



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE ELECTIONS
COMPLAINTS AND APPEALS PANEL FOR THE YEAR ENDED 31
DECEMBER 2015

Prishtina, June 2016

The Auditor General 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 Office of the Auditor General undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

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

The reports produced by the Office of the Auditor General directly promote accountability 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 and report on the Annual Financial Statements of the Elections Complaints and Appeals Panel in consultation with the Assistant Auditor General, Ibrahim Gjylderen, who supervised the audit.

The opinion and report issued are a result of the audit carried out under the management of the Audit Director, Emine Fazliu, supported by Riza Spanca - Team Leader, Natyra Kasumaj - Team Member.

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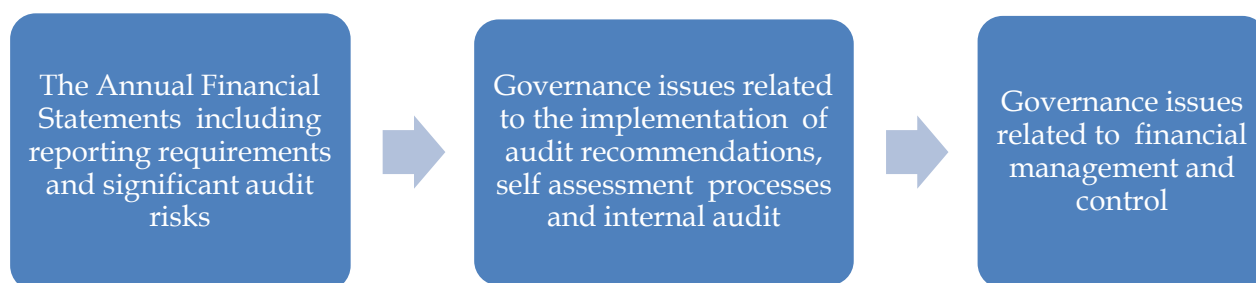
Executive Summary

Introduction

This report summarises the key findings from our audit of the 2015 Annual Financial Statements of Elections Complaints and Appeals Panel which determine the Opinion given by the Auditor General. I would like to thank Head of Secretariat and his team for their assistance during the audit process.

The examination of the 2015 financial statements was undertaken in accordance with the internationally recognised Public Sector auditing standards (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The approach taken is set out in our Audit Planning Memorandum dated 23 November 2015.

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



The level of work undertaken by the Office of the Auditor General to complete the 2015 audit is a direct reflection of the quality of the internal controls implemented by management.

Opinion

Annex II explains the different types of Opinions applied by the Office of the Auditor General.

The Auditor General's opinion is:

Unmodified Opinion

In our opinion the Annual Financial Statements present a *true and fair view* in all material aspects. The full wording of the opinion is detailed in Section 1.2 of this report.

ECAP Management's Response - 2015 audit

ECAP's management considered and agreed with detailed audit findings and conclusions, and is committed to address the recommendations given.

1 Annual Financial Statements and other External Reporting Obligations

1.1 Introduction

Our review of the AFS considers both compliance with the reporting framework and the accuracy of the information recorded in the financial statements. We also consider the Declaration made by the Head of Secretariat (HS) and Chief Financial Officer (CFO) when the draft AFS are submitted to the Government.

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 financial statements. A number of the declarations are intended to provide assurance to the Government that all relevant information has been provided to ensure that a comprehensive audit can be undertaken.

1.2 Audit Opinion

Unmodified opinion

We have audited the Annual Financial Statements of Elections Complaints and Appeals Panel for the year ended on 31 December 2015, which comprises of the ‘Statement of Receipts and Payments in Cash’, the ‘Consolidated Statement of Comparison of Budget and Actual Amounts’, Explanatory Notes in the AFS and Disclosures.

In our opinion, the AFS present a true and fair view in all material aspects of receipts, payments and executed budget of Elections Complaints and Appeals Panel for the year ended on 31 December 2015 in compliance 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 Financial Rule no.03/2013 on the AFS of Budget Organisations issued by the Ministry of Finance.

Basis for Opinion

We conducted an audit in accordance with International Standards on Auditing (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 are independent of the Elections Complaints and Appeals Panel in accordance with the ethical requirements that are relevant to our audit of the financial statements in Kosovo and we have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibility of Management and Those Charged with Governance for the Financial Statements Responsibility for the Financial Statements

Head of Elections Complaints and Appeals Panel’s Secretariat is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards – Financial Reporting under the Modified Cash basis of 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 number 03/L-048 on Public Finance Management and Accountability (as amended and supplemented).

Head of Secretariat is responsible for overseeing the Elections Complaints and Appeals Panel’s financial reporting process.

Auditor’s Responsibility for the Audit of the Financial Statements

Our responsibility is to express an opinion on the annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those 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 misstatement.

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

1.3 Compliance with AFS and other reporting requirements

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

- Requirements of LPFMA no. 03/L-048, as amended by Law no. 03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Rule no. 03/2013 on AFS of Budget Organisations;
- Requirements that AFS have been signed by the CEO and CFO and submitted to MoF;
- Requirements of Regulation 01/2013 - Spending of public money and Regulation no. 02/2013 on the management of non-financial assets.

In the context of the AFS, we have no issues to raise on these matters.

Besides drafting of AFS, ECAP is required to address external reporting obligations as follows:

- Budget requests;
- Quarterly reports including nine month financial statements;
- Operational reports;
- Draft plan and final procurement plan;
- Monthly reports of outstanding liabilities;
- Report on internal controls, including the self-assessment and others.

We have no issues to raise on these matters. All reports are submitted to the MoF and other relevant institutions within the required timeframes.

Recommendations

We have no recommendations in this area.

2 Governance

2.1 Introduction

Effective governance arrangements are fundamental to Elections Complaints and Appeals Panel 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 completed by all Budget Organisations 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. We have therefore applied a common approach across all audits to determine the quality of the completed self-assessment checklists to provide in a ‘snapshot’ format an assessment of the accuracy of the picture being presented on governance in Kosovo.

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 Unit; 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)

2.2 Overall Governance Conclusion

ECAP governance arrangements are considered not yet fully in place. The Lack of risk management list reflected in the self-assessment checklist. The strategic plan was not yet finalised.

2.3 Prior Year Recommendations

Our Audit Report on the 2014 AFS of ECAP resulted in three key recommendations. ECAP prepared an Action Plan stating how all recommendations will be implemented.

By the time we were in audit, two recommendations were implemented whilst one was not implemented yet.

2.4 Self-Assessment Checklist

The Ministry of Finance produced a detailed self-assessment checklist for Budget Organisations to support effective governance arrangements. For all audits we undertake 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 ECAP 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 development of FMC system in general.

Issue 1 –Self Assessment Checklist – Medium Priority

Finding	<p>As part of our audit we have considered six key questions related to the five components of the self-assessment questionnaire. For the questions considered we found that:</p> <ul style="list-style-type: none">• Proper risk management procedures are not in place and this is considered in more detail in section 2.5.1 below;• Effective processes of drafting comprehensive strategy (involving stakeholder liaison and ensuring a fully costed strategy) are not yet considered in place by ECAP. This because the strategic plan is in process of being drafted.
Risk	<p>Operation of ECAP without a strategic plan in place prevents long-term planning and achieving its mission.</p>
Recommendation 1	<p>Head of Secretariat should ensure that ECAP strategic plan is finalised and approved which would serve as a framework (base) for determining operating plan and their execution and monitoring.</p>

2.5 Specific Governance Reviews

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

2.5.1 Risk Assessment

All Budget Organisations are expected to implement risk assessment. Guidance set out in FMC procedures and Regulation 01/2010 requires risk registers to be in place to support effective operational and strategic management.

Issue 2 – Failure to implement Risk Management Requirement – Medium Priority

Finding ECAP did not draft a register yet which would clearly identify and evaluate all possible risks in terms of achieving the ECAP objectives. Self-assessment questionnaire completed by ECAP confirmed that the required systems of risk management were not yet operational.

Risk The absence of effective risk management will reduce the quality of activities made as internal and external issues impacting on this will not be addressed on a timely basis. This is because proactive action to address and remove or reduce the impact of such issues will not be undertaken in a systematic and planned manner.

Recommendation 2 The Head of Secretariat should ensure that immediate responsibility for drafting risk management list is delegated to relevant positions.

2.6 Internal Audit System

AI no. 23-2009 on the establishment of the Internal Audit Unit (IAU) defines the criteria to be met for the establishment of the unit¹. ECAP did not establish an IAU given that it does not meet the foreseen criteria.

¹ BO should meet one of the criteria for the establishment of IAU, i.e. to have over 50 employees or over €1million budget.

3 Financial Management and Control

3.1 Introduction

Our work on Financial Management and Control (FMC) 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, Human Resource issues and Assets and Liabilities

3.2 Financial Management and Control Conclusion

ECAP resolved previous year issues related to compensation for overtime and vehicle management. However, delays in commitment of funds and processing of purchase orders remain a challenge for its financial management.

3.3 Budget Planning and Execution

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

Table 1 Sources of budget Funds - outturn against the budget (in €)

Description	Initial Budget	Final Budget ²	2015 Outturn	2014 Outturn	2013 Outturn
Sources of Funds	266,413	171,994	170,089	209,387	210,855
Government Grant -Budget	266,413	171,994	170,089	209,387	210,855

The final budget is lower than the initial budget by €94,419. This reduction was a result of the budget review and two government decisions to reduce ECAP budget.

In 2015, ECAP used 99% of the final budget or €170,089, while it executed 87% of the budget within the previous year. ECAP thus demonstrated the utmost commitment when it comes to the use of the funds available to achieve the objectives.

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 - outturn against the budget (in €)

Description	Initial Budget	Final Budget	2015 Outturn	2014 Outturn	2013 Outturn
Spending of funds broken down by economic categories	266,413	171,994	170,089	219,387	210,855
Wages and Salaries	173,918	123,492	123,492	138,468	132,687
Goods and Services	84,674	43,284	41,442	73,122	70,200
Utilities	7,820	5,218	5,155	7,797	7,968

Explanations for changes in budget categories are given below:

- The budget for the category of wages and salaries during the year was reduced by €50,426 in total. This is because the ECAP planned regular salaries for members of the panel, who also perform the function of judges in various courts, they have chosen to receive the salaries from ECAP as secondary salaries³.
- Under budget review, the budget for goods and services was reduced by €11,062, whilst under the Government decisions by €30,328.
- The budget for utilities with the decision of the Government was reduced by €2,602.

3.4 Procurement

The purpose of legal framework and Financial Rule are intended to ensure that public funds are used in a transparent and efficient manner to achieve value for money. The legal framework clearly defines how a process should be developed up to payments made by the Organisation.

In the area of procurement, we tested two procurement procedures as well as nine payments in total value of €2,807 resulting in the following shortcomings.

³ Remuneration for secondary job is 50% of the contract value.

Issue 3 – Systematic Weaknesses in management of expenditures – Medium Priority

- Finding** According to Rule no. 01/2013 on Expenditure of Public Money, commitment of funds is initially processed, purchase order issued, whereas a receiving report is produced after the delivery and the invoice is received.
- In eight total payments amounting to €1,895 recording of commitment and purchase order was made after the goods and invoice were received.
- Risk** Supply with goods and receiving the invoice before the purchase order is issued may result in receiving goods of poor quality or in the quantity not needed.
- Recommendation 3** The Head of Secretariat should ensure that all forms required by the Treasury rules, are filled out clearly and chronologically.

3.5 Expenditure not related to Procurement

Non-Procurement expenditures mean all those purchases that do not require using public procurement procedures.

For this type of expenditures, we tested 12 payments totalling €38,739, which referred to the advances for travel abroad, land-line telephony costs, as well as other utilities.

Recommendations

We have no recommendations in this area.

3.5.1 Remunerations (Wages and Salaries)

During the audit we reviewed payments according to payroll, where we noticed that the Personnel Division followed and calculated all the changes regularly and in time.

During 2015, ECAP developed no recruitment procedure.

Further on, we tested the employees' files which were updated regularly by personnel depending on changes occurring during the year.

Recommendations

We have no recommendations in this area.

3.6 Revenues

ECAP generates revenues from fines imposed on political parties. In 2015, ECAP collected revenues in the amount € 71,855. The collections were for fines imposed in previous years, because there were no fines on political parties in 2015.

During this phase of the audit, we tested eight samples in the amount of €71,500 and we did not identify any irregularities.

Recommendations

We have no recommendations in this area.

3.7 Assets and Liabilities

3.7.1 Capital and Non Capital Assets

ECAP at the end of the year, had net capital asset of €14,107 or €7,405 less than last year. The reduction was a result of the depreciation of existing assets and the lack of new capital purchases.

ECAP possessed two official vehicles, whose records were kept in line with AI on management of official vehicles.

Recommendations

We have no recommendations in this area.

3.7.2 Handling of Receivables

At the end of the year ECAP reported €30,038 of receivables all of which were from fines imposed in previous years starting from 2010. ECAP with the intent to collect funds sent the cases to bailiffs and was awaiting the execution concerning the funds.

Recommendations

We have no recommendations in this area.

3.7.3 Handling of Debts

ECAP during this period had good control on the management of outstanding liabilities. All liabilities were reported fully in compliance with Regulation no. 02-2013 on reporting of BO's outstanding liabilities. Liabilities of 2015 AFS were in the amount of €438.

Recommendations

We have no recommendations in this area.

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 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 actions that the Head of Secretariat 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 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 the OAG

((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 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

Audit Component	Recommendation given	Implemented	Addressed but not implemented	Not addressed
Expenditures through Procurement	The Head of Secretariat should ensure that all forms required by the Treasury rules, are filled out clearly and chronologically.			Even this year there were cases when commitment and purchase order after the invoice.
Wages and Salaries	The Head of the Secretariat should ensure that internal control measures are enhanced during certain periods such as elections time in order to have all remunerations paid in accordance with the law and respective decisions.	It was implemented, during the year, it did not have any compensation outside legal norms.		
Vehicle Management	The Head of the Secretariat should ensure that established controls operate effectively when it comes to regular maintenance of records on use of vehicles.	Records for the use of official vehicles were kept according to AI.		