



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 RANILUG 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 Ranilug 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>.

## **Unmodified opinion on annual financial statements**

We have audited the annual financial statements of Municipality of Ranilug, 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, the annual financial statements of Municipality of Ranilug, 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 Ranilug 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.

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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

## **Basis for the conclusion**

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

A1. During 2021, the Municipality had hired 14 officials for special services, for these engagements the Municipality had developed recruitment procedures, but did not conduct procurement procedures as required by the law on public officials..

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 Ranilug 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 Ranilug 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 Ranilug's financial reporting process.

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

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

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

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 Ranilug 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 Ranilug 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 weaknesses in the preparation of Financial Statements, engagement of employees not through procurement, non-verification of properties according to legal requirements, weaknesses in asset management, receivables and incomplete functioning of the internal audit unit.

This report has resulted in seven recommendations, of which two is new recommendation, four are repeated recommendations and a partially empty one. 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 – Engagement into special services, not through procurement**

#### **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, for these kinds of engagements. The municipality had developed recruitment procedures, but did not conduct procurement procedures as required by law on public officials.

This had occurred as a result of poor control, that these services are selected through procurement procedures.

#### **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 A1**

The Mayor should ensure that all procurement procedures and steps are followed in the engagement of individual contractors for specific services.

#### **Auditee Management's response: Agree**

## 2.2 Other issues of financial management and compliance

### 2.2.1 Internal controls in financial reporting

The following are issues related to the presentation of data and preparation in the Financial Statements

**Issue A2 – Shortcomings in the preparation of Financial Statements**

Based on the MoF Regulation no. 01/2017 on the annual financial reporting of the budget organization, it is determined the manner 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 weaknesses:

- In note 11, designated donor grants are presented in the amount of €20,700, while they should be zero; and
- In note 13, Payments from third parties are presented in the amount of €9,999, while they should be zero.

**Impact**

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

**Recommendation A2**

The Mayor should increase controls during the preparation of AFS, so that the AFS for 2022 do not contain accounting and administrative errors. The statement issued by the Chief Administrative Officer and Chief Financial Officer should be signed only after ensuring that the AFS present complete and accurate data.

**Auditee Management's response: Agree****2.2.2 Revenues**

Revenues generated by Ranillug Municipality for year 2021 totaled to €89,182. These relate to property tax revenues, revenues from construction permits, administrative fees, revenues from business activities.



**Issue B1 – 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 1,297 registered properties, the Municipality managed to carry out the verification for only 40 buildings or 3% of immovable properties.

This occurred because the Property Tax Unit has only one employee, who has not been able to fulfil this legal requirement due to heavy workload

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

**Recommendation B1** 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****2.2.3 Capital and non-capital assets**

The amount of capital assets presented in AFS is €8,563,866, that of non-capital assets is €102,299, and of stocks is zero. We tested 44 samples of substantive and compliance testing in the amount €117,246.

**Issue B2 – Shortcomings in asset management**

**Finding** According to regulation 02/2013 on asset management article 6, point 3, assets under €1,000 must be registered in the e-assets system.

The municipality does not use the E-assets program for recording and managing assets under €1,000, for registering assets under €1,000 the municipality uses the Excel application.

Municipal officials claim that there are technical problems with the operation of this Software and that MPA/MIA does not have a contract for maintenance of this system.

**Impact** Failure to use the E-assets program for recording and managing assets reflects shortcomings in asset management and consequently affects the incorrect presentation of asset value in the AFS.

**Recommendation B2** The Mayor should ensure the functioning of the E-assets system as required by the regulation in force.

**Auditee Management's response: Agree**

## 2.2.4 Receivables

Accounts Receivable disclosed by the Municipality in 2021 AFS were in the amount of €493,518. This consists of property tax €254,676, tax on business activity €63,942, sale of services €156,241 and use of public area €18,659.

**Issue B3 –Management 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 for property tax receivables in the amount of €254,676, which compared to the previous year had increased by €45,062, had not undertaken any activity for their collection as provided by the law on property tax.

According to Article 56 of the Regulation on municipal taxes, fees and fines, among others, as a mechanism for debt collection, are foreseen actions such as: the debtor is sent a tax payment order with a warning for enforcement, interest will begin to be calculated from the date set in debt collection decision; termination of business activity (closure for three days); the goods will be registered and taken (confiscation of assets); and the sale of assets through auction. The receivables from the sale of services (waste collection) at the end of 2021 were €156,241, which means from last year they have increased by €20,375. The receivables from the use of public spaces have increased by €3,177 compared to 2020, as well as receivables for business taxes increased by €9,879 compared to the previous year.

The municipality did not take any action to collect these accounts receivable as required by law or regulation, other than the appearance of on-site inspectors to collect business taxes and use municipal property.

**Impact**

Failure to apply mechanisms as stipulated by law leads to continuous increase of these accounts, and encourages other debtors not to pay their liabilities. Consequently, this reduces the Municipality's capacity to finance its needs from its own resources.

**Recommendation B3** The Mayor should conduct a detailed analysis of the situation of debts that debtors owe to the Municipality, propose more effective measures, and apply all available mechanisms for collection of these debts, including legal measures as well.

**Auditee Management's response: Agree**

## 2.2.5 Internal audit function

Internal Audit Unit (IAU) is established by the Municipality,

### **Issue C1 – Non functioning of the Internal Audit Unit in Municipality**

**Finding**

According to the Regulation GoK no.01/2019 on the establishment and implementation of the internal audit function in the public sector entity, Article 4, the Municipality may carry out internal audits in four ways: by establishing an audit unit within the Municipality; having a joint IA Unit with other public sector entities; entering into agreements with any public entity for carrying out audit services; or by contracting a professional company.

The Internal Audit Unit did not carry out any audit for the Municipality during 2021, as the internal auditor was on unpaid leave and as a result the Internal Audit Unit was not operational. After returning to work, he drafted only the Strategic and Annual Audit Plan, but failed to complete any audit reports.

**Impact**

A non-operating Internal Audit Unit indicates that the Municipality does not have an independent and objective mechanism to serve as an advisory mechanism in providing reasonable assurance on the effectiveness of the Municipality's internal controls and the smooth running of operational activities.

**Recommendation C1** The Mayor should ensure that the Internal Audit Unit starts conducting audits according to its plan.

**Auditee Management's response: Agree**

**Issue B4- Absence of audit committee**

**Finding** According to Administrative Instruction MoF No. 01/2019 on the Establishment and functioning of the Audit Committee in the Public Sector Entity, Article 4.1 establishment of the audit committee: each public sector entity that has established the Internal Audit Unit at the level of the main body according to the legislation in force shall establish the Audit Committee.

Despite the recommendation from the previous year the Municipality did not establish the Audit Committee. For this it was proposed to be established at the end of 2021.

**Impact** The absence of an Audit Committee may undermine the independence of the Audit Unit from the managers' interventions, and may also lead to inadequate addressing of IAU recommendations.

**Recommendation B4** The Mayor should establish and operationalise the Audit Committee to review the results of IAU and actions undertaken by management regarding the recommendations given.

**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>1,552,183</b>	<b>1,775,517</b>	<b>1,588,563</b>	<b>1,961,837</b>	<b>1,682,939</b>
Government Grant -Budget	1,430,358	1,429,951	1,388,661	1,879,797	1,629,933
Funding through borrowing	-	5,444	5,444	16,380	-
Carried forward from previous year <sup>5</sup>	-	215,874	157,777	55,083	44,227
Own Source Revenues <sup>6</sup>	121,825	121,825	36,681	10,576	8,779

<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.

External Donations	-	2,423	-	-	-
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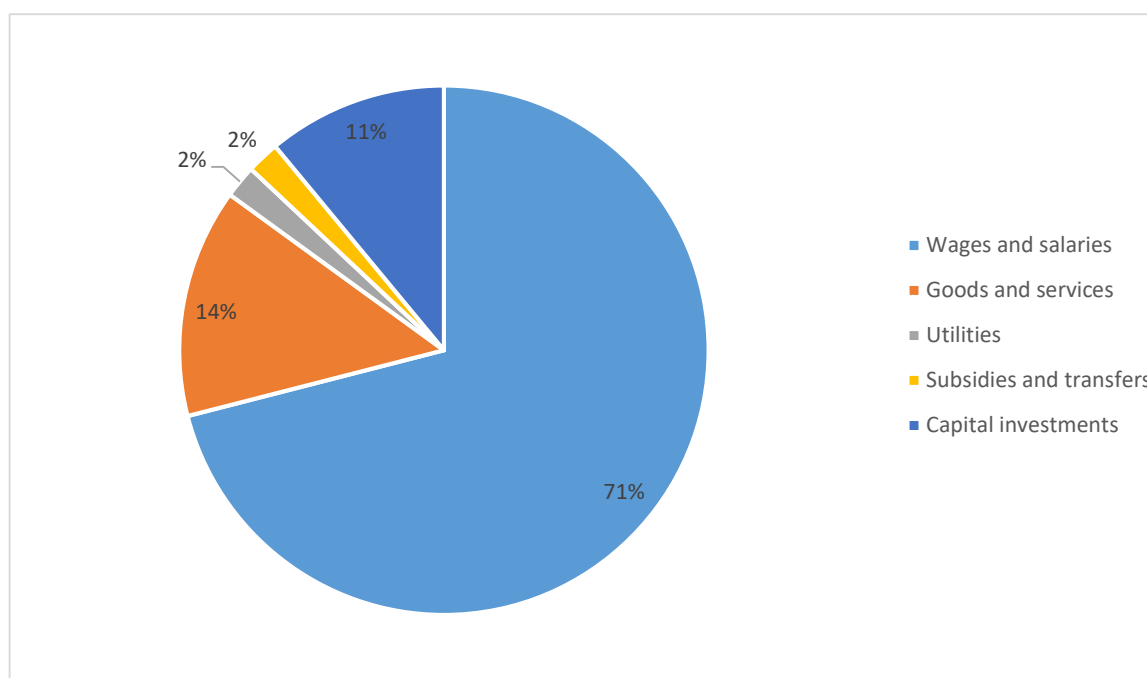
The final budget is higher than the initial budget by €223,334. This increase is as a result of increase of revenues carried forward from last year, funding from borrowings and donations.

In 2021, the Municipality spent 89% of the final budget in 2021 or €1,588,563, with an improvement of 7% 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>1,552,183</b>	<b>1,775,517</b>	<b>1,588,563</b>	<b>1,961,837</b>	<b>1,682,939</b>
Wages and Salaries	1,120,000	1,125,037	1,125,037	1,111,363	1,086,777
Goods and Services	215,000	257,235	213,606	217,205	167,009
Utilities	45,000	65,000	37,151	39,581	35,142
Subsidies and Transfers	40,000	60,000	37,343	295,394	34,938
Capital Investments	132,183	268,245	175,426	298,294	359,073

**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 €5,037. Initially, with the budget review, it was increased by €40,235, while with decisions it was reduced by €35,198. Expenditures were 100% of the budget;
- The final budget for Goods and Services was increased by €42,235 compared to the initial budget. This increase is as a result of the own source revenues carried forward €40,000 and donations for €2,235. Expenditures were 83% of the budget;
- The final budget for utilities compared to the initial budget was increased by €20,000, which were from own source revenues carried forward. Expenditures were 57% of the budget;
- The final budget for subsidies and transfers compared to the initial budget was increased by €20,000 which was from own source revenues carried forward. Expenditures were 62% of the budget; and
- The final budget for capital investments compared to the initial budget was increased by €136,062. This increase was from own source revenues carried forward €135,874 and donations by €188. Expenditures were 65% of the budget.

Revenues generated from 2021 were in the amount of 89,182. They relate to property tax revenues, business tax revenues, revenues from the sale of services and the use of public spaces, etc.

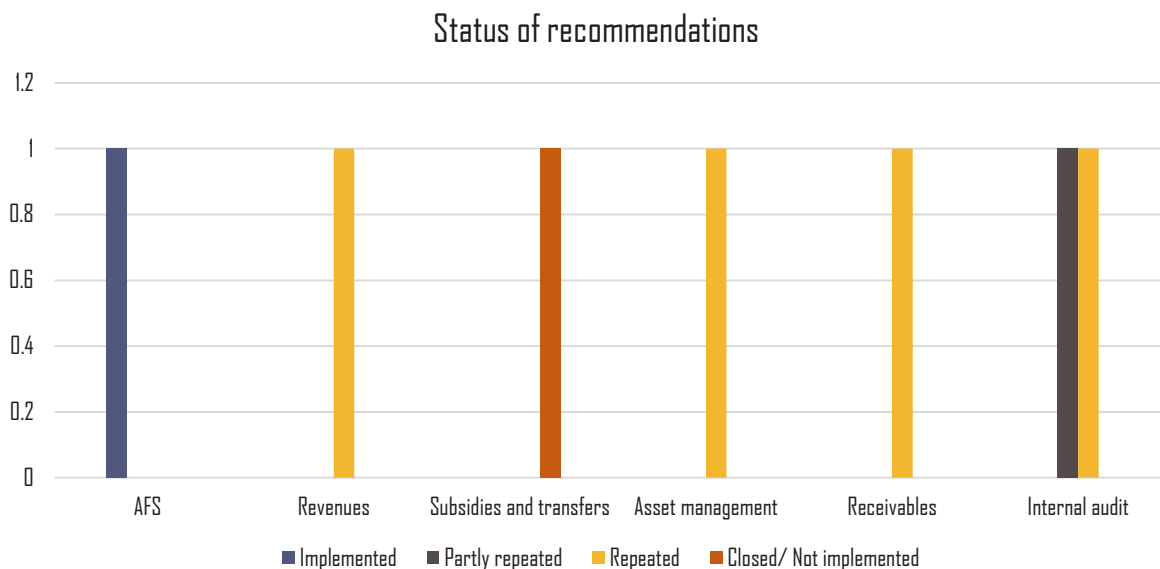
**Table 3. Revenues (in €)**

Description	Initial budget	Final Budget	2021 Receipts	2020 Receipts	2019 Receipts
Tax revenues	42,306	42,306	31,642	27,837	26,085
Non-tax revenues	79,519	79,519	57,540	32,294	62,819
<b>Total</b>	<b>121,825</b>	<b>121,825</b>	<b>89,182</b>	<b>60,131</b>	<b>88,904</b>

## 4 Progress in implementing recommendations

Our audit report on 2020 AFS of the Municipality of Ranilug 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 have been implemented, one (1) is partly implemented, four (4) have not been addressed yet and one (1) is not applicable anymore, 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	Annual financial statements	The Mayor should ensure that third-parties payments are presented in accordance with the requirements of Regulation on Financial Reporting.	There are no such cases	Implemented
2	Revenues	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.	The verification is not yet managed to be done according to legal provisions.	Implementation did not start
3	Subsidies and transfers	The Mayor should ensure that the annual plan for financial support to NGOs, clearly defining the funds foreseen for subsidies and the areas to be supported by the Municipality, is prepared and sent to OPM in due time.	There was no funding for NGOs from the 2021 budget.	Not applicable anymore



4	Assets	The Mayor should ensure that the assets inventory report includes all the assets owned by the Municipality. It should also provide for the operationalisation of the e-assets system, as required by the Regulations in force, and draft internal rules and procedures regarding the assets.	This year as well, the Municipality has reported assets under 1000 euros from the Excel register.	Implementation did not start
5	Receivables	The Mayor should operationalise Internal Audit Unit, or to consider other possibilities for providing audit services, as defined in the above Regulation.	This year as well, we have an increase in accounts receivable for 45,062 euros compared to last year. There are no actions for their collection as defined by law.	Implementation did not start
6	Internal audit	The Mayor should operationalise Internal Audit Unit, or to consider other possibilities for providing audit services, as defined in the above Regulation.	The Director of the IAU has returned from vacation, while besides from the Strategic and Annual Plan for 2021 he had not conducted any audit.	Partly implemented
7	Internal audit	The Mayor should establish and operationalise the Audit Committee to review the results of IAU and actions undertaken by management regarding the recommendations given.	The Audit Committee has not been established yet.	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.

 <p><b>Republika Kosovo</b> <b>Republika e Kosovës</b> <b>Republic of Kosovo</b></p>	<p><b>Opština Ranilug</b> <b>Komuna e Ranillugut</b> <b>Municipality of Ranilug</b></p>	
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**LETËR E KONFIRMIMIT**

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

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Ranillugut, për vitin 2021 (në tekstin e mëtejme "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

Znj. Katarina Ristić Ilić 

Kryetare e Komunës së Ranillugut, 

Data: 01.qershor.2022, Ranillug.



## 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.