



Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

# AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF THE MINISTRY OF ECONOMY FOR THE YEAR 2022

**Prishtina, May 2023**

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# 1 Audit Opinion

We have completed the audit of the financial statements of the Ministry of Economy 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 the Ministry of Economy (ME) which comprise the Statement of cash receipts and payments, Budget execution report, and Explanatory notes to financial statements, including a summary of important accounting policies and other reports<sup>2</sup> for the year ended as at 31 December 2022.

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Ministry of Economy give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

## Basis for Qualified Opinion

B1 Capital assets over € 1,000 presented in the Annual Financial Statements (AFS) were overstated by €10,000,000, whilst non-capital assets under €1,000 were understated by €22,185.

A1 Contingent liabilities disclosed in the AFS were understated by €4,741,404.

*For more detailed information see subchapter 2.1 Issues with impact on the audit opinion*

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

## Conclusion on Compliance

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

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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 as required in Regulation no.01/2017 on Annual Financial Report, Article 8

In our conclusion, transactions carried out in the process of execution of the Ministry of Economy's 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 Conclusion**

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 AFS***

Deputy Permanent Secretary of the Ministry of Economy 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, Deputy Permanent Secretary 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 Minister is responsible to ensure the oversight of the Ministry of Economy's financial reporting process.

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

The Ministry of Economy's management is also responsible for the use of the Ministry of Economy's 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 The Ministry of Economy's authorities with the applicable policies, rules and regulations as regards making use of financial resources of the audited organisation

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

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 The Ministry of Economy's 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<sup>4</sup>

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. Areas for improvement are assets management and complete and fair disclosure of contingent liabilities. Poor effective controls in these areas led to untrue and incomplete presentation of values in the AFS.

The Internal Audit Unit did not manage to implement the annual plan and the auditees did not prepare and action plan.

This report resulted in five (5) recommendations, of which three (3) are new recommendations and two (2) repeated. We will follow up these recommendations during next year's audit.

For the status of the previous year's recommendations and the level of their implementation, see Chapter 4.

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<sup>4</sup> Issue A and Recommendation A - means new issue and recommendation  
Issue B and Recommendation B - means repeated issue and recommendation  
Issue C and Recommendation C - means partly repeated issue and recommendation

## 2.1 Issues with impact on audit opinion

### Issue B1 – Untrue presentation of assets in the AFS

Regulation MoF- No.02/2013 on Management of Non-Financial Assets by Budget Organisations, Article 6.1 defines that each budget organization shall put in place and update a register of non-financial assets under its management. In addition, Article 13 of the same regulation stipulates that all transactions created during the purchase or construction of non-financial assets for other budgetary organizations should be registered in the books of financing organization in the category of ongoing investments. Recipient budget organization shall register non-financial assets on its non-financial assets' records.

The assets' value presented in the AFS was not true and complete because the capital assets (over €1,000) were overstated by €10,000,000, whilst non-capital assets (under €1,000) were understated by €22,185. Identified irregularities are the following:

- According to the agreement between the Government of Kosovo and the Government of Switzerland, the ME has supported the "Support program for water supply and sewerage in rural areas - Phase VI" with financial resources of €10,000,000 since 2018. The project was completed in October 2022, in which case the final report was submitted by the investor but it is still present in the ME assets' registers as an ongoing investment, overstating the amount of capital assets in KFMIS.

The Ministry has made efforts to transfer the ownership of these projects but has not succeeded due to ambiguities between the "Regional Water Supply Company" (beneficiary of the project) and the company that has implemented the project (AP/Dorsch/CDI) regarding the completion of documentation for the transfer of ownership. MoE in April 2023 had signed a Memorandum of Understanding for the transfer of ownership of capital investments with 6 RWSC; and

- Assets in the amount of €22,185 for furniture and other equipment in the training centres were not recorded in the e-assets system, thus understating non-capital assets in the e-assets.

This occurred because the responsible officer recorded only the assets received through the warehouse overlooking the assets received outside the premises of the Ministry.

#### Impact

Untrue and unfair presentation of assets in the annual financial statements (AFS) and in the assets registers affects the decisions of information users and in its poor management.

**Recommendation B1** The Minister should ensure the complete and true recording of assets as well as the updating of registers in order for the disclosures in the AFS to be true and present a fair view. In addition, the funded and complete projects for other organisations be transferred to the beneficiaries writing them off from the Ministry's registers.

**Entity management response (Agree)**

**Issue A1- Untrue presentation of contingent liabilities in the Annual Financial Statements (AFS)**

**Finding** Regulation No. 01/2017 on Annual Financial Reporting of Budget Organisations, Article 6 sets forth that budget organizations keep accurate, complete, up to date accounting records and in compliance with the applicable law on all financial information and other non-financial information.

The presented amount of contingent liabilities in the Ministry's AFS was understated by €4,741,404. We found that ME had two open court cases for failure to pay the debts due to losses of the Universal Postal Service, one in the amount of €1,552,675 (debts of 2016, 2017 and 2018) and one of €3,188,729 (debts of 2014, 2015 and 2016). For both cases, the Basic Court had issued decisions and parties have appealed the decisions to the Court of Appeals. The ME has not disclosed these cases as contingent liabilities in the AFS, considering them closed without any final decisions by the Court of Appeals.

This occurred due to poor communication between the Ministry's responsible officers and the State Advocacy as well as poor controls in the ministry regarding the recording, monitoring and information on the progress of court cases.

**Impact** Untrue and incomplete disclosure of contingent liabilities leads to inaccurate information for stakeholders or AFS users regarding the balance of these liabilities as well as poor budget planning for the following year.

**Recommendation A1** The Minister should ensure that complete records with supporting evidence are kept regarding the issues that are in court proceedings and also ensure that contingent liabilities are presented in a fair and true view in the 2023 AFS.

**Entity management response (Agree)**



## 2.2 Findings on financial management and compliance issues

### 2.2.1 Common Issues on certain economic categories

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

#### **Issue A2 - Lack of reconfirmation of funds in the Statement**

##### **Finding**

Law No. 04/L-042 on Public Procurement, Article 16.1 stipulates that the estimated value of a proposed supply contract shall equal the estimated price to be paid by the contracting authority for all products, services and other objects covered thereby.

In addition, ROGPP, Article 8.7 defines that the persons having authority to sign a contract are obliged, before the publication of the B58 Form "Notice on the Contracting Authority Decision", to reconfirm that the financial information (SNDAF) has not materially changed.

In three cases we found that the estimated value is lower than the final contract price:

- For the project "Supply with equipment for the Laboratory of the Geological Institute of Kosovo", procurement procedures have been carried out for 5 LOT and resulted in signed contracts for 4 LOT. The estimated value in the "Statement of Needs and Determination of Availability of Funds" (SNDAF), and reconfirmed that the financial information has not materially changed, was €390,000, whilst the total value of signed contracts was €497,009. Thus, the total value for supplies in contracts is higher by €107,009 than the estimated value in SNDAF.
- The contract "Supply and servicing of ME air conditioners" had an estimated value of €15,000 in SNDAF, whilst the contract value of the signed contract was €21,880. Thus, the total contract value is higher by €6,880 compared to the estimated value.
- The contract "Car Insurance for ME" had an estimated value of €21,000 for a period of three years, whilst the value of the signed contract was €25,388. Thus, there is an excess of the estimated value for €4,387.

This occurred due to the negligence of the authorized officials for the correct verification of the estimated value, despite reconfirmation through electronic communication, these changes were not reflected in SNDAF.

**Impact** Failure to reconfirm the available funds for the contracted projects may lead to the Ministry entering into unplanned liabilities.

**Recommendation A2** The Minister should ensure that the Statement of Needs and Determination of Availability of Funds is reviewed by the persons authorized to sign contracts before the publication of the contract award notice in order to reconfirm that the financial information has not changed or in cases where changes occur, the modified information is presented.

### Entity management response (Agree)

## 2.2.2 Capital and Non-capital assets

The amount of capital assets presented in AFS at the yearend 2022 is €19,320,535, that of non-capital assets is €23,007 and of stocks is €31,598.

### Issue B2 – Failure to reconcile the stocktaking balance with the balance of non-financial assets

**Finding** Regulation No.02/2013 on Management of non-financial assets in budget organisations, Article 19.4.1, stipulates that it is the responsibility of the Stocktaking Commission to carry out the stocktaking of all non-financial assets owned and controlled by the budget organisation.

The stocktaking commission had not included in the stocktaking report the IT equipment, worth €62,466, for training purposes, located in the Kosovar Network Infrastructure for Research and Education facility in Prizren and at the Public University “Haxhi Zeka” Peje, whilst the same are recorded as property of the ministry in the capital assets register.

Failure to complete the assets stocktaking occurred due to poor communication between the responsible official and stocktaking commission for the ownership of assets located in the premises of other organisations.

**Impact** Failure to complete the assets stocktaking leads to failure to reconcile the stocktaking balance with the balance in the assets’ registers, therefore the assets value presented in the AFS may not be true.

**Recommendation B2** The Minister should ensure that the assets stocktaking commission has complete information for all assets in use and ownership by the Ministry, despite their location, as well as all changes following the stocktaking should be presented in the assets register.

### Entity management response (Agree)

### 2.2.3 Internal Audit Function

The ministry has established the Internal Audit Unit (IAU) which operates with one auditor. Out of seven (7) audits in the annual plan, this unit carried out four (4) audits. 20 recommendations, which covered only 29% of the current period, were given in these reports for which no action plans were prepared. Whilst, the Audit Committee for 2022 held four (4) business meetings.

#### **Issue A3 – Poor functioning of the IAU**

##### **Finding**

Law No. 06/L-021 on Public Internal Financial Control, Article 23 stipulates that the Head of the Public Sector Entity ensures sufficient human, financial, and other resources to enable the functioning of the internal audit effectively; in addition, it ensures the implementation of agreed internal audit recommendations.

The Internal Audit Unit (IAU) in the ME operated with one permanent auditor and one engaged auditor until April 2022. Out of seven planned audits, only four were carried out, in which 20 recommendations were given.

Failure to implement the plan was because the audit plan was prepared based on a staff of two auditors.

##### **Impact**

Failure to meet with the internal audit plan, has a negative impact on the improvement of control systems and achievement of organisation's goals.

**Recommendation A3** The Minister should ensure that the IAU acts effectively, in order to add value on the improvement of operational activities and the quality of current internal controls. At the same time, meet the planned objectives in the annual work plan in accordance with the available resources.

##### **Entity management response (Agree)**

### 3 Summary on budget planning and execution

This chapter gives a summarised information on the sources of budget funds, spending of funds and revenues collected, by economic categories. This is highlighted in the following tables:

**Table 1. Expenditures by sources of budget funds (in €)**

Description	Initial budget	Final budget <sup>5</sup>	2022 Expenditures	2021 Expenditures	2020 Expenditures
<b>Sources of funds</b>	<b>33,891,915</b>	<b>193,685,418</b>	<b>178,300,277</b>	<b>64,241,822</b>	<b>209,948,797</b>
Government Grants – Budget	18,834,581	178,628,084	173,399,369	57,890,943	167,149,191
Funding through borrowing	13,619,795	13,619,795	3,476,681	2,801,997	6,103,137
Funding through borrowing – investments clause	1,437,539	1,437,539	1,424,226	3,548,882	84,843
Revenues from PAK	0	0	0	0	36,496,366
External donations	0	0	0	0	115,260

The final budget is higher than the initial budget by €159,793,503. This significant change is as a result of budget appropriations in the area of Subsidies and Transfers by Government's decisions for support in overcoming the energy crisis, namely electricity subsidies for end customers, compensation for energy imports as well as support for public owned enterprises in financial distress.

In 2022, the ME spent 92% or €178,300,277 of the final budget, an improvement compared to the previous year when the budget outturn was 84%.

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

Description	Initial budget	Final budget	2022 Spending	2021 Spending	2020 Spending
<b>Spending of funds by economic categories</b>	<b>33,891,915</b>	<b>193,685,418</b>	<b>178,300,277</b>	<b>64,241,822</b>	<b>209,948,797</b>
Wages and Salaries	1,160,322	1,160,322	1,142,374	1,208,881	3,098,436
Goods and Services	4,345,773	4,295,773	1,558,983	997,848	11,171,517
Utilities	23,130	23,130	11,333	7,783	64,553
Subsidies and Transfers	12,208,546	177,513,299	171,491,629	53,312,839	157,705,430
Capital Investments	16,154,144	10,692,894	4,095,958	8,714,471	37,908,862

Explanations for changes in budget categories are given below:

No changes were made to the final budget compared to the initial budget for the category of Wages and Salaries, the budget was spent at 98%.

The final budget of Goods and services, compared to the initial budget, was decreased by €50,000 due to Government's decisions on savings. The spending for this category was relatively low, the budget was spent at only 36%. This was due to the postponement and failure to implement the projects funded through borrowing. Budget bearers funded through borrowing were the programmes Publicly Owned Enterprise Policy and Monitoring Unit (POEPMU), Department of Post-Telecommunications and Information Technology (DPTIT) and Kosovo Agency for Energy Efficiency (KAEE).

No changes were made to the final budget of €23,130, compared to the initial budget for the category of Utilities. The budget was spent at 49% after covering some expenses for this category by the respective engineering department of the former MPA.

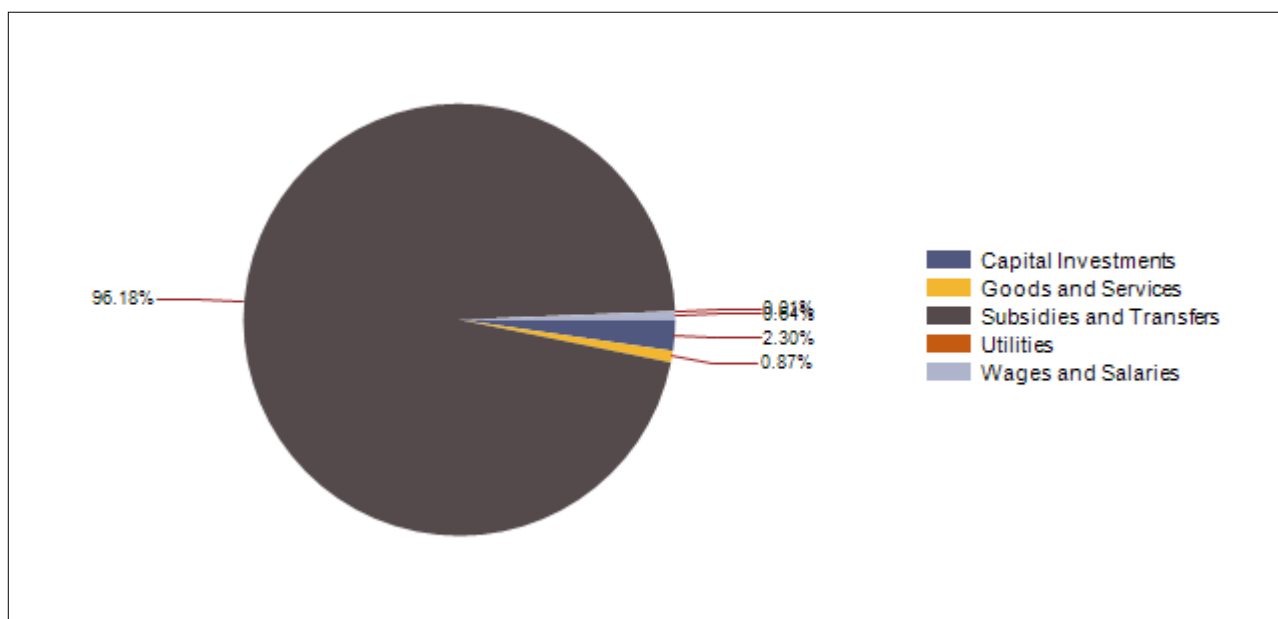
The final budget of Subsidies and Transfers, compared to the initial budget, was increased by €165,304,753. This was as a result of Government's Decisions for budget appropriations in the amount of €165,954,753 for the implementation of Economic Recovery Package as well as other budget appropriations for the support of publicly owned enterprises with financial difficulties. In addition, savings in the amount of €1,000,000 have been presented from this category as well as a transfer of funds in the amount of €350,000 from the category of capital investments from the Project for Water and Sewerage for Kosovo's rural areas and allocated for financial support of the Gjakova Heater. The ME spent €171,491,629 or 97% of the budget for this category. These expenditures were for the Economic Recovery Package in the amount of €133,210,918 and subsidising of POEs with financial difficulties (KEK, Trepça, KOSTT j.s.c, Telekom i Kosoves j.s.c Infracos, Trainkos etc).

Regarding the Economic Recovery Package, from the project code (00098) in the category of subsidies and transfers, funds in the amount of €135,400,000 have been allocated and of which €133,210,918 have been spent.

For the implementation of the measure 3.7, Support in overcoming the energy crisis, have been spent €79,210,918 out of which €64,601,252 for electricity subsidy for end costumers in order to reduce the impact of energy tariffs (KESCO); €10,000,000 for energy imports subsidies (KEK); as well as €4,609,666 for subsidizing energy efficiency for citizens, namely the purchase of equipment with a high level of efficiency.

Whilst for the implementation of the measure 4.6 Support of public owned enterprises, €54,000,000 have been spent for the coverage of electricity consumption (non-technical losses) in the northern part of Kosovo in order to stop deviations and for the payment of KOSTT's debt to the European interconnection system.

The final budget of Capital Investments, compared to the initial budget, was decreased by €5,461,250 due to internal adjustments and savings presentations. Funds in the amount of €350,000 were transferred from this category to the subsidies and transfers category, whilst the amount of €5,111,250 was presented as savings. The outturn compared to the final budget was only 38%. The low level of outturn was due to failure to implement the planned capital projects in lack of requests' initiation by the requesting units, numerous complaints from the economic operators during the procurement process as well as postponement of projects funded through borrowing.

**Chart 1. Expenditures by economic categories for year 2022**

Revenues generated by ME in 2022 totalled to €1,113. These revenues relate to the services provided by the Energy Inspectorate, which operates within the Ministry of Economy. These revenues are put in the Treasury's main account and are not used by the ME.

**Table 3. Revenues (in €)**

Description	Initial budget	Final budget	2022 Receipts	2021 Receipts	2020 Receipts
<b>Total of revenues</b>	<b>356,048</b>	<b>356,048</b>	<b>1,113</b>	<b>2,400</b>	<b>1,157,999</b>
Non-tax revenues	356,048	356,048	1,113	2,400	1,157,999

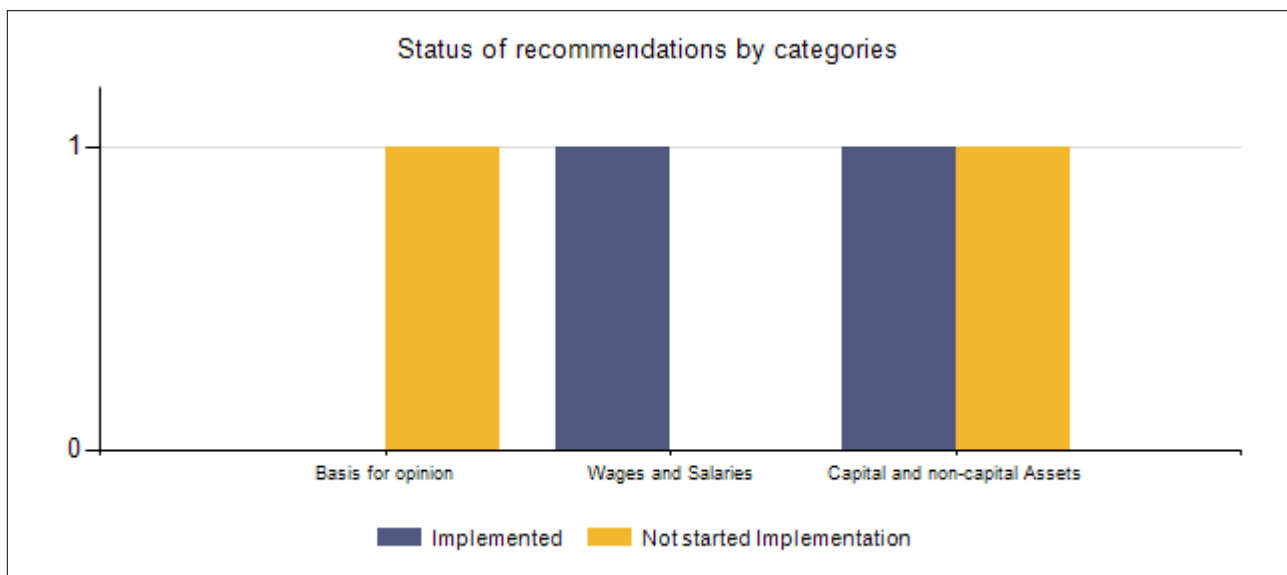
## 4 Progress in implementing recommendations

Our audit report on 2021 AFS of the Ministry of Economy resulted in four (4) recommendations. The Ministry of Economy prepared an Action Plan stating how all recommendations will be implemented.

By the end of our 2022 audit, two (2) recommendations have been implemented and two (2) others have not been implemented.

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**

No.	Audit Area	Recommendations of 2021	Actions taken	Status
1.	Basis for conclusion	The Minister should ensure the complete and true recording of assets as well as the updating of registers in order for the disclosures in the AFS to be true and present a fair view.	We found similar cases this year too.	Implementation not started
2.	Wages and Salaries	The Minister should undertake all necessary actions to ensure working conditions and regular work attendance of these employees by continuous monitoring as required by legal acts.	The Ministry had taken measures to systematize this category of employees who were recorded in the lists of check-in/out at work.	Implemented
3.	Assets	The minister should ensure that following the drafting of a general report, the assets stocktaking commission reconciliates the stocktaking balance with the balance of non-financial assets registers in order to correct all possible errors and all this is completed prior the preparation of the AFS for 2022.	No actions have been taken	Implementation not started
4.	Assets	The Minister should ensure that for all investments made in the "Innovation and Training Park" in Prizren and for other similar projects, the ownership of the investments is defined and at the same time for the properties in the ownership of other institutions, all the necessary procedures related to the ownership transfer are carried out so that the assets balance is presented correctly and avoid the possibility of their mismanagement.	The recommendation regarding the ownership issue has been implemented.	Implemented

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



Vlora Spanca, Auditor General

Emine Fazliu, Assistant Auditor General

Mjellma Dibra, Head of Audit

Fjolla Bakalli, Team leader

Sabile Muli, Team member

## Annex I: Letter of confirmation



**Republika e Kosovës**  
**Republika Kosova-Republic of Kosovo**  
**Qeveria-Vlada-Government**  
**Ministria e Ekonomisë**  
**Ministarstvo Ekonomije/Ministry of Economy**

### LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2022 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 Ministrisë së Ekonomisë, për vitin 2022 (në tekstin e mëtejshëm "Raporti");
- pajtohem me gjetjet dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit;
- 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. Artane Rizvanolli  
Ministër, Ministria e Ekonomisë  
Data: 20 Prill 2023, Prishtinë

## 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>5</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>6</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

#### **Unmodified opinion**

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

Limitation of scope occurs when an auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

#### Modifications to the opinion in the auditor's report

The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement

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

<sup>6</sup> Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

### **Qualified opinion**

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

### **Adverse opinion**

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

"Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements
- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

### **Disclaimer of opinion**

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

### **Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report**

If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading “Emphasis of Matter” or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor’s opinion is not modified in respect of the matter emphasised.

If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor’s judgement, is relevant to users’ understanding of the audit, the auditor’s responsibilities or the auditor’s report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading “Other Matter,” or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph.