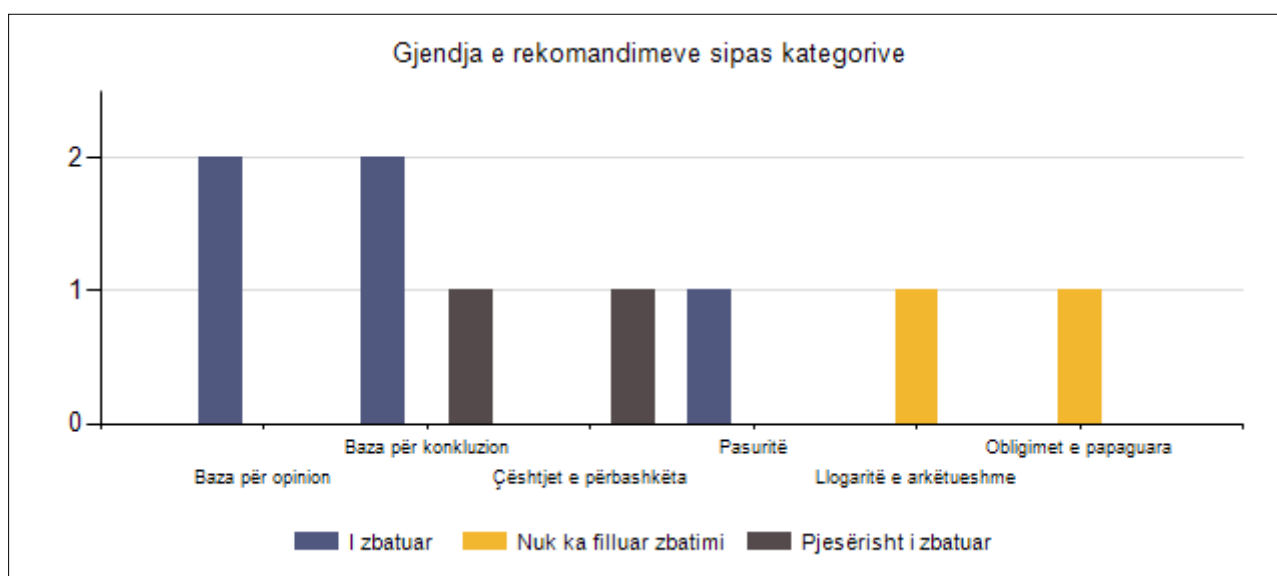


Table 4. Summary of prior year's recommendations

No.	Audit area	Recommendations of 2021	Actions undertaken	Status
1	Basis for Opinion	The Mayor should ensure that the presentation of financial records on the budget and the explanatory notes in the financial statements of 2022 is complete and true, according to the requirements of the Regulation on Annual Financial Reporting of Budget Organisations	AFS and explanatory notes have been presented in a complete and true view.	Implemented
2	Basis for Opinion	The Mayor should ensure that all necessary actions are taken in order to	Expenditures have been recorded under	Implemented

		have expenditures planned under adequate budget allocations or funds reallocated and that the payments and expenditures are recorded under the adequate economic categories set forth in the Chart of Accounts.	the relevant economic codes.	
3	Basis for Conclusion	The Mayor should ensure that the staff recruitment process is carried out according to the LPO and that the recruitment procedures and announcements are carried out through the HRMIS website and the municipality's website. The selection committee should select only those candidates that meet the criteria set by the competition.	Recruitment procedures have been carried out in compliance with the respective rules and procedures.	Implemented
4	Basis for Conclusion	The Mayor should ensure that the tender evaluation committee recommends as winning operator only the most successful bidders that meet the criteria required in the Contract Notice.	No such cases were identified.	Implemented
5	Basis for Conclusion	The Mayor should ensure that the deadlines for the public announcement and composition of the evaluation committee are set in line with the legal requirements. The officers responsible for monitoring should be appointed and beneficiaries should be required to submit financial and narrative reports. The annual financial support plan and the annual report should be prepared and sent to the Good Governance Office within the OPM.	Although some issues regarding the subsidy process have been addressed, such as the public announcement, the submission of financial reports by the beneficiaries, there are still shortcomings in the subsidy process.	Partly implemented
6	Common issues	The Mayor should ensure that prior to signing the contract, funds are committed in KFMIS and afterwards the purchase order for the contracted supplies or services is prepared.	Commitment of funds were made before the signing of the contracts, but subsequent commitments	Partly implemented

			and purchase orders during the implementation of the contract were prepared late.	
7	Assets	The Mayor should ensure that the e-assets system is put to operation and that all assets are properly recorded and classified in the assets register. In addition, he should ensure that the legal requirement on assets stocktaking is met prior to the preparation of the financial statements.	The implementation of the e-assets has started, assets have been recorded and stocktaking of assets has been done.	Implemented
8	Accounts receivable	The Mayor should provide for strengthened control mechanisms over debts collection, by using all the means available including the legal ones.	AR balance is increasing.	Implementation not started
9	Outstanding liabilities	The Mayor should strengthen the internal controls and ensure that all received invoices are recorded within the deadline and that the liabilities are paid within the statutory deadline of 30 days	Cases of delays in payment of liabilities were identified this year too.	Implementation not started

*This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

Vlora Spanca, Auditor General



Zukë Zuka, Assistant Auditor General

Shehrije Shala, Head of Audit

Ilir Abazi, Team Leader

Arben Hundozi, Team member

Annex I: Letter of confirmation

 **REPUBLIKA E KOSOVËS-REPUBLIC OF KOSOVO**
KOMUNA - MUNICIPALITY
HANI I ELEZIT 

LETËR E KONFIRMIMIT

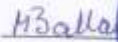
Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2022 dhe për zbatimin e rekomandimeve


Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- Kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Hanit të Elezit për vitin 2022 (në tekstin e mëtejshëm "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- 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. Mehmet Ballazhi
Kryetari i Komunitetit të Hanit të Elezit

Data: 12.04.2023



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 statements⁷ 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 authorities⁸. 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

⁷ Financial statements in the public sector include also the statement(s) of budget execution

⁸ 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.