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Zyra Kombëtare e Auditimit
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National Audit Office

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AUDIT REPORT

**ON THE ANNUAL FINANCIAL STATEMENTS OF THE CENTRAL
ELECTION COMMITTEE FOR THE YEAR ENDED 31 DECEMBER
2017**

Prishtina, June 2018

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 through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

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 organizations 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 Committee, in consultation with the Assistant Auditor General, Valbon Bytyqi, who supervised the audit.

The report issued is a result of the audit carried out by Team Leader Selvete Foniqi and members Shefkije Beka and Adelina Selmani, under the management of the Head of Audit Department Faruk Rrahmani.

TABLE OF CONTENTS

Executive Summary	4
1 Audit Scope and Methodology	6
2 Annual Financial Statements and other External Reporting Obligations	7
3 Financial Management and Control	11
4 Progress in implementing recommendations.....	21
5 Good Governance	22
Annex I: Explanation of the different types of opinion applied by NAO	24
Annex II: Progress in implementing recommendations of previous two years	27
Annex III: Letter of confirmation.....	31

Executive Summary

Introduction

This report summarizes the key issues arising from our audit of the 2017 Annual Financial Statements of Central Election Committee, which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). 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 Plan dated 23/10/2017.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is determined depending of the quality of internal controls implemented by the Management of the Central Election Committee.

The National Audit Office acknowledges the Senior Management and Staff of the Central Election Committee for cooperation during the audit process.

Opinion of the Auditor General

Unmodified Opinion with Emphasis of Matter

The Annual Financial Statements for 2017 *present a true and fair view* in all material aspects.

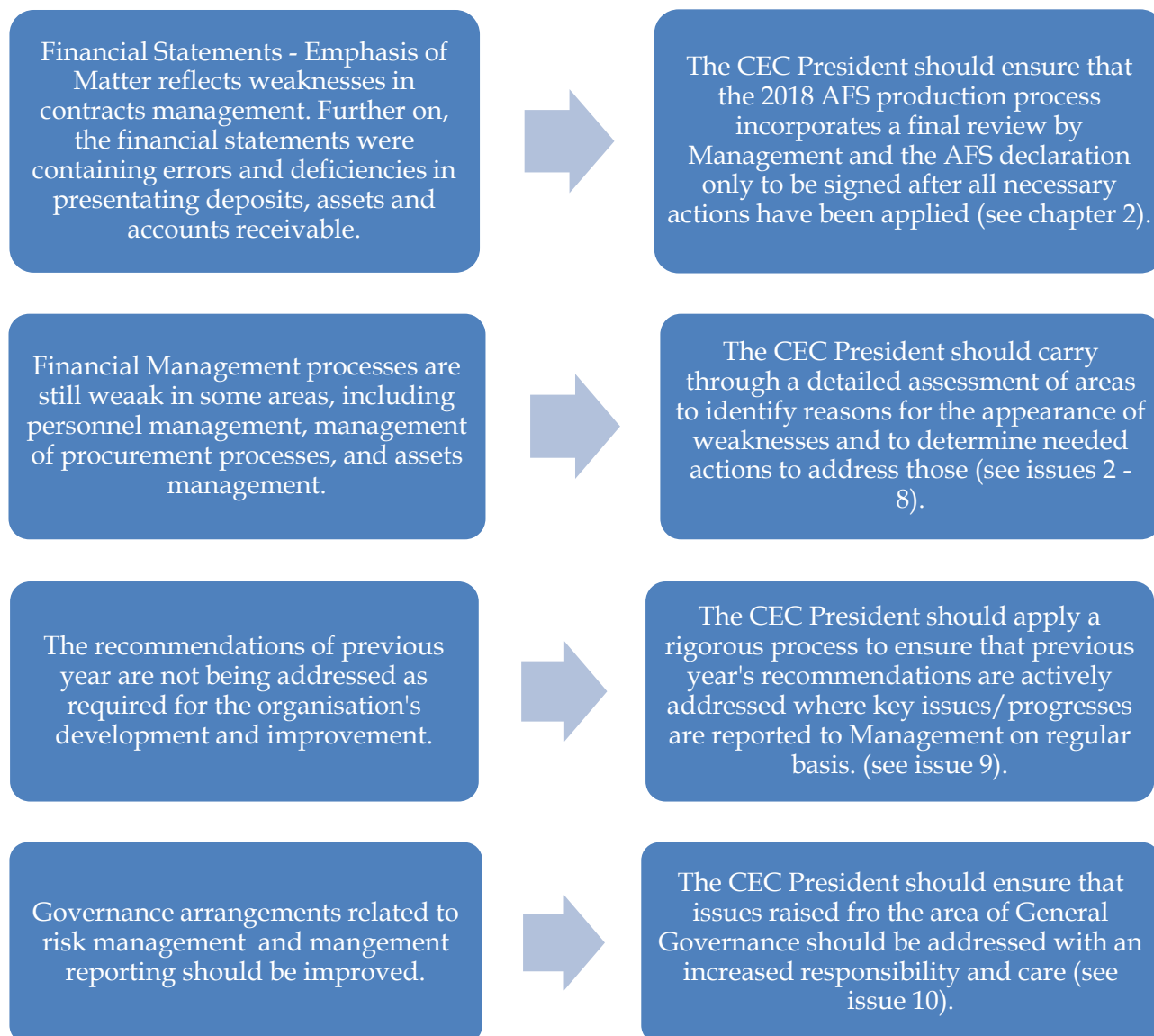
Emphasis of Matter

However, we draw your attention due to the fact that supplies for election material in the amount of €130,175 were beyond the contracted value and quantities.

For more, see Section 2.1 of this Report.

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

Key Conclusions and Recommendations



Management's Response

Management of the Central Election Committee has considered and agreed on audit findings and conclusions and committed to address the recommendations given.

1 Audit Scope and Methodology

Introduction

The National Audit (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements give a true and fair view of the accounts and financial affairs for the audit period;
- Whether the financial records, systems and transactions comply with applicable laws and regulations;
- The appropriateness of internal controls and internal audit functions; and
- All matters arising from or relating to the audit.

Audit work undertaken reflected our audit risk assessment for the Central Election Committee (CEC). We have analyzed the CEC's business to the extent to which management controls can be relied upon when determining the overall testing required to provide the necessary level of evidence to support the Auditor General's opinion.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review.

Our procedures included a review of the internal controls, accounting systems and related substantive tests and related governance arrangements 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.

2 Annual Financial Statements and other External Reporting Obligations

Introduction

Our audit 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 Administrative 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 assertions are intended to provide the Government with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

2.1 Audit Opinion

Unmodified Opinion with Emphasis of Matter

We have audited the AFS of the Central Election Committee for the year ended on 31st of December 2017, which comprise of the Statement of Cash Receipts and Payments, Budget Execution Statement, Disclosures and other accompanying reports.

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

Basis for the opinion

Our audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the opinion.

Emphasis of Matter

We draw your attention to the fact that supplies in the amount of €130,175, for election material were beyond the contracted value and quantities. In the local elections process, CEC had ordered and received materials for election more than the contracted quantity. The material was received, but the payment was refused from the Finance Office, with reasoning that these orders have

exceeded contracted quantities. As a result, the Economic Operators that have performed supplies have proceeded the cases to bailiffs in order to collect the funds. These liabilities due to the fact that were subject to dispute have been presented and disclosed to the financial statement article 18 – contingent liabilities.

Responsibility of Management and Persons Charged with Governance for 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 Finance Management and Accountability (as amended and supplemented).

The President and Chief Executive Officer are responsible to ensure the oversight of the CEC'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 detect any material misstatement that might exist. 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.

2.2 Compliance with AFS and other reporting requirements

CEC 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 Organizations;
- Requirements of LPFMA no. 03/L-048, (as amended and supplemented);
- Compliance with Financial Rule no. 01/2013 and 02/2013;
- Action Plan on addressing of recommendations;
- Requirements of Financial Management and Control procedures;
- Other requirements for budget reporting's, such as quarterly reports including also nine-month statements;
- The report of signed contracts; and
- Reports for outstanding liabilities.

In the context of the AFS, despite the corrections that CEC had done, we have identified some deficiencies, as in following:

- *In Article 13, the Statement of receiving and payments in Cash* – it is noticed that deposits in amount of €36,600 have not been presented to the receipts and other payments. This amount was not presented not even in the Article 14 as other payments;
- *In Article 14, the Report of budget execution* – it is noticed that within the execution column, inflows as deposits were wrongly presented in the amount of €39,800, while the amount of deposits €73,800, with difference €34,000. Further on, the final budget was understated for €1,576 in the same table;
- *In Article 16 – the Report for receivables* – it is noticed that fines imposed to political parties in election processes in the amount of €22,653 have not been disclosed. The accounts receivable not disclosed belong to 2014-2017; and
- *In Article 19 – the Report for non-financial assets* – it is noticed that assets were understated for €65,970 as a result of non-recording of assets in accounting registers.

When it comes to other requirements for external reporting, the Report of the CEC's signed contracts for 2017, submitted in PPRC was not complete and correct. We noticed that three contracts with total amount of €13,653 were not included in report, as well as one contract with amounted to €44,000 was wrongly presented twice.

2.3 Recommendations related to Annual Financial Statements

Recommendation 1 The CEC President should ensure that a detailed analysis is undertaken to determine the causes for Emphasis of Matter, by undertaking specific actions to improve controls in the contracts management. In this aspect, to be taken appropriate actions to strengthen internal controls to prevent receiving's beyond the contracted value and quantities.

The CEC President should ensure fair and full presentation of information in financial statements including deposits, receivables and assets. Further on, should place effective processes to confirm that the 2018 AFS production plan addresses all issues related to compliance. The Declaration made by the Chief Administrative Officer and Chief Financial Officer should not be signed unless all necessary checks have been applied to the draft AFS.

The CEC President should ensure that effective processes are in place to confirm that the reported information for Management and other parties of interest are critically reviewed before they are submitted, in order to avoid errors.

3 Financial Management and Control

Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within Budget Organisations. Specifically, the focus of the audit was Budget management, Procurement issues, Human Resources as well as Assets and Liabilities.

Financial Management and Control Conclusion

The budget execution of 97%, presents a good budget performance. The 2017 was challenging due to the fact that local and central elections were organized in a shorter period than six months. As a result of a numerous activities during the operational processes, there were also shortcomings which were presented in the report.

Areas where the most significant shortcomings have been noticed are in personnel management where under the approval of the new CEC regulation, appointments in management positions were done under decisions without any procedure, and the engagement of staff for election (special services agreement) in several cases was done without recruitment procedures. Further on, deficiencies were identified even in classification of expenditures, management of procurement processes and assets management.

3.1 Budget Planning and Execution

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

Table 1. Sources of budgetary Funds (in €)

Description	Initial Budget	Final Budget ¹	2017 Outturn	2016 Outturn	2015 Outturn
Sources of Funds	11,618,324	16,483,801	16,062,781	5,369,043	5,228,119
Government Grant -Budget	11,618,324	16,482,224	16,062,781	5,369,043	5,228,119
External Donations	-	1,577	-	-	-

With budget review and with Government decisions², the final budget in relation with the initial budget was increased for €4,865,477. This increase was a result of early parliamentary elections, held on 11/06/2017 and the amount of €1,577 was donors' grant³.

¹ Final budget – the budget approved by the Assembly subsequently adjusted by the Ministry of Finance.

² With Government decision no.02/145 funds were added to these categories: wages and salaries-€322,500, goods and services €2,646,100, utilities €31,400. As well as with budget review no.05-L-125 has been added €1,944,900.

The final budget for capital investments was reduced for €81,000, for two capital projects with Government decision⁴. For these two projects, the CEC has made the request on 10/07/2017 for re-destination of funds with the reason that cannot be executed due to engagements in two election processes. However, the request for re-destination has not been approved.

CEC has spent 97% of the final budget in 2017 or €16,062,781 that presents a spending lower for 2% compared to 2016. However, it should be noted that the comparison with the previous year in the aspect of percentage does not give us any very relevant information from the fact that in 2017 the budget was higher as a result of the organization of national and local elections. Explanations for the current position are detailed below.

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

Description	Initial Budget	Final Budget	2017 Outturn	2016 Outturn	2015 Outturn
Spending of funds by economic categories	11,618,324	16,483,801	16,062,781	5,369,043	5,228,119
Wages and Salaries	707,864	1,030,364	1,026,967	756,384	714,800
Goods and Services	6,436,269	11,038,608	10,689,403	381,570	285,133
Utilities	48,391	70,028	34,900	22,644	29,513
Subsidies and Transfers	4,200,000	4,200,000	4,196,859	4,198,550	4,198,673
Capital Investments	225,800	144,801	114,652	9,895	-

Explanations for changes in budget categories are given below:

- The budget for Goods and Services has been spent 96%. The unspent part of €349,205 has remained as a result of returns for payments of individuals engaged in election processes, because of errors in their accounts or even other data, and funds have gone into surplus; and
- The budget for Capital Investments was spent 79%. The remained projects were executed with a lower cost than what were planned.

³ This was unspent grant of 2010 that was carried forward through years. This grant was from the Italian Government for support in the election process.

⁴ With decision no.01/21 of date 22/12/2017 funds were taken from the projects "Information management system" and "The development of online application for voter registration outside of Kosovo".

Issue 2 – Inadequate classification of expenditures

Finding	IT equipment purchased in the amount of €24,779 were wrongly budgeted and paid by capital investments. Within this payment we noticed that the IT equipment in the amount of €16,657 were under €1,000 each. These equipment should have been budgeted and paid from the category of goods and services.
Risk	Classification and payment of expenditures from inadequate economic categories impacts in overstating and/or understating respective categories of expenditures. As a result of this, their presentation in financial statements was not fair.
Recommendation 2	The CEC President should ensure that budgeting and expenses are executed in accordance with adequate economic categories, to enable their fair reporting according to the public sector accounting standards in compliance with the chart of accounts.

3.2 Revenues

Revenues generated by CEC in 2017 were €30,687. These relate to revenues transferred from deposits for political parties that have lost the race €24,600, revenues from fines for political parties €3,187, and revenues from the registration of political parties €2,900. These revenues are directly transferred to the Kosovo Budget.

Compared with 2016 that were €2,500, in 2017 revenues were in the amount of €30,687, as a result of election held in 2017.

Recommendations

We have no recommendations in this area.

3.3 Wages and Salaries

Wages and Salaries are paid through a centralized system managed by the Ministry of Public Administration (MPA) and MoF. Controls that operate in CEC level relate to control of payments each month, verification of possible changes, the budget review for this category and reconciliations with Treasury.

The final budget for Wages and Salaries in 2017 was €1,030,364. Out of them €1,026,967 were spent. Those relate to payments of CEC members and administrative staff.

For the period during the election process the allowance of 60% of the basic salary for all the staff has been applied, and €150 for additional engagements only for civil servants. This allowance has been applied with Government decision during the election processes.

Recommendations

We have no recommendations in this area.

3.4 Personnel Management

The approved number of employees in CEC was 88, while the current number at the end of the year was 82. Six budgeted positions in 2017 were not fulfilled.

Issue 3 – Advancements in managerial positions without procedures

Finding CEC for a long time has covered managerial positions with Acting by exceeding legal deadlines. This issue was handled even in previous audit reports. With the approval of the regulation⁵ for internal organizations, these positions were covered with regular positions.

Deficiencies were noticed in the process of advancements for five managerial positions. These advancements of positions have been done with decision to transfer employees, according to the internal regulation 04/2017. Although, those were not transfers but were advancements for managerial positions, which are not in accordance with article 4, paragraph 1 and 2 of the Regulation no. 21/2012 on Career Advancements of Civil Servants. This regulation requires that the personnel unit in advance to develop the advancement procedures. CEC had not announced any competition for career advancement.

Risk Promotions in managerial positions without developing procedures, increases the risk of limiting the competition, making promotions that violate the principle of transparency and merit, and as a result such engagements may not be in accordance with the needs of the CEC.

Recommendation 3 The CEC President should ensure that advancements in managerial positions are done with internal competition as the promotion procedures are foreseen in accordance with Regulation no.21/2012.

⁵ Regulation no. 01/2017 on Internal Organization and Systematization of Work Places in the Secretariat of the Central Election Committee.

Issue 4 – Selection of staff for special services without competition procedures

Finding CEC had engaged staff for extraordinary elections in June 2017. Because of limited timeframes for their engagement in the election process and unable to develop simplified recruitment procedures, CEC as a practice applies engagement of candidates from the previous elections.

The Civil Service Law, article 12 requires that a simplified recruitment process is applied for special services contract. Out of 14 tested special services contracts in 2017, we noticed that in nine cases (that were not taken from the previous elections list) had no evidences of how they were selected.

Risk The special services agreement without simplified recruitment procedures limits the competition and increases the risk that the engagement of staff is made in non-transparent way and as a result the services received not be in accordance with the CEC needs.

Recommendation 4 The CEC President should ensure that when engaging staff for special services procedures for their selection have been developed, in order that the process is transparent and all of them who meet the criteria have the opportunity to apply.

3.5 Goods and Services and Utilities

The final budget for Goods and Services and Utilities in 2017 was €11,108,637. Out of them €10,724,302 were spent in 2017. The considerable part relate to the staff engaged in election processes in the amount of €8,674,818, supplies for office, mobile telephony.

The number of engaged in elections process for 2017 reaches 958 individuals. This number includes non-permanent staff engaged with special services contract, commissioners and trainers.

Issue 5 - The composition of the Evaluating Committee not in accordance with the procurement rule

Finding In the operational guideline of the public procurement to the allocation of duties in point 62.3 it is clearly specified that one official who has prepared technical specifications for one tender cannot be member of the evaluation committee. To the procurement "Supply with computer for ZLKZ" in the evaluation committee had participated one official, which had prepared the specifications of computers.

Risk Appointment in the evaluation process of the officials that have prepared technical specifications except that is inconsistent with principles of allocation of duties, and also risks the objectivity of the tender evaluation by the Committee. All this may impact even in the selection of the winning operator in non-objective way.

Recommendation 5 The CEC President should ensure that segregation of duties is made in accordance with the operational guideline and to analyse why this request has not been implemented in line the procurement rule, and prevent such cases.

Issue 6 - Frequent use of the negotiated procedure without publication

Finding From 93 signed contracts, the negotiated procedure without publication was used in 28 of them. The amount of contracts with this procedure was €1,347,602 or 52% of the total of contracts. This procedure was mainly applied because of the extraordinary elections but there were cases even in regular elections. The tender for "Supply with UC spray for 2017 Local Elections" foreseen to be initiated in March 2017 with open procedures in the end resulted in signing a contract with the amount of €44,400 under negotiated procedure.

This tender initially was developed with open procedure, but was cancelled on 27/06/2017, as it had no eligible operators. The reason of cancellations was non-fulfilment of the criterion that "UV spray should have an unlocked or secured cap". This criterion was removed in tendering process under negotiated procedure.

Risk The use of negotiated procedure even for regular elections by avoiding competition procedures leads to discouraging the competition and increases the risks that, supplies are above market price as a result of limitations.

Recommendation 6 The CEC President should ensure the application of procedures that provide competition and gives the opportunity of bidding to all interested operators with the purpose that services/supplies with lower cost are taken and obtain the value for the money spent.

Issue 7 – Purchase-orders and annex contract are higher than allowed**Finding**

In the procurement process we have identified the following deficiencies:

- The financial rule 01/2013, in article 17 clearly sets out that the purchase-order is created and prepared by the Budget Organization after the selection of the bidder with which the contract has been signed, meaning that the purchase-order cannot be created beyond the contract value. In four cases, we have noticed that purchase-orders were above the contract amount. The purchase-orders amount was for €185,127 higher than the contractual amount; and
- The basic contract for “Supply with UV spray for 2017 Local Elections” was with amount of €44,400. CEC had concluded an annex contract in the amount €4,856 by exceeding for €416, 10% of the basic contract amount.

Risk

Creating purchase-orders over the contract amount increases the risk that the goods orders outside the contract to be supplied and received and to be created financial liabilities beyond the contract amount. This can impact the funds to be blocked and to remain unused for other purchases.

Exceeding of 10% of the basic contract is inconsistent with the law of public procurement.

Recommendation 7 The CEC President should ensure that procurement processes are managed in accordance with legislation and specific actions are undertaken in preventing the creation of purchase-orders and annex contracts beyond the allowed limits. A continuous monitoring of the management of procurement processes it is necessary by Management.

3.6 Subsidies and Transfers

The final budget for Subsidies and Transfers was €4,200,000. Out of them €4,196,859 were spent in 2017. Those relate to support of political parties for financing of the political parties regular activities, the work of parliamentary groups and pre-election and electoral activities.

The funds are allocated to political parties based on the number of seats in Assembly. Those are transferred on quarterly periods after a bank and financial report, as well as parliamentary groups for financial support for political parties are paid 10% expenditures of the allocation of funds for the political party.

Recommendations

We have no recommendations in this area.

3.7 Capital Investments

The final budget for Capital Investments was €144,801. Out of them €114,652 were spent. Those relate to IT expenditures, software and hardware.

Recommendations

We have no recommendations in this area.

3.8 Capital and Non-Capital Assets

According to the AFS and account registers the net value of capital assets was €75,280, while the value of non-capital assets was €301,808 and stocks were €7,070.

We have reviewed if the recording process and the way of holding evidences are in accordance with the requirements of the financial rule no. 02/2013, on Management of non-Financial Assets of Budget Organizations, inventory process, depreciation and physical existence of assets.

Issue 8 – Weaknesses in assets management

Finding

We have identified the following deficiencies in the assets management:

- The account register of assets was not complete, as capital and non-capital expenditures in the amount €65,970⁶, were not recorded in the respective account registers;
- The e-Asset system was not calculating the depreciation in accordance with determined norms. This was identified in five cases (laptop purchased in 2014; photocopy 2012 and multipad 2013) with initial amount €2,798, which according to the depreciation norms should be figuring with zero amount, while their amount was wrongly presented €1,831;
- The regulation on Assets Management requires that the inventory report to be performed before the preparation of AFSs in order that the organization to have the possibility of comparison of the inventoried situation with the situation in the non-financial assets registers. The Committee had timely performed the inventory, but had not reconciled the inventoried situation with registers of non-financial assets; and

⁶ Mbi 1,000€ ishshin 63,896€ dhe nën 1,000€ ishshin 2,074€.

- In the non-financial assets register the laptop purchased in 2016 with serial number (SYB06790877), was not located in the organization. According the CEC assertions, the CEC member after leaving the institution had not returned the laptop. After being identified by the audit, CEC has taken measures and this laptop is returned to the Organisation.

Risk

Identified deficiencies in the assets recording, their depreciation and non-reconciliation of registers with the situation resulted from the inventory, reflects weaknesses in assets management. These deficiencies impact in overstate or understate of assets in AFS, and this increases the risk that assets are exposed to the risks of loss or mismanagement.

Recommendation 8 The CEC President should ensure active supervision within the personnel who in one way or another handle assets management for elimination of deficiencies both in the recording of assets and in their depreciation, for the purpose of accurate reporting of the value of assets. Further on, the inventory report should include a comparison of physical situation with the situation of registers. If the difference is ascertained they should be reflected in the assets register and in the account register.

3.9 Receivables

The amount of Accounts Receivable at the end of 2017 according to the CEC evidences was €22,653, which were not presented in AFS. Out of them €1,350 were fines implied to political parties during the 2017 elections, carried forward from previous years €3,260 for 2016; €12,000 for 2015 and €6,043 for 2014.

Political parties were not paying their fines regularly. As it is noted, the receivables mainly belong to previous years and their non-collection is also a result of political parties' extinction. CEC as a mechanism for their collection is using the moment of request of political parties for certification in elections, by not certifying without paying the debt. CEC had no cases that have collected the debt through bailiffs. Receivables were not disclosed in AFS and this issue we have elaborated to the subchapter 2.2.

Recommendations

We have no recommendations in this area.

3.10 Outstanding Liabilities

The statement of liabilities not paid to suppliers at the end of 2017 was €144,089. These liabilities are carried forward to be paid in 2018. These liabilities mainly relate to payments of non-permanent staff engaged during the election process, which because of errors in system, the Treasury had returned these payment and the end of the fiscal year has made it impossible to execute them.

The liabilities report was done in accordance to the Financial Rule no. 02/2013 on Reporting of Outstanding Liabilities.

Contingent liabilities presented in AFS are €234,783. The major part of these contingent liabilities in the amount of €130,174, were as a result of exceeding's of the contracts. This happened because that after the receipt of the good, CEC has refused to pay the received good and operators had submitted cases for enforcement to private bailiffs. This major amount of contingent liabilities can bring in financial difficulties the 2018 budget. This issue has impacted to emphasize the opinion and has been elaborated more thorough to the chapter of opinion 2.1 – (Emphasis of Matter).

Recommendations

We have no recommendations in this area.

4 Progress in implementing recommendations

Our Audit Report on the 2016 AFS of CEC has resulted with 13 recommendations. Out of them eight were completely implemented, three are in process and two have not been implemented. CEC had prepared an Action Plan stating how all recommendations will be implemented.

While our Audit report for 2015 has resulted with 12 recommendations, out of which eight recommendations were carried forward to be implemented in 2017. From the 2015 recommendations, three have been implemented, four are in process of implementation and one has not been implemented, regarding the depreciation of non-capital asset.

Issue 9 – Implementing recommendations from previous and earlier years

Finding	CEC has made a progress in addressing of recommendations, however a number of recommendations have not been completely addressed. Unaddressed recommendations are related with governance area, category of wages and salaries, and assets management.
Risk	Failure to fully address the recommendations increases the risk of the repetition of the same deficiencies, and impacts that internal controls and key financial systems continuously to be ineffective to fulfil the determined objectives.
Recommendation 9	The CEC President should review and analyse causes of unimplemented recommendations, and to set out a new timetable with accountable staff for their implementation, initially focusing on the most significant areas. The Management should take proactive actions toward barriers presented and the implementation should be continuously monitored.

5 Good Governance

Introduction

Good Governance implies basic principles of accountability, effectiveness of controls, risk management, independence of internal audit, coordination of NAO with internal audit and good governance with public assets.

A key indicator supporting effective governance is the implementation of audit recommendations as this demonstrates that Management are seeking to develop existing processes and controls. The level of compliance with FMC requirements by Budget Organizations is monitored by the completion of the self-assessment checklists completed by all BOs, which are submitted at the end of the year to the MoF. Specific areas of our governance-related reviews have been the accountability and risk management process, while the other components are handled within the chapters or subchapters above.

Overall Governance Conclusion

CEC has taken into consideration the legal requirements foreseen with MFC regulations and has completed in time the self-assessment, but needs to include a more critical evaluation to the achievement of results. Compared with previous years, CEC despite facing challenges in organising two sets of Elections had progress in management of processes and governance of the Organization. Improvements have happened regarding the regulation for internal organizations and systematization of work places, and the decision taken for the staff payments during the election process.

However, there is a number of governance weaknesses within CEC, especially in relation to the level of implementation of recommendations and with the lack of the risks register. It remains a challenge the improvement of these two components regarding the governance in 2018.

5.1 Internal Audit System

The Internal Audit Unit (IAU) operates with one auditor, which is the Director of IAU. IAU in the Annual Plan for 2017 had planned four regular audits. The annual work plan was drafted in accordance with the strategic plan, where were determined the 2017 audit areas. The plan was completely executed, where the audit scope were the activities of 2016 and 2017.

The audit reports contains conclusions and recommendations which identifies some of deficiencies in the internal control system. The audited units had drafted plans for implementation of recommendations and their implementation was in process. Further on, IAU has submitted quarterly reports for its activities in CHU/IA within MoF.

The Audit Committee had held four regular meetings and had considered the findings and recommendations of internal and external audit.

Recommendations

We have no recommendations in this area.

5.2 Management Reporting, Accountability and Risk Management

In order to have a proper planning, supervise the activities on a regular basis and allow effective decision-making, the Management needs to have regular reports. Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

The process of internal reporting in CEC operates according to the accountability chain, law and organizational structure. Management hold meetings based on needs, where are discussed reports and all its activities, and where in some meetings are kept also minutes. The 2017 was a challenging year for CEC because of high volume of works during the election processes (extraordinary elections, local elections and run-offs).

Issue 10 – Weaknesses in risk management

Finding The CEC has not drafted the risks register as required with MFC regulations, despite the fact that it had made efforts to act in this direction. Management started to identify the risks and for this had received support from IFES⁷ in compiling the risks register, and in March 2018 a meeting was scheduled for reviewing the draft report of the risks evaluation and risks management plan.

Risk The lack of finalization of the risks list and its effective management will prevent timely reaction to the risk the organization faces, whether from internal or external environment. This is because that proactive actions needed to prevent or avoid such risks will not be taken in a planned and systematic way.

Recommendation 10 The CEC President should ensure the acceleration of the process in finalizing the risks register and to start their management. Further on, after drafting the risks, delegation of direct responsibility for risks management through respective sectors should be ensured, and to ensure the effective monitoring for the implementation of requirements in this area.

This report is a translation from the Albanian original version. In case of discrepancies, Albanian version shall prevail.

⁷ International Foundation for Electoral Systems

Annex I: 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 1705¹⁹ 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 emphasized 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 emphasized.

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 judgment, 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 II: Progress in implementing recommendations of previous two years

Audit Component	Recommendations carried forward from 2015	Implemented during 2017	Under implementation during 2017	Not implemented
2.3 Prior Year Recommendations	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.		With all the progress achieved in some areas, a part of recommendations have not been implemented.	
2.4 Self-Assessment Checklist	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.		Has been completed the self-assessment checklist, however it is needed a critical evaluation because that the evaluations done were not supported with appropriate evidences.	
2.5.1 Risk assessment	President of the CEC should ensure that immediate responsibility for risk management is delegated to officials responsible and that implementation of requirements in this area is reported on a monthly basis.		Have been identified risks in the level of departments, but still has not been completed the consolidated risks list.	
2.5.2 Accountability Arrangements and management reporting	President of the CEC should ensure that the internal organization of the CEC Secretariat is done conform to the defined organizational 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.	Yes.		

3.5.1 Remunerations (Wages and Salaries)	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.		Positions have been fulfilled with decision without developing any competition procedure.	
3.7.1 Capital and Non Capital Assets	President of the CEC should ensure that assets are identified with barcodes and respective depreciation rates are applied for the non-depreciated assets			No measures taken.
3.7.1 Capital and Non Capital Assets	President of the CEC should ensure that official vehicles are used and managed in accordance with legal procedures and rules.	Yes.		
3.7.2 Handling of Debts	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.	Yes.		
Audit Component	Recommendations given in 2016	Implemented	In process of implementation	Not implemented
2.1 Progress in the Implementation of Prior Year Recommendations	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.		With all the progress achieved in some areas, a part of recommendations have not been implemented yet.	

2.2 Self-Assessment Checklist of FMC components	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.		A part of the recommendation in relation with self-assessment has been addressed, but the risks list still has not been completed.	
2.3.1 Management Reporting and Accountability	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.	Yes.		
3.1.2 Wages and Salaries	The CEC President should ensure that staff engagements and payments for overtime work are made in line with the allowed legal norms.	Yes.		
3.1.2 Wages and Salaries	The CEC President should take concrete steps to ensure that the positions with Acting are covered with regular staff through open competition.		Positions have been fulfilled with decision without developing any competition procedure.	
3.1.2 Wages and Salaries	The CEC President should ensure that the requirements for filling in the job description for each position within the institution are met.	Yes.		
3.1.3 Goods and Services and Utilities	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.	Yes.		
3.1.6 Common Issues on Goods and Services and Capital Investments	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.	Yes.		

3.2.1 Capital and Non Capital Assets	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.			No measures taken.
3.2.1 Capital and Non Capital Assets	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 Organization. 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.			No measures taken.
3.2.1 Capital and Non Capital Assets	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.	Yes.		
3.2.1 Capital and Non Capital Assets	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.	Yes.		
3.3 Outstanding Liabilities	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.	Yes.		

Annex III: Letter of confirmation



Republika e Kosovës
Republika Kosovo - Republic of Kosovo
Komisioni Qendror i Zgjedhjeve
Centralna Izborna Komisija
Central Election Commission



LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm në Raportin e auditimit për vitin 2017 dhe për zbatimin e rekomandimeve

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit/Pasqyrave Financiare të **Komisionit Qendror Zgjedhor**, për vitin e përfunduar më 31 dhjetor 2017 (në tekstin e mëtejshëm "Raporti");
- pas diskutimeve, përgjithësisht jemi pajtuar me të gjeturat dhe rekomandimet dhe tashmë nuk kemi komente për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, dhe pas miratimit në KQZ, do t'ju dorëzoj një plan të veprimt për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Enis Halimi, kryeshef ekzekutiv

21 qershor 2018, Prishtinë,