



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE OF THE ELECTIONS
COMPLAINTS AND APPEALS PANEL FOR
THE YEAR ENDED 31 DECEMBER 2014

Prishtina, June 2015

The Office of the Auditor General undertakes both Regularity and Performance Audits. The Acting Auditor General is the head of the Office of the Auditor General which employs around 145 staff. The Auditor General and the Office of the Auditor General shall be independent and certifies around 90 Annual Financial Statements each year, while undertaking other forms of audits.

Our Mission is to “Contribute to sound financial management in public administration”. We shall perform quality audits in line with internationally recognized public sector auditing standards and good European practices. We shall build confidence in the spending of public funds. We shall play an active role in securing taxpayers’ and other stakeholders’ interests in enhancing public accountability’

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.

The Acting 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 draft report is as a result of the audit carried out under the management of the Audit Director, Emine Fazliu, supported by Riza Spanca (Team Leader), Erëmira Bytyqi-Pllana (team member).

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Executive Summary

Introduction

This report summarises the key findings from our audit of the 2014 Annual Financial Statements of the Elections Complaints and Appeals Panel which determine the Opinion given by the Auditor General. We would like to thank the Head of Secretariat and his staff for their assistance during the audit process.

The examination of the 2014 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 02.10.2014.

Our audit focus has been on:



The level of work undertaken by the Office of the Auditor General to complete the 2014 audit is a direct reflection of the quality of the internal controls implemented by Management.

Opinion

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

The Auditor General's opinion is:

In our opinion the Annual Financial Statements *present a true and fair view* in all material aspects.

(ISSAI 200/1700 - Unmodified Opinion)

1 Audit Scope and Methodology

It is the responsibility of the Elections Complaints and Appeals Panel (ECAP) to prepare Annual Financial Statements (AFS) under the International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting' and other specific requirements. The Office of the Auditor General (OAG) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of the AFS and other financial records and expression of:

- Whether the AFS 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.

We have considered 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 (AG) opinion. Management activity also determines the focus of our compliance audit and good governance audit which do not directly impact on the opinion.

Our audit approach to governance is focused on evaluating the actions taken by management to secure effective financial management and control and the results of this action in efficiently delivering high quality operational outputs. For individual financial systems we seek to identify the level at which actual controls operate. This may, for example, be monitoring activity undertaken by senior management or lower level operational controls. We consider whether controls are well designed, have been implemented as planned and operate effectively. This requires an assessment of structures, processes and accountability lines introduced by management including the role of inbuilt system controls.

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

For completeness we have included issues identified at the interim audit where they remain relevant. At the interim audit stage we provide advice to enable relevant action to be taken in advance of the AFS production and final audit.

Our findings are defined as:

High Priority - issues which 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 improvements to the efficiency and effectiveness of internal controls.

Findings considered low priority will be reported separately to finance staff.

Our procedures included a review of the internal controls and accounting systems and associated substantive testing 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.

Management's Response - 2014 audit

The Management have agreed with all our audit findings and committed themselves to address our recommendations.

2 Annual Financial Statements and other External Reporting Obligations

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.

2.1 Audit Opinion

In our opinion the Annual Financial Statements *present a true and fair view* in all material aspects.

(ISSAI 200/1700 - Unmodified Opinion)

2.2 Compliance with AFS and other reporting requirements

Description

The Annual Financial Statements are required to comply with a specified reporting framework and other reporting requirements. We considered:

- Compliance with Regulation no. 03/2013 on AFS of Budget Organisations;
- Requirements of LPFMA no. 03/ L-048;
- Requirements that the AFS are signed by the HS and CFO and submitted to the MoF; and
- Requirements of the Regulation 01/2003 – Spending of Public Money and Regulation 02/2013 on Management of Non-Financial Assets.

In the context of the AFS, the issues raised in our interim audit memo dated 24.11.2014 relating to the reporting framework have been addressed by the management.

The declaration made by the HS and CFO when the draft AFS are submitted to the Government can be considered to be fair and true.

Besides drafting the AFS, ECAP is required to address the following external reporting obligations:

- Budget requests;
- Quarterly reports, including Nine-Month Financial Statements;
- Operational reports;
- Draft and final procurement plan on time; and
- Report on internal controls, including the self-assessment report.

We have no issues to raise in relation to these. All reports have been submitted to the MoF and other relevant institutions with the set timeframes.

Recommendations

We have no recommendations in this area.

3 Prior Year Recommendations

Overall Conclusion

The management of ECAP had undertaken partial action to address the concern raised in 2013 audit report.

Description

Our Audit Report on the 2013 AFS of the ECAP resulted in one recommendation. ECAP had prepared an Action Plan stating how all recommendations will be addressed.

By the end of our 2014 audit, the prior year's recommendation was partially addressed. For a more thorough description on the way it was addressed, see Annex II.

4 Governance

Overall Conclusion

Our audit approach was focused on understanding and assessing the actions taken by the Management to ensure effective Financial Management and Control, and the results of these actions. In general, we consider that medium and high level controls are well designed, implemented as planned and operate relatively effectively.

Controls over expenditure categories have operated during this period, but require further improvement in order to prevent ECAP's from suffering poor value for money and ineffective budget management. The main areas that need to be improved are processing of payments, remunerations to employees, as well as budget execution in the category of Goods and Services.

4.1 Budget Planning and Execution

Description

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

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

Description	Initial Budget	Final Budget ¹	2014 Outturn	2013 Outturn	2012 Outturn
Sources of Funds	269,000	252,678	219,387	210,855	187,743
Government Grant -Budget	269,000	252,678	219,387	210,855	187,743

The final budget compared to the initial budget was smaller by €16,322. This was as a result of the decision to save 15% in the categories of Goods and Services and Utilities.

In 2014, ECAP used 87% of the final budget, an improvement of 9% compared to 2013 (78% - 2013). Explanations for the current position are detailed below.

Table 2 Spending of funds by economic categories - outturn against the budget (in €)

Description	Initial Budget	Final Budget	2014 Outturn	2013 Outturn	2012 Outturn
Spending of funds broken down by economic categories	269,000	252,678	219,387	210,855	187,743
Wages and Salaries	160,184	160,184	138,468	132,687	125,902
Goods and Services	99,616	84,674	73,122	70,200	53,922
Utilities	9,200	7,820	7,797	7,968	7,920

Explanations for changes in budget categories are given below:

- The final budget for Wages and Salaries was implemented at 86%. The low-level of budget execution in this category was because the ECAP planned regular salaries for the Panel members. But, the members of the Panel discharge the function of a judge in different courts and they have chosen to receive the salaries from ECAP as secondary salaries².
- Based on the Government's decision to save 15%, the budget for Goods and Services has decreased by €14,942 and Utilities for €1,380. Despite the changes, the budget execution in this category was 85%. The main reason behind such level of execution was that planned equipments were not purchased, instead the useful life of the existing ones was extended.

¹ Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

² Remuneration for the secondary job is 50% of the contract value

4.2 Revenues (including own source revenues)

Description

The ECAP generates revenues from fines imposed to political parties. In 2014, ECAP collected revenues of €201,800. A result of fines imposed in the previous years , €186,350 were collected whilst €15,450 were collected from the fines imposed during the current year. During this audit stage, we tested 12 samples of €198,650 and found no irregularities.

Recommendations

We have no recommendations in this area.

4.3 Expenditures

The ECAP has an established internal controls system to follow up the payments process and management of expenditures. However, shortcomings needs to be addressed by the responsible officials, in order to ensure maximum effectiveness in the area of controls.

4.3.1 Procurement

Description

Procurement financial rules are intended to ensure that public funds are used transparently and efficiently to achieve value for money. The legal framework clearly defines the rights, duties, and responsibilities of all parties involved in public procurement. This includes the requirement to reduce the risk of delays in processing the purchase orders. We have tested two procurement procedures and five payments of €8,510.

We have identified the following finding:

Issue 1 - Systematic Weaknesses in processing of payments - Medium Priority

Finding According to the Rule 01/2013, a purchase order is initially issued, an acceptance report is produced after the delivery and the invoice is received.

In the payment of €6,252 for "Supply with stationery", the purchase order was recorded seven days after the invoice was 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 1 The Head of Secretariat should ensure that all forms required by the Treasury rules, are filled out clearly and chronologically.

4.3.2 Non Procurement Expenditure

Description

This section presents issues arising from the audit of expenditures not subject to procurement procedures.

We tested 11 payments of €45,254 related to advance payments for abroad travelling, expenditures on telephone, education and training, as well as other utilities.

Recommendation

We have no recommendations in this area.

4.3.3 Remunerations (Wages and Salaries)

Description

We reviewed the payroll based transactions and found that the finance sector was regularly and timely informed on the changes in Wages and Salaries.

Expenditures for wages and salaries for 2014 were €219,387 or 86% of the final budget. ECAP has 20 employees, 10 of which are members of the Panel and receive a secondary salary from ECAP, whilst the other 10 are administrative officials in ECAP. During this audit stage, we tested remunerations, staff movement, and maintenance of personnel files.

Weaknesses identified in this area indicate that monitoring controls should be enhanced.

Issue 2 – Allowed overtime hours exceeded and remunerations made after deadlines were due – Medium Priority

Finding The Law no. 03-L-149 on Civil Service Law stipulates that the Civil Servants worked overtime shall not exceed forty (40) hours per month. During the election process in Northern Mitrovica, ECAP engaged the entire staff to work overtime (20.01-28.02.2014). Two officials exceeded the overtime limit with 20 hours.

Finding According to the Government Decision for Paying Overtime Hours during Parliamentary Elections, ECAP officials would be paid allowances of 60% of the basic salary, and €60 for meal allowances on a monthly basis. These allowances would be paid on monthly basis as of 12th of May up to 15 days after the elections result was certified, i.e. 4th of July.

As a result of ineffective controls, ECAP continued to pay the meal allowance to the employees for 12³ days after the date set in the decision.

Risk Exceeding the allowed overtime limits and remunerations made outside the established limits indicates the lack of effective controls and leads to the risk for the budget of this category not being executed as planned.

Recommendation 2 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.

³ The total amount for overtime remuneration is around €2,300

4.4 Assets and Liabilities

We tested the functioning of assets recording, management, and maintenance processes. We particularly focused on the recording of assets in different systems, as required by relevant regulations, and on expenditures on and management of use of official vehicles.

4.4.1 Capital and Non Capital Assets

Description

The ECAP's closing capital assets net value was €21,512 or €14,000 less than in the previous year. The decrease in value was caused by depreciation of existing assets and new capital assets not purchased.

Issue 3 - Shortcomings in vehicles management - Medium Priority

Finding Vehicle management is regulated by the AI 03/2008 on Regular and Efficient Use of Vehicles. The files of two vehicles were lacking evidence on request for use of official vehicles. Following the interim audit advice, ECAP started to fulfill the AI requirements.

Risk Failure to keep records on the use of vehicles leads to the risk of vehicles beings used for matters not related to ECAP scope.

Recommendation 3 The Head of the Secretariat should ensure that established controls operate effectively when it comes to regular maintenance of records on use of vehicles.

4.4.2 Handling of Receivables

Description

At the end of the year, ECAP reported €101,850 as receivables, out of which €71,250 was from fines imposed during the year, whilst €30,600 were receivables not collected from previous years. However, in early 2015, these cases were sent to the bailiffs.

Recommendations

We have no recommendations in this area.

4.4.3 Handling of Debts

Description

During this period, ECAP had good controls over the management of outstanding liabilities. All liabilities were reported fully in compliance with the Law on Public Financial Management, whilst liabilities of €830 at the end of the year were disclosed in the AFS.

Recommendations

We have no recommendations in this area.

4.5 Internal Audit

Description

AI 23-2009 on the Establishment of the Internal Audit Unit (IAU) sets forth the criteria to be met for establishing such unit. ECAP did not establish this unit as it does not meet such criteria.

Recommendations

We have no recommendations in this area.

Annex I: 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 II: Prior Year Recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
Prior year recommendation	The Chairman of the Secretariat of ECAP should ensure that the budget preparation process is preceded by a rigorous assessment process that fully reflects all relevant information, including previous year executions and changes expected during the year. Budget performance should be monitored on monthly basis and identified barriers to budget execution levels addressed in time.		This year, ECAP had a better level of budget execution.. However, more should be done to have a more accurate planning and execution..	