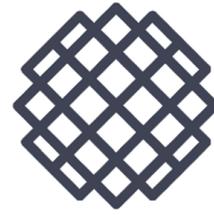




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

## AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF MITROVICA SOUTH FOR YEAR 2021

**Prishtina, May 2022**

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# 1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Mitrovica South for the year ended on 31 December 2021 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 authorities<sup>1</sup>.

## Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Mitrovica South, 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 reports<sup>2</sup>, for the year ended as at 31 December 2021.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Municipality of Mitrovica South, give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

## Basis for Qualified Opinion

The qualified opinion has been given based on the following findings:

- B1 Assets purchased during 2021, in the amount of €1,450,990, land parcels and buildings owned by the Municipality were not recorded in the registers;
- A1 Misclassification of expenditures of €582,955 executed by Treasury through execution procedures/court decisions.
- B2 Assets in the amount of €3,313,193 were still listed in the assets register as ongoing investments instead of being recorded as assets and depreciated as such.

*For more details, see sub–chapter 2.1 Issues with impact on the audit opinion*

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

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

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

## Conclusion on Compliance

We have also audited whether the processes and accompanying 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 effects of the matters described in the *Basis for Compliance Conclusion* section of our report, transactions carried out in the process of execution of Municipality of Mitrovica South'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

- A2 The Municipality concluded a contract with the EO based on the estimated contract value instead of the price per unit.
- A3 The Municipality had engaged 62 education employees without conducting recruitment procedures;
- A4 The Municipality had subsidised farmers with agriculture equipment in the amount of €31,377, in contradiction with public call;
- A5 The Municipality had subsidised two NGOs with a total amount of €20,000 in contraction to the Regulation no.04/2017 on public funding of NGOs;
- A6 The Municipality had concluded a contract with the EO based on weighted prices instead of concluding a contract based on prices per unit under lots;
- C1 During 2021, the Municipality had paid €5,598,507, or in 1,552 cases had carried out payments which have exceeded the legal deadline, and have incurred additional expenses for enforcement procedures; and
- B3 The Municipality had signed a contract in a value that exceeded budget estimates by €427,864.

*For more details, see sub–chapter 2.2 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 Mitrovica South's financial reporting process.

### **Management's Responsibility for Compliance**

Management of Municipality of Mitrovica South 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.<sup>3</sup>

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

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

Our objective is also to express an audit opinion on compliance of respective Municipality of Mitrovica South's authorities 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 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 Mitrovica South's internal control.

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

- 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 recommendations

During the audit, we have identified areas of possible improvement on Financial Management and Control. Weaknesses were identified on important financial areas, such as: revenues, procurement procedures, liabilities, receivables, presentation of contingent liabilities in the AFS, classification of expenditures, and recording of non-financial assets, which are presented for your consideration below in the form of findings and recommendations. These findings and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in the form of explanatory notes, 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.

Municipality's AFS prepared on 31.01.2022 for the year ended on 31.12.2021 were not fully in compliance with the Financial Rule no.01/2017. They were incomplete and inaccurate, therefore during the audit process we have suggested the management to rectify them. Afterwards, the revised AFS have been submitted to NAO and the issues raised by the audit have been rectified, except for the complete disclosure of assets and classification of expenditures which has been handled under the chapter *Issues with impact on the audit opinion* of our report. This report has resulted in 17 recommendations, of which ten (10) are new recommendations, six (6) are repeated, and one (1) is partly repeated.

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

### 2.1 Issues with impact on the audit opinion

#### Issue B1 - Poor management of assets registers

##### Finding

Regulation MF no.02/2013 on Management of Non-financial Assets by Budget Organizations, Article 6, stipulates that each budget organization shall put in place and update a register of non-financial assets under its management. It further provides that the assets Register should include: capital assets (individual value over €1.000) which should be recorded in KFMS, and non-capital assets (individual value less than €1.000) and stocks which should be recorded in the e-assets system.

The register of assets over €1,000 was understated by material values because the payments of €1,450,990 made for Capital Investments during 2021 by Treasury through enforcement procedures were not recorded in the registers. Moreover, the land parcels and buildings owned by the municipality (e.g. it is worth mentioning the Municipality's own building, "Minatori" sports gym, two city stadiums, Multifunctional Centre worth over €20 million, and some other objects) were not recorded in the assets register.

The e-assets system is not functional and is not used by the Municipality at all. Instead, assets under €1,000 were recorded in Excel spreadsheet and no depreciation was calculated for them. As a result, the information disclosed in the AFS regarding assets is materially untrue.

The reason behind poor management of assets registers were the insufficient actions taken by the Municipality for proper assets management, including failure to record and evaluate assets and to update the assets registers.

### Impact

Failure to record all assets in the assets registers leads to lack of information for the management regarding the assets owned by the Municipality and constitutes a violation of legal requirements regarding the assets recording. In addition, it leads to untrue disclosure of information on assets in the AFS.

### Recommendation B1

The Mayor should ensure that necessary actions are taken in order to ensure that all assets of the municipality are identified, evaluated, and recorded in the respective registers and that the presentation of information on assets in the AFS is true and complete. In addition, the e-assets system should be operationalised and assets under €1,000 should be recorded.

### Response of entity's management (agree)

#### Issue A1 – Misclassification of expenditures incurred by Treasury

### Finding

Financial Rule no. 01/2013/MF on the Expenditure of Public Funds, Article 18, paragraph 3, provides that expenditures must have the appropriate codes, defined in the chart of accounts. In addition, the Administrative Instruction no.19/2019 on the Chart of Accounts, Article 11, requires from the CAO and CFO to make sure that all transactions are recorded in KFMIS according to the chart of accounts and classifications set forth in this AI.

During 2021, a total amount of €4,341,331 was paid through enforcement procedures and court decisions from different economic categories (€1,613,866 for wages and salaries, €1,095,377 for goods and services, €176,462 for utilities, €98,526 for subsidies and transfers, and €1,357,100 for capital investments). In regard to these payments, we found that expenditures in a total of €582,955 were misclassified, as the following:

- The amount of €222,215 was paid for wages and salaries from the wrong economic categories, namely: €100,338 from Capital Investments; € 117,462 from Goods and Services, and €4,415 from Subsidies and Transfers.
- The amount of €277,137 was paid for capital investments from the wrong economic categories, namely: €78,924 from Goods and Services; €117,924 from Utilities; and €80,289 from Subsidies and Transfers.
- The amount of €83,602 was paid for Goods and Services from the wrong economic categories, namely: €59,808 from Capital Investments; €20,664 from Utilities; and €3,130 from Subsidies and Transfers.

With regard to wages and salaries, this occurred partly due to the Collective Contract, as it was not taken into account by the Ministry of Finance when planning the budget over the years, and partly due to poor planning of expenditures and Municipality's failure to pay incurred expenditures in time. Although we presented the misclassification of expenditures as an emphasis of matter in the last year's audit report, the Municipality has not managed to improve such occurrence.

**Impact** Misclassification of expenditures leads to overstatement/understatement of expenditures in their respective categories and does not give a true view of expenditures in the AFS.

**Recommendation A1** The Mayor should ensure that all necessary actions are taken so that the payments are made from the adequate economic categories, in order to enable their fair presentation in the AFS in line with the Treasury's Chart of Accounts.

**Response of entity's management (agree)**

**Issue B2 – Failure to close the category of ongoing investments following the acceptance of assets**

**Finding** Regulation MF no.02/2013 on Management of Non-financial Assets by Budget Organizations, Article 12, paragraphs 2 and 3, stipulate that by the time of acceptance of non-financial assets, the financing budget organizations will record the transactions in category of ongoing investments. Once the non-financial asset have gone through all the acceptance rules and procedures of the organisation, which is then entitled to the ownership of the respective asset, the category of ongoing investments shall be closed in the records of both the receiving budget organisation and co-financing budget organisation.

During examination of the assets register, we found that the assets purchased/acquired by the Municipality before and during 2019 amounting to €3,313,193 have been recorded as ongoing investments and their depreciation was not calculated, although most of these investments were completed and should have been recorded as assets in use and depreciated.

This occurred due to lack of coordination between the Assets Officer and other units and lack of information on the completed projects.

**Impact** Lack of complete and true information on assets owned by the Municipality leads to poor management of assets and their unfair presentation in the AFS.

**Recommendation B2** The Mayor should ensure that the responsible officers are provided with the information on assets, so that the assets recording process for the completed projects is finalised.

**Response of entity's management (agree)**

## 2.2 Issues with impact on the compliance conclusion

### Issue A2 – Shortcomings in the estimated contract value

**Finding** According to the Law on Public Procurement, Article 17 *Calculating the Estimated Value of a Service Contract*, stipulates that the estimated value of a proposed service contract is equal to the estimated total remuneration and reimbursable amounts to be paid by the contracting authority under the contract throughout the term of the contract, taking account of the provisions set out in this Article.

In the framework contract “*Transportation service for primary school students*” destination Koprivë - Shipol and vice versa and Vërnica - Pirqë and vice versa, the estimated value of the contract was €144,000. The contract was signed with the winning economic operator but the estimated value was incorrectly put, as it was not approximate to the amount of services to be provided. The estimated value of the contract should have been calculated with the unit price in LOT IV, which is €81.60 \* 185 teaching days during the year \* 3 years equals €45,288 which is the total estimated value that the contract should have been concluded for. As a result, the incorrect value is €98,712.

This was due to the responsible officers’ neglect in calculating the estimated value of the contract.

**Impact** Mistakes made in signing of contracts may be misinterpreted by the other parties, leading to dissatisfactions and lawsuits.

**Recommendation A2** The Mayor should ensure that such error is corrected by attempting to dissolve the agreement and request that the contracted amount be corrected and signed by both parties.

### Response of entity’s management (agree)

### Issue A3 – Engagement of education employees without conducting recruitment procedures and failure to report the liabilities towards them in the AFS

**Finding** Pursuant to the Law no.03/L-212, Article 8, an employee of the public sector is obliged to announce a public competition any time it is about to hire employees and establish an employment relationship.

The Municipality, namely the Municipal Education Department (MED) hired 62 employees during 2021 with temporary contracts after the competitions for recruiting them had failed. We tested (5) of these contracts, which were mainly signed in October and November 2021. These employees, as explained in the AFS, were left out of the payroll and were not remunerated for the work performed. Moreover, financial liabilities towards them were not reported in the AFS as outstanding liabilities.

The recruitment of employees without conducting regular procedures was due to failed recruitment procedures and on the grounds that vacancies needed to be filled in order for schooling to continue properly. Whilst, failure to present the liabilities for employees' salaries was due to finance department's lack of information.

**Impact**

Hiring through temporary contracts prior to conducting recruitment procedures as required in the law may lead to the selection of candidates not eligible for teaching and undermines the process of transparency, which affects the quality of teaching. Failure to report liabilities affects the quality and truthfulness of information disclosed in the AFS.

**Recommendation A3**

The Mayor should ensure that vacancies are staffed by conducting regular recruitment procedures through public announcement and that employees are included in the payroll. In addition, if the Municipality is left with outstanding liabilities, those should be reported in the AFS.

**Response of entity's management (agree)**

## **Issue A4 – Farmers subsidised in contradiction to the criteria set forth in the Public Calls**

### **Finding**

According to the Public Call for subsidising farmers with agricultural machinery, the beneficiaries were required to: be residents of the Municipality of Mitrovica; own sufficient land area; have planned the planting of at least 2ha and more with arable crops and olericulture; own a tractor with power greater than 28kw; and beneficiaries to be willing to participate with 30%. Priority was given to farmers who had not benefited from the Directorate of Agriculture in the last two years. Whilst in the Public Call for subsidising farmers with agricultural loans, the required documents for application, inter alia, were: land ownership list and proof of property tax.

In testing the three winning applicants for the public call for subsidizing farmers with Agricultural Machinery, the total of which was €31,377, we found that none of these applicants had provided proof of owning a tractor, as required by the criteria. We also found that the evaluation commission, in the scoring form, used criteria which were not included in the Public Call. As a result, scores were given to and beneficiaries such as: categories of families with orphans, families of martyrs, veterans; long-distance families; families with unemployed members; and families with a certain number of children.

While testing the applications of both beneficiaries for the public call for subsidizing farmers with Agricultural Loans, the total of which was €22,964, we found that one of the applicants did not meet the criteria for the required documents, as he was lacking the land ownership list and proof of property tax.

This was due to the evaluation commission's failure to stick to the criteria set forth in the public call.

### **Impact**

Subsidising of farmers by using criteria other than those set forth in the public call or subsidising of ineligible applicants undermines the transparency and casts doubts on the whole process given that potential beneficiaries have been eliminated and other undeserving farmers have been awarded with subsidies in contradiction to the criteria set forth in the public calls.

### **Recommendation A4**

The Mayor should ensure that public calls on subsidising of farmers contain clear criteria that can be met with the required documents and that the evaluation commissions evaluate the applications fully in compliance with the criteria set forth in the public call.

### **Response of entity's management (agree)**

## **Issue A5 - Subsidising of NGOs in contradiction to the Regulation on Public Funding of NGOs**

**Finding** MoF Regulation No.04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs sets forth the fundamental criteria, standards and procedures for public funding of non-governmental organisations, the provision of which are applied by every budget organisation, as well as the way of reporting by subsidy beneficiaries, which includes narrative and financial reporting.

Subsidies for the Trepça Basketball Club (€5,000) and for the Trepça Divers Club (€15,000) were granted by the Municipality through Assembly Decisions, by overlooking the criteria of the Regulation No.4/2017. Consequently, no agreements have been signed with these beneficiaries and no financial and narrative reports have been requested in return as required by the regulation.

The reasons behind the overlooked procedures were due to management changes in the Municipality.

**Impact** Subsidising of NGOs by overlooking the Regulation not only undermines transparency and trust in the Municipality, but also casts doubts on the process and assurance that the funds granted as a subsidy will be spent for the intended purposes, as there are no agreements between the Municipality and the beneficiary regarding the funds spending terms and the way of reporting.

**Recommendation A5** The Mayor should ensure that all subsidies to NGOs qualified to be handled according to the abovementioned regulation are announced in public calls and that all requirements arising from this Regulation are applied thereon.

**Response of entity's management (agree)**

**Issue A6 – Shortcomings in the procurement procedure and in defining the contract price/value**

**Finding** The Rules and Operational Guidelines for Public Procurement (ROGPP), Article 56.15, provides that whenever the contracting authority does not know the indicative quantities, unit price contracts, the CA must determine the weights based on the importance of each “service category” or each “item” in order for the Contracting Authority to determine what is the lowest bid. In these cases, in public opening of bids reads the total scores (weighted price) which serves only for the purpose of evaluating the bids while the contract is concluded with unit prices.

In the contract *“Supply with drugs and medical material”*, the contract prices for both Lots were set as weighted prices (€2,978 for Lot 1 and €2,452 for Lot 2), without explaining that these were the weighted prices. Meanwhile the financial bids according to the unit prices were: €10,575 for Lot 1 and €3,959 for Lot 2, and the contract had to be concluded according to these prices.

This occurred because the officers engaged in this process did not correctly apply the legal requirements on public procurement.

**Impact** Placing of weighted price as contract prices may lead to misinterpretations of the contract value.

**Recommendation A6** The Mayor should ensure that during the development of procurement procedures and establishment of contract prices/values, the requirements set forth in the Law on Public Procurement and underlying rules and instructions are strictly adhered to.

**Response of entity’s management (agree)****Issue C1 – Delayed payment of invoices and extra expenditures on enforcement proceedings**

**Finding** The Law no.03/L-048 on Public Finance Management and Accountabilities, Article 39.1, stipulates that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice. Whilst Article 40 stipulates that the invoice shall be paid directly by Treasury upon receipt of a final order from the court/bailiff.

In analysing the database of suppliers, we found that the Municipality paid €5,598,507 during 2021, which constituted 1,552 cases of payments the statutory deadline of which was due. Delays ranged from 1 to 832 days. These payments mainly relate to capital investments, goods and services, and wages and salaries.

As a result, most of these payments were made by Treasury through the enforcement proceedings.

Out of 102 cases of checked payments, in a total amount of €1,361,344, the debt was €1,217,050 whilst the extra spending on court/enforcement proceedings was €144,294.

Given that payments made by Treasury during 2021 through enforcement /court orders totalled to €4,341,331, enforcement costs are higher. The Municipality did not have information on the amount of the debt and the amount paid for enforcement/court proceedings.

This was as a result of poor planning, entry into obligations without having sufficient funds in place, and the responsible officers' neglect to complete the payments files.

**Impact**

Failure to pay invoices and liabilities in time exposes the Municipality to lawsuits from economic operators, leading to extra court/enforcement costs and interest. This also undermines the spending plan and prevents the set objectives from being achieved.

**Recommendation C1**

The Mayor should ensure that all payments and liabilities are paid within the statutory deadlines in order to prevent damages to the municipal budget and extra spending on enforcement.

**Response of entity's management (agree)**

**Issue B3 – Signing of a contract beyond the estimated budget**

**Finding**

Law on Public Procurement, Article 9.3, stipulates that if the contracting authority is a public authority or budget organization and the concerned procurement will give rise to financial obligations that are to be satisfied from appropriations expected in future fiscal years, the CFO shall ensure that the schedules attached to the Law on Budget Appropriation provide a reasonable basis to expect that sufficient funds will be appropriated to it in such future fiscal years for the purpose of satisfying such obligations.

For the project "Supply with construction material" - the value provided by the Law on Budget Appropriations, for 2021 and the following two years (2022 and 2023) was €72,000, whilst the Municipality had signed a three-year contract in the amount of €499,864, i.e. €427,864 higher than the value provided by the Law on Budget Appropriations for 2021.

This was a result of poor planning of projects and their incorporation in the Law on Budget without conducting a proper analysis beforehand.

**Impact** Entry into contractual obligations beyond the budget undermines the implementation of projects as planned and leads to difficulties for the Municipality in satisfying the obligations entered into.

**Recommendation B3** The Mayor should ensure that legal requirements are strictly applied and that contract are concluded in accordance with the approved/planned budget, in order to enable a timely implementation of projects and prevent the Municipality from suffering financial difficulties.

**Response of entity's management (agree)**

## 2.3 Other Issues of Financial Management and Compliance

### 2.3.1 Revenues

Revenues generated by the Municipality of Mitrovica South in 2021 amounted to €3,271,712. They relate to property tax, construction permits tax, administrative fees, business activities tax, rental etc. In addition, there were funds of €61,784 returned from the last year's revenues, which were presented in the tables as other revenues. The total of collected revenues also included the indirect revenues of €252,749 collected from traffic fines, €67,493 collected from court penalties, and €71 collected from the Agency of Forestry.

**Issue A7 – Taxpayers unlawfully benefiting from the Primary Residence Deduction**

**Finding** Law no. 06/L-005 on Immovable Property Tax, Article 11 – *Primary Residence Deduction*, provides, *inter alias*, that the natural person who owns or possesses two (2) or more residential object units may declare only one of those objects as his/her primary residence and shall be allowed a deduction of fifteen thousand Euros (€15,000) from the appraised value of the object unit.

In analysing the property tax database, we found several cases of taxpayers who have declared as two or more residential buildings their primary residence (one taxpayer has registered 24 objects as primary residences). This has been ascertained through the taxpayers' personal number. Moreover, the situation is even more severe as the personal numbers of more than 4,000 taxpayers are not presented in this database. Based on their names, surnames and name of the parents, these taxpayers could be multiple beneficiaries of the allowed deduction.

This was due to failure to check the properties in question and failure to update the records in the property tax system.

**Impact** Benefiting the allowed deduction for multiple times is not only unlawful and unfair, but it encourages other taxpayers to act the same considering that the Municipality has not taken any monitoring action to prevent such a phenomenon.

**Recommendation A7** The Mayor should take immediate actions to identify all multiple beneficiaries of the primary residence deduction and initiate legal procedures and that the database is completed with all the personal numbers of taxpayers so that all cases could be verified.

**Response of entity's management (agree)****Issue A8 – Failure to inspect 20% of municipal properties**

**Finding** Law no. 06/L-005 on Immovable Property Tax, Article 15, stipulates that the Municipality shall inspect, each year, at least twenty per cent (20%) of all objects within the territory of the Municipality and that the Municipality may engage private inspectors to assist in inspecting activities.

The Municipality has more than 22,000 objects recorded in the register of objects and officers have started to carry out inspection activities, but they could only manage to inspect 700 of those, or about 4%.

According to property tax officers, this was due to the insufficient number of employees in this unit, which has led to failure to meet this legal requirement.

**Impact** Failure to inspect 20% of the objects may result in over-burdened or under-burdened taxation, and in which case either party is potentially harmed.

**Recommendation A8** The Mayor should undertake all necessary measures to ensure that the Property Tax Department is staffed with sufficient human resources, or engage private inspectors to assist in inspecting activities, in order to meet such legal requirement.

### Response of entity's management (agree)

## 2.3.2 Capital investments

The final budget for Capital Investments was €4,685,959, of which €4,310,034 were spent. They relate to construction of roads, public lightning, sewage and canalisation, health facilities etc.

### Issue A9 – Delays in signing contracts

**Finding** According to ROGPP, Article 31.3 – *Tender Validity*, the required tender validity period shall be no longer than necessary, and shall be long enough for the CA to evaluate the received tenders and to award and sign the contract. Moreover, Article 21 of the same guideline stipulates that the deadline for submission of bids for high-value contracts in an open procedure is 40 days, whilst the deadline for submission of bids for high-value contracts in an accelerated procedure is 15 days. Meanwhile, Article 47.6 stipulates that the Contracting authority may use the accelerated procedure when circumstances provided in Article 46 of the LPP exist and such circumstances must be justified in writing.

In the contract "Expansion and maintenance of the public lighting network" with an estimated value of €480,000, the specified period of validity of the tender performance security was 90 days from the day of submission of the bid (i.e. 15.07.2021). The performance security deadline of the awarded winner had expired 8 days before the contract was signed. In addition, the notification on the Contracting Authority's decision was made on 30.04.2021, whilst the contract between the CA and the EO was signed on 23.07.2021, about 3 months delay from the publication of the procurement activity results.

Shortened procedures/deadlines were used to conduct this procurement procedure due to the need to obtain the intended services. We also found other four cases that the contracts were signed in delays ("Drafting and Supervision of Capital Investment Projects"; "Construction and Asphalting of Roads in the Vërnica and Bare villages"; "Horizontal and Vertical Marking in the City"; and "Supply with construction material for Construction and Renovation of Houses"), regardless of the fact that accelerated time limits for bids acceptance were applied and written justifications on the need to accelerate the procedure were provided.

This occurred as a result of the neglect of the Procurement Officer.

**Impact**

Delayed signing of contracts lead to delayed acceptance of services and works and to failure to implement the business plan and spent the municipal budget. Meanwhile, the shortening of deadlines for submission of bids makes it impossible for the interested Economic Operators to prepare and submit their bids, taking into account the purpose, requirements and complexity of the respective procurement process.

**Recommendation A9**

The Mayor should ensure that the Procurement Unit carries out proper planning in due time, in order to prevent the accelerated time limits from being applied, or applied as little as possible, and to prevent the municipal budget and competitiveness for delivery of goods/works/services from being undermined. He should also ensure that contracts are signed as soon as the bids evaluation process is finished, in order to gain time to implement the projects.

**Response of entity's management (agree)**

### 2.3.3 Accounts Receivables

Accounts receivables disclosed by the Municipality of Mitroica South in 2021 AFS were in the amount of €12,750,721. This is made of receivables from property tax, uncollected municipal fees, waste collection, rent, etc. Compared to the previous year, AR have increased by €1,247,289.

#### **Issue B4 – Challenges in collection of accounts receivable**

##### **Finding**

According to the Law on Immovable Property Tax, Article 26, 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 ten Euros (€10). Whilst Article 27 of the same law stipulates that if a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated 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 be received by the debtor. Other revenues should be collected according to the deadlines set forth in the invoice or regulation for each type of revenue.

The Municipality is failing to establish mechanisms to reduce AR. Compared to the previous year, AR have amounted to €12,750,721, an increase of about 11%. The main challenge remains the collection of property tax, which in 2021 only, amounted to €7,249,498; revenues from municipal fees, amounting to €1,966,496; and revenues from waste collection amounting to €2,086,444. Based on audit samples of AR, we found no cases that the Municipality has taken any legal action to collect the debts in 2021.

The increase of AR is as a result of insufficient actions taken by the Municipality to collect debts.

##### **Impact**

Lack of sufficient action or shortcomings in the AR collection process may discourage other taxpayers from paying their dues on time. Furthermore, failure to collect planned revenues undermines the implementation of projects planned from own sources. The ageing of receivables makes it difficult to collect them.

##### **Recommendation B4**

The Mayor should provide for strengthened controls over the management and collection of receivables as well as increased efficiency. To this end, the reasons behind the increase in accounts receivable should be analysed and legal actions to collect them should be undertaken.

##### **Response of entity's management (agree)**

#### **Issue B5 – Failure to take legal actions on collection of receivables and inadequate management of rented municipal properties and of AR files**

**Finding** The back of the municipal business tax invoice indicates that the business tax is calculated on an annual basis, based on the Municipal Regulation on Taxes, Tariffs and Penalties and that the payment can be made in 4 instalments with no interest and fines applied. But, once the deadline is due, the Municipality shall apply mandatory collection. Meanwhile lease contracts for municipal property specify that the rent is paid on a monthly basis.

In testing 16 samples we found that business taxes have not been paid for up to six years. While auditing 16 samples of rented municipal property we found that the tenants have been using municipal property with expired contracts ranging up to ten years and have not paid their liabilities. In one case, a tenant had a contract terminated in 2017, thus owing €205,500 to the Municipality. Despite this, the Municipality had decided in 2018 to enter into a new lease contract with the same tenant, but for another property on a monthly payment of €632. Even under this contract the leaseholder owes a debt of €7,589. Moreover, almost none of tested samples contained invoices both paid and unpaid by leaseholders, where the invoices are issued by the Municipality only upon request of the debtor. Therefore, we were unable to confirm that the debts cards and the amount of disclosed accounts receivable are true.

This has occurred as a result of staff negligence and inaccurate appointment of persons/departments responsible for managing lease contracts.

**Impact** Failure to take measures on collecting the debts leads to increased accounts receivable. Awarding contracts to debtors that have not settled old debts encourages the other debtors to defer the debt settlement or not pay the debt at all. Failure to complete the debtors' files/cards does not provide assurance that the debt is true. Failure to issue and send the invoice to the debtors raises the question as to whether the debtors are aware that they are being billed or not, given that some have not paid for half a decade.

**Recommendation B5** The Mayor should address the abovementioned problems by undertaking legal measures towards the debtors under the agreed terms; handling the expired contracts according to the established procedures; and sending the invoices to the debtors to remind or warn them about the amount due to be paid. In addition, officers should take actions to complete the debtors' files in order to ensure that evidence proving the truthfulness of the presented amounts of AR is in place.

**Response of entity's management (agree)**

## 2.3.4 Contingent liabilities

The statement of contingent liabilities by the end of 2021 was €4,537,055.

### **Issue A10 – Incomplete presentation of contingent liabilities**

**Finding** The Annual Financial Report on Budget Organisations, Article 18, provides for detailed presentation and disclosure of contingent liabilities in the tables.

Accounts receivables disclosed by the Municipality were in the amount of €4,537,055, related to court disputes for compensation of property and services. Claims of education employees for compensation of meals, farewell and jubilee salaries of employees (a total of 1269 employees who have filed lawsuits), were not disclosed as contingent liabilities in the AFS.

This has occurred due to poor management of information on contingent liabilities and inadequate coordination between the legal department and the finance department.

**Impact** Incomplete presentation of contingent liabilities (lawsuits) leads to the understatement of such liabilities, thus resulting in improper planning of the budget to cover them in the following years in case these disputes are lost.

**Recommendation A10** The Mayor should ensure that the information on contingent liabilities is updated on regular basis and that the same are fairly presented in the AFS, including the financial impact of each lawsuit.

**Response of entity's management (agree)**

### 2.3.5 Internal Audit Function

The Internal Audit Unit (IAU) operates with three staff members - the IAU Director and two auditors. The Municipality has also established the Audit Committee, which is functional. In addition to the strategic plan, the IAU has drafted the Annual Plan for 2021 and by the end of the year had finalized six audit reports, as planned. The audits covered the area of procurement, commissioning of public property, the municipal education department, the health directorate, the personnel office, and the department for European integration and social welfare. The audit of the Procurement Directorate focused on 2021, two other audits included the year 2021 partly, and two other audits focused only on 2020, while one audit focused on the years 2019-2020.

#### **Issue B6 – Implementation of IAU recommendations not at a satisfactory level**

**Finding** The MF Administrative Instruction No.01/2019 on the Establishment and Functioning of Audit Committee in a Public Sector Entity, Article 7, paragraph 1.7, stipulates that the Audit Committee reviews summary reports, findings, recommendation of internal audit and ensures that those have been addressed properly by the head of public sector entity.

In examining the implementation of IAU recommendations, we found that level of implementation of recommendations was low. Out of 32 recommendations given, 10 were implemented, 8 were under implementation and 14 were not implemented at all.

The reason behind failure to implement the recommendations was the lack of actions plans and of a formal monitoring process applied by the management.

**Impact** Failure to implement the IAU recommendations may lead to the repetition of the errors and mistakes identified by the internal audit.

**Recommendation B6** The Mayor should ensure that an action plan on implementation of internal audit recommendations is prepared and that a formal monitoring and reporting process is put in place. The same should be reviewed periodically in order to follow up the progress in their implementation.

**Response of entity's management (agree)**

### 3 Summary on budget planning and execution

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

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

Description	Initial Budget	Final Budget <sup>4</sup>	2021 Outturn	2020 Outturn	2019 Outturn
<b>Sources of Funds</b>	<b>22,115,361</b>	<b>22,918,889</b>	<b>22,394,096</b>	<b>21,203,738</b>	<b>19,555,066</b>
Government Grant -Budget	19,615,386	19,350,409	19,306,154	18,874,382	16,950,914
Funding through borrowing	0	60,970	60,955	115,801	52,878
Carried forward from previous year	0	719,087	715,326	441,740	347,061
Own Source Revenues	2,499,975	2,335,857	2,248,778	1,316,604	2,116,286
Domestic Donations	0	89,134	45,555	49,084	16,464
External Donations	0	363,432	17,328	406,127	71,463

The final budget was higher than the initial budget by €803,528. This increase is a result of the own source revenues carried forward from the previous year and donations, whilst the funds of the Government Grant were decreased.

In 2021, the Municipality of Mitrovica South spent €22,394,096 or 98% of the final budget, an improvement of 7% compared to 2020. Explanations on the current position are detailed below.

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

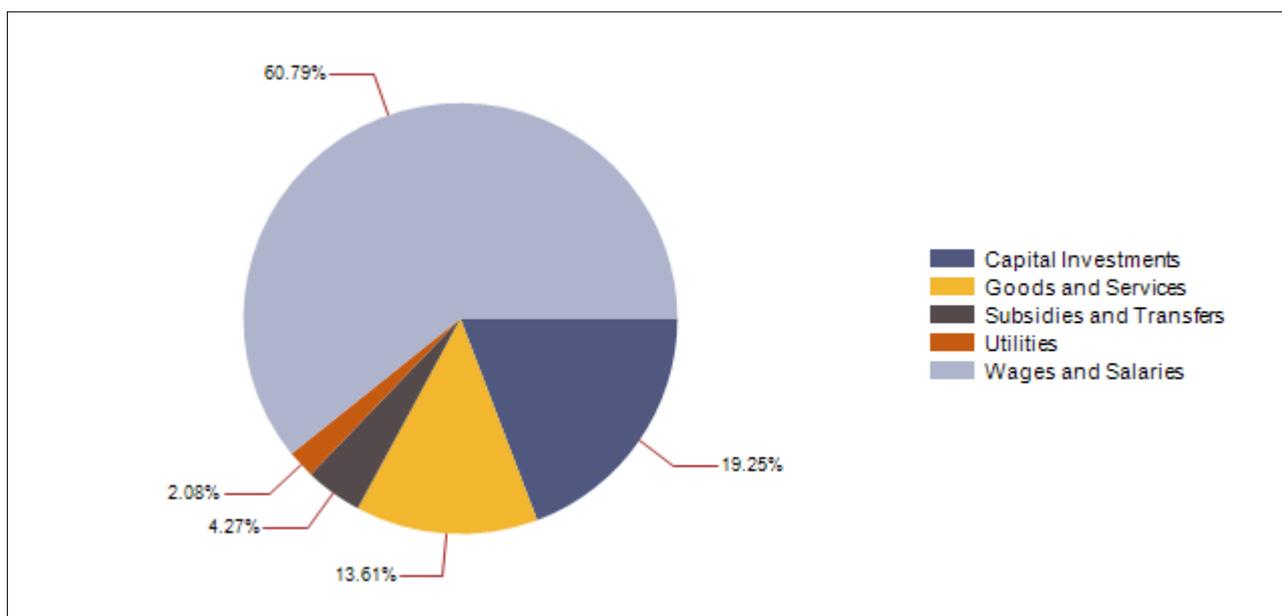
Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
<b>Spending of funds by economic categories</b>	<b>22,115,361</b>	<b>22,918,889</b>	<b>22,394,096</b>	<b>21,203,738</b>	<b>19,555,066</b>
Wages and Salaries	12,165,605	13,633,717	13,614,018	12,187,045	11,885,268
Goods and Services	2,668,883	3,149,269	3,047,293	3,338,650	2,072,726
Utilities	493,815	477,214	466,332	382,851	482,100
Subsidies and Transfers	530,043	972,730	956,418	718,371	531,282
Capital Investments	4,360,511	4,685,959	4,310,034	4,576,821	4,583,690
Reserves	1,896,504	0	0	0	0

<sup>4</sup> Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

Explanations for changes in budget execution by economic categories are given below:

- The final budget for Wages and Salaries was increased by €1,468,112 as a result of own source revenues carried forward from the previous year and external donations. The budget for this category was spent at 99,86%.
- The final budget for Capital Investments was increased by €325,448. This was as a result of carried-forward own source revenues, loan, and external donations. The budget for this category was spent at 92%. Although a relatively high percentage of budget outturn, some of the budgeted projects were not implemented at all, whilst the planned final budget of some others projects was overspent.
- The final budget for Subsidies and Transfers was increased by €442,678 compared to the initial budget as a result of carried-forward own source revenues and donors grants. The budget for this category was spent at 98%.
- The final budget for Goods and Services was increased by €480,386 compared to the initial budget as a result of the budget review, carried-forward own source revenues and donations. The budget for this category was spent at 97%, a relatively high percentage.
- The final budget for Utilities was decreased by €16,601 compared to the initial budget. The budget for this category was spent at 98% by the yearend.
- Funds spent in 2021 for the economic recovery were €451,746. They were mainly allocated for allowance in the education and health sectors.

Chart 1. Expenditures by economic categories in 2021



Revenues generated by the Municipality of Mitrovica South in 2021 were in the amount of €3,271,712.14. They relate to property tax, construction permits tax, administrative fees, business tax, rental, etc. In addition, there were funds of €61,784 returned from the last year's revenues, which were presented in the tables as other revenues. It is worth noting that this year the Municipality has generated €935,855 more revenues than the last year.

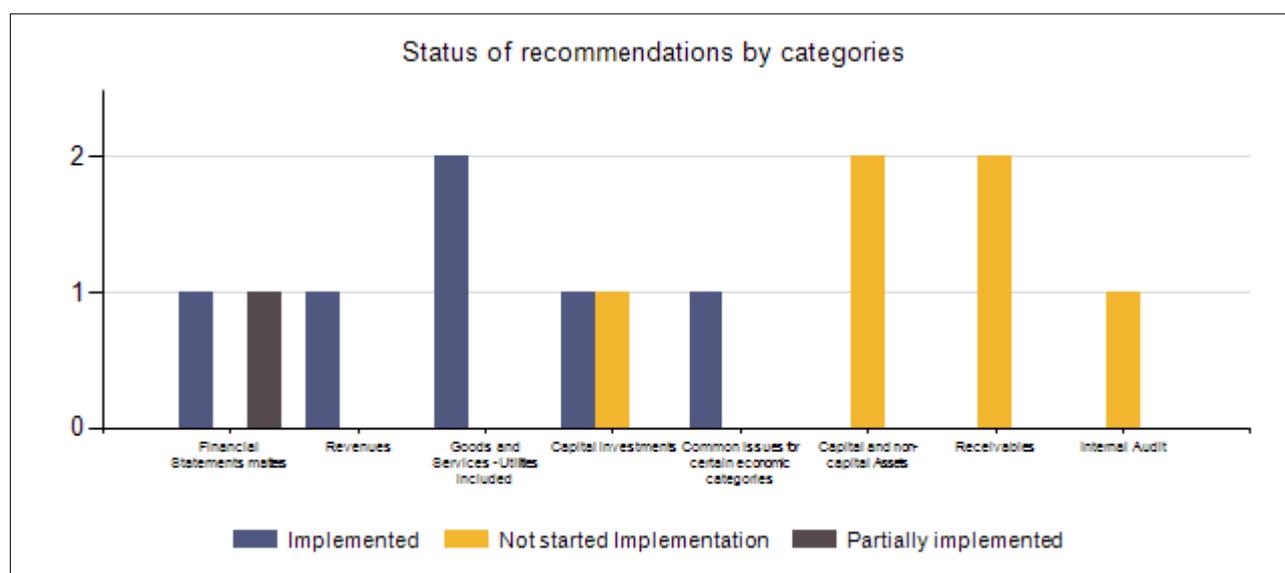
**Table 3. Revenues (in €)**

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
<b>Total of revenues</b>	<b>2,499,975</b>	<b>2,335,857</b>	<b>3,271,712</b>	<b>1,766,659</b>	<b>2,304,797</b>
Tax revenues	977,388	934,702	1,002,543	645,927	775,500
Non-tax revenues	1,522,587	1,401,155	2,207,385	1,120,732	1,529,297
Other revenues	0	0	61,784		

## 4 Progress in implementing recommendations

Our audit report on 2020 AFS of Municipality of Mitrovica South resulted in 13 recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2021 audit, six (6) recommendations have been implemented; one (1) was under implementation, and six (6) have not been implemented. For a more thorough description of the recommendations and how they are addressed, see Table 4 (Table of recommendations).

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



**Table 4. Summary of prior year's recommendations and of 2020**

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	AFS	The Mayor should ensure that liabilities are planned/budgeted and paid within the statutory deadlines	The funds to pay the debts and for the enforcement orders have been planned in the budget of 2022, whilst outstanding invoices disclosed in the AFS will be difficult to be paid in time because the budget was approved in February 2022, therefore delays will occur in 2022 as well.	Partly implemented
2	AFS	The Mayor should consider addressing the outstanding liabilities with the Ministry of Finance during the budget preparation and setting the budget priorities to pay them.	The Municipality planned the budget for paying outstanding liabilities and enforcement orders in the Budget for 2022.	Implemented
3	Revenues	The Mayor should ensure that appropriate legal actions are taken to return properties used by private or legal entities under the Municipality's control, or that the contracts are renewed so that the Municipality will be able to collect revenues from renting these properties.	There were no such cases this year	Implemented
4	Goods and Services and Utilities	The Mayor should provide for an increased level of supervision and management of public contracts, by obtaining true and sufficient information on the implementation of contracts. He should also ensure that the progress in the contracts implementation is reported on to the Mayor and the Procurement Office on a regular basis, one or three months.	There were no such cases this year	Implemented
5	Goods and Services and Utilities	The Mayor should, through the procurement manager, ensure that the legal requirements related to the performance security are strictly applied prior to the contract conclusion, in order to ensure the smooth running of contractual obligations by economic operators.	There were no such cases this year	Implemented
6	Capital Investments	The Mayor should ensure that the legal requirements are strictly applied so that the contracts are signed in accordance with the planned and approved budget, in order to assure that the projects are implemented on time and at no additional cost.	No measures have been taken	Implementation not started

7	Capital Investments	The Mayor should ensure that all the established contract terms are fully applied, including the statement signed by the EO guaranteeing the executed/delivered works.	We found no similar cases this year	Implemented
8	Common Issues	The Mayor should provide for the adequate level of accountability when it comes to adherence to the deadlines set regarding the notification for signing the contract, as required by the Law on Public Procurement.	In the tested contracts of this year, notifications were made within the statutory deadlines.	Implemented
9	Assets	The Mayor should ensure that the responsible officials possess the information related to the asset register, in order to finalize the asset registration process for the completed projects.	No measures have been taken to implement this recommendation	Implementation not started
10	Assets	The Mayor should take measures to ensure that all owned assets above and below €1,000 are recorded in the relevant registers, so that the presentation of information in the AFS is true and complete. He should also ensure that the e-asset system is put to use and the inventory report is taken into account prior to preparing the AFS.	The situation with assets recording and registration is the same this year as well.	Implementation not started
11	Accounts Receivables	The Mayor should take measures to ensure that accounts receivable are recorded truly and timely, and that cuts are made at the end of the year so that their value is disclosed correctly by the time AFS for 2021 are prepared.	We were unable to confirm the truthfulness of some of the accounts receivable due to lack of complete evidence.	Implementation not started
12	Accounts Receivables	The Mayor should provide for strengthened controls over the management of receivables, increased efficiency and strengthened controls over their management and collection. In this regard, he should analyse the causes behind the increase in receivables in order to take legal action to collect them.	The Municipality has not taken any actions to reduce the accounts receivable.	Implementation not started
13	Internal Audit	The Mayor should ensure that the internal audit recommendations are followed by a formal monitoring and reporting process by the responsible units and that they are periodically reviewed in order to see the progress of their implementation.	Regardless of the commitment made in the action plan, the situation of the implementation of IAU recommendations is the same	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

Lavdim Maxhuni: Head of Audit

Bujar Bajraktari: Team leader

Gazmend Namani: Team member

Edon Kabashi: Team member

Fatbardha Jashari: Team member

## Annex I: Letter of confirmation

**REPUBLIKA E KOSOVËS**  
Republika Kosova – Republic of Kosovo

**Komuna e Mitrovicës së Jugut**  
Opština Južna Mitrovica – Municipality of Mitrovica South

**LETËR E KONFIRMIMIT**

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Draft-Raportin e Auditimit për vitin 2021 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 Vjetore Financiare të Komunës së Mitrovicës së Jugut për vitin e përfunduar më 31 dhjetor 2021 ;
- Pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë komente për përmbajtjen e Draft-Raportit të auditimit për PVF të Komunës së Mitrovicës së Jugut për vitin përfunduar më 31 dhjetor 2021.
- Ju njoftoj se brenda 30 ditëve nga pranimi i Raportit Final të ZKA, do t'ju dorëzoj një Plan të veprimt për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tij.

z. Bedri Hamza   
Kryetar i Komunës të Mitrovicës së Jugut

Data: 28 Prill 2022, Mitrovicë e Jugut



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

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

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

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

### (Extract from ISSAI 200)

#### Forms of opinion

##### **Unmodified opinion**

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

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

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

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

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

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

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

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

- Modified (qualified)
- Adverse, or
- Disclaimer

### **Qualified opinion**

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

### **Adverse opinion**

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

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

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

### **Disclaimer of opinion**

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

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

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

An Emphasis of Matter paragraph should:

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

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