



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 JUNIK FOR YEAR 2021

Prishtina, June 2022

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1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Junik 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.

Unmodified opinion on annual financial statements

We have audited the annual financial statements of Municipality of Junik, 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, the annual financial statements of Municipality of Junik, give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for the opinion

We conducted our audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. NAO is independent from the auditee, in accordance with INTOSAI-P-10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusion on compliance

We have also audited whether the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our opinion, beside to the impacts of the issue described in the Basis for Compliance Conclusion, transactions carried out in the process of execution of Municipality of Junik budget have been, in all material respects, in compliance with the established audit criteria

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

arising from the legislation applicable for the auditee related to the use of financial resources.

Basis for the conclusion

B1 The Municipality of Junik in 4 capital projects had entered into contractual obligations beyond budgetary possibilities and contrary to the PPL Article 9, point 3. (see issue B1).

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 of Municipality of Junik 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 of Municipality of Junik 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 (amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The Mayor of Municipality of Junik is responsible to ensure the oversight of the Municipality of Junik's financial reporting process.

Management's Responsibility for Compliance

The Junik management is also responsible for the use of Municipality of Junik 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

³ Collectively referred to as compliance with authorities

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 Junik authorities with all applicable policies, rules and regulations as regards making use of financial resources of the audited Organisation

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 Junik internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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, including internal control, that are presented for your consideration below in the form of findings and recommendations.

These finding and recommendations are intended to make necessary adjustment to the financial information presented in the financial statements, including disclosures in the 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 (review) these recommendations during next year's audit.

This report has resulted in four recommendations, of which one is new recommendation and three are repeated recommendations. For the status of the previous year's recommendations and the level of their implementation, see Chapter 4.

2.1 Issues with impact on the compliance conclusion

Issue B1- Signing of contracts beyond the estimated budget amount

Impact

Based on LPP, article 9, point 3 - 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 Appropriations 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

1. For the project "Asphalting of the local road Junik - Jasic" - we have noticed that the budgeted value for three years was €135,000, while the contract was signed in the amount of €145,651 with a difference of €10,651, higher than the budgeted value.

In the Budget Law for 2021 there was no budget at all with the name of the project "Asphalting of the local road Junik - Jasic", while in the Budget Law for 2022 it entered as a new project but its total value was €55,000 adding the amount with the request approved by the MoF €80,000 from the reserve.

2. Co-financing with the Ministry of Economy and Environment (MEA) for the project "Construction of water supply in the neighbourhood Agim Ramadani" - the estimated value was €100,000, of which MEA would finance the amount of €80,000 while the municipality of Junik the amount of €20,000.

On 20.05.2021, the Ministry of Environment, Spatial Planning and Infrastructure (MESPI) had notified the Municipality of Junik that all co-financing which had previously been determined by memorandum from MEA (now after the change of government in (MESPI) has been terminated.

The Municipality of Junik had signed the statement of needs and determination of the availability of funds and the contract dated 13.07.2021, which expires almost two months after being notified by MESPI for termination of co-financing. The value of the signed contract was €86,036, which did not have the funds approved in the budget law.

3. For the contract for the construction of the “Memorial of KLA Martyrs - Junik” co-financing with the Agency for Management of Memorial Complexes, in the amount of €48,360, we have noticed that for the part financed by the Municipality in the amount of €18,360 there were no approved funds in the budget law for 2021.
4. The signed contract in the amount of €14,314 for “Construction of a Children's Park” was foreseen to be financed by the Ministry of Administration and Local Government with €10,264, while €4,050 by the Municipality. Procurement procedures were led by the Municipality and during their testing we have noticed that for 2021 there were no funds allocated for this project.

In the four projects mentioned above, we noticed that the Chief Financial Officer did not sign the statement on the availability of funds, but they were signed by other persons.

The abovementioned weaknesses have occurred as a result of poor project planning

Impact

Entering into contractual obligations by the municipality beyond budgetary possibilities and in contrary to the law, may affect and jeopardize the progress and implementation of projects as planned and may create additional costs for the municipality, putting the municipality in deep difficulties in fulfilling of created obligations.

Recommendation B1 The Mayor should ensure that the legal requirements are strictly applied so that the signing of contracts is done in accordance with the planned and approved budget, so that the implementation of projects is completed on time, and at no additional expenditure.

Entity management response (Agree)

2.2 Findings on issues of financial management and compliance

2.2.1 Common issues for certain economic categories

The following common issues relate to economic categories such as: goods and services, and capital investments:

Issue B2 –Commitment and purchase order with delay

Finding The financial Rule No. 01/2013, article 22, defines the steps for processing of payments, where, the purchase request must be made (commitment of funds) initially, then to carry out with the processing of purchase order, then the goods must be received, then after receiving the invoice the payment must be executed.

During the testing of payments, we have noticed that the commitment and purchase order were issued after receiving the invoices. These cases are as in the following:

- In 2 cases the commitment of funds and the processing of purchase orders was made after receiving the invoice; and
- In 4 cases the purchase order was issued after receiving the invoice.

This has occurred as a result of inefficient internal controls in the payment management and execution process.

Impact Commitment of funds and processing of purchase orders with delays complicates the proper implementation of contracts and creates uncertainty about orders for supply, services or commencement of works.

Recommendation B2 The Mayor should ensure the improvement of internal controls so that the process of execution of payments is done in accordance with the financial rules for the public funds expenditure.

Entity management response (Agree)

2.2.2 Capital and non-capital assets

The presented amount in the AFS of capital assets is €15,752,588, non-capital assets is €29,090, while stocks were zero. We tested 49 samples for substantial and compliance tests in the amount of €485,742.

Issue B3 – Shortcomings in asset registries

Finding Based on the regulation for management of non-financial assets No. 02/2013, article 6 - each budget organization shall put in place and update a register of non-financial assets under its management. The register must be maintained separately for each asset individually and in aggregate form pursuant to categories classified according to the accounting plan. According to the article 22, point 1 – Depreciation of assets is carried out following the linear method

Shortcomings identified in relation to asset management are as following:

- The Municipality has not yet removed from the register of capital assets vehicles sold in 2019 by public auction which were out of use, except that the request from the Municipality was made to the MF on 28.12.2021. However, these assets are still listed in the asset register presented in the AFS;
- The value of assets under €1,000 presented in the AFS in the amount of €29,090 does not match the annex to the statements. The value of this annex is €109,900 which includes stocks or stationaries. As such this ratio does not calculate the value of depreciation;
- A payment in the amount of €639 was not registered in the asset register under €1,000; and
- Furthermore, the value of stocks in the AFS was zero considering that stationaries were included in the annex to assets under €1,000.

Despite last year's recommendation this issue remains the same, the municipality had not yet implemented asset management controls. Also, the problems with the presentation of assets under €1,000 and stocks, are due to not updating the data with the reasoning that there was no contract for maintenance of the e-assets system by the MPA/MIA.

Impact Failure to update the registers as well as non-depreciation of assets affects the overestimation/underestimation of the asset register and thus consequently affects the information presented in the AFS not to be accurate.

Recommendation B3 The Mayor should ensure that the capital asset registers are updated and the depreciation for non-capital assets is calculated.

Entity management response (Agree)

2.2.3 Outstanding liabilities

The statement of outstanding liabilities at the end of the year 2021, was €105,533. These liabilities are carried forward to be paid in 2022.

Issue A1 – Shortcomings in reporting of liabilities

Finding Article 6, of Financial Rule 02/2013 on Reporting outstanding liabilities of budget organizations, requires that reports of outstanding liabilities of budget organizations are to be submitted within 15 days after the end of the month, for the balance of the previous month.

During the testing of reporting and the manner of payments for outstanding liabilities, we noticed that the registered invoices were not reported in the monthly reports to the MF. These were noticed in 7 payments in the amount of €52,707.

This has happened due to improper care that invoices are reported on time.

Impact Failure to report monthly liabilities affects incorrect reporting and increases the risk that invoices are not paid on time.

Recommendation A1 The mayor must ensure the efficient functioning of the control site that verifies that the invoices are reported timely in the monthly liability report to the MF

Entity management response (Do not agree)

3 Summary on budget planning and execution

We have taken into consideration 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	1,546,704	1,547,967	1,459,692	1,924,110	1,883,773
Government Grant -Budget	1,423,902	1,385,709	1,370,202	1,735,090	1,631,395

⁴ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance

Funding through borrowing	-	5,156	5,156	19,215	-
Carried forward from previous year ⁵	-	31,830	31,830	94,659	87,612
Own Source Revenues ⁶	122,802	122,802	52,504	75,146	91,862
External Donations	-	2,470	-	-	72,904

The final budget is higher than the initial budget by €1,263. This increase is as a result of increase of borrowing €5,156, own source revenues from last year €31,830 and donations €2,470, while it was decreased the government grant for €38,193.

In 2021, the Municipality of Junik spent 94% of the final budget or €1,459,692, with a decrease of 2% in comparison to 2020. However, budget execution remains at an unsatisfactory level and explanations for the current position are detailed below.

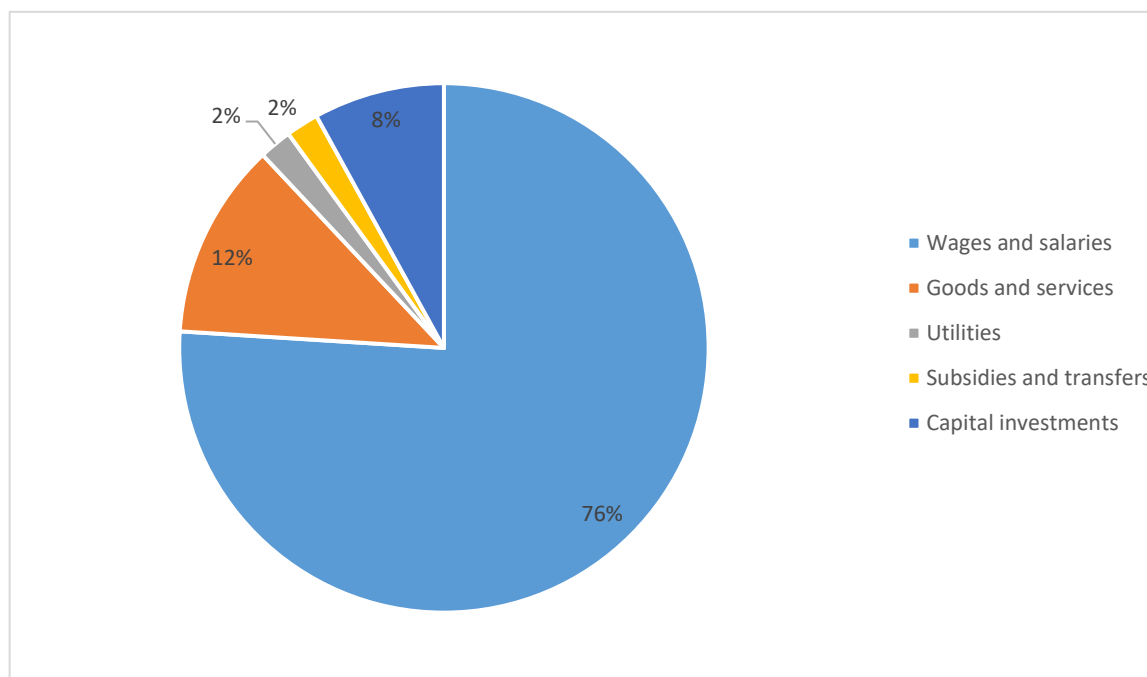
Table 2 – Spending of funds by economic categories - (in €)

Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
Spending of funds by economic categories	1,546,704	1,547,967	1,459,692	1,924,110	1,883,773
Wages and Salaries	1,147,799	1,114,762	1,114,762	1,169,345	1,110,999
Goods and Services	172,900	172,917	172,168	207,055	170,608
Utilities	36,200	36,200	29,878	32,625	29,910
Subsidies and Transfers	30,500	30,500	21,550	40,500	30,500
Capital Investments	79,305	193,588	121,334	474,585	541,756
Reserves (if any – delete if none)	80,000	-	-	-	-

⁵ Own Source Revenues unspent in previous year carried forward into the current year.

⁶ Receipts used by the entity for financing its own budget.

Chart 1. Expenditures by economic categories for year 2021



Explanations for changes in budget categories are given below:

- The decrease of the budget for Wages and Salaries compared to the initial one was for €33,037. Initially, it was increased with the budget review for the amount €27,285 while it was decreased for €60,322. Expenditure was at 100% of the budget in this category;
- In the category of goods and services, the final budget was increased compared to the initial one by the amount of €17. In this category, expenditure was 100%;
- The final budget of the category of utilities had no budgetary changes. Expenditure was at 83% of the budget;
- Similarly, the final budget of subsidies and transfers, had no budgetary changes. In this category the expenditure was 71%; and
- The increase in the capital investment budget compared to the initial one was in the amount of €114,283. This increase was through the government decisions, increase at the government grant for €33,698, own source revenues and the ones carried forward from last year for €78,133, and as well as donations for the amount €2,452. Expenditures in this category were 85% of the budget.

Revenues generated by the municipality in 2021 were in the amount of €139,621. They relate to property tax revenues, revenues from construction permits, administrative fees, from participations, from the exercise of activity, etc.

Table 3. Revenues (in €)

Description	Initial budget	Final Budget	2021 Receipts	2020 Receipts	2019 Receipts
Tax revenues	69,553	69,553	89,599	61,375	72,283
Non-tax revenues	53,249	53,249	50,022	37,576	107,533
Total	122,802	122,802	139,621	98,951	179,816

The total of gathered revenues for 2021, compared to 2020, were higher for 41% or for €40,670.

4 Progress in implementing recommendations

Our audit report on 2020 AFS of has resulted in 6 key recommendations. The Municipality prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2021 audit, 3 recommendations have been implemented, while for 3 recommendations, implementation did not start, as shown in the following Chart 2. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or Table of recommendations).

Chart 2. Progress in implementing prior year's recommendations

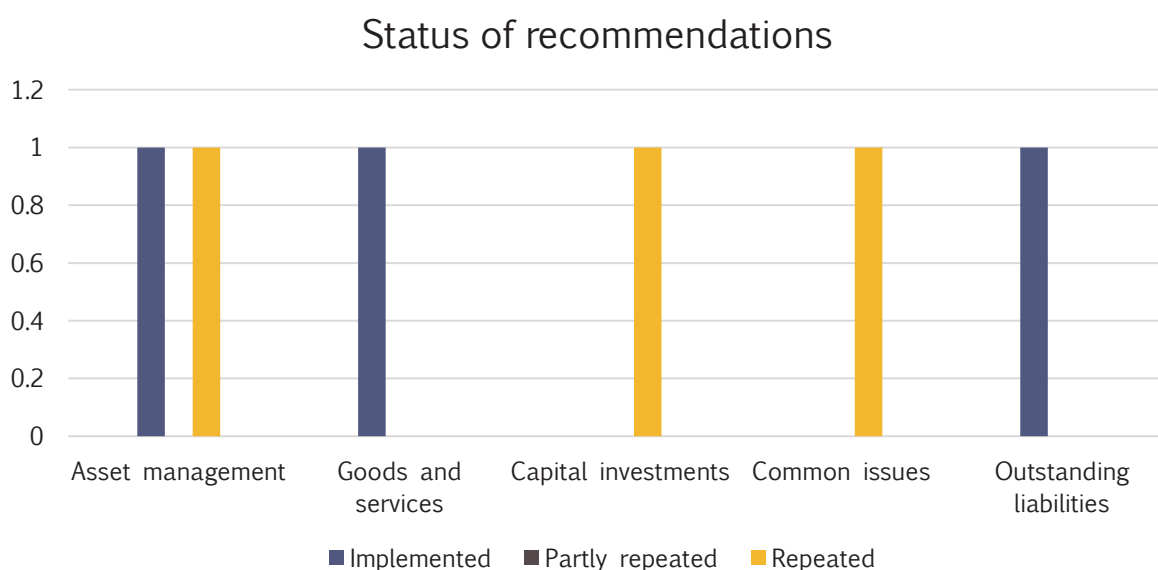


Table 4 Summary of prior year's recommendations and 2021

No	Audit area	Recommendations of 2020	Actions taken	Status
1	Basis for opinion	The mayor must ensure that all assets are registered, in accordance with the requirements of the regulation on property registration.	There was no such case in 2021.	Implemented
2	Goods and services	The Mayor should ensure the improvement of internal controls related to the planning and fair public funds expenditure according to the criteria set for the development of procurement procedures and the legal framework.	There was no such case in 2021.	Implemented
3	Capital investments	The Mayor should ensure that the legal requirements are strictly applied so that the signing of contracts is done in accordance with the planned and approved budget, so that the implementation of projects is completed on time, and at no additional cost.	This year we have noticed similar issues.	Implementation did not start
4	Common issues	The Mayor should ensure the improvement of internal controls so that the process of execution of payments is done in accordance with the financial rules for the public funds expenditure.	This year we have noticed similar issues.	Implementation did not start
5	Capital and non capital assets	The Mayor should ensure that the capital asset registers are updated and the depreciation for non-capital assets is calculated.	This year we have the same issue of assets.	Implementation did not start

6	Outstanding liabilities	The mayor must ensure the efficient functioning of the control site that verifies that the payment of invoices is done in accordance with the deadlines set by law.	During the testing we did not notice any delays in payment.	Implemented
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Signatures:

Vlora Spanca, Auditor General

Shehrije Shala, Head of Audit

Etika Co L.L.C, (Fatmir Mehmeti authorized person in charge of the company)

Annex I: Letter of confirmation/ Comments of BO regarding the audit report (if any)

Issue	Comments from the BO	KNAO view
Issue 4: Shortcomings in reporting of liabilities	Based on Article 5 of Financial Rule 02/2013 on reporting outstanding liabilities of budget organizations point 1, I quote "In accordance with provisions of article 39 paragraph 1 of LMFPA, a payment of a budget organization is considered to be in arrears if the invoice has not been paid 30 days after receipt of invoice. Therefore, I consider that none of the invoices mentioned during your testing have passed 30 days from the date of receipt until the date of their declaration. We as a Budget Organization have declared on a regular basis, for unpaid invoices and contractual obligations. in two separate reports according to the legal deadlines for reporting outstanding liabilities.	The Municipality has given clarifications and indicated the circumstances that have led to the situation ascertained by the audit. However, it has not provided us with any evidence or other proofs to show a situation other than that found by the audit. Therefore the finding and recommendation remains the same.

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

Auditor's Report on the financial statements⁷ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁸. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

(extract from ISSAI 200)

Forms of opinion

Unmodified opinion

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

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

⁸ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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 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.