AUDIT REPORT
ON THE ANNUAL FINANCIAL REPORT OF THE CENTRAL ELECTION COMMISSION FOR
THE YEAR ENDED 31 DECEMBER 2016

Prishtina, June 2017
The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control which, according to the Constitution and domestic laws, enjoys functional, financial and operational independence. The National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is to contribute to sound financial management in the public administration. We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers’ of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers’ and other stakeholders’ interests in enhancing public accountability.

The Auditor General has decided on the audit opinion on the Annual Financial Statements of the Central Election Commission in consultation with the Assistant Auditor General, Valbon Bytyqi, who supervised the audit.

The opinion and report issued are a result of the audit carried out by Shemsije Llugiqi (Team Leader) and Erëmira Bytyqi-Pllana (Team Member) under the management of the Head of Audit Department Arvita Zyferi.
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Executive Summary

Introduction

This report summarises the key issues arising from our audit of the 2016 Annual Financial Report of the Central Election Commission, which determines the Opinion given by the Auditor General. The examination of the 2016 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions. Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan1 dated 20/10/2016.

Our audit focus (detailed in Annex 1) has been on:

The level of work undertaken by the National Audit Office to complete the 2016 audit is a direct reflection of the quality of internal controls implemented by the Management of the Central Election Commission.

Opinion of the Auditor General

Unmodified Opinion

The Annual Financial Statements present a true and fair view in all material aspects.

For more, please refer to Section 1.1 of this report.

Annex II explains the different types of Opinions applied by the National Audit Office.

We would like to thank CEC President and her staff for the cooperation during the audit process.

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1 The term External Audit Plan replaces the term Audit Planning Memorandum
### Key Conclusions and Recommendations

<table>
<thead>
<tr>
<th>Key Conclusion</th>
<th>Recommendation</th>
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</thead>
<tbody>
<tr>
<td>The AFS production process was managed according to the applicable legislation</td>
<td>We have no recommendations in this area.</td>
</tr>
<tr>
<td>The self-assessment process of the Organisation and response to prior year recommendations was addressed as required to ensure organisational development and improvement</td>
<td>The CEC President should implement an ongoing oversight process to ensure all prior year recommendations are proactively addressed with key issues/progress reported to senior management on a monthly basis. (see issues 1, 2 and 3)</td>
</tr>
<tr>
<td>The CEC Secretariat has not yet managed to secure internal organisation in line with the organisational structure approved by the CEC.</td>
<td>The CEC President should undertake a review of the existing arrangements to ensure that the CECs organisational structure complies with the applicable rule (see issue 4).</td>
</tr>
<tr>
<td>Internal controls in some areas are not so effective - there are weaknesses in some important aspects, including management of staff salaries, payment processing, and asset management.</td>
<td>The CEC President should implement a detailed assessment of shortcomings highlighted in this report to identify reasons for weaknesses and action needed to address these (See section 3)</td>
</tr>
</tbody>
</table>

### CEC Management’s response – audit 2016

CEC Management has taken into consideration and agreed on the detailed audit findings and conclusions and committed to address the given recommendations.
1 Annual Financial Statements and other External Reporting Obligations

Introduction

Our review of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. We also consider the Declaration made by the Chief Executive Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance (MoF).

The declaration regarding presentation of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. These declarations are intended to provide the Government with the assurance that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

1.1 Audit Opinion

Unmodified Opinion

We have audited the AFS of the Central Election Commission for the year ended on 31st of December 2016 which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement and the Explanatory Notes of the Financial Statements.

In our opinion, the Annual Financial Statements for the year ended on 31st of December 2016 present a true and fair view in all material respects in accordance with International Public Sector Accounting Standards (cash based of accounting), Law no.03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

Basis for the opinion

We conducted the 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 AFS section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.
Responsibility of Management and Those Charged with Governance and AFS

The CEC Management is responsible for the preparation and fair presentation of financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash based Accounting and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This includes the application of Law no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented).

The CEC President is responsible to ensure the oversight of the Central Election Commission’s financial reporting process.

Auditor General’s Responsibility for the Audit of the AFS

Our responsibility is to express an opinion on the AFS based on our audit. We conducted our audit in accordance with ISSAIs. These standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

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 influence the decisions taken on the basis of these AFS.

An audit involves performing procedures to obtain evidence about the financial records and disclosures in the AFS. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement in the AFS, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation of the financial statements in order to design audit procedures that are appropriate in the entity’s circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the presentation of the financial statements.
1.2 **Compliance with AFS and other reporting requirements**

Central Election Commission is required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with MoF Regulation no.01/2017 on the Annual Financial Reporting of Budget Organisations;
- Requirements of LPFMA no. 03/L-048, as amended and supplemented with Law no.03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no.01/2013;
- Compliance with Financial Rule no.02/2013;
- Action Plan on implementation of recommendations;
- Requirements of Financial Management and Control (FMC) procedures;
- budget requests; quarterly reports including nine month financial statements;
- Annual procurement plan and annual report of signed contracts; and
- Monthly report on Outstanding Liabilities;

Given the above - the Declaration made by the Chief Administrative Officer and Chief Financial Officer when the draft AFS are submitted to the Ministry of Finance can be considered to be correct and accurate

In the context of other external reporting requirements we have no issues to raise.

**Recommendations**

We have no recommendations regarding AFS.
2 Governance

Introduction

Effective governance arrangements are fundamental to Central Election Commission for successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and other service users.

A key tool supporting effective Governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. Similarly, the self-assessment checklist provides a framework for developing enhanced Governance arrangements. It is important that the answers provided by an individual budget organisation are supported by appropriate evidence.

The remainder of our review of governance arrangements reflects a consideration of:

- those areas of Governance Arrangements where significant improvements are required and where we believe that our recommendations can generate positive improvements including consideration of the Internal Audit system; and
- areas of Financial Management and Control identified through our audit work including specific work directed at compliance issues in key income and expenditure systems (these areas are considered in Section 3 of this report)

Overall Governance Conclusion

In relation to the last two years, CEC management has made significant improvements in good governance arrangements. Reporting was at the right level. Our review of managerial controls implemented in the main financial system has highlighted good financial reporting on generated costs.

However, a number of governance processes need to be further improved to support the effective management of CEC activities. Some of the external audit recommendations have not been fully implemented. Also, identifying and managing the risk of avoiding potential obstacles along the fulfilment of objectives has not been finalized by the end of 2016. The self-assessment questionnaire, supplemented by the CEC, in some cases does not fully reflect the real situation, Coupled with some positive comments on existing arrangements that are not sufficiently based on evidence.
2.1 Progress in the Implementation of Prior Year Recommendations

Our 2015 audit report on CEC resulted in 12 key recommendations. The CEC prepared an Action Plan showing how all recommendations will be implemented. The implementation of the recommendations has been handled as an important element for eliminating weaknesses and reducing risks. This is evidenced by the fact that in the Annual Audit Plan by the Internal Audit Unit, in which a specific topic was “Implementing the Auditor General’s (AG) recommendations for 2015”.

By the end of our 2016 audit, four (4) recommendations have been implemented, seven (7) are in process of implementation and one (1) has not yet been implemented. For a more thorough description of the recommendations and how they are addressed, see Annex III.

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**Issue 1 - Implementation of prior year recommendations - High Priority**

**Finding** Although the management implemented a formal process of managing and monitoring the implementation of the prior year recommendations of the AG, the Action Plan was not fully met. A significant part of the recommendations have remained unimplemented. As a consequence, the same issues related to the inappropriate segregation of duties, poor budget planning by economic categories, delays in the execution of contracts, holding positions with acting beyond the legal deadline, as well as poor vehicle management have been repeated this year.

**Risk** Incomplete implementation of the recommendations affects the non-improvement of internal controls in the main financial and management systems, and as a result we have the same shortcomings repeated from year to year.

**Recommendation 1** The CEC President should ensure that additional actions are undertaken in order to fully implement the AG’s recommendations according to the deadlines set out in the Action Plan, focusing primarily on the most important areas and where the recommendations are repeated. A systematic monitoring by management is needed to ensure effective implementation of the recommendations and within the established deadlines.
2.2 Self-Assessment Checklist of FMC components

The MoF produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. We have tested the quality of FMC self-assessment questionnaires submitted to the Ministry by assessing one key question in each component of the checklist.

We have summarised our findings for 2016 below and the summary of our work across all audits will be consolidated in our Annual Audit Report. This is not intended to give a commentary on the quality of the whole self-assessment questionnaire submission but will provide a ‘snapshot’ across a number of key questions to support the Ministry of Finance in its attempts to increase the effectiveness of the process and develop the FMC system as a whole.

Issue 2 - Self-Assessment Questionnaire - High Priority

Finding

As part of our audit we have considered the key issues of the self-assessment questionnaire related to its five components. For the reviewed questions, we have noticed that the self-assessment questionnaire completed by the CEC does not fully reflect the situation stated, such as:

1. The process of approving the job descriptions for each job position, which includes the individual tasks, is considered as in place, while the evidence does not confirm this assertion;

2. Evidence confirmed that for years CEC did not manage to develop procedures for covering planned and budgeted positions and terminating the practice to hold managerial positions with Acting, whereas the questionnaire claimed the opposite;

3. Evidence proves that the Certifying Officer reported to the Chief Executive Officer in cases where the payment execution was unlawful, while the questionnaire claimed the opposite;

4. In absence of controls, the completion of asset registers has failed on the basis of legal requirements, although according to the assessment given in the questionnaire, this issue has been scored as functional; and
5. The guidelines established by the FMC procedures and 01/2010 require that the risk register is completed to support effective, operational and strategic management. The CEC management has initiated the departmental level risk identification process, requiring each of them to prepare a list of risks based on the strategic plan, the activity and specification of each department, the circumstances when acted (election and non-election periods) and other factors, which are considered important to be included. However, although the risks at departmental level were identified and a consolidated risk list was prepared, this process has not yet been finalised. According to CEC management, the process is finalised in June 2017.

**Risk**

Poor governance arrangements weaken strategic and operational processes and reduce the quality of services provided to citizens through inefficient and ineffective activities.

**Recommendation 2**

The CEC President should ensure a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented. A revised mechanism to confirm the accuracy of the questionnaire should be applied and ensure supporting documentation.

### 2.3 Specific Governance Reviews

Our work on specific areas of governance arrangements has been informed by our audit planning which considered the context within which CEC operates and the challenges that it faces.

#### 2.3.1 Management Reporting and Accountability

CEC has put in place a number of internal controls in order the financial and control system operate as intended. The controls are in place in such a way as to include regular reporting to the management with the aim of timely information and the ability to face the challenges and reported problems in achieving the objectives.

The Chief Executive Officer, after our advice practiced that meetings are followed by minutes, which show that the management has reviewed the issues and has taken decisions to eliminate problems that are of interest to the good governance of the organization.

However, by our review of the controls Managerial approaches in this regard has resulted that internal organization in some cases is not in accordance with the organizational structure approved by the internal regulation.
**Issue 3 - Internal organization not in accordance with organizational structure - High Priority**

**Finding**
In July 2013, the CEC approved Regulation no. CEC-01/2013 on the organization and internal structuring of the CEC Secretariat. Part of this regulation is also the organizational chart or organizational structure. Despite our year-by-year repeated recommendation, regarding the non-compliance between the current hierarchical organization and the organizational structure established by the relevant Regulation, the same situation continued during 2016. The Head of the Department of Administration and Support (DAP) exercises the duties of the Chief Financial Officer as well, while the Regulation stipulates that the Head of the Division for Budget and Finance is at the same time the Chief Financial Officer.

**Risk**
Internal organization not in compliance with legal requirements and internal regulation may affect the lack of clear definition of responsibilities and accountability, which may have an impact on operational efficiency.

**Recommendation 3**
The CEC President should ensure that internal organization of the CEC Secretariat is made in line with the organizational structure defined by the current Regulation and in line with the legal requirements.

## 2.4 Internal Audit System

The Internal Audit Unit (IAU) met its annual audit program by carrying out five (5) audits as planned. The plan was prepared based on the level of risk for the systems and processes involved in the audit, assessed by the IAU and the high priority areas assessed by the National Audit Office (NAO) in 2015.

Through the audit report, Management has been provided with information and assessments on the functionality and effectiveness of internal controls. IAU within the administration and support department carried out two (2) audits according to the annual plan. The third audit report relates to the Department of Election Operations (DEO) that includes the audit of election projects. In the Annual Audit Plan, an audit was carried out on the implementation of the recommendations given by the AG for 2015, while the fifth audit in the procurement department was finalised in early 2017.

The Audit Committee (AC) by September held four (4) meetings. The recommendations issued by the AG and the issues raised in the internal audit reports were evaluated and addressed by AC. In the internal audit reports, a total of 25 recommendations were given, and according to the AC report, the majority of IAU recommendations have been implemented.

**Recommendations**

We have no recommendations in this area
3 Financial Management and Control

Introduction

Our work on Financial Management and Control outside of the areas of Governance referred to section two reflects the detailed work undertaken on Revenue and Expenditure Systems. As part of this we consider Budget management, Procurement and Human Resources issues, and Assets and Liabilities.

Financial Management and Control Conclusion

The effective Financial Management and Control require review processes and accompanying guidelines ensuring full implementation of Laws, regulations and other control processes. Regarding the CEC, errors in payment processing, employee payments with non-valid decisions, shortcomings in asset management and inadequate management of official vehicles remain the main challenges they are faced from year to year.

It is necessary to evaluate each of the causes that have affected the inadequate performance of the budget execution in order to determine the way they are addressed and eliminate them in the coming years.

3.1 Budget Planning and Execution

We have considered the sources of budgetary funds, spending of funds by economic categories. This is highlighted in the following tables:

Table 1. Sources of budgetary Funds (in €)

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Budget</th>
<th>Final Budget</th>
<th>2016 Outturn</th>
<th>2015 Outturn</th>
<th>2014 Outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of Funds</td>
<td>5,439,152</td>
<td>5,399,423</td>
<td>5,369,042</td>
<td>5,228,119</td>
<td>9,501,868</td>
</tr>
<tr>
<td>Government Grant - Budget</td>
<td>5,439,152</td>
<td>5,397,846</td>
<td>5,369,042</td>
<td>5,228,119</td>
<td>9,501,868</td>
</tr>
<tr>
<td>External Donations</td>
<td>-</td>
<td>1,577</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

In 2016, the CEC used 99% of the final budget or €5,369,042, compared with last year, there was no change in percentage of budget execution. The following is the explanation for the current position.

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2 Final budget – the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.
Table 2. Spending of funds by economic categories - (in €)

<table>
<thead>
<tr>
<th>Description</th>
<th>Initial Budget</th>
<th>Final Budget</th>
<th>2016 Outturn</th>
<th>2015 Outturn</th>
<th>2014 Outturn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spending of funds by economic categories</td>
<td>5,439,152</td>
<td>5,399,423</td>
<td>5,369,043</td>
<td>5,228,119</td>
<td>9,501,868</td>
</tr>
<tr>
<td>Wages and Salaries</td>
<td>744,492</td>
<td>757,036</td>
<td>756,384</td>
<td>714,800</td>
<td>719,517</td>
</tr>
<tr>
<td>Goods and Services</td>
<td>436,269</td>
<td>411,289</td>
<td>381,570</td>
<td>285,133</td>
<td>4,472,974</td>
</tr>
<tr>
<td>Utilities</td>
<td>48,391</td>
<td>22,653</td>
<td>22,644</td>
<td>29,513</td>
<td>41,461</td>
</tr>
<tr>
<td>Subsidies and Transfers</td>
<td>4,200,000</td>
<td>4,198,550</td>
<td>4,198,550</td>
<td>4,198,673</td>
<td>4,160,674</td>
</tr>
<tr>
<td>Capital Investments</td>
<td>10,000</td>
<td>9,895</td>
<td>9,895</td>
<td>-</td>
<td>107,242</td>
</tr>
</tbody>
</table>

The final budget in relation to the initial budget reduced by €39,729. According to the request of the CEC, under budget review, the approved budget has undergone changes in two (2) programs and in two (2) categories. Whereas, after announcing the date for holding extraordinary mayoral elections in Drenas, the CEC sent a letter to the government for additional budget. Explanations for changes in the budget categories are given as follows:

- From the Secretariat, respectively the goods and services, €20,000 were transferred to the Election program in the same economic category. In the category of utilities, budget cuts have been made in the amount of €10,500;

- By decision number 08/115 of 9 November 2016, the Government allocated funds in the amount of €221,544 to the CEC, out of which €12,544 in the Secretarial Program for wages and salaries and €209,000 in the election program in the category of goods and services;

- By decision number no. 01/123, dated 28.12.2016, € 233,980 and € 15,238 were taken from the category of Goods and Services and Utilities;

- Categories of capital investments and subsidies and transfers were cut by Government Decision no. 01/123 of 28th of December 2016 for €105 and €1,450; and

- Unused funds in the above mentioned categories have been transferred to the surplus with the Government’s decision.

3.1.1 Revenues

CEC generated revenues from political parties in the amount of €2,500. These revenues were generated when political parties applied for registration entities in the amount of €1,500, and the political parties paid €1,000 on behalf of fines. Collected funds have been transferred to the budget of the Republic of Kosovo.

Recommendations

We have no recommendations in this area.
3.1.2  Wages and Salaries

Expenditures for the category of Wages and Salaries in the CEC for 2016 were €756,384 or 99% of the approved budget. We have tested 13 samples for substantive and 11 compliance tests. Controls in the field of human resources were not fully effective. More generally, the shortcomings are presented below:

Issue 4 - Avoiding Legal Requirements on Staff Compensation - High Priority

Finding  
According to the Civil Service Law, Article 38, the total amount of overtime hours cannot be allowed more than 40 hours per month. The CEC, on the occasion of the extraordinary municipal mayoral elections in Glogoc, had taken a decision on extending the working hours for the CECS staff, exceeding the number of allowable hours set according to legal norms. In addition, overtime payments were not made in accordance with established legal norms. For overtime work for November and December staff were paid 60% of the basic salary plus allowances in the amount of €100. There was no valid decision for this mode of payment, but management was based on the decision taken in 2014, a decision which expired that year. Allowances were also paid to CEC members without any legal basis.

Risk  
Compensation of allowances in contradiction with legal requirements risks that the budget is spent inefficiently.

Recommendation 4  
The CEC President should ensure that staff engagements and payments for overtime work are made in line with the allowed legal norms.

Issue 5 - Exceeding the legal deadline for positions with acting - Medium Priority

Finding  
According to the Law on Civil Service, Article 30, in the case of vacant positions, the Acting Officer cannot be appointed for more than three (3) months. In the CEC, six (6) management positions continue to be covered by Acting since 2013. Despite the recommendations given, the same situation continued over the years. This year, no vacancy competition was made for the positions in question.

Risk  
Covering management positions with Acting beyond the legal deadline risks effective performance in departments, affecting the failure to achieve the objectives set at the organization level.

Recommendation 5  
The CEC President should take concrete steps to ensure that the positions with Acting are covered with regular staff through open competition.
Issue 6 - Shortcomings in Personnel Files - Medium Priorities

Finding Based on Regulation 03/2010 for job descriptions, each institution is obliged to ensure the existence of job descriptions for all the job positions available. From the personnel files we have examined, we have noticed job descriptions are missing. There is no specific reason why this process suffered setbacks.

Risk Lack of job descriptions may lead to failure to meet objectives by the appropriate staff based on the requirements for the respective positions. This also does not ensure rational distribution of the duties and responsibilities within the institution.

Recommendation 6 The CEC President should ensure that the requirements for filling in the job description for each position within the institution are met.

3.1.3 Goods and Services and Utilities

Expenditures for 2016 in the category of goods and services/utilities were €404,214 or 93% of the approved budget. We have carried out 23 substantive tests as well as four (4) procurement procedures for compliance. Our tests have resulted in the following shortcomings:

Issue 7 - Staff Payments in the absence of a Decision and Evidence - High Priority

Finding According to the Law on General Elections in the Republic of Kosovo, Article 78, on the payments of the members and chairpersons of the Polling Station Council, the CEC issues a special decision regulating this issue. The CEC, for staff engaged in polling station centres, did not issue a decision on how they will be paid, but made a payment according to a decision issued for 2013 local elections. Also, in three (3) payment cases for the technical staff, the contracts as well as evidence for participation in the polling station were missing.

Risk Payments based on irrational decisions risk the execution of irregular payments and those not in accordance with the law. Lack of evidence about staff engagement risks the possibility that paid staff may not have been really engaged in performing the tasks for which it was paid.

Recommendation 7 The CEC President should ensure that the issue of staff remuneration engaged in electoral processes should be regulated by a special decision, which is valid for the respective elections.
3.1.4 Subsidies and Transfers

€4,200,000 was allocated in the category of Subsidies under the budget law for 2016, dedicated funds for the support of political entities. This fund is used to finance the regular activities of political parties, the work of parliamentary groups and election and electoral activities. Fund assets are divided between political entities represented in the Kosovo Assembly based on the number of seats/seats for that mandate.

The entire budget from the respective category was spent by the end of the year for the above purpose. Payments were certified after each quarterly period and only after the political parties submitted the banking report to the CEC together with the financial report of the previous quarter, as well as the expenditure invoices from the parliamentary groups of political parties.

Recommendations

We have no recommendations in this area.

3.1.5 Capital Investments

The final budget for capital investments was €9,895 and the entire budgeted value was spent on supplying IT equipment. This activity was planned with a procurement plan. Our tests revealed that the procurement procedure was carried out in line with the LPP. However, regarding the completion of documentation for recording needs in KFMIS, we noticed that the purchase order was issued before the contract is signed. See issue 12 for more details.

Recommendations

We have no recommendations in this area.
3.1.6 Common Issues on Goods and Services and Capital Investments

The following are common issues relate to Goods and Services and Capital Investments:

**Issue 8 - Procedural weaknesses during payment processing - Medium Priority**

**Finding**
Under Financial Rule 01/2013, the purchase order is created and prepared by the Budget Organization after the contract is signed. The contracts for “Maintenance and servicing of vehicles” and “Supply with IT equipment” a purchase order is initially issued, and then the contract was signed. According to the procurement officer, the purchase orders were prepared in advance in order to have the operator available due to the eventual failure of the purchase order processing system.

Under Financial Rule 01/2013, Article 22, the process for initiating the expenditure, precedes the purchase request, Purchase order, report for receipt of goods and then invoice. Also this rule specifies that any invoice received must be paid within 30 days from the date of receipt. In the tested payment for supply of administrative material in the amount of €2,416, receipt of the invoice/supply was made in absence of the commitment of the funds and purchase order. This also led for payment of the invoice received to be made after the statutory deadline.

According to Chief Financial Officer, this occurred because at the time the order was made, the commitment deadline expired, while the supply was needed for the end of the year. Delay in payment of invoice also had a payment for “Maintenance and repair of vehicles” where five invoices in the amount of €3,546 were paid after the legal deadline expired. This occurred as a result of the delay in repairing some vehicles and waiting for all invoices to be completed in a payment.

**Risk**
Issuing the purchase order before signing the contract, supply/receipt of the invoice in absence of committed funds and delays in paying invoices are in contradiction with the financial rule for spending public money and as a consequence cause entering into obligations as well as increase of outstanding liabilities.

**Recommendation 8**
The CEC President should ensure that the responsible staff adheres to the legally determined steps in the process of expenditures, the preparation of purchase orders is made only after the contract is signed and the received invoices are paid within the legally prescribed deadline.
3.2 Assets

3.2.1 Capital and Non Capital Assets

The total value of assets was €376,804 for 2016. The net asset value over €1,000 was €137,814, while the net asset value under €1,000 was €231,920. The value of the stocks was €7,070. Despite some improvements in relation to earlier years in asset management, numerous shortcomings have been noted this year. Issues identified are given in details below.

Issue 9 - Inappropriate Property Management - Medium Priority

Finding According to Regulation 02/2013 on Non-Financial Assets, Article 22, asset valuation is made taking into account the accumulated depreciation from the acquisition date, based on the defined depreciation rates with this rule. While testing of e-assets, we have noticed that the depreciation of assets was not made in line with the defined norms, whereby the assets are depreciated in a lower amount in relation to the determined depreciation rates. This has been a result of the not applying asset depreciation for a long time.

According to Regulation 02/2013 on Non-Financial Assets, Article 14, the Non-financial Asset Officer will properly register all assets in the assets register and accounting records based on documents proving that the asset is in the ownership and oversight of the Budget Organization. In the capital asset register, there is “Sony Digital Camera”, which is out of use, but there is no evidence of entry into to the warehouse for this asset and evidence that it is the asset of the Organization.

Risk Incorrect depreciation of assets affects the unfair disclosure of the value of non-capital assets, in this case overstatement. Failure to register assets within the CEC risks losing or misusing them.

Recommendation 9 The CEC President should ensure that measures are taken for the application of defined depreciation rates for non-capital assets so that the management has full information on the property it owns.
Issue 10 - Shortcomings in asset valuation and inventory process - High Priority

Finding

Under the Financial Rule on Non-Financial Assets, Article 9, the alienation of assets is made on the basis of a recommendation from the Asset Valuation Committee as per the valuation of unusable assets and outside the function of the Organisation. Based on the report of the Asset Valuation Committee, conducted on dated 22.12.2015, the CEC is recommended to alienate of a large number of devices considered as out of order. However, concrete steps had not yet been taken on the alienation process such as the establishment of a Committee for alienation and other steps foreseen by the Regulation.

According to the Financial Rule on Non-Financial Assets, Article 19, the inventory committee should compare the inventory situation with the status of non-financial assets records, the identification of assets that have no transferable value as well as those damaged or out of use. The committee appointed for inventory at the CEC, by the end of 2016, it had registered all assets owned by the CEC. However, this Committee did not reconcile the stock inventory with the non-financial assets register and no findings were made regarding the physical condition of the assets. This is because the committee was not been fully acquainted with the full responsibilities for the inventory process.

Risk

Failure to effectively perform asset inventory and alienation process affects the exposure of assets to the risk of loss, the presentation of the unrealistic situation of the assets in AFS as well as makes management decision-making difficult with regard to assets as a result of lack of accurate data.

Recommendation 10

The CEC President should ensure that concrete steps have been taken on the implementation of the recommendation for alienation of assets evaluated as damaged and unnecessary for the Organisation. Also he should ensure that the designated inventory committee is notified of the responsibilities for the effective performance of this process by comparing the current situation of the assets with non-financial assets registers and preparing a complete report on verifying the accuracy, quality and physical condition of the assets.
Issue 11 - Receiving of goods/services in absence of the receiving committee - Medium Priority

Finding
According to Financial Rule 02/2013 on the management of non-financial assets, Article 8, the Chief Administrative Officer under decision establishes a committee for receiving non-financial assets. In the tested payments in the amount €786 (Toner Supply) no committees for receiving the goods were established. This was because they considered that there is no need for an receiving committee for certain assets.

Risk
Receiving goods in absence of a receiving committee may lead to the receiving non-quality goods and not in accordance with the contracted terms.

Recommendation 11
The CEC President should ensure that further action is taken in line with the requirement of the Financial Rule and establish a receiving committee when the goods are received.

Issue 12 - Inappropriate management of official vehicles - Medium Priority

Finding
According to AI no.03/2008 on the use of official vehicles, Article 3, states that in certain cases, certain officials may, due to specific job specifications, under a decision of the Minister of the respective ministry, be allowed to use official vehicles upon the proposal of the Secretary or Chief Executive Officer.

CEC possesses 11 vehicles, out of which ten (10) are used 24h by members of the CEC, based on the internal AI on the use of official vehicles, which allows members to use vehicles for 24h, not specifying the reason or specifics of their work, as a basis for the authorisations given. In the authorisation issued by the Chief Executive, users are allowed to use the vehicle abroad as well, and this is not specified in the Administrative Instruction. In addition, from the examined files of some of the vehicles used, there are no complete evidence of vehicle use. Evidence on the application and approval for the use of vehicles was also missing from some of the CEC staff who had used the official vehicles.

Risk
Poor controls on management of official CEC vehicles risk their use for unofficial purposes.

Recommendation 12
The CEC President should review the internal guidelines and ensure that they comply with the General Guidelines of the Government to ensure that the requirements and reporting on the use of vehicles are complete and regular.
3.3 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2016 was €79,171. Outstanding Liabilities compared with the previous year increased by 78% (at the end of 2015 were €17,422). Liabilities were higher because most of them in the amount of €52,280 relate to the payments of polling station committees and daily staff engaged in counting centres when extraordinary elections in the municipality of Drenas were held.

Issue 13 - Delay in paying invoices and weaknesses in reporting obligations - Medium Priority

Finding

Under Financial Rule 02/2013/MoF, Budget Organisations are obliged to pay their invoices within 30 days when receiving the invoice. They should also be reported to the Treasury for each month (until the 15th of the following month) as outstanding liabilities.

The CEC in five (5) cases in the amount of €4,160 had delays in settling obligations beyond the 30-day legal deadline and they were not timely reported to the Treasury. This was because the invoices were not timely submitted to the Finance Office.

Risk

Poor controls in reporting liabilities increase the risk that invoices are not be identified and timely paid. At the same time, the CEC may be subject to penalties for delays in making payments.

Recommendation 13

The CEC President should ensure that the liabilities are paid within the legal deadline, while unpaid bills are reported to the Treasury in line with Financial Rule 02/2013 for reporting obligations.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.
Annex I: Audit Approach and Methodology

The responsibilities placed on the Auditor and Those Charged with Governance are detailed in the Opinion set out in Section 1.1 of this report.

While a key output of our work is the audit opinion this report reflects the totality of our work with specific focus also on Governance Issues including Financial Management and Control. The latter is informed by our extensive, risk based, compliance audit programme.

The Executive Summary is intended to highlight the key finding of the audit and the key action that the Chairman should ensure are taken to address identified management/control weaknesses.

The detailed report provides an extensive summary of our audit finding with emphasis on determining the cause of audit findings and providing appropriate recommendations to address these. For completeness we have included issues identified at the interim audit where they remain relevant. Our findings are defined as:

**High Priority** - issues which if not addressed may result in a material weakness in internal control and where action will offer the potential for improvements to the efficiency and effectiveness of internal controls; and

**Medium Priority** - issues which may not result in a material weakness but where action will also offer the potential for significant improvements to the efficiency and effectiveness of internal controls.

Findings considered low priority were reported separately to finance staff.

Our procedures included a review of the internal controls and accounting systems and associated substantive testing and associated governance arrangements only to the extent considered necessary for the effective performance of the audit. Audit findings should not be regarded as representing a comprehensive statement of all the weaknesses which exist, or all improvements which could be made to the systems and procedures operated.
Annex II: Explanation of the different types of opinion applied by NAO

(extract from ISSAI 200)

Form of opinion

147. 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.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or 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 modify the opinion in the auditor’s report in accordance with the section on “Determining the type of modification to the auditor’s opinion”.

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor’s report

151. 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, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.
Determining the type of modification to the auditor’s opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and

- The auditor’s judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a qualified opinion if:

1. having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
2. the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an adverse opinion if, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should disclaim an opinion if, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705 provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor’s responsibility. It also includes illustrative examples of reports.

Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor’s report

157. 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.
158. 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.

159. 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.
## Annex III: Prior Year Recommendations

<table>
<thead>
<tr>
<th>Audit Component</th>
<th>Recommendation given</th>
<th>Implemented</th>
<th>Under implementation</th>
<th>Not implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial statements</td>
<td>CEC President should ensure that effective processes are in place to confirm that the 2016 AFS production plan formally addresses all compliance issues. Contingent liabilities in the estimated amount of €115,000 have not been disclosed in the AFS. Mostly, these obligations relate to the financial claims of economic operators to the CEC due to disputes about spending and the development of procurement procedures.</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation of recommendations</td>
<td>President of the CEC should ensure that a revised action plan is implemented which clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Good Governance</td>
<td>President of the CEC should ensure that a revised action plan is implemented which clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Despite the progress made in some areas, some of the recommendations have not yet been implemented.

The CEC has prepared self-assessment questionnaire. However, in some areas there is a need to update as the assessments made were not covered by the appropriate evidence.
<table>
<thead>
<tr>
<th>Topic</th>
<th>Description</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good Governance</td>
<td>President of the CEC should ensure that a review of the processes for completing the self-assessment checklist and proactively addressing areas of weaknesses is implemented.</td>
<td>In process</td>
</tr>
<tr>
<td></td>
<td>In process of implementation, since the risks were identified at departmental level and a consolidated risk list was prepared, but the consolidated risk list has not yet been formalised.</td>
<td></td>
</tr>
<tr>
<td>Budget Planning and execution</td>
<td>President of the CEC should ensure that the internal organisation of the CEC Secretariat is done conform to the defined organisational structure stipulated under the current Regulation, and that existing arrangements on delegation of responsibilities and accountability are reviewed. In cases where the duties of the CEO are temporarily exercised by another official, delegation of responsibilities should be recorded in writing and data held in the delegations plan of the FMC.</td>
<td>Despite our follow up from year to year, in the last two audits, the Head of Department for Administration and Support (DAS) continues to exercise the duty of CFO, while the Regulation stipulates that the Head of the Division for Budget and Finance at the same time is also the CFO.</td>
</tr>
<tr>
<td>Procurement procedures</td>
<td>President of the CEC should ensure that managers of budget programs/requesting units are actively engaged in the budget planning process. The assessment and planning process should present the appropriate information for the annual needs expected.</td>
<td>Yes</td>
</tr>
<tr>
<td>Procurement</td>
<td>President of the CEC should ensure that purchases through public procurement are carried out in line with relevant legal requirements and guidelines.</td>
<td>Yes</td>
</tr>
<tr>
<td>Category</td>
<td>Recommendation</td>
<td>Implementation Status</td>
</tr>
<tr>
<td>------------------------</td>
<td>----------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td>Procurement</td>
<td>President of the CEC should take appropriate actions to ensure elimination of shortcomings encountered. Contract managers should apply the official format of contract management plan and update it with information on the progress of implementation and fulfilment of contracts.</td>
<td>Yes</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>President of the CEC should ensure that recruitment procedures for filling vacancies start in time and that a sustainable solution and in accordance with legal requirements is found for positions led by acting staff.</td>
<td>Not implemented</td>
</tr>
<tr>
<td>Asset Management</td>
<td>President of the CEC should ensure that assets are identified with barcodes and respective depreciation rates are applied for the non-depreciated assets.</td>
<td>Recommendation in process since the E-asset register has not yet been completed to depreciate the assets according to the norms set forth in the regulation.</td>
</tr>
<tr>
<td>Asset Management</td>
<td>President of the CEC should ensure that official vehicles are used and managed in accordance with legal procedures and rules.</td>
<td>Despite the improvements made, this year we have faced weakness in preparing requirements for maintenance and servicing of vehicles in terms of the administrative aspect.</td>
</tr>
<tr>
<td>Outstanding Liabilities</td>
<td>President of the CEC should ensure that liabilities to suppliers are paid within the legal deadline. If for whatever reason debts remain outstanding, they should be reported to the MoF/Treasury in time.</td>
<td>Despite the regular reporting of outstanding liabilities, it was noted that there were delays in performing the obligations and reporting them according to legal deadlines.</td>
</tr>
</tbody>
</table>
Annex IV: Letter of confirmation

LETTER OF CONFIRMATION

For having agreed on the Auditor General’s findings of 2016 and implementation of recommendations:

To: National Audit Office
Venue and date: 28.06.2017

Honoured,

We hereby confirm that:

- We have received the draft audit report of the National Audit Office on the 2016 Annual Financial Statements of the Central Election Committee, hereinafter referred to as the Report;
- Agree on the findings and recommendations and I have no comment on the content of the Report; and
- Within 30 days from receiving the final report, I will submit the action plan on implementation of recommendations including the deadlines and responsible staff for their implementation.

Chairman:

Mr. Enis Halimi
LETËR E KONFRIMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2016 dhe për implementimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të ndenuar,

Përmas kësaj shkresë, konfirnoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komisionit Qendror të Zgjedhjeve për vitin 2016 (në tekstin e mëtejinx "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raporrit final, do t'ju dorëzoj një plan të veprimtimit për implementimin e rekomandimeve, i cili do të përfshijë afëritet kohore dhe stafin përgjigjës për implementimin e tyre.

Z. Enis Halimi
Kryesher Ekzekutiv
Data: 28.06.2017