



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 DRAGASH 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 Dragash 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 Dragash, 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 Dragash, 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

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 Dragash budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee related to the use of financial resources.

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

Basis for the conclusion

During our engagement we found that the Municipality has not acted in accordance with the authorities such as:

A1 The Municipality had paid 6 payments in delay in the amount of €132,772 after the allowed deadline of 30 days.

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 Dragash 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 Dragash 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 Dragash is responsible to ensure the oversight of the Municipality of Dragash's financial reporting process.

Management's Responsibility for Compliance

The Municipality of Dragash management is also responsible for the use of Municipality of Dragash 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 Dragash 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 Dragash 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 six recommendations, of which two are new ones and one partly implemented and three have been repeated. 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 A1 – Delays in payments

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.

During the testing, we have noticed that in 6 invoices in the amount of €132,772, that the invoices were not paid within the legal deadline of 30 days. The delays were up to 3 months. Furthermore, two invoices in the amount of €6,138 were not reported as outstanding liabilities to the MoF, one in July and the other in August.

Failure to pay the invoices within the legal deadline was due to non-provision of budget funds for the payment of expenses on time.

Impact Delays in payment of liabilities increases the risk of additional court or enforcement expenditures.

Recommendation A1 The Mayor should ensure the efficient functioning of the control function that verifies that the payment of invoices is done in accordance with the deadlines set by law.

Entity management response (Agree)

2.2 Findings on issues of financial management and compliance

2.2.1 Revenues

Revenues generated by the municipality for 2021 were in the amount of €429,038. They relate to revenues from property tax, revenues from construction permits, administrative fees, revenues from business activities, revenues from rent, etc.

Issue C1 - Irregularities in the lease of municipal property

Finding Following the article 1 point 1 of the Law no. 06/L092 on Allocation for Use and Exchange of Municipal Immovable Property, emphasises that “This Law aims at ensuring the effective use of immovable property of the municipality for sustainable economic development, increase in value of the immovable property of the municipality and fulfilment of the general interest, whereas article 8 point 1 “Allocation for use of immovable property of the municipality shall take place under the following procedures of 1.1. Public Auction; 1.2. Expression of interest; and 1.3. Negotiations of the Mayor.

For this purpose, the Municipality was acting in accordance with the decision of the Municipal Assembly, where it notified in writing the debtors on 23.03.2022 who were notified of the payment of the debt otherwise their cases will be sent to court.

According to the Municipality, they have maintained contacts with a large number of partners and they have been clarified about the decision and the punitive measures that may follow. A special problem is posed by persons who are not in Kosovo and that some of the documents have been returned. For this category according to the Municipality, they will take a special decision in the assembly after using all means of communication.

Impact The use of public property without valid contracts between the municipality and users of municipal property can cause the municipality significant financial losses, as well as the opportunity to ensure that public property available to the municipality is properly managed.

Recommendation C1 The Mayor should increase controls over the allocation of municipal property by evaluating all contracts. At the same time, to ensure that the transfer of these properties for use is done according to the law requirements on use and exchange of municipal immovable property.

Entity management response (Agree)

2.2.2 Goods and services

The final budget for goods and services and municipalities in the year 2021 was €1,114,955, out of which €917,016 were spent. They mainly relate to other contracting services, office supplies, fuel for central heating, wood, school maintenance, etc. We tested 22 samples for substantial and compliance tests in the amount of €211,758.

Issue A2 – Engagement into special services without performing adequate legal procedures

Finding Article 84 of the Law on Public Officials no. 06/L-114 stipulates that - Agreements for special services are concluded according to the relevant public procurement legislation. According to paragraph 4 of the amended/changed rules of the PPRC for the procurement of special services (consultant/individual contractors) these rules apply only to the procurement of special services which can't be provided through recruitment procedures.

The municipality during 2021 had engaged 28 officers for special services. We analysed two cases of engagements which were after the entry into force of the law on public officials, and we have noticed that they were signed without conducting any procurement procedure as required by the law on public officials.

According to the management this was a consequence of the lack of approved positions in budget planning.

Impact Skipping procurement procedures in relation to covering positions for special services, in addition to non-compliance with legal procedures also increases the risk of engaging inadequate persons for certain positions and tasks, which may be reflected in their performance in work.

Recommendation A2The Mayor should ensure that all procurement procedures and steps are followed in the engagement of individual contractors for specific services taking care that the engaged staff will be able to fulfil the required tasks. Management should also ensure that engagements to regular positions are made through the regular recruitment process.

Entity management response (Agree)

Issue B1 – Avoidance of open procurement procedures

Finding Point 54.1 of the Operational Guideline for Public Procurement determines that “The Contracting authority may use the minimal value procedure for any public contract the estimated value of which is less than €1,000. By award of purchase orders with regard to minimal value procurement, the contracting authority shall ensure adequate competition, transparency and high effectiveness of the use of public funds.

The Director of the Educational Institution is the person authorized to sign a minimal value contract in educational institutions” and “In calculating the contract value for the use of the minimal value procedure, the contracting authority shall take into account only a group of similar supplies, services or works, which are usually procured altogether and should not be divided for the purpose of using such a procedure.

From the report of contracts signed for 2021, the municipality, similarly to the previous year, had signed 38 contracts through the procedure with a minimum value at the amount of €31,688. During the audit we have noticed that there were contracts for supplies and services of the same nature bypassing the open tendering procedures.

It is worth noting that the municipality had reduced the number of these contracts from 71 to 38, compared to last year. The reasons for the implementation of separate procurement procedures is the lack of communication between the requesting units and the procurement during the preparation of the procurement plan.

Impact Such practices increase the risk of not achieving value for money and undermines transparency, eliminates competition and calls into question the quality of services and products received.

Recommendation B1 The Mayor should ensure that detailed planning is done and the requesting units are able to properly assess procurement requests.

Entity management response (Agree)

2.2.3 Capital and non-capital assets

The presented amount of capital assets in the AFS is €36,760,926, non-capital assets €647,487 and as well as stocks €3,000. We tested 44 samples for substantial and compliance tests in the amount of €897,005.

Issue B2 – Shortcomings in registering of assets

Finding

Following the article 6 paragraph 3 of the Reg. 02/2013 on the management of non-financial assets in budget organizations, which stipulates that - capital assets must be registered in KFMIS while non-capital assets and stocks must be registered in the "e-assets" system. Furthermore, based on the article 22 paragraph 1,2,3 of reg. 02/2013 - for the management of non-financial assets in budget organizations, the depreciation of assets is done according to the straight-line method. Assets should be valued taking into account the depreciation that has been accumulated since the acquisition of the assets. Depreciation is calculated on a monthly basis, assets are not depreciated for the month of purchase and all non-capital and non-capital financial assets will be subject to depreciation rates.

In the register of assets over €1,000 we have noticed that five payments in the amount of €106,244 were not registered in the register of assets in FMISK as follows:

- Payment in the amount of €42,000 opening and asphaltting of the road Kukajan - Vidikovac;
- Payment in the amount of €31,962.96 for the refurbishment of the center on the streets Qarshia e Brodit, Predelukje and the lower neighbourhood in Brod;
- Payment in the amount of €17,940 construction of amphitheater and accompanying facility in the village of Bellobrad;
- Payment in the amount of €10,690.80 for the opening of mountain roads and the repair of the Kosav-Xerxe road; and
- Payment in the amount of €3,649.81 for road paving and sewerage construction in Vanier village.

Also, during the testing of assets under €1,000, presented in the AFS for 2021, we have noticed that the municipality had presented the amount of €647,487, with an increase compared to last year by €384,747. This value presented in the AFS is only a total value which is not disclosed in the analytics or details of the annexes to the AFS. Based on this, it was not possible to identify which assets were registered and whether the depreciation of the entire asset was calculated.

According to municipal officials, assets were registered in hard copy, as the e-assets system was not functional.

Impact

Failure to register assets over €1,000 underestimates capital assets, while the presentation of assets under €1,000 in the AFS in total value in the absence of assets disclosed in detail by not calculating depreciation reflects an incorrect presentation of assets in the AFS, by overestimating their value.

Recommendation B2 The Mayor should ensure that all assets are registered into relevant ledgers and as for the assets under €1,000 should ensure that depreciation rates are applied, so that their presentation in the AFS is complete and accurate.

Entity management response (Agree)

2.2.4 Receivables

The Municipality of Dragash in the AFS of 2021 has disclosed receivables in the amount of €2,238,922. This amount consists of property tax €1,175,279, tax on land €158,336, municipal tax on businesses €595,807 and the use of municipal property €309,500.

Issue B3 - Inefficient management of receivable accounts

Finding According to Article 26 of the Law on Immovable Property Tax 06-L 005, the Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competences granted by this Chapter to collect outstanding tax liabilities which exceed the amount of ten (10) Euros and Article 27 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.

The Municipality in the AFS of 2021 has disclosed receivables in the amount of €2,238,922. This value consists of property and land taxes, municipal business taxes and the use of municipal property. The Municipality does not have a plan for the collection of receivables from its debtors. As a result, receivables are constantly increasing causing difficulties in their collection. In 2021 we have an increase of €209,703 or 10% compared to the previous year (€2,029,219). The biggest impact on this increase was from the land tax.

In this regard, the Municipality on 23.03.2022 had distributed the documents as a final notice before the case was submitted to the court and to the legal enforcer.

Impact The lack of mechanisms and efficiency for debt collection from debtors can cause problems in fulfilling the expenditure plan, whereas their age increasingly reduces the likelihood that debts will be collected.

Recommendation B3 The Mayor should ensure that all possible options are actively considered, through the establishment of policies, regulations and other mechanisms in order to increase the efficiency in collection of receivables. Furthermore, all measures should be reviewed in accordance with the law, against debtors who do not fulfil their obligations.

Entity management response (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	8,856,615	8,635,549	7,471,059	9,126,590	7,382,222
Government Grant -Budget	8,441,560	7,773,724	6,977,837	8,195,882	7,039,851
Funding through borrowing	-	109,123	70,402	108,909	14,041
Carried forward from previous year ⁵	-	317,118	222,936	704,644	204,378
Own Source Revenues ⁶	415,055	415,055	192,385	109,655	123,952
External Donations	-	20,529	7,499	7,500	-

The final budget is lower than the initial budget by €221,066. Initially, following the budget review it was increased for the amount €217,714, the with decisions it had a decrease of €438,780.

In 2021, the Municipality of Dragash spent 87% of the final budget or €7,471,059, with a similar percentage as in 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	8,856,615	8,635,549	7,471,059	9,126,590	7,382,222
Wages and Salaries	4,780,466	4,578,283	4,577,273	4,709,414	4,458,302
Goods and Services	966,641	1,114,955	917,016	1,049,184	773,014
Utilities	130,000	130,000	118,120	115,230	120,305

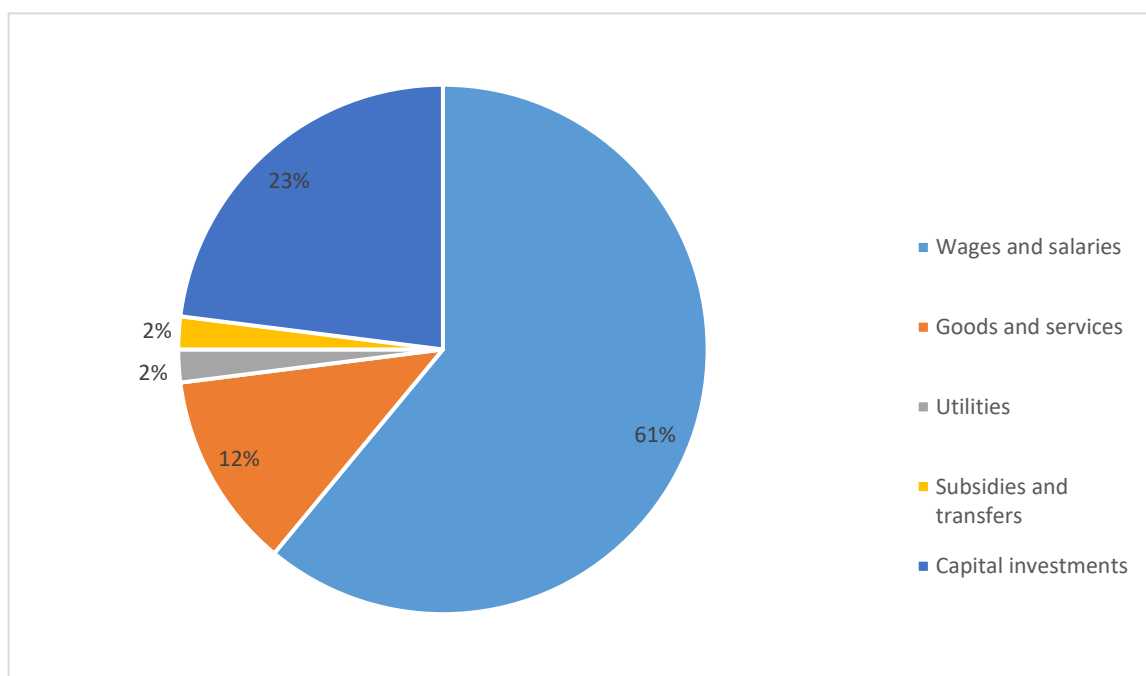
⁴ Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance

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.

Subsidies and Transfers	200,000	230,088	160,089	599,234	167,050
Capital Investments	2,135,508	2,582,223	1,698,560	2,653,529	1,863,551
Reserves (if any – delete if none)	644,000	-	-	-	-

Chart 1. Expenditures by economic categories for year 2021



Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries compared to the initial one was decreased for €202,183. Initially, it was increased with the budget review for the amount €128,291 while it was decreased with government decisions for €330,474. 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 €148,314. Following the budget review, it was increased for €78,795, then from revenues carried forward from last year for €50,000, and as well as donations in the amount of €19,519. In this category, expenditure was 82%;
- The final budget of the category of utilities had no budgetary changes. Expenditure was at 91% of the budget;
- The final budget of subsidies and transfers, in relation to the initial budget it was increased for €30,088 from last year revenues. In this category the expenditure was 70%; and
- The increase in the capital investment budget compared to the initial one was in the amount of €446,715. Initially, it was increased with the budget review for

€654,628 while it was decreased with government decisions in the amount of €207,913. Expenditures in this category were 66% of the budget.

Revenues generated by the municipality in 2021 were in the amount of €429,038. They relate to property tax revenues, revenues from construction permits, administrative fees, rental revenues, etc.

Revenues in this year, compared to 2020, were higher for 69% or for €175,821.

Table 3. Revenues (in €)

Description	Initial budget	Final Budget	2021 Receipts	2020 Receipts	2019 Receipts
Tax revenues	230,222	230,222	267,780	138,333	182,928
Non-tax revenues	184,833	184,833	161,258	114,884	170,579
Total	415,055	415,055	429,038	253,217	353,507

4 Progress in implementing recommendations

Our audit report on 2020 AFS of has resulted in 7 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, 3 implementation did not start and one is implemented partly, 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

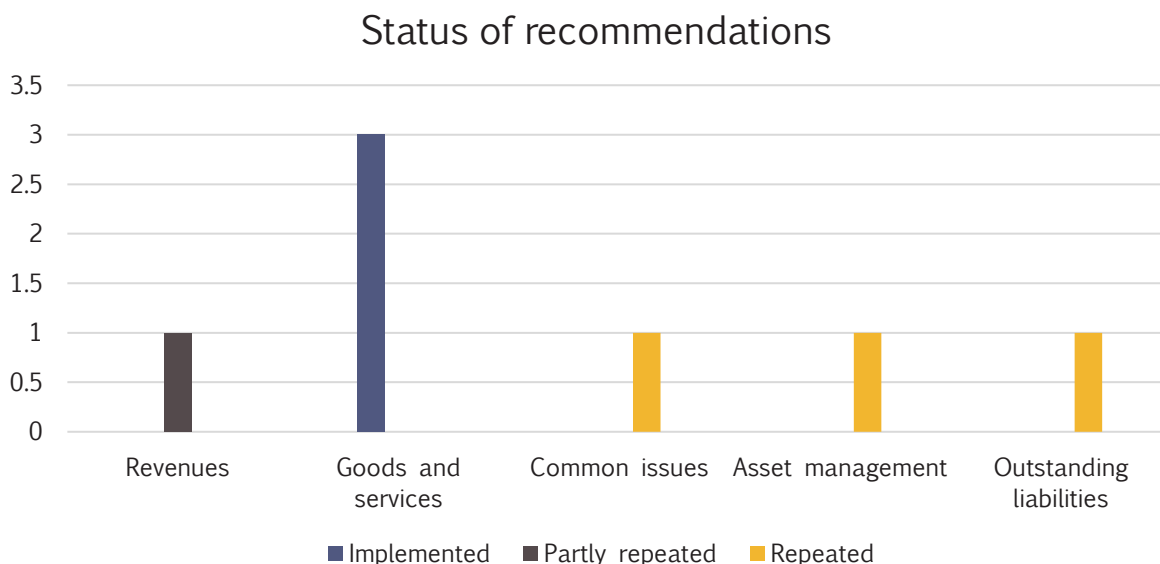


Table 4 Summary of prior year's recommendations and 2021

No	Audit area	Recommendations of 2020	Actions taken	Status
1	Revenues	The mayor should increase controls over the allocation of municipal property by evaluating all contracts. At the same time, to ensure that the transfer of these properties for use is done according to the law requirements on use and exchange of municipal immovable property.	The municipality had started to take measures but they were in 2022.	Partly implemented
2	Goods and services	The Mayor of municipality should ensure that upon the receipt of goods, respectively timber is done according to the terms of the contract and that no payment is made if the receipts are not signed by three members of the commission.	We have not noticed similar cases.	Implemented
3	Goods and services	The Mayor of municipality should ensure that requests and supplies are made only after the	We have not noticed similar cases.	Implemented

		funds have been committed eliminating the entry into unplanned obligations.		
4	Goods and services	The Mayor of municipality should ensure that the necessary actions are taken so that the payment and registration of expenditures is done according to the appropriate economic categories, to enable their fair reporting in the AFS in accordance with the accounting plan.	We have not noticed similar cases.	Implemented
5	Common issues	The Mayor should ensure that detailed planning is done and the requesting units are able to properly assess procurement requests.	This year as well, the municipality had signed 38 contracts through the minimum value procedure. This year we have addressed this recommendation in goods and services.	Implementation did not start
6	Capital and non-capital assets	The Mayor should ensure that the requirements related to the registration and maintenance of assets should be applied in full, through the e-assets system to register all inflows/outflows of movable property (with values under €1,000) for all municipal units.	This year also we have similar shortcomings in asset management.	Implementation did not start
7	Receivables	The Mayor should ensure that all possible options are actively considered, through the establishment of policies, regulations and other mechanisms in order to increase the efficiency in collection of receivables. Furthermore, all	Steps have not been taken to collect receivables.	Implementation did not start

		measures should be reviewed in accordance with the law, against debtors who do not fulfill their obligations.		
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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)

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.