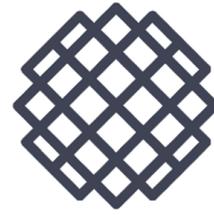




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF  
MUNICIPALITY OF PARTESH FOR YEAR 2021

**Prishtina, Jun 2022**

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# 1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Partesh for the year ended on 31 December 2021 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities<sup>1</sup>.

## Qualified opinion on annual financial statements

We have audited the annual financial statements of Municipality of Partesh, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports<sup>2</sup>, for the year ended as at 31 December 2021.

In our opinion, besides the impact of the issues-s as described in the paragraph Basis for Qualified Opinion, the annual financial statements of Municipality of Partesh, 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

The issues that have had impact on the audit opinion are as follows:

B1.The Municipality did not register 241 hectares of municipal parcels, the value of assets €4,540 in the register of assets over €1,000 in KFMIS. Furthermore, assets under €1,000 in the AFS were presented in the amount of €12,009, the same value as in the previous two years. In the AFS in the annexes the value presented was zero; and

A1.Inaccurate and incomplete presentation of financial and non-financial information in the AFS.

*More broadly, see subchapter 2.1 Matters affecting 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

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

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

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 Partesh 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.

### **Basis for the conclusion**

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

B2. The Municipality had paid with delay 10 payments in the amount of €58,852 after the allowed deadline of 30 days.

B3. The municipality during 2021 had hired 37 officers for special services. We analyzed five cases of engagement, which were after the entry into force of the law on public officials, and that they were signed without conducting any procurement procedure as required by the law on public officials.

B4. Despite the recommendation from last year, the Municipality, although it had prepared a document for financial support of NGOs in the amount of €1,000, as such it is not related to the tested payments for financial support of NGOs.

*More broadly, see subchapter 2.2 Matters affecting the conclusion of compatibility*

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

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

The Partesh management is also responsible for the use of Municipality of Partesh financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.<sup>3</sup>

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

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

Our objective is also to express an audit opinion on compliance of respective Municipality of Partesh 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

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

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 Partesh 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 findings and recommendations relate to non-verification of property status, engagement of employees not through procurement, lack of annual plan for financial support for NGOs, shortcomings in asset management, shortcomings in the preparation of AFS, receivables and delays in payments. We will follow up (review) on these recommendations during next year's audit.

This report has resulted in seven recommendations, of which one recommendation is new and six are 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 audit opinion

### Issue B1 – Incomplete register of assets and non-functioning of e-assets system

#### 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.

Based on our testing, we have noticed:

- The Municipality did not register 241 hectares of municipality parcels;
- The Municipality did not register 241 hectares of municipal parcels;
- One payment in the amount €4,540, an asset over €1,000 was not registered in KFMIS; and
- Assets of the value under €1,000 were presented in the amount of €12,009, the same value as in the previous two years. In the AFS in the annexes the value presented was zero.

This has occurred due to inadequate functioning of the municipality's internal controls regarding the updating of the accounting register and asset management.

#### Impact

Shortcomings identified in asset management related to non-recording of assets and shortcomings in disclosure have impact on the reporting of inaccurate information on municipal assets and their value in the AFS.

**Recommendation B1** The Mayor should undertake measures to record all assets in his possession so that the presentation of information in the AFS is accurate and complete.

**Auditee Management's response: Agree**

**Issue A1 – Shortcomings in preparation of Financial Statements****Finding**

According to the Regulation of the MF no. 01/2017 on the annual financial reporting of the budget organization, it is determined the method of preparation of the AFS, which is in accordance with the International Public Sector Accounting Standards for Financial Reporting in Cash Accounting.

During the review of the AFS we identified the following shortcomings:

Article 14.6 Disclosure of initial and final budget allocations - at the revenues

1. The part at the revenues, initial budget compared to the final budget - tax and non-tax revenues are presented, revenues generated during the year in the amount of €132,000, should not have been presented. This section deals with planned revenues, initial plan and adjustments during the year (planning increases or decreases);
2. Furthermore, in the revenue planning part it is presented the amount of €158,000 revenues from donations, this amount was received in previous years and was allocated to the Municipality as a budget for expenditures for 2021;
3. Article 14.6 the part at expenditures/payments, disclosure or comparison of initial and final budget allocations for expenditures, budget increase from donations is presented in the amount of €127,000, should have been €157,614; and
4. Other source of funding presented is €29,000, it should have been €441 (financing from borrowing).

Disclosures section

- Article 20 - Reports on unjustified advances, in the Annual Financial Report were presented in the amount of €10,730, should have been presented in the amount of €20,802; and
- Article 24 - Reports of unspent donor funds, balance for transfer was presented €24,055, it should have been €30,788.

**Impact**

Impact Inaccurate and incomplete presentation of financial and non-financial information in the AFS has had an impact on the inaccuracy of the data and reduced their degree of reliability.

**Recommendation A1**

The Mayor should increase the controls during the preparation of the AFS so that the disclosures in the AFS for 2022 do not contain accounting and administrative errors. The Declaration made by the Chief Administrative Officer and Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.

**Auditee Management's response: Agree**

## 2.2 Issues with impact on compliance conclusion

### **Issue B2 – Delays in payments and court/enforcement costs**

**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 10 invoices in the amount of €58,852, that the invoices were not paid within the legal deadline of 30 days. The delays were up to 20 months.

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 the execution of payments may affect the Municipality to be subject to lawsuits from economic operators, causing additional court/enforcement costs for the Municipality.

**Recommendation B2** The mayor should ensure that the payment of invoices is done in accordance with the deadlines set by regulations, to avoid additional budget expenditures.

**Auditee Management's response: Agree**

**Issue B3 – Engagement into special services, without carrying out 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 14 officers for special services. We have analysed five engagement cases, which were after the entry into force of the law on public officials, and that they were signed without conducting any procurement procedure as required by the law on public officials.

As was the case last year, there were engagements under special service arrangements to fill regular positions.

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 B3** 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. Furthermore, the management should ensure that engagements for regular positions are carried out through the regular recruitment process.

**Auditee Management's response: Agree**

#### **Issue B4 – Shortcomings in the annual plan for financial support for NGOs**

**Finding** Regulation MF - No. - 04/2017 on Criteria, Standards and Procedures on Public Funding of NGOs, Article 6.1 stipulates that "Providers of financial support should prepare the annual plan of financial support for NGOs at the latest 30 days after the approval of the annual budget of the Republic of Kosovo and should send it to respective office for good governance at the Prime Minister's Office of the Republic of Kosovo."

**Finding** Despite the recommendation from last year, the Municipality had not yet prepared the Annual Plan for financial support of NGOs, for which we have tested three payments in the amount of €10,648.

The Municipality had prepared a support document in the amount of €1,000, which is not related to the tested payments for financial support of NGOs.

**Impact** Shortcomings in the annual plan for financial support of NGOs, represent the lack of information which areas will be supported by the Municipality, the amount of financial resources and the goals for what these funds are intended.

**Recommendation B4** The Mayor should ensure that the Annual Plan for financial support for NGOs is prepared and ensure that it contains all the requirements set out in the regulations for financial support.

**Auditee Management's response: Agree**

## 2.3 Other issues of financial management and compliance

### 2.3.1 Revenues

Revenues generated by Municipality of Partesh for year 2021 were €130,134. These relate to property tax revenues, revenues from construction permits, administrative fees, revenues from business activities.

#### **Issue B5 – Failure to verify current status of properties**

**Finding** According to the Article 15.2 of the Law No.06/L-005 on Immovable Property, inspection activities shall be carried out each year for at least 20% of all buildings within the territory of the Municipality.

In 2021, out of 2,471 registered properties, the Municipality did not manage to carry out the verification of immovable properties.

This occurred due to heavy workload and the inability to fulfil this legal requirement.

**Impact** Property inspection at a low extent may result in incomplete information on the current taxable property and lead to inadequate tax burdens.

**Recommendation B5** The Mayor should consider staffing the positions in this department and take all necessary measures to have the verification of buildings according to legal provisions carried out.

**Auditee Management's response: Agree**

### 2.3.2 Receivables

Accounts Receivable disclosed by the Municipality in 2021 AFS were in the amount of €387,155. This value consists of property tax, annual tax on business activity, services from waste carriage, rent and use of public space.

**Issue B6 – Insufficient commitment in collection of accounts receivable****Finding**

According to Article 26 of the Law no.06/L-005 on Immovable Property Tax, the Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competences to collect outstanding tax liabilities exceeding the amount of ten (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 accounts receivable in the amount of €387,155. This value consists of property and land taxes, municipal taxes on businesses, waste and water. The Municipality does not have a plan for the collection of accounts receivable from its debtors. As a result, receivables are constantly increasing causing difficulties in their collection. In 2021 we have an increase of €150,743 or 64% compared to the previous year (€236,412). The biggest impact on this increase was from property, land and waste taxes.

Furthermore, in the attached annex to the AFS, the presented value of accounts receivable was only €160,192.

This had occurred due to improper planning and engagement of the responsible officials.

**Impact**

Failure to apply mechanisms as stipulated by laws and regulations leads to continuous increase of these accounts, that results with low funds in achieving of targets and encourages other debtors not to pay their liabilities.

**Recommendation B6** The Mayor should ensure the implementation of laws and for the collection of debts from property tax, services and waste disposal as well as strengthen internal control by establishing mechanisms for collection of revenues.

**Auditee Management's 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 <sup>4</sup>	2021 Outturn	2020 Outturn	2019 Outturn
<b>Sources of Funds</b>	<b>1,060,716</b>	<b>1,371,810</b>	<b>1,336,019</b>	<b>1,476,035</b>	<b>1,186,214</b>
Government Grant -Budget	988,620	1,017,747	1,013,429	1,397,599	1,158,374
Funding through borrowing	-	441	441	630	-
Carried forward from previous year <sup>5</sup>	-	87,872	87,818	74,062	17,824
Own Source Revenues <sup>6</sup>	72,096	108,136	107,504	3,744	10,0156
External Donations	-	157,614	126,827	-	-

The final budget is higher than the initial budget by €311,094. This increase is as a result of increase of revenues carried forward from last year €87,872, government grant €29,127, own source revenues €36,040, funding from borrowing €441 and as well as from donations €157,614.

In 2021, the Municipality spent 97% of the final budget in 2021 or €1,336,019, with an improvement of 11% in comparison to 2020. However, budget execution remains at an unsatisfactory level and explanations for the current position are detailed below.

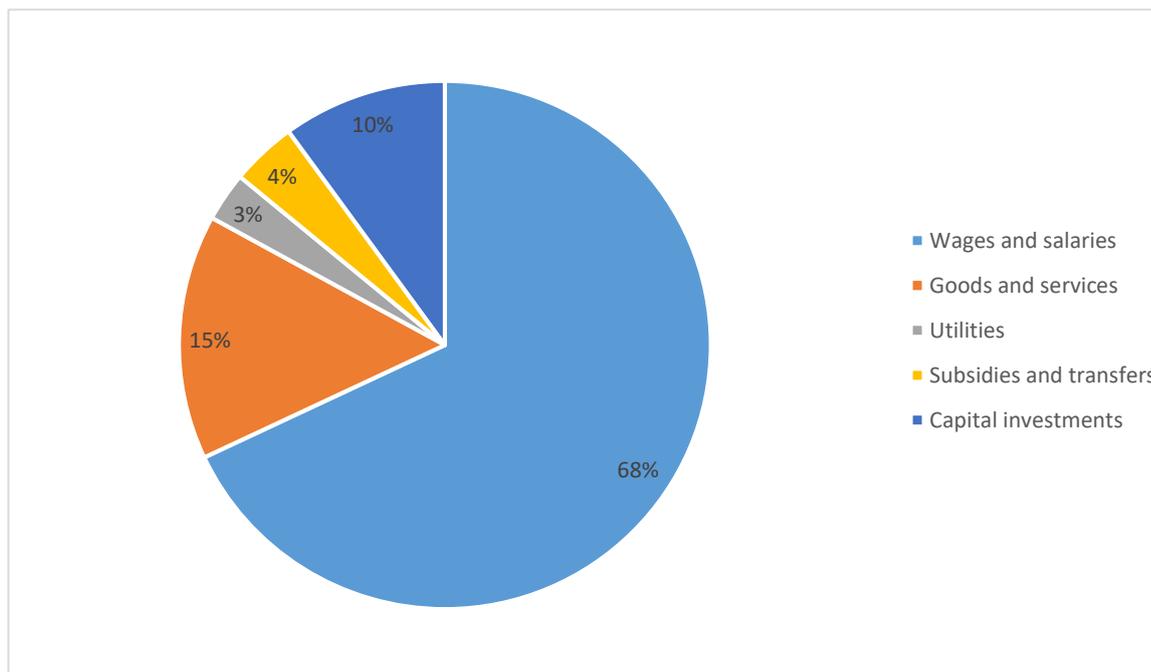
**Table 2 – Spending of funds by economic categories - (in €)**

Description	Initial Budget	Final Budget	2021 Outturn	2020 Outturn	2019 Outturn
<b>Spending of funds by economic categories</b>	<b>1,060,716</b>	<b>1,371,810</b>	<b>1,336,019</b>	<b>1,476,035</b>	<b>1,186,214</b>
Wages and Salaries	862,500	906,288	906,140	884,525	867,141
Goods and Services	92,750	212,010	200,820	189,630	184,888
Utilities	40,000	42,400	39,377	32,204	35,955
Subsidies and Transfers	5,100	72,231	56,524	263,744	8,380
Capital Investments	60,366	138,881	133,158	105,932	89,850

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

<sup>5</sup> Own Source Revenues unspent in previous year carried forward into the current year.

<sup>6</sup> 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 final budget for the category of Wages and Salaries was increased by €43,788. Initially, with the budget review, it was increased by €14,413, while with decisions it was induced from the government grant by €14,714, borrowings €441 and €14,220. Expenditures were 100% of the budget;
- The final budget for Goods and Services was increased by €119,260 compared to the initial budget. This increase is from own source revenues carried forward a €18,051, own source revenues €36,039, and donations for €65,169. Expenditures were 95% of the budget;
- The final budget for utilities compared to the initial budget was increased by €2,400, which were from donations. Expenditures were 93% of the budget;
- The final budget for subsidies and transfers compared to the initial budget was increased by €67,131 which were from own source revenues carried forward €1,256 and donations €65,875. Expenditures were 78% of the budget; and
- The final budget for capital investments compared to the initial budget was increased by €78,515. This increase was from own source revenues carried forward €68,565 and donations by €9,950. Expenditures were 96% of the budget.

Revenues generated from 2021 were in the amount of €130,134. They relate to property tax revenues, revenues from business taxes, from administrative taxes, etc.

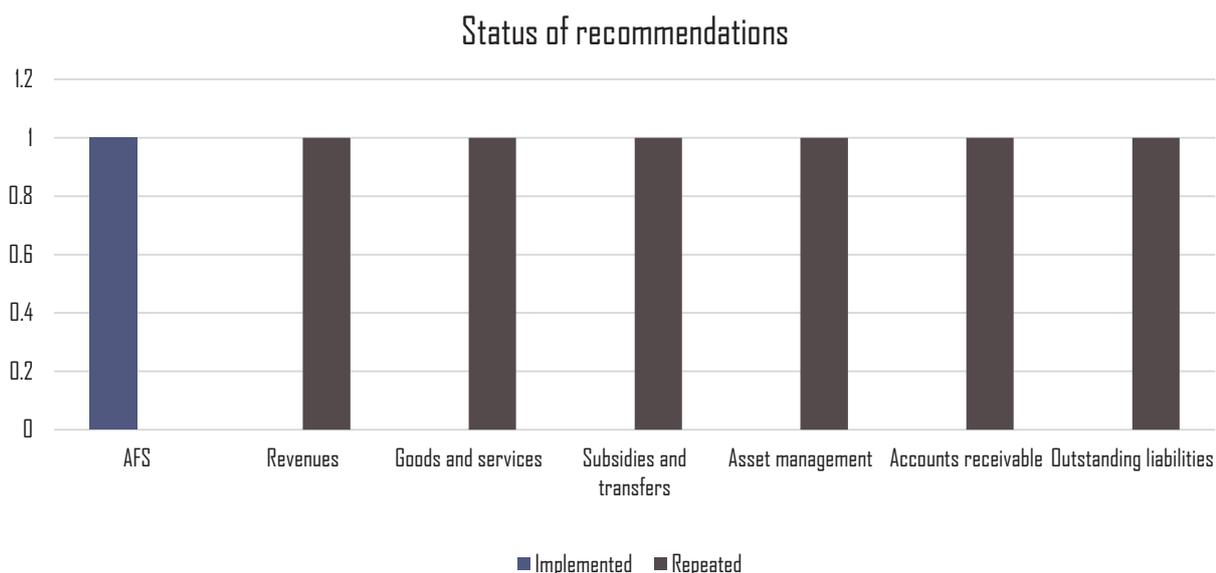
**Table 3. Revenues (in €)**

Description	Initial budget	Final Budget	2021 Receipts	2020 Receipts	2019 Receipts
Tax revenues	8,000	8,000	52,790	44,393	21,243
Non-tax revenues	64,096	64,096	77,344	34,662	36,649
<b>Total</b>	<b>72,096</b>	<b>72,096</b>	<b>130,134</b>	<b>79,055</b>	<b>57,892</b>

## 4 Progress in implementing recommendations

Our audit report on 2020 AFS of the Municipality of Partesh 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, one (1) recommendation is implemented and six (6) are not been addressed yet, 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 should ensure that effective processes are in place to confirm that the production of the 2021 AFS addresses all issues related to the shortcomings identified in this report. Specific actions should be taken to address the causes systematically to eliminate errors in budget presentation and accurate disclosure of accounts receivable. The Declaration made by the Chief Administrative Officer and Financial Officer should not be signed unless all necessary checks have been applied to the AFS	We have not identified any errors in the final AFS.	Implemented
2	Revenues	The mayor should ensure that the equipment for verification and registration of assets is put into operation and the inspection of property tax facilities reaches 20%, in order to integrate all possible changes in the database of existing properties of the municipality. 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. Furthermore, the mayor should ensure that responsible officials are performing their duties and responsibilities regarding the submission of invoices/decisions to business entities in a timely manner.	The status of the assets has not yet been verified.	Implementation did not start

3	Goods and services and 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.  Furthermore, the management should ensure that engagements for regular positions are carried out through the regular recruitment process.	This year, too, their engagement was not done through procurement procedures.	Implementation did not start
4	Subsidies and transfers	The Mayor should ensure that the Annual Plan for financial support for NGOs is prepared and ensure that it contains all the requirements set out in the regulations for financial support.	The plan for financial support to NGOs has not been prepared yet.	Implementation did not start
5	Assets	The mayor should ensure that land, asset purchases and capital asset acquisitions are recorded in the asset register.	We have identified shortcomings in the field of assets as well.	Implementation did not start
6	Accounts receivable	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 by establishing mechanisms for collection of revenues.	We have a continuous increase in receivables this year as well.	Implementation did not start
7	Outstanding liabilities	The mayor should ensure that the payment of invoices is done in accordance with the deadlines set by regulations, to avoid additional budget expenditures.	This year, too, we have delays in payments.	Implementation did not start

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

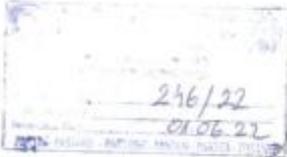
Signatures:

Vlora Spanca, Auditor General

Blerim Kabashi, Head of Audit

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

## Annex I: Letter of confirmation.



**Republika e Kosovës**  
**Republika Kosovo-Republic of Kosovo**  
**Opština Partes/Komuna e Parteshit/Municipality of Partes**

**POTVRDNO PISMO**

O saglasnosti sa nalazima Generalnog Revizora na Izveštaju revizije za 2021 godinu kao i za sprovođenje preporuka

**Za: Nacionalnu Kancelariju Revizije:**

Poštovani,

Preko ovog psima, potvrđujem da:

- sam primio nacrt izveštaja Nacionalne Kancelarije Revizije o Reviziji Finansijskih Izveštaja Opštine Parteš za godinu završno sa 31 decembrom 2021 (u daljem tekstu "Izveštaj");
- slažem se po svim tačkama osim u tački B3 gde treba dodati da je Opština Parteš u toku 2021 godine sprovela proceduru nabavke u angažovanju ugovorača za posebne usluge kao dokaz, dostavili smo tendersku proceduru i ugovor potpisan sa ekonomskim operaterom.
- u roku od 30 dana od prijema Završnog izveštaja, dostaviti akcioni plan za sprovođenje preporuka, koji će uključiti vremenske rokove i osoblje koje je odgovorno za njihovo sprovođenje.

g. Dragan Petković  
Gradočelnik Opštine Parteš,  


Datum: 01.06.2022 godine





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

Auditor's Report on the financial statements<sup>7</sup> should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities<sup>8</sup>. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

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

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

### **(extract from ISSAI 200)**

#### *Forms of opinion t*

#### **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.

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

<sup>8</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

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.