



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 LOCAL GOVERNMENT ADMINISTRATION
FOR THE YEAR 2023

Prishtina, June 2024

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1 Audit Opinion

We have completed the audit of the financial statements of the Ministry of Local Government Administration for the year ended on 31 December 2023 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities¹.

Unmodified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Ministry of Local Government Administration 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 reports² for the year ended as of 31 December 2023.

In our opinion, the annual financial statements of the Ministry of Local Government Administration give a true and fair view in all material respects, in accordance with the International Public Sector Accounting Standards under cash-based accounting.

Basis for 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 underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our conclusion, except for the effects of the matter/s described in the Basis for Compliance on Conclusion paragraph, transactions carried out in the process of execution of the Ministry of Local Government Administration'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

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

² Other reports as required in Regulation no.01/2017 on Annual Financial Report, Article 8

A1 Shortcoming in the selection of beneficiaries for the two public calls for the construction of houses with a total value of €3,000,000.

For more details, see subchapter 2.1 Issues with impact on the compliance 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

The Secretary General 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 Secretary General 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 and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The Minister is responsible to ensure the oversight of the Ministry of Local Government Administration's financial reporting process.

Management's Responsibility for Compliance

The Ministry of Local Government Administration's management is also responsible for the use of the Ministry of Local Government Administration's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.³

Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to 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 Local Government Administration's authorities with the applicable policies, rules and regulations as regards making use of financial resources of the audited organisation

³ 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 Ministry of Local Government Administration'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 recommendations⁴

During the audit, we noted areas for potential improvement, including internal control, which are presented below for your consideration in the form of findings and recommendations.

The areas that require immediate action due to their impact on the AFS are the management and maintenance of asset registers, as well as cooperation with municipalities for the transfer of assets. In addition, actions should be taken to implement the appropriate procedures regarding calls for support with subsidies, as well as project management.

This report resulted in three (3) recommendations, of which one (1) is a new recommendation, one (1) partially implemented and one (1) 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 compliance conclusion

Issue A1 – Shortcomings in the selection of beneficiaries according to public calls for house construction

Finding

According to the "Public call for the construction of houses for members of non-majority communities in municipalities for which assistance is necessary" and the "Public call for subsidizing the construction of houses for members of minority communities in the four northern municipalities: Northern Mitrovica, Zvečan, Leposaviq and Zubin Potok", the established criteria determine that the following categories have priority under equal conditions: 1. Potential beneficiaries or family members with special needs; 2. Potential beneficiaries with family members in serious health condition; 3. Potential beneficiaries who are not employed and are not beneficiaries of the social scheme. 4. Self-supporting parents. 5. Number of family members.

Regarding the procedures for the selection of beneficiaries for the construction of houses according to two public calls for which funds in the total value of €3,000,000 were allocated for the construction of houses with an area of 75m² and 62m², it has been identified that there is not enough evidence from the commission for selection of beneficiaries and their field examination before granting subsidies.

Although it was a request of the call that special categories should have priority under equal conditions, there is no evidence that these criteria were applied by the selection commission. According to the lists provided by the evaluation commission, in the first call dated 07.08.2023, 200 members of non-majority communities applied, while according to the commission's list, 119 of them met the criteria and only 57 beneficiaries were selected to be financed. Whereas, in the second call dated 22/11/2023, 142 members of non-majority communities applied according to the list of the commission, of whom 85 met the criteria for the construction of houses and only 21 beneficiaries were selected to be financed.

The application evaluation commission did not prepare a detailed report on how to categorize the beneficiaries who were prioritized from the full list of beneficiaries. The evaluation commission carried out field visits to assess the condition of the beneficiaries, but did not provide any evidence on the way of selection of respectively 57 and 21 beneficiaries.

Furthermore, we tested six (6) cases of applicants who, according to the official lists, although they met the criteria for subsidy, were not beneficiaries. In this regard, there was no evidence of how the additional criteria were evaluated for cases with equal conditions according to the public call.

This happened because the appropriate control activities related to reporting and monitoring by the commission for the allocation of subsidies were not implemented, and the process of evaluating applications according to the criteria defined by the Ministry was not sufficiently documented.

Impact

The lack of proper documentation related to the beneficiary evaluation process does not provide certainty regarding the implementation of priority criteria under equal conditions according to the public call, as well as increases the risk of favoring applicants during the selection of beneficiaries.

Recommendation A1

The Minister should make sure that the relevant officials are implementing the requirements related to the evaluation and selection of beneficiaries based on the criteria defined by the Ministry. The evaluation process should be documented to ensure that the requirements related to meeting the criteria of the public call are fully implemented.

Entity management response (Agree)

⁴ 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

2.2 Findings on financial management and compliance issues

2.2.1 Capital Investments

The final budget for capital investments was €5,381,350, of which €3,612,973 were spent. They are related to expenses incurred in connection with the co-financing of the municipalities from the municipal performance grant scheme, the municipal program for infrastructure development, etc.

Issue B1 – Shortcomings in the implementation of works co-funded with municipalities

Finding

MLGA, based on the 2023 Budget Law, had concluded a Co-financing Agreement for the Support Program for infrastructure projects for communities with the municipalities of the Republic of Kosovo. Article 7 of this Agreement stipulates that the municipalities must undertake all measures for the project to be completed within the budget year 2023. On the other hand, the responsibilities of each party, including the completion of the works within the year 2023, are foreseen in the public contracts between the relevant municipalities and the economic operators, based on the agreements signed by the MLGA with the relevant municipalities.

From the testing of 18 samples for co-financing with the respective municipalities, only five (5) projects had been completed within the previous deadline, technical acceptances had been made and MLGA had made requests for the deletion/transfer of assets to the respective municipalities. While, for the other 12 projects, the payments by the MLGA had been completed, but on the other hand, the respective municipalities had not fulfilled their contractual and financial obligations.

We have identified two (2) cases where the works were not carried out according to the dynamic plan, as foreseen by the contract:

- "Construction of the sports hall at the school "Ismajl Luma" - Municipality of Lipjan. The value of the contract was €270,000, where the value pledged by the MLGA was €235,374, while the value pledged by the Municipality was €34,626. The agreement for financial support of the project from the grant scheme for municipal performance was signed in 2023, while the contract was signed on 06/07/2023 with a deadline for the completion of the works for 120 calendar days, no later than 20/11/2023. The invoice related to the second position was accepted on 13/10/2023 in the amount of €52,295. Until April 2024, the percentage of project completion was only 28.44%; and
- "Construction of two underpasses for pedestrians" - Municipality of Obiliq. The value of the contract was €400,261, where the value pledged by the MLGA was €250,000 and the value pledged by the Municipality was €150,261. The agreement was signed on 14/03/2023, while the contract was signed on 19/07/2023. The deadline for completing the works under the Special Conditions of Contract (SCC) was 120 calendar days, while only 82% of the works

had been completed. Based on the contract manager's report dated 27/12/2023, the works were interrupted due to problems with underground infrastructure, cables and high voltage installations. During the physical examination in April 2024, we found that the project was not yet completed.

According to the MLGA and the contract managers, this happened due to delays after the signing of the Memorandums of Understanding and contracts, as well as delays in the procurement procedures developed by the municipalities. Delays also occurred due to problems identified during the implementation of the projects.

Impact

Delays in the completion of projects affect the MLGA not reaching the set objectives and at the same time can cause budgetary difficulties for the following years.

Recommendation B1

The Minister should ensure through the relevant staff the conduct of a comprehensive analysis of the unfinished projects. Further, the necessary actions should be taken so that the works are carried out according to the contracted dynamic plan. Also, in cooperation with the relevant municipalities, the Minister should ensure that before the initiation of the tendering procedures, detailed analyses are carried out for the relevant projects so that their implementation does not undergo changes from the plan.

Entity management response (Agree)

2.2.2 Capital and non-capital assets

The value presented in the AFS of capital assets is €4,205,684, of non-capital assets €136,605, and of stocks €8,449.

Issue C1 – Overstatement of assets in the AFS

Finding

Article 13 of the MoF Regulation No. 02/2013 on Management of Non-Financial Assets by Budget Organizations determines that "All transactions created during the purchase or construction of non-financial assets for other budgetary organizations must be registered in the books of financing organization in category of investment. At the moment when the non-financial asset has passed all the rules and procedures of delivery, the budget funding organization will close the following investment category." Likewise, the co-financing memoranda signed between the Ministry and the municipalities determine that upon acceptance of the delivery of the works performed by the EO, the project will become the property of the municipality.

The presented value of the property in AFS was overstated by €15,079, which came as a result of ⁵ one (1) project co-financed with municipalities in the total value of €15,079 which, although it was completed and the technical acceptance was made by the relevant commissions, continues to appear in

the Ministry's register as an ongoing investment, overestimating the value of capital assets.

This happened as a result of the lack of coordination between the officials of the Ministry and those of the respective municipalities.

Impact

Failure to transfer ownership of assets to the respective municipalities affects unfair presentation and overestimation of the value of assets in the AFS.

Recommendation C1

The Minister, through the monitoring department of the municipalities, must ensure proper and timely communication between the responsible officials of the Ministry and those of the municipalities, so that all projects completed through co-financing for the municipalities are transferred to their registers and at the same time the registry of the Ministry is updated.

Entity management response (Agree)

3 Summary on budget planning and execution

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

Description	Initial budget	Final budget ⁵	2023 Expenditures	2022 Expenditures	2021 Expenditures
Sources of funds	9,691,668	12,949,198	7,851,011	5,060,469	3,871,569
Government Grants – Budget	9,691,668	10,922,753	7,343,957	4,188,076	3,576,725
External donations	0	2,026,445	507,054	872,393	294,844

The final budget increased by €3,257,530 compared to the initial budget. This increase is the result of the allocation of grants from donors such as the European Union/Council of Europe and the World Bank.

In 2023, the MLGA spent €7,851,011 or about 61% of the budget with an unsatisfactory performance.

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

Description	Initial budget	Final budget	2023 Spending	2022 Spending	2021 Spending
Spending of funds by economic categories	9,691,668	12,949,198	7,851,011	5,060,469	3,871,569
Wages and Salaries	923,223	1,083,106	998,619	897,836	926,987
Goods and Services	410,445	966,649	470,483	575,346	321,568
Utilities	8,000	8,724	4,388	5,374	5,005
Subsidies and Transfers	3,050,000	5,509,370	2,764,548	362,515	0
Capital Investments	5,300,000	5,381,350	3,612,973	3,219,399	2,618,008

Explanations for the changes in the budget categories are provided below:

The final budget for salaries and wages, in relation to the initial budget, was increased by €159,883. This change was as a result of the funds allocated from Donor Grants such as the Pre-Accession Instrument - IPA/ BNK, as well as the allocation of the grant from the World Bank. The budget was spent at the level of about 92%.

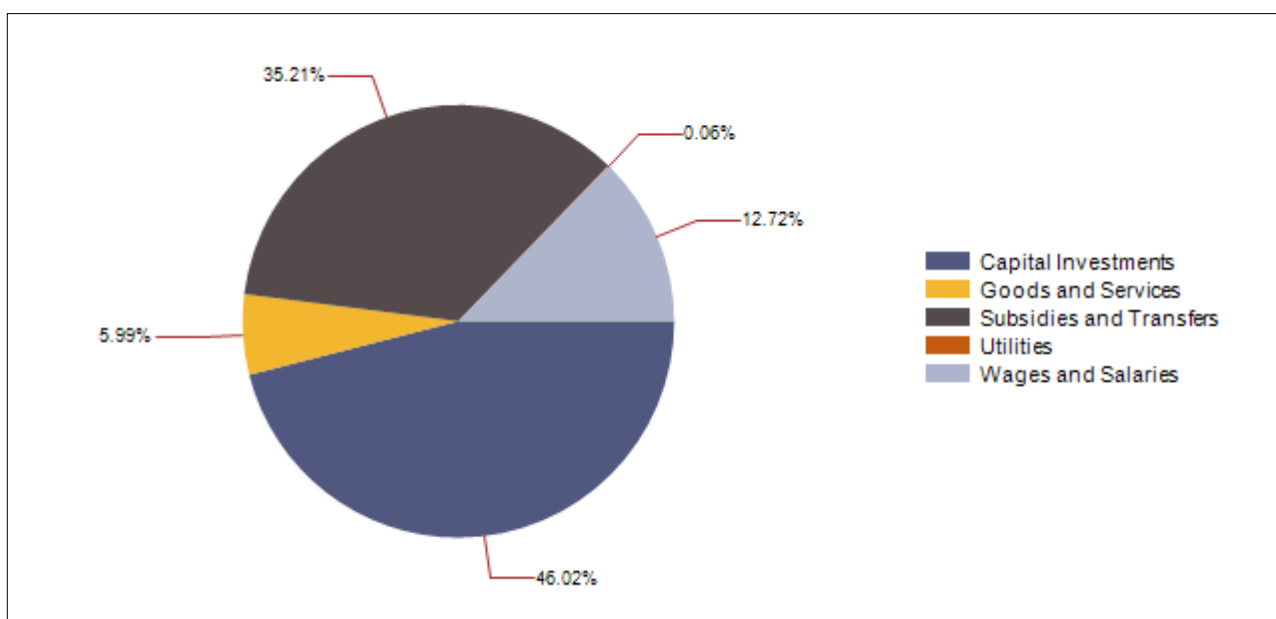
The final budget for goods and services in relation to the initial budget had increased by €556,204. This increase was the result of the Government's decisions and the allocation of funds from IPA/BNK donor grants, as well as the World Bank donor grant. The realization of the budget was only 49%.

The final budget for municipal expenses was reduced by €724 from the IPA/BNK donor grant. The final budget, including the MLGA budget and the IPA/CBC and World Bank donor grant, was €8,724. The expenses for this category were €4,388 or 50%.

The final budget for subsidies and transfers increased by €2,459,370. This increase was the result of Government decisions and the World Bank project. The budget implementation rate was 50%. Delays in announcing public calls for subsidies affected this level of performance.

The final budget for capital investments increased by €81,350. This increase was influenced by the transfer of funds from the World Bank donation belonging to the Non-financial Assets category. The budget implementation rate was only 67%. This level of implementation was affected by the delays in the procurement procedures by the municipalities after the signing of the Memoranda of Understanding, the evaluation of the offers and the signing of the contracts with the EOhe final budget for salaries and wages in relation to the initial budget had increased in.

Chart 1. Expenditures by economic categories for year 2023



The MLGA has no regular revenues. The revenues of 2023 were related to the return of funds from the World Bank Project in the amount of €15,129 for 5 projects.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
Total of revenues	0	0	15,129		
Other revenues	0	0	15,129		

4 Progress in implementing recommendations

The audit report for the AFSs of 2022 of the MLGA has resulted in five (5) recommendations. The MLGA prepared an Action Plan presenting how it would implement the given recommendations. The MLGA had also prepared the Periodic Report on the implementation of the recommendations.

By the end of our 2023 audit, three (3) recommendations had been implemented, one (1) recommendation had been partially implemented and one (1) had not been implemented, as shown in Chart 2 below.

Chart 2. Progress in implementing prior year's recommendations

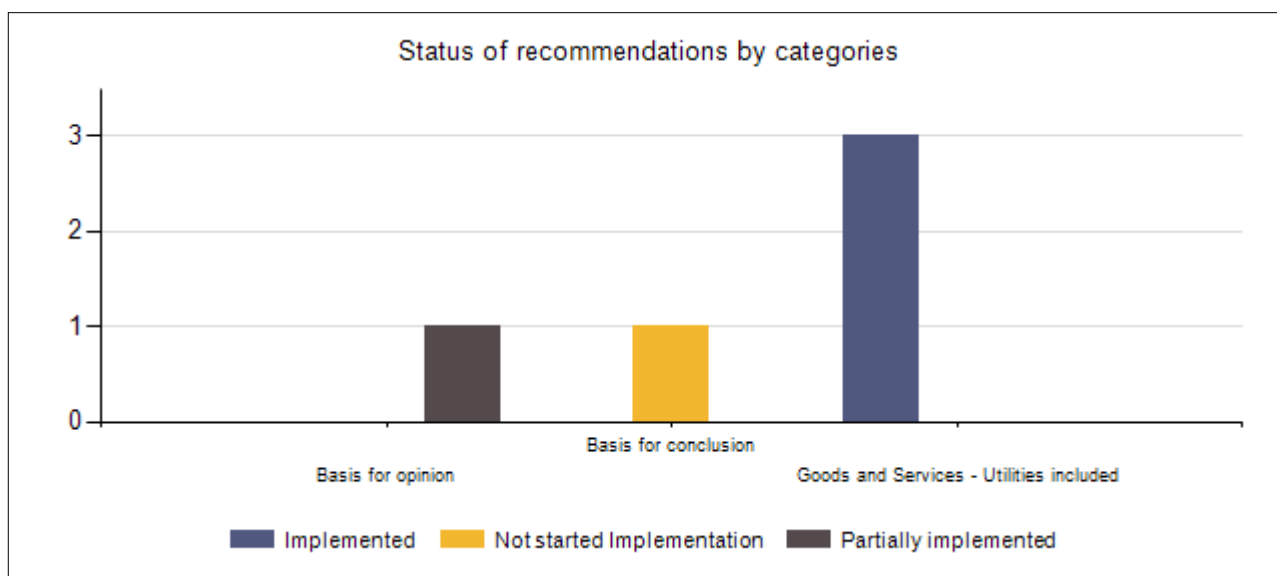


Table 4 Summary of prior year's recommendations

No.	Audit Area	Recommendations of 2022	Actions taken	Status
1.	Basis for opinion	The Minister should, through the monitoring department of the municipalities, ensure proper and timely communication between the responsible officials of the Ministry and those of the municipalities, so that all projects completed through co-financing with the municipalities are transferred to their registers and at the same time the registry of the Ministry is updated. It	Even in 2023 there were similar cases; however, the value of the identified projects is lower than in the previous year.	Partially implemented

		should also be ensured that the depreciation of all non-capital assets is applied in order to correctly present their value in the AFS.		
2.	Basis for conclusion	The Minister should ensure, through the relevant staff, to conduct a comprehensive analysis of unfinished projects. Further, the necessary actions should be taken so that the works are carried out according to the contracted dynamic plan. Also, in cooperation with the relevant municipalities, the Minister should ensure that before the initiation of the tendering procedures, detailed analyzes are carried out for the relevant projects so that their implementation does not undergo changes from the plan.	Although the MLGA took steps and conducted a comprehensive analysis of capital projects, it did not manage to ensure full cooperation with the municipalities for monitoring co-financed capital projects. The finding remains unchanged.	Implementation has not started
3.	Goods and services and utilities	The Minister, in cooperation with the Treasury, must ensure that concrete measures are taken to close the open advances based on supporting documents, in order to avoid their overstatement in the AFS.	The MLGA has taken actions to implement this recommendation.	Implemented
4.	Goods and services and utilities	The Minister should ensure that the positions approved by the budget law are filled through recruitment procedures. The application of the procedures for the MLGA should be done only for filling specific positions, through predefined measurable and concrete criteria.	During the current year, we have not encountered any new cases.	Implemented
5.	Goods and services and utilities	The Minister should ensure that the contract managers continuously supervise the progress in contract execution in order to prevent the excess of supplies from the contracted quantity. In cases where the contract overrun reaches +30%, no new orders should be placed.	During the current year, we have not encountered such cases.	Implemented

Vlora Spanca, Auditor General

Zukë Zuka, Assistant Auditor General

Mjellma Dibra, Head of Audit

Neslihane Mati, Team leader

Fatbardha Jashari, Team member

Valbona Tolaj, Team member

Annex I: Letter of confirmation

DALESE - IZLAZNA - OUTGOING REPUBLIKA E KOSOVËS REPUBLIKA KOSOVA / REPUBLIC OF KOSOVO QEVERIA E KOSOVËS / VLADA KOSOVA / GOVERNMENT OF KOSOVO Ministria e Administrimit të Pushtetit Lokal Ministarstvo Lokalne Samouprave i Administracije Ministry of Local Government Administration Nr. Br. No. 400-87/3 Data Datum. Date. 05.06.2024				REPUBLIKA E KOSOVËS-REPUBLIKA KOSOVA-REPUBLIC OF KOSOVO ZYRA KOMBËTARE E AUDITIMIT NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE DATE/PRATHAP/DORËZUAR: -6-06-2024 DATUM/PRILJELI/GOSTAVLJENI: DATE/RECEIVED/DELIVERED: Njesia Org. Org. Jedin. Org. Unit 03 Shif. klasif. Klasif. Kod Class. Code 47 Nr. Prot. Br. Prot. Prot. No. 776 Nr. i faqeve Br. Stranica No. Pages 1	
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Republika e Kosovës
 Republika Kosova-Republic of Kosovo
 Qeveria - Vlada - Government
 Ministria e Administrimit të Pushtetit Lokal
 Ministarstvo Administracije Lokalne Samouprave
 Ministry of Local Government Administration

LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2023 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Vendi dhe data: Prishtinë, 30.05.2024

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e **Pasqyrave Financiare të Ministrisë së Administrimit të Pushtetit Lokal, për vitin 2023** (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat 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 implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Elbert Krasniqi

Ministër i Ministrisë së Administrimit të Pushtetit Lokal

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 statements⁵ 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 authorities⁶. 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

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

⁶ 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.