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Compliance with International Standards on Auditing (ISAs): Evidence from Kosovo* for the Financial Reporting Period 2015–2019

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ABSTRACT

The **aim** of this empirical study is to determine the compliance of the audit reports of the financial statements of large companies in Kosovo for 2015–2019 with the requirements of the International Standards on Auditing (ISA). The relevance of the study is due to the fact that many countries are now actively moving to the application of the International Standards on Auditing while feeling the lack of detailed methodological materials, which makes it difficult to effectively apply these standards in countries that do not have experience in this area. The basis for the study is a random sample of published audit reports of large companies in Kosovo, about 37% of the total population, which can be considered sufficient. The authors analyze the misstatements (errors) made by the auditors of domestic audit firms in Kosovo when preparing audit reports on the financial statements of large companies in Kosovo in 2015–2019. Based on the analysis, the authors **conclude** that the quality of the audit in Kosovo is insufficient. The level of non-compliance with ISAs remains high, and licensed auditors and audit firms are not adequately trained to satisfactorily fulfill their legal obligations. The results of this study have implications for national audit regulatory bodies (ARBs) and professional accountancy organizations (PAOs) that want to improve overall audit quality.

Keyword: audit report; Kosovo; International Standards on Auditing; compliance

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ОРИГИНАЛЬНАЯ СТАТЬЯ

Соблюдение международных стандартов аудита (ISAs): данные по Косово** за период финансовой отчетности 2015–2019 годов

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АННОТАЦИЯ

Целью данного эмпирического исследования является определение соответствия аудиторских заключений, подготовленных по финансовой отчетности крупных компаний Косово за 2015–2019 гг., требованиям Международных стандартов аудита (МСА). Актуальность исследования обусловлена тем, что многие страны сейчас активно переходят к применению Международных стандартов аудита, ощущая при этом недостаток детальных методических материалов, что осложняет эффективное применение данных стандартов в странах, не имеющих длительного опыта в данной области. Базой для исследования послужили опубликованные аудиторские заключения крупных компаний Косово, для которых была произведена случайная выборка в размере около 37%, что можно считать достаточным уровнем для исследуемого множества. Авторы провели анализ ошибок, допущенных аудиторами отечественных аудиторских компаний Косово при подготовке аудиторских заключений по финансовой отчетности крупных компаний Косово за 2015–2019 гг. На основе проведенного анализа сделан **вывод** о недо-

* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence.

** Это название не наносит ущерба позициям в отношении статуса и соответствует резолюции 1244 СБ ООН и заключению Международного суда по Декларации независимости Косово.

статочном уровне качества аудиторской практики в Косово. Несоблюдение требований МСА остается высоким, лицензированные аудиторы и аудиторские фирмы недостаточно подготовлены для удовлетворительного выполнения своих юридических обязательств. Результаты данного исследования имеют значение для национальных органов регулирования аудита (ARB) и профессиональных бухгалтерских организаций (ПАО), желающих повысить общее качество аудита.

Ключевые слова: аудиторское заключение; Косово; международные стандарты аудита; соблюдение требований

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1. INTRODUCTION

1.1. Accounting and auditing requirements in Kosovo

The requirements for the auditing and reporting of the financial statements of entities in Kosovo are set out in Article 3, 4, 5, 9 and 11 of *Law no. 04 / L-014 on Accounting, Financial Reporting and Auditing*. The law was in force until December 31, 2018. From January 1, 2019 the *Law no. 06 / L-032 on Accounting, Financial Reporting and Auditing*¹ superseded the *Law No. 04 / L-014* promulgated in 2011.

According to Article 4 of the current law, all entities in Kosovo, depending on the number of employees, total assets and total annual turnover, are classified as micro, SME and large entities. This classification serves as the basis for determining the appropriate financial reporting framework, audit requirement, and disclosure requirement for the Kosovo Council for Financial Reporting (KCFR).

1.1.1. Large entities

A business organization is classified as large if it meets two of the following three conditions: (i) Annual (net) turnover: over €4 million; (ii) Gross assets: over €2 million; (iii) Average number of employees during the year: over 50.

According to the requirements of the law, a large business organization (entity) applies International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) which are published by the International Accounting Standards Board (IASB) and approved by the Kosovo Council for Financial Reporting (KCFR).² As required by law, these financial statements must be audited by a statutory firm licensed by Kosovo Council for Financial Reporting, and submitted for publication by KCFR no later than April 30 of the following year, respectively June 30 of the following year for consolidated financial statements. The audit should be

carried out in accordance with International Standards on Auditing (ISAs) published by IFAC's International Audit and Assurance Standard Board and approved by KCFR. It is emphasized that despite the obligation to audit financial statements by statutory audit firms, the Law and administrative instructions oblige this category of entities to hire certified accountants to certify financial statements in accordance with IFRS.

1.1.2. Small and Medium entities

A business organization is considered medium if it meets two of the following three conditions: (i) Annual (net) turnover: €2 million — €4 million; (ii) Total assets: €1 million — €2 million; (iii) Average number of employees during the year: from 10 to 50.

A business organization is considered medium if it meets two of the following three conditions: from €50 thousand to €2 million; (ii) Total assets: €25 thousand to €1 million; (iii) Average number of employees during the year: up to 10.

All SMEs as classified in Article 4 of the Law, as of 01.01.2015 shall apply the IFRS for SMEs standard published by the IASB and approved by the KCFR. According to Article 4 of the law, the definition of entities includes all types of entities (*Individual, Partnership, Limited Liability Companies, etc.*), so all these types of entities should have a reporting framework, which for SMEs is IFRS for SMEs. The financial statements of medium-sized entities should be audited by an audit firm or a statutory auditor licensed by KCFR, whereas for small entities the audit is not mandatory. Also, submission and publication of financial statements for SMEs is not mandatory. The Law and administrative instructions oblige this category of entities to hire certified accountants to certify financial statements in accordance with IFRS / IFRS for SMEs.

1.1.3. Micro-entities

A business organization is considered micro entity if it meets two of the following three conditions: (i) Annual turnover: less than €50 thousand; (ii) Total assets: less than €25 thousand; (iii) Average

¹ Official Gazette of the Kosovo. URL: <https://gzk.rks-gov.net/ActDetail.aspx?ActID=16268>

² KCFR is an independent professional body, part of separate division of Ministry of Finance of Kosovo.

number of employees: < 10. The financial reporting of this category is not yet regulated by law, as the law empowers the KCFR to issue an administrative instruction to determine the appropriate financial reporting framework for this category of entities. KFRC has not yet issued any reporting framework for this category of entities.

2. REVIEW OF THE LITERATURE

ISAs are professional standards for the audit of financial statements. The standards are issued by IFAC through IAASB board. The International Federation of Accountants (IFAC) serves the public interest by contributing to the development of strong and sustainable organizations, markets, and economies. It advocates for transparency, accountability, and comparability of financial reporting; helps develop the accountancy profession; and communicates the importance and value of accountants to the global financial infrastructure. International Standard on Auditing deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements. This ISA promotes consistency in the auditor's report. Consistency in the auditor's report, when the audit has been conducted in accordance with ISAs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur."³

ISAs on audit conclusions and reporting have had an important part in harmonization of the audit opinions. "Such harmonization is important because the audit report is a primary tool auditor's use to communicate with financial statement users" [1]. Information asymmetry between users of financial statements can be eliminated through audit reports harmonization.

It is of high importance to prepare an audit opinion in compliance with ISAs requirement. Without absolute compliance with standards on audit conclusion and reporting (standards ISAs 700–799) users of financial statements could not clearly understand the audit reports prepared by independent and licensed auditors.

"The analysis of the elements concerning the form and the content of audit reports determines the principles followed by the professionals and verify the conformity degree of independent auditors with ISAs" [1]. "The object of the harmonization of the different national practices dealing with audit report is to reach the uniformity of the professional rules" [2].

Similar research performed by M. E. Hyssein, V. Bavishi et al. in [3], compared and analyzed the audit reports issued by statutory auditors in 27 countries who were members of the International Federation of Accountants (IFAC). They compared if these audit reports complied with auditing standards of that time. This research was based on prior research work performed by different researchers [4, 5]. Research performed by Hyssein [3] categorized countries into 5 different groups: US, UK, Europe, Group 4 and Group 5.

- The U.S. Group is composed of Brazil, Canada, Japan, Mexico, Philippines, Taiwan, Thailand, and USA.
- The U.K. Group is composed of Australia, India, Ireland, Malaysia, Netherlands, Singapore, South Africa, and UK.
- The Europe Group is composed of Belgium, Denmark, Finland, France, Norway, Sweden, and Switzerland.
- The Group Four is comprised of Italy and Spain.
- The Group Five is comprised of Austria and Germany.

The results obtained from the research showed that the U.S. and U.K. were fully compliant with the international acceptable audit standards, while the third category showed moderate compliance with standards. The fourth and fifth groups showed very weak compliance with IFAC audit standards.

On the other hand, authors such as De-Angelo [6], Sockley and Holt [7], Balvers et al. [8], Feltham et al. [9], Knap [10] and Hogan [11] find that the size of a statutory firm is an indicator of audit work quality. Their hypothesis stated that the large audit firms are of interest to provide and perform an auditing services of enhanced quality in order to attract and maintain relations with the clients. Other authors, Raffournier [12], Haniffa and Cooke [13], Choon et al. [14], Coulton et al. [15], consider the correlation between the size of the audit firm and the quality of work. They conclude that in order to achieve quality work, full compliance with auditing standards must be maintained at all times.

Even though mixed results have been reported in regard to the correlation between audit firm size and full compliance with auditing standards, the research has provided evidence that larger firm employees are

³ IAASB 2018 Edition, Volume 1. Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements.

more skilled and compliant than the employees of small audit firms. It has been argued that larger firms employ skilled employees and provide continuous development training, which in turn increases the quality of their work [16, 17]. "Except for compliance with professional standards of auditing, larger audit firms are capable of issuing a more accurate audit opinion because of their ability to detect more errors and omissions in the financial statements, but also due to their highly developed and structured audit approach" [18–20].

Fakfakh et al. [21, 22] evaluated the influence of the revised International Standard on Auditing No. 700 on the linguistic characteristics of Tunisian auditors' reports. It was found that the audit reports examined did not fully comply with all of the components contained in the updated standard of the International Federation of Accountants (IFAC). Zubek Fathi [23] also tried to investigate the degree of conformity of Qatari auditing companies with the international standard ISA 700. The research found that investigation yielded significant results, such as auditing firms operating in Qatar are, to some degree, complying with the main formalities of the auditors' report. However, auditors were not fully compliant with the contents of the auditors' report in certain paragraphs as required by the new ISA 700.

3. RESEARCH METHODOLOGY

3.1. Research objective

To review the compliance with ISAs of audited financial statements, we have reviewed the quality of audited statements of large entities which were obliged to submit them for publication in the Kosovo Council for Financial Reporting (KCFR). The reviewed financial statements relate to the accounting period of 2015, 2016, 2017, 2018 and 2019. The aim of this research is to analyze whether the financial statements of large entities have been prepared in compliance with the requirements of IFRS/IAS and whether the auditor's report (audit opinion) has been prepared in accordance with requirements set forth in ISAs

3.2. Sample selection and population

Large entities that submitted audited financial statements for publication in KCFR for reporting years 2015–2019 were 240 per year on average or 1,200 for all five reporting periods. The sample was selected on a random basis approach and for reporting years 2015–2019, 450 audited financial reports were selected for review (analysis) or 37.5% of the total population.

3.3. Methodology and applicable standards of the profession

The analysis of audited financial statements is based on the specific requirements of the relevant standards (ISA). Based on the relevant standards, a list of questions was prepared as to whether the report issued by the auditor complies with the requirements of these standards and based on this analysis the final results for the entire sample were derived.

In order to carry out the analysis of the compliance of the auditor's report with the relevant ISAs, ISAs which cover the issue of the auditor's report have been selected. The ISAs considered for this part of the analysis are detailed as follows:

(i) *International Auditing Standard 700 — Opinion Forming an Opinion and Reporting on Financial Statements & International Auditing Standard 700 (Revised)*.⁴ This standard contains requirements that the auditor must adhere to regarding the form and content of a standard audit report. An auditor must comply with all the requirements of this Standard if in its opinion the financial statements are fully in compliance with IFRS/IAS, where the auditor issues an unqualified opinion. For the reporting year 2015 the auditor had to apply SNA 700, whereas, for the reporting year 2016, 2017, 2018 and 2019 the auditor had to apply SNA 700 (revised). Requirements taken into account during the analysis are paragraphs 20 to 42 as well as illustrations 1 and 3 of ISA 700 for reporting year 2014, 2015, while paragraphs 20 to 49 as well as illustrations 1 and 3 of ISA 700 (revised) for reporting year 2016, 2017, 2018 and 2019.

(ii) *International Standard on Auditing 705 — 'Modified Opinion in Auditor's Report' & International Auditing Standard 705 (revised)*.⁵ This standard contains requirements that the auditor must comply with regarding the form and content of a modified audit opinion report. An auditor should comply with all the requirements of this Standard if in its opinion the financial statements are not fully in compliance with IFRS/IAS, where the auditor issues a modified opinion. According to this standard, there are 3 types of opinions that need to be modified: 'qualified opinion', 'adverse opinion' and 'disclaimer of opinion'. So when the auditor in his report gives one of these three types of opinion, then he should take into account

⁴ International Federation of Accountants (IFAC) — ISA 700. URL: https://www.ifac.org/system/files/publications/files/ISA-700-Revised_8.pdf

⁵ IFAC-ISA 705. URL: <https://www.ifac.org/system/files/publications/files/Proposed%20ISA%20705%20%28Revised%29-final.pdf>

Table 1

Audit Opinions issued

	2015	2016	2017	2018	2019
Type of opinion	#	#	#	#	#
Unqualified	35	49	62	66	61
Unqualified with emphasis of matter	10	4	12	1	4
Qualified	27	22	26	31	18
Qualified with emphasis of matter	4	4	3	1	2
Adverse	0	0	0	0	0
Adverse with emphasis of matter	0	0	0	0	0
Disclaimer	4	2	0	1	0
Total Audit Reports (sample)	80	85	100	100	85
Total Audit Reports published	262	255	232	220	232
Total Audit Reports (sample in %)	31	33	43	45	37

Source: author's calculations.

the requirements of this standard. For the reporting year 2015, the auditor had to apply ISA 705, whereas for the reporting year 2016 the auditor had to apply ISA 705 (revised). Requirements taken into account during the analysis are paragraphs 6 to 28 as well as illustration 1 to 6 of ISA 705 for reporting year 2015, while paragraphs 16 to 29 and illustration 1 to 5 of ISA 705 (revised) for reporting year 2016, 2017, 2018 and 2019.

(iii) *International Standard on Auditing 706 – ‘Emphasis of Matter Paragraph and Other Matters Paragraphs in the Auditor’s Report’ & International Standard on Auditing 706 (revised)*.⁶ This standard contains special requirements where auditors wish to draw the attention of readers of the financial statements regarding the matters presented or disclosed in the financial statements. It also contains special requirements when auditors wish to draw the attention of readers of financial statements in relation to matters that are not presented or disclosed in the financial statements but which are important to disclose in the auditor’s report. This standard applies only when auditors after the opinion paragraph wish to add the following paragraphs: ‘Emphasis of matter’, ‘Other matters’. For the reporting year 2015, the auditor had to apply ISA 706, whereas for the reporting year 2016 the auditor had to apply ISA 706 (revised). Requirements that were taken into consideration during the analysis are paragraphs 6 to 9, application and other explanatory material A1 to A12 as well as

illustration 1 of ISA 706 for the reporting year 2015, whereas paragraphs 8 to 12, application and other explanatory material A1 to A12 as well as appendix 3 and 4 of ISA 706 (revised) for the reporting year 2016, 2017, 2018 and 2019.

The report issued by the auditor should be prepared in compliance with the above ISAs, depending on the opinion of the auditor. When analyzing audit reports the following seven alternatives can be presented:

1) *Unqualified Opinion*. In this case the auditor must apply the requirements of ISA 700, respectively ISA 700 (revised).

2) *Unqualified Opinion with an Emphasis of Matter Paragraph*. In this case the auditor must comply with the requirements of ISA 700 and ISA 706, respectively the revised ISA 700 and ISA 706.

3) *Qualified Opinion*. In this case the auditor must comply with the requirements of ISA 705, respectively ISA 705 (revised).

4) *Qualified Opinion with a paragraph of Emphasis of Matter*. In this case the auditor must comply with the requirements of ISA 705 and ISA 706, respectively ISA 705 (revised) and ISA 706 (revised).

5) *Adverse Opinion*. In this case the auditor must comply with the requirements of ISA 705, respectively ISA 705 (revised).

6) *Adverse Opinion with a paragraph of emphasis of matter*. In this case the auditor must apply the requirements of ISA 705 and ISA 706, respectively ISA 705 (revised) and ISA 706 (revised).

7) *Disclaimer opinion*. In this case the auditor must adhere to the requirements of ISA 705, respectively ISA 705 (revised).

⁶ IFAC–ISA 706.

4. RESEARCH RESULTS

Table 1 presents the results of the type of audit opinion issued by the auditors. Based on the data in Table 1, it is shown that in 2015, from the analyzed sample, 45 audit reports or 56% of the sample had an unqualified opinion, the number of qualified opinions was 31 (39%), and 4 (5%) disclaimer opinions. In 2016, from the analyzed sample, 53 audit reports or 62% of the sample had an unqualified opinion, the number of qualified opinions was 26 (31%), and 2 (2%) disclaimer opinions. In 2017, from the analyzed sample, 74 audit reports or 74% of the sample had an unqualified opinion, the number of qualified opinions was 29 (29%), and 0 (0%) disclaimer opinions. In 2018, from the analyzed sample, 67 audit reports or 67% of the sample had an unqualified opinion, the number of qualified opinions was 32 (32%), and 1 (1%) disclaimer opinions. In 2019, from the analyzed sample, 65 audit reports or 76% of the sample had an unqualified opinion, the number of qualified opinions was 20 (24%), and 0 (0%) disclaimer opinions.

Table 2 presents the results of the analysis of whether the auditor's report complies with all ISA requirements. Therefore, for 'unqualified opinions' we have analyzed whether the auditor's report complies with the requirements of ISA 700, respectively ISA 700 (revised). For 'qualified opinions', 'adverse opinions' and 'disclaimer opinion', we have analyzed whether the auditor's report is in compliance with the requirements of ISA 705, respectively ISA 705 (revised), and for cases where auditors have added the paragraph 'emphasis of matter' or 'other matters' we have analyzed whether the paragraph is in compliance with the requirements of ISA 706, respectively ISA 706 (revised).

The results of the analysis for the years 2015–2019 are presented in Table 2. Based on these results, for 2015, only 31% of the analyzed reports contain misstatements (errors) in the auditor's report, while 69% are free from misstatements, or deviations from ISA requirements. During the analysis, we divided the misstatements into auditor reports issued by domestic (local) firms or foreign firms. The results of the analysis show that out of 25 audit reports with misstatements, 100% are from domestic audit firms. Out of 80 audit reports, 85 misstatements were identified, with an average of 1.1 errors per audit report reviewed in the sample.

For 2016 and 2017, only 26% and 42% respectively, of the analyzed reports contain misstatements (errors)

in the auditor's report. The results of the analysis show that out of 22 (2016) and 42 (2017) audit reports with misstatements, 100% are from domestic audit firms. Out of 85 (2016) and 100 (2017) audit reports, 81 and 106 deviations from ISAs were identified, with an average of 1.0 (2016) and 1.1 (2017) errors per audit report reviewed in the sample.

For 2018 and 2019, only 44% and 31% respectively, of the analyzed reports contain misstatements (errors) in the auditor's report. Again, all the reports containing misstatements (errors) are from the domestic (local) audit firms. Out of 100 (2018) and 85 (2019) audit reports, 101 and 68 deviations from ISAs were identified, with an average of 1.0 (2018) and 0.8 (2019) errors per audit report reviewed in the sample.

The results of the research show that the total percentage of the number of audit reports with misstatements increased from 2016 and on, mainly due to changes in ISA 700, 705 and 706 that have entered into force in this reporting year. From this research, we can conclude that domestic (local) statutory auditors who are partners in domestic audit firms did not correctly apply the amendments of ISA 700, 705 and 706 as compared to foreign statutory auditors.

Such a high number of misstatements may be due to the lack of external quality control by the Regulatory Body in Kosovo (KCFR),⁷ of the work of auditors that has existed since the establishment of the audit profession in Kosovo. Also, the fact that the number of errors is zero in the case of foreign audit firms, compared to domestic audit firms, indicates that foreign firms have implemented an effective internal quality control system and this guarantees the quality of their audit reports.

Table 3 presents the results of the analysis of the nature of misstatements, encountered in the auditors' reports. We have classified all misstatements encountered during the 2015–2019 reports in the categories listed as in the table.

As can be seen from the results table, the following categories had the most errors:

1) 'Lack of specification of financial statements, accounting policies and notes to the financial statements in the first paragraph of the audit opinion'.

Based on the requirements of the revised ISA 700 and ISA 700 (revised), each audit report, in its first paragraph, must specify which financial statements have been audited and for what reporting period.

2) 'Missing or error in naming paragraphs'.

Subject to the requirements of ISA 700, ISA 705 and ISA 706 each paragraph of the report issued by

⁷ Regulatory body for audit profession in Kosovo is KCFR.

Table 2

Misstatements (errors) in Auditor Reports by audit firms – 2015–2019

Domestic / foreign audit firm	2015				
	Total number of audit reports analyzed	Total number of opinions with misstatements (errors) (b)	Total number of opinions without errors (misstatement)	Number of misstatements in opinion	Average misstatement for an opinion
	(a)		(c) = (a) – (b)	(d)	(e) = (d) / (a)
Domestic firm	41	25	16	85	2.1
Foreign firm	39	0	39	0	0
Total	80	25	55	85	1.1
Total in %	100	31	69		
Domestic / foreign audit firm	2016				
	Total number of audit report analyzed (a)	Total number of opinions with misstatements (errors) (b)	Total number of opinions without errors (misstatement) (c) = (a) – (b)	Number of misstatements in opinion (d)	Average misstatement for an opinion (e) = (d) / (a)
Domestic firm	50	22	28	81	1.6
Foreign firm	35	0	35	0	0
Total	85	22	63	81	1.0
Total in %	100	26	74		
Domestic / foreign audit firm	2017				
	Total number of audit report analyzed (a)	Total number of opinions with misstatements (errors) (b)	Total number of opinions without errors (misstatement) (c) = (a) – (b)	Number of misstatements in opinion (d)	Average misstatement for an opinion (e) = (d) / (a)
Domestic firm	66	42	24	106	1.6
Foreign firm	34	0	34	0	0
Total	100	42	58	106	1.1
Total in %	100	42	58		
Domestic / foreign audit firm	2018				
	Total number of audit report analyzed (a)	Total number of opinions with misstatements (errors) (b)	Total number of opinions without errors (misstatement) (c) = (a) – (b)	Number of misstatements in opinion (d)	Average misstatement for an opinion (e) = (d) / (a)
Domestic firm	61	44	17	101	1.7
Foreign firm	39	0	39	0	0
Total	100	44	56	101	1.0
Total in %	100	44	56		

Table 2 (continued)

Domestic / foreign audit firm	2019				
	Total number of audit report analyzed (a)	Total number of opinions with misstatements (errors) (b)	Total number of opinions without errors (misstatement) (c) = (a) – (b)	Number of misstatements in opinion (d)	Average misstatement for an opinion (e) = (d) / (a)
Domestic firm	59	26	33	68	1.2
Foreign firm	26	0	26	0	0
Total	85	26	59	68	0.8
Total in %	100	31	69		

Source: author's calculations.

the auditor must have the paragraph designations specified. For an unqualified report, the following paragraph headings should exist: (1) *management's responsibility for the financial statements*, (2) *auditor's responsibility*, (3) *basis for opinion*, (4) *opinion*. For a qualified report, the following paragraph headings should exist: (1a) *management's responsibility for the financial statements*, (2a) *auditor's responsibility*, (3a) *basis for qualified opinion*, (4a) *qualified opinion*. When auditors also add the paragraph of *emphasis of matter* or *other matters paragraph*, this paragraph should be after the opinion paragraph and should have a clear written designation.

- Based on the requirements of ISA700 (revised), ISA705 (revised) and ISA706 (revised), each paragraph of the auditor's report must have the paragraph designations specified. For an unqualified audit report, the following paragraph headings should exist: (1) *opinion*, (2) *basis for opinion*, (3) *management responsibility for the financial statements*, (4) *auditor's responsibility*. For a qualified report, the following paragraph headings should exist: (1a) *qualified opinion*, (2a) *basis for qualified opinion*, (3a) *management responsibility for the financial statements*, (4a) *'auditor responsibility'*. Where auditors add the paragraph *'emphasis of matter'* or *'other matters'*, this paragraph should be after the paragraph of basis for opinion and should have the title clearly written.

3) *'Lack of disclosure that the management of the entity has prepared the financial statements in compliance with IFRSs'*. Based on the requirements of ISA 700 and ISA 700 (revised) in *paragraph management's responsibility for the financial statements*, it should be specified that the financial statements have been prepared in compliance with IFRS/IAS. In 2015, out of 60 analyzed reports, 9 cases were identified where auditors did not include this

requirement of ISA 700 in the reports issued by the auditors.

4) *'Lack of written auditor responsibilities'*. Based on the requirements of ISA 700 and ISA 700 (revised) in paragraph *'auditor responsibility'* the auditor's responsibilities should be specified in compliance with ISA.

ISA 700 (revised) requires the auditor to specify some responsibilities:

- 'Identifying and assessing the risk of material misstatement of FS',
- 'Obtaining an understanding of those internal controls relevant to the audit process.'
- 'Evaluate the appropriateness of accounting policies used..',
- 'Conclude on the appropriateness of management's use of the going concern basis of accounting..',
- 'Evaluate the overall presentation of the financial statements..',

5) *'Non-disclosure of IFRS compliance in the auditor's opinion paragraph'*. Based on the requirements of ISA 700 in the *'opinion'* paragraph, the auditor should note that the FS presents fairly in all material respects ... *in accordance with IFRS/IAS*. In 2015, out of 60 analyzed reports, 5 cases were identified where auditors did not emphasize this requirement of ISA 700. In cases of misstatement, auditors often mentioned these words: *'Kosovo Accounting Standards'*, *'Kosovo Laws'*, *'International Standards on Auditing'* etc.

6) *'Absence or error in presenting the status of the entity in the auditor's opinion paragraph'*. Based on the requirements of ISA 700, respectively ISA 700 (revised) in the *'opinion'* paragraph the auditor should note that the financial statements fairly present in all material respects the *'financial position of the ABC Company at 31 December 20XX, financial performance*

Table 3

Misstatements in Audit Report by nature of misstatement – 2015–2019

	2015	2016	2017	2018	2019
Nature of misstatement	# of errors	# of errors	# of errors	# of errors	# of errors
Absence or error in naming paragraphs	7	4	6	5	4
Lack of specification of ISA requirements in the first paragraph of the opinion issued by the auditor	10	5	9	8	5
Lack of disclosure that the management of the entity has prepared the financial statements in compliance with IFRSs/IASs	9	3	5	3	3
Lack of disclosure that the auditor has audited the financial statements in accordance with ISAs	8	2	6	9	4
Lack of written auditor responsibilities	3	35	30	35	25
Lack of written management responsibilities	4	3	6	5	4
Non-placement of certain sentences in adequate paragraphs	12	2	6	5	2
Emphasis of matter written after the auditor has signed the opinion	3	1	5	4	3
Non-declaration of compliance with IFRSs in the auditor's opinion paragraph	9	3	6	3	2
Absence or misstatement in presenting the status of the entity in the auditor's opinion paragraph	6	–	2	3	–
Non-presentation of the value of the account for which the auditor gives a qualified opinion in the paragraph 'Basis for Qualification of Opinion'	2	6	6	3	5
Other	12	17	19	18	11
Total misstatements (errors)	85	81	106	101	68

Source: author's calculations

financial and cash flow for the year ended December 31, 20XX', in accordance with International Financial Reporting Standards.

7) 'Non-presentation of the value of the account for which the auditor gives a qualified opinion, in the paragraph Basis for a qualified opinion'. Based on the requirements of ISA 705, respectively ISA 705 (revised) if there is a material misstatement in the financial statements that relates to a specific item of the financial statements, the auditor should disclose in the 'basis for qualified opinion' description of the material misstatement and quantifying the financial effect of the misstatement. If it is impossible to quantify the financial effect, then this fact should be disclosed in the 'Basis for Qualified Opinion' paragraph.

8) 'Other'. The following are some of the other misstatements:

- The auditor report was not signed.
- The absence of the date when the auditor's report was issued, or the date of issue of the auditor's report was not complete.
- Incorrect ordering of paragraphs (i.e., the paragraph emphasis of the matter is placed before the opinion paragraph).
- Absence of opinion paragraph.
- In the auditor's responsibility paragraph two paragraphs are written which are required to be mentioned only for listed entities.
- In the Audit Report there is no need to state the scope of the audit, objectives of the audit,

evidence collected and tests performed, and assessment of internal controls and the accounting system.

5. CONCLUSIONS, RECOMMENDATIONS AND LIMITATIONS

5.1. Conclusions and recommendations

Results of the research for *the compliance of the auditor's report with the relevant ISAs*, indicate that the level of compliance with ISAs is still unsatisfactory. Licensed auditors of Kosovo are required to adhere to all ISAs requirements when auditing financial statements. The results of the study indicate a situation where auditors and audit firms are not sufficiently prepared to satisfy their legal obligation to a satisfactory level. The findings of this study confirm the results achieved by other researchers such as Fakhfakht [21, 22], Fathi [23] and Williams [24].

The findings of this study have implications for national audit regulatory bodies (ARBs) and professional accounting organizations (PAOs) wishing to improve the overall quality of audits. Moreover, regulators of the audit profession can also benefit from the results and strengthen their quality assurance function. The results of this research add to the literature on the discussion of the implementation of new ISAs issued by IFAC and complement the work of other studies in the field of external auditing.

In this regard, concrete steps should be taken by ARBs and PAOs to increase the quality of the audited financial statements in Kosovo. In order to achieve better quality results, the findings of this research can be used to form recommendations that must be implemented as soon as possible by regulatory bodies and professional accounting associations in Kosovo. The same recommendations can be considered by all audit regulatory bodies of EU and Western Balkans countries.

- Implementation of an effective quality control system by the Kosovo Financial Reporting Council (KCFR)/Public Oversight Board (PBC) for statutory auditors and statutory audit firms.
- Implementation of an effective quality control system by local Professional Accounting Organizations (PAOs) for certified auditors and accountants who provide services to the public.

- Implementation of training system according to the output-based approach which is preferable to the International Education Standard 7 (IES 7) and which is based on the verification/testing of the knowledge gained by the candidates.

- Better cooperation between PAOs and KCFR in the field of quality assurance of auditors' work.

- Creation of a platform by KCFR for electronic submission of audited financial statements, in which access would be more effective.

- Training topics should be based on findings from regular reviews of the quality of the audited FS.

- Obligation for the financial statements of entities to be prepared by certified accountants who are members of any professional accounting and auditing organization licensed by KCFR.

5.2. Research limitation

The current research has several limitations which should be taken into account by the users of this paper when evaluating the findings and considering the recommendations:

- The International Auditing Standards (ISAs) used for this research were only those that deal with the audit opinion (ISA 700, 705 and 706). Other ISAs that deal with the different phases of the audit process were not taken into account. Therefore, if other ISAs would have been used to assess the quality of the audited financial statements, the results of the research and recommendation could have been different.

- The research period is limited to only five fiscal years. However, if more fiscal years would have been taken into account, the findings would have been more powerful from the statistical point of view.

- The sample size of audited financial statements selected in this research was around 37% of the total population and was selected on a random basis approach. If a larger proportion of audited financial statements were to be selected, and also a different selection approach, the findings of this research might have been different.

- The research was conducted only for the audited financial statements of large private entities operating in Kosovo. Therefore, the results and recommendations of this study might be applicable only to Kosovo's economy.

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