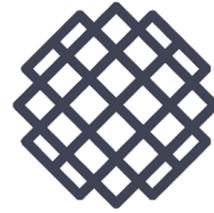




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF SHTRPCE 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 Shtrpcce 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 authorities¹.

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Shtrpcce, 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 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 Shtrpcce, 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

A1 The Municipality did not record the purchases of 2021 of €388,168 made under the category of capital investments. In addition, the Municipality does not use the E-assets system to record assets under €1,000. Purchases of €119,771 of 2021 were not recorded in the E-assets system, thus the capital and non-capital assets value was not disclosed accurately in the AFS.

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.

Audit Conclusion on Compliance

We have also audited if 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 matters described in the Basis for Conclusion on Compliance section of our report, transactions carried out in the process of execution of Municipality of Shtrpcce’s

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

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

- B1 The stocktaking commission did not prepare an inventory balance report prior to the preparation of the AFS.
- B2 The original cost of medical equipment in the assets register is €1,823,644. These equipment are stored in the warehouse, are not being used, they get depreciated and the remaining book value of some of them is zero.

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.

For more, see sub-chapter 2.2 Issues with impact on the compliance 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 Shtërpe's financial reporting process.

Management's Responsibility for Compliance

Shtërpe 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

³ Collectively referred to as compliance with authorities

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 Shtërpe'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 Shtërpe'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 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, liabilities, receivables, as well as recording of non-financial assets, including internal control 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 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.

This report comprises six (6) recommendations of which two (2) are new recommendations and four (4) 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 A1 - Failure to record assets in the respective registers and their incomplete presentation in the AFS

Finding Pursuant to Regulation MoF – No. 02/2013, on Management of Non-Financial Assets by Budget Organizations, Article 6, capital assets must be recorded in KFMIS, while the non- capital assets and stocks in the “E- assets” system, also, Article 6 of Regulation MoF- No.01/2017 on Annual Financial Statements of Budget Organizations sets forth that budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information.

The Municipality did not record the purchases of 2021 of €388,168 executed under the category of capital investments (€330,406 for medical equipment and €57,762 for construction of local roads). In addition, the Municipality does not use the E-assets system to record assets under €1,000. Purchases in the amount of €119,771, including the purchase of computers, inventory and other IT equipment were not recorded in the E-assets system, thus the capital and non-capital assets value was not disclosed accurately in the AFS.

This occurred due to lack of internal controls over asset management.

Impact Failure to record assets in the respective registers and present them in the AFS results on unfair and untrue information to stakeholders or users of AFS regarding the value of assets of the budget organisation.

Recommendation A1 The Mayor should ensure that all purchased assets are recorded in accordance with the Rule on asset management, so that their presentation in the AFS is true and complete.

Response of entity's management (Agree)**2.2 Issues with impact on compliance conclusion****Issue B1 - Failure to carry out the stocktaking of the non-financial assets**

Finding Pursuant to Regulation MoF – No. 02/2013, on Management of Non-Financial Assets by Budget Organizations, Article 19, paragraph 4.6 and 4.7 requires that The Non-Financial Assets Stocktaking Commission shall prepare the report on stocktaking, the commission is also responsible that the drafting of the general report based on the individual reports of the Non-Financial Assets Stocktaking Commission should be done in convenient time before the preparation of the annual financial statements. This process should precede the preparation of the AFS.

Assets Stocktaking Commission was established by decision of the Mayor dated 11.05.2021. However, the commission did not prepare any inventory balance report prior to the preparation of the AFS.

The issue of assets was not given due consideration by the management, indicating the lack of internal control in the Municipality, thus resulting in a poor management of assets

Impact Failure to prepare the inventory balance report within the set deadline, leads to untrue and incomplete presentation of assets in the Municipality registers and financial statements. It also leads to the risk of loss or appropriation of assets

Recommendation B1 The Mayor should conduct an analysis on the causes of the failure to perform duties defined by decision and demand responsibility by the responsible officers appointed, so that the stocktaking process is completed on time and give a true and fair view in the AFS.

Response of entity's management (Agree)**Issue B2 - Poor management of assets**

Finding Pursuant to article 2.1 of Regulation MoF 02/2013, all budget organizations are obliged to take the necessary measures for documenting, preserving, recording, alienation and reporting of non-financial assets with the aim of a more effective, efficient and economic management for the purpose of protection of non-financial assets from damage and misuse. The total value of medical equipment in the assets register is €1,823,644, which are kept in storeroom, are not utilized and are depreciated. For some of them, the remaining book value is zero. The closing amount of depreciation for these equipment for year 2021 was €1,214,173, whilst the remaining book value is €609,471.

The Municipality built a hospital which cost €1,647,257. The technical approval was done on 31.12.2012. The hospital has not been operationalised yet and it has started to depreciate from the date of technical approval has taken place. The closing accumulated depreciation of this building for year 2021 amounted to €377,473, whilst the remaining net book value is €1,269,684.

In the assets register of the Municipality, four residential buildings with a value of €2,709,075, built for citizens with severe social conditions were identified. Although the construction of buildings was finalised over 6 years ago, they still remain unused, are technically not approved, are kept as ongoing investments and are not depreciated. These buildings are not used by anyone and not maintained either.

During the visit we noticed that these buildings have started to be damaged.

This happened due to management's neglect and irresponsibility as well as lack of internal controls to rectify the above mentioned issues.

Impact

Storing of equipment in the warehouse for a long period of time, without utilizing them, leads to their depreciations even before being used and to their physical damage due to inadequate storage conditions. It also leads to the risk of misuse and misappropriation. Failure to carry out the technical approval, to put them to use and such management of buildings leads to the risk of them being damaged and to additional costs for restoring them.

Recommendation B2

The Mayor should ensure that requests on purchasing of equipment and procurement needs planning are well analysed and in compliance with prerequisite established for their functioning, always taking into account the value for money. Urgent measures should be taken to establish the prerequisites for the equipment in warehouse and social housing to be put into use as soon as possible.

Response of entity's management (Agree)

2.3 Findings on financial management and compliance issues

2.3.1 Revenues

Revenues generated by the Municipality of Shtpce in 2021 amounted to €353,361. They relate to property tax, construction permits tax, business activities tax, inheritance tax, administrative fees etc. In addition to the above mentioned revenues, the Municipality has also received indirect revenues which are collected by the central level in the amount of €56,982 (€38,429 from traffic fines, €17,082 from Forestry Agency fines and €1,470 from the Court).

Issue B3 – Failure to distribute invoices/ decision on business tax

Finding Pursuant to Article 3 of Municipal Regulation on taxes it is required that after the registration of business activity, the annual amount of tax is determined by a decision and submitted to business entities no later than one month before the beginning of the calendar year.

The Municipality of Shtpce did not distribute to the business's decisions/invoices on business tax for 2021 and did not undertake any action to implement the recommendation given in the previous audit.

This situation remains still the same due to the negligence of the responsible officers.

Impact Disregard of the regulation in regards to the distribution of invoices/decisions on business tax leads to the decrease of revenues, resulting in less Municipal funds to achieve the planned objectives.

Recommendation B3 The Mayor should ensure that the responsible officers discharge their duties and responsibilities in regards to business tax billing and distribution of invoices/decisions to business entities.

Response of entity's management (Agree)

2.3.2 Receivables

Accounts receivable disclosed by the BO in 2021 AFS were in the amount of €3,029,583. This is made of accounts receivable for property tax amounted to €2,814,403 and annual business tax amounted to €215,180. We tested 70 samples of €133,535 as part of substantive testing, and 5 samples as part of compliance testing.

Issue B4 – Poor management of accounts receivable**Finding**

Pursuant to Law no. 06/L-005 on Immovable Property, Article 30.1 stipulates that if after one hundred and eighty (180) calendar days from the last day for payment, in accordance with paragraph 1 of Article 27 of this Law, the payment has still not been made, the Municipality shall adopt a decision on the execution of outstanding tax liabilities that have exceeded the amount of three hundred (300) Euros. The decision shall be adopted within ten (10) business days.

Based on the Municipal Regulation on taxes, fees and penalties, Article 3.3 tax for conducting business activity, obliges business entities to pay all financial liabilities from previous years. Whist, Article 27 provides penalties for non-compliance with the provisions of the said Municipal regulation.

Out of 70 samples tested for accounts receivable, 20 of which for property tax, we found that debts towards the Municipality were over €300 (each), and in 17 cases for business tax, businesses did not pay their liabilities of €31,600 to the Municipality for years.

However, the Municipality under no circumstances did initiate a mandatory collection procedure, therefore the receivables are increasing from year to year. In 2021 the accounts receivable amounted to €3,029,583. Compared to 2020, when the accounts receivable were €2,591,936, it shows an increase of around €437,647 or 15%.

During the audit of taxes on business activities, we found that permits for exercising activities were not given to business entities by the Municipality. In this regard, we did a detailed examination of the database of the accounts and found that it is completely unreliable because some business were not included in it at all. The database contains numerous errors because businesses were charged with lump sums on yearly basis, without prior confirmation of the business status.

Officers in charge of recording the accounts receivable did not submit the final warnings to business entities before conducting the mandatory collection. Their lack of effectiveness and efficiency at work has resulted in liabilities not being paid for years.

Impact

Failure to implement the Law and regulations which provide the Municipality with mechanisms for the collection of receivables, leads to the continuous increase in the amount of receivables, failure to implement Municipal plans and encourages other debtors not to meet their obligations.

Recommendation B4

The Mayor should take appropriate actions to increase accountability of the respective officers for rules enforcement, in order to increase the collection of debts and prevent the continuous increase of accounts receivables, as well as to ensure that the database and final balance sheet on accounts receivables is accurately updated.

Response of entity's management (Agree)**2.3.3 Outstanding liabilities**

The statement of liabilities at the end of 2021 was €18,572. These liabilities are carried forward to be paid in 2022.

Issue A2 – Delay in payment of invoices

Finding Article 39 of LPFMA requires that every valid invoice and demand for payment for goods and services, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice.

Out of five (5) tested samples we found that, in two (2) cases, invoices in the amount of €12,580 were not paid within the legal deadline of 30 days. Delays are mainly from 30 to 90 days after the legal deadline.

The reason of delay in payments was lack of funds.

Impact Failure to pay liabilities within the legal deadline increases the possibility for suppliers to address enforcement officers and courts which create additional costs for the Municipal budget and may have budgetary implications in operational activities of the Municipality.

Recommendation A2 The Mayor should ensure that all invoices are paid within the legal deadline and that goods, works or services are not ordered unless the Municipality provides funds in advance or allocates sufficient budget funds for payment.

Response of entity's management (Agree)**3 Summary on budget planning and execution**

We have considered 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 ⁴	2021 Outturn	2020 Outturn	2019 Outturn
Sources of Funds	3,643,262.99	3,764,111	3,175,154.42	4,254,903.39	3,604,955.30
Government Grant - Budget	3,228,963.99	3,094,323	3,042,254.42	3,784,072.50	3,359,235.96
Funding through borrowing	0.00	4,435.84	4,435.84	11,025.00	11,537.16

⁴ Final budget – the budget approved by the Assembly and subsequently adjusted for by the Ministry of Finance

Carried forward from previous year	0.00	247,604	25,349.65	312,228.14	106,214.76
Own Source Revenues	414,299.00	414,299	99,665.51	123,954.21	127,967.42
External Donations	0.00	3,449	3,449.00	23,623.54	0.00

The final budget was higher than the initial budget by €120,848. This increase is a result of own source revenues of €247,604 carried forward from the last year; from borrowing in the amount of €4,435, from external donations in the amount of €3,449, whilst in the final budget compared to the initial budget the Government Grant was reduced by €134,640.

In 2021, the Municipality spent 84% of the final budget with a decrease of 3% compared to 2020. Budget implementation remains at a satisfactory level with an exception of capital investments category, where the budget execution is at a low level about 44%. Explanations for the current position are given in more details below:

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

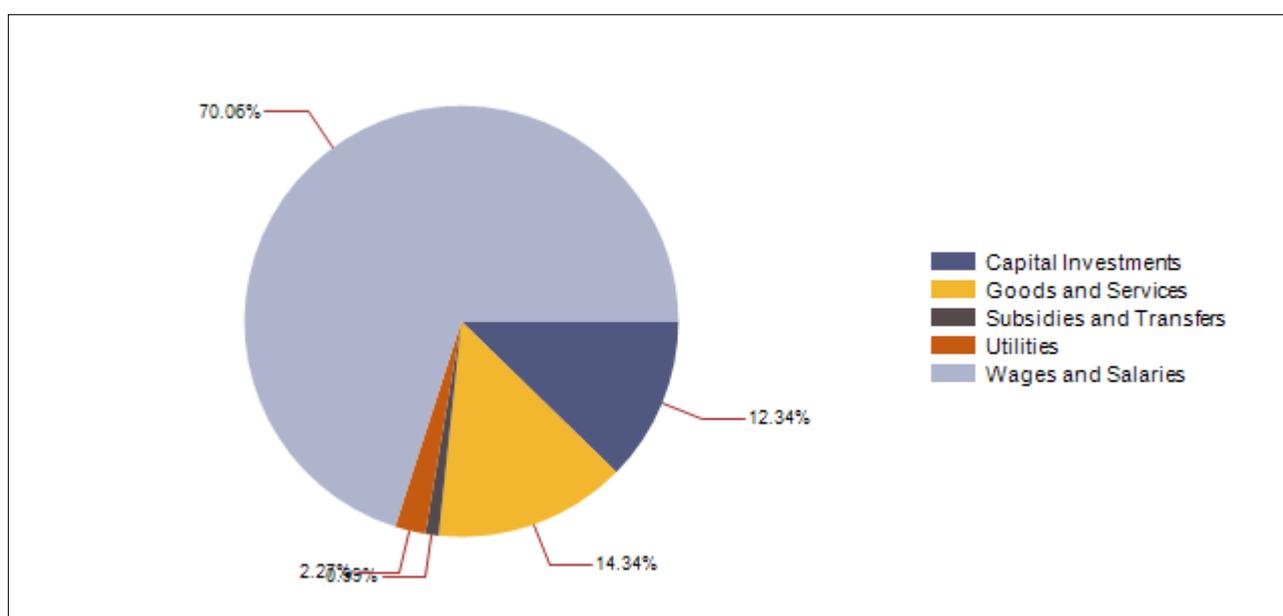
Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
Spending of funds by economic categories	3,643,262.99	3,764,111	3,175,154	4,254,903.39	3,604,955.30
Wages and Salaries	2,355,399.99	2,226,095	2,224,656	2,181,915.69	2,142,704.21
Goods and Services	449,730.00	484,263	455,380	396,570.06	394,996.72
Utilities	90,625.00	90,625	72,000	64,385.39	71,858.73
Subsidies and Transfers	45,000.00	74,299	31,500	236,332.05	31,300.00
Capital Investments	702,508.00	888,829	391,618	1,375,700.20	964,095.64

Explanations for changes in budget categories are given below: (Descriptions should be in the same order with that of the table above);

- Despite an increase in the capital expenditure budget during 2021, only 44% of the budget was spent, five (5) projects of €315,000, which were planned with a budget, were not implemented in 2021. The reasons for non-implementation are: the project of €30,000 for “Preparation of blueprints” is sitting in the PRB; the project of €30,000 for “Co-financing of projects” was not initiated because there were not co-financers; in the project for “Area mapping” works were executed but the EO delayed the project implementation; whilst the other projects had not started to be implemented because of the lack of funds, given that they were planned to be funded from the Own Source Revenues.
- The final budget for Wages and Salaries compared to the initial budget was decreased by €129,305, whilst the spending for this category was 99%.

- The final budget for Goods and Services and Utilities compared to the initial budget was increased by €34,533. This increase is from own source revenues carried forward from the last year, whilst the spending for this category was 92%.
- The final budget for Subsidies and Transfers compared to the initial budget was increased by €29,299. This increase is from own source revenues carried forward from the last year, whilst the spending for this category was 42%.
- The Municipality has accepted donations during 2021 in the amount of €3,449 which were spent for the purchase of non-financial assets; and
- The funds spent in 2021 for Economic Recovery totalled to €51,507 which were mainly appropriated for allowances in education and health.

Chart 1. Expenditures by economic categories in 2021



Revenues collected by the Municipality of Shtërpe in 2021 amounted to €353,361. They relate to property tax, construction permits tax, business activities tax, inheritance tax, administrative fees etc. In addition, the Municipality has also received indirect revenues collected by the central level in the amount of €56,982 (€38,429 from traffic fines, €17,082 from Forestry Agency fines and €1,470 from the Court).

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2021 Receipts	2020 Receipts	2019 Receipts
Total of revenues	414,299	414,299	353,361	232,753	318,182
Tax revenues	327,821	327,821	223,119	169,995	182,612
Non-tax revenues	86,478	86,478	130,242	62,758	135,570

4 Progress in implementing recommendations

Our audit report on 2020 AFS of Municipality of Shtërpe resulted in 7 key recommendations. The BO prepared an Action Plan stating how all recommendations will be implemented. By the end of our 2021 audit, three (3) recommendations have been implemented and four (4) were not addressed yet as shown in following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

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

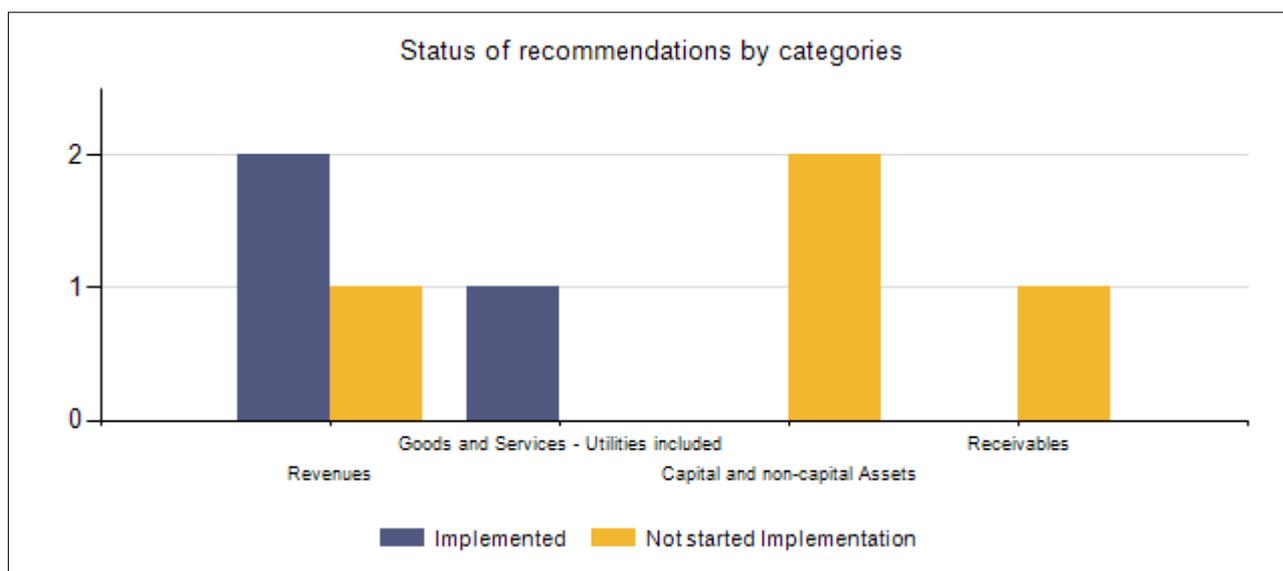


Table 4. Summary of prior year's recommendations and of 2020

No.	Audit area	Recommendations of 2020	Actions undertaken	Status
1	Revenues	The Mayor should ensure that the responsible Municipal Officers in cooperation with the Ministry of Finance correct the errors in the property tax database in accordance with the laws and regulations.	Actions have been taken to address this issue	Implemented
2	Revenues	The Mayor should ensure that the responsible officers perform their duties in regards to business tax billing and submitting of invoices/decisions to business entities.	Actions have been taken by the management to implement this recommendation as it has made a request to correct the issued error, but the necessary improvements have not been made to the system yet.	Implementation not started

3	Revenues	The Mayor should ensure that 20% of the properties are verified in order to integrate all possible changes to the database of existing municipal properties. Collection of revenues from this source will directly affect the implementation of projects that have the effect of increasing the quality of services for the citizens of the Municipality.	Actions have been taken to address this issue	Implemented
4	Goods and Services, ant Utilities	The Mayor should ensure that all procurement procedures and steps are followed in the engagement of individual contractors for specific services and that staff is engaged based on merit in order to be able to fulfil the required tasks.	Actions have been taken to address this issue	Implemented
5	Assets	The Mayor should conduct an analysis on the causes of the failure to perform duties defined by decision and demand responsibility by the responsible officers appointed to those commissions accountable for the stocktaking and evaluation of assets. The stocktaking report should be prepared before drafting the AFS for the purpose of comparisons and presentation of the real situation of Municipal assets.	No actions have been taken.	Implementation not started
6	Assets	The Mayor should ensure that requests on purchasing of equipment and procurement needs planning are well analysed and in compliance with prerequisite establishment for their functioning, always taking into account the value for money. Urgent measures should be taken to establish the prerequisites for the equipment in storerooms and social housing to be put into use as soon as possible.	The Municipality faces almost the same situation, except for the equipment purchase value which was lower.	Implementation not started
7	Accounts Receivables	The Mayor should ensure the implementation of laws and regulations for the collection of debts from property taxes and business taxes and strengthen internal control to prevent their continuous increase.	No actions have been taken.	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

Ejup Simnica: Team leader

Milos Petrovic: Team member

Annex I: Letter of confirmation



LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2021 dhe për zbatimin e rekomandimeve

Për: Zyrën e 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 Shtërpçës, për vitin 2021 (në tekstin e mëtejshëm "Raporti");
- pajtohem/ nuk pajtohem/ pajtohem pjesërisht/ 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. Dalibor Jevtić
Kryetar i Komunës Shtërpçës,
Data: 20.04.2021, Shtërpçë



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 statements⁵ 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 authorities⁶. 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

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

⁶ 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.