



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

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AUDIT REPORT ON THE FINANCIAL STATEMENTS OF
CENTRAL ELECTION COMMISSION 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 Central Election Commission 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 Ilir Abazi (Team Leader), and Shemsije Llugiqi (member).

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Executive Summary

Introduction

This report summarises the key findings from our audit of the 2014 Annual Financial Statements of Central Election Commission (CEC) which determine the Opinion given by the Auditor General. I would like to thank CEC President and her team for their assistance during the audit process.

The examination of the 2014 annual 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 17.10.2014.

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.

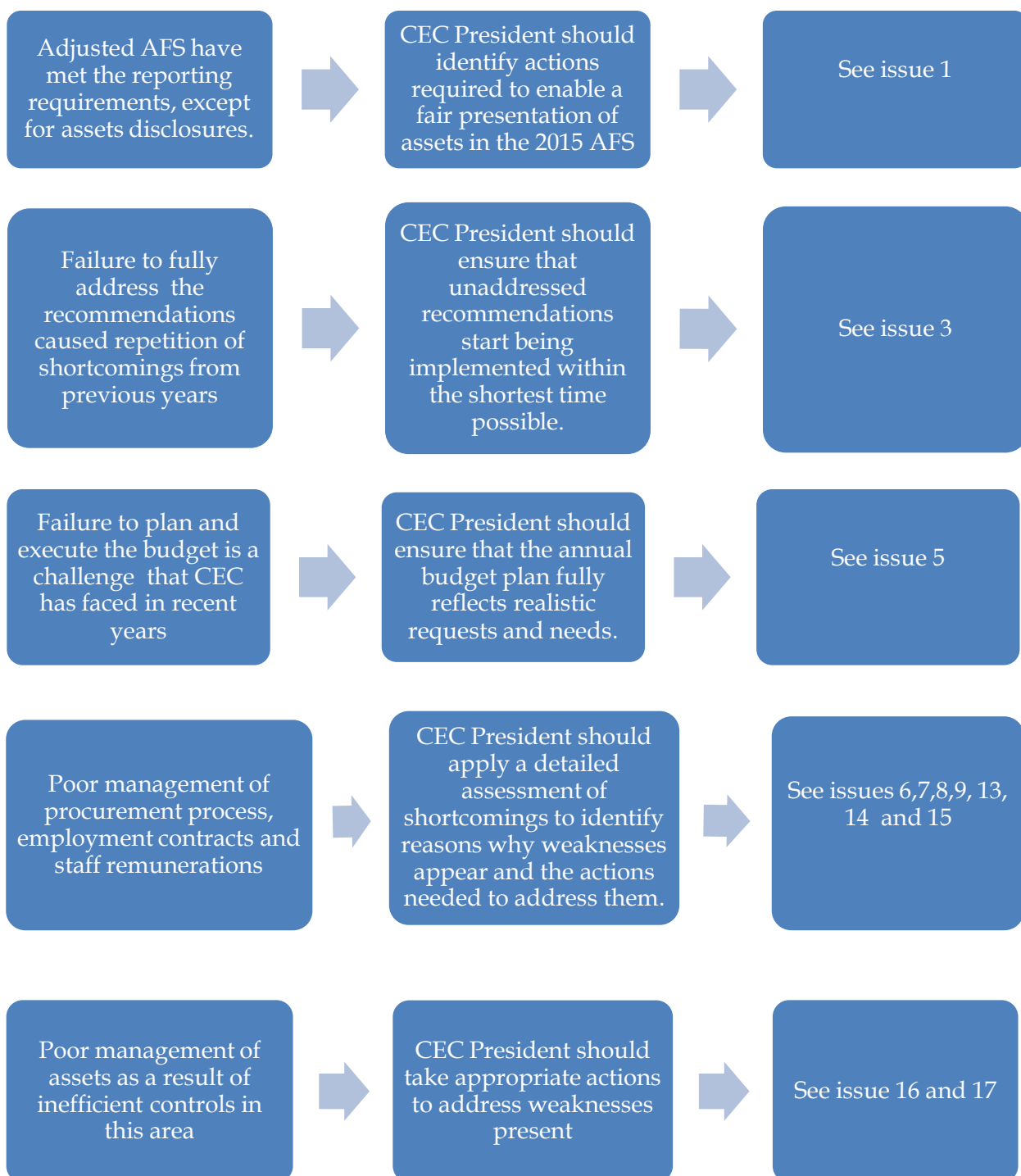
The Auditor General's opinion is:

In our opinion the financial statements *present a true and fair view* in all material aspects.

Emphasis of Matter - In the explanatory notes, capital assets were understated by €61,990 whilst non-capital assets were overstated by €523,462. The disclosure of Assets does not affect any of the two Annual Financial Statements (Cash Receipts and Payments and Comparison of Budget and Actual Amounts) in line with IPSAS Cash based accounting.

(ISSAI 200/1706 Unmodified Opinion with an Emphasis of Matter)

Our key conclusions and recommendations are:



Management response – audit 2014

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

1 Audit Scope and Methodology

It is the responsibility of Central Election Commission (CEC) 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 undertaken by Internal Audit and Audit Committees as well as 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.

2 Annual Financial Statements and other External Reporting Obligations

Description

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 Chief Administrative Officer (CAO) 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.

Overall Conclusion

CEC adjusted material errors presented in the draft Annual Financial Statements, except disclosures for non-financial assets. Other external reporting obligations not related to AFS were partially met.

2.1 Audit Opinion

In our opinion the financial statements *present a true and fair view* in all material aspects.

Emphasis of Matter - In the explanatory notes, capital assets were understated by €61,990 whilst non-capital assets were overstated by €523,462. The disclosure of Assets does not affect any of the two Annual Financial Statements (Cash Receipts and Payments and Comparison of Budget and Actual Amounts) in line with IPSAS Cash based accounting.

(ISSAI 200/1706 Unmodified Opinion with an Emphasis of Matter)

2.2 Compliance with AFS and other reporting requirements

Description

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

- Compliance with Financial Rule no. 03/2013 on AFS of Budget Organisations;
- Compliance with IPSAS and other reporting framework requirements;
- Requirements of LPFMA no. 03/L-048;
- Budget requests;
- Quarterly reports including nine month financial statements;
- Final procurement plan and annual report on contracts signed;
- Annual self-assessment report of the Organisation.

AFS have been timely prepared including languages and format required and signed by the CAO and CFO. In the context of the AFS, issues raised in our interim audit memo dated 01.12.2014 have been addressed with exception of asset disclosure. Capital assets disclosed in the AFS have been understated by €61,990, whilst non-capital assets are overstated by €523,462 as a result of non-depreciation.

Following our advices, a number of financial adjustments were made to the draft AFS and some explanatory information were added regarding:

- Accurate presentation of the source of funds and expenditures, statement of receipts and payments in cash; and
- Allocating deposits to political parties from revenues, as well as some other disclosures.

Given the above - the Declaration made by the CAO and CFO when the draft AFS were submitted to the Government can be considered to be complete with exception of asset disclosures.

Recommendation 1 High Priority – CEC President should ensure that the 2015 AFS production plan formally addresses all compliance requirements for financial reporting. 2015 AFS production plan includes management review of the draft account with specific focus on high risk areas and/or areas where errors have been identified in previous years. The Declaration made by the CAO and CFO should not be submitted unless all necessary checks have been applied to the draft AFS.

In the context of other external reporting requirements we have identified the following non-compliances:

- In procurement annual report sent to the Public Procurement Regulatory Commission (PPRC), outsourcing expenditures paid were presented instead of presenting the value of contracts signed for 2014. The contract also included a report of 2013;
- Failure to monthly report on debts to the Ministry of Finance (MoF)/Treasury; and
- Failure to report on purchases over €500 to the Tax Administration of Kosovo (TAK).

Recommendation 2 High Priority– CEC President should ensure that other legal requirements of financial and operational reporting are timely met including the required format and content.

3 Prior Year Recommendations

Overall Conclusion

CEC Management did not take sufficient actions to address concerns regarding the issues raised in audit report 2013. As a result, same shortcomings were repeated from year to year. Management should be more proactive in eliminating shortcomings identified.

Description

Our Audit Report on the 2013 AFS resulted in 17 key recommendations. CEC prepared an Action Plan for addressing recommendations but it did not apply any formal process to manage and monitor the way this plan is being implemented. From earlier given recommendations, six have been fully addressed, two are in process of being addressed, whilst nine most important recommendations have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Issue 3 – Poor addressing of Prior Year Audit Recommendations – High Priority

Finding	A large number of prior year recommendations have not been addressed because CEC has not implemented any formal process to manage and monitor the way that the AG's recommendations are implemented. As in previous year, the procurement with negotiated procedure without publication of contract with single operator continued to be applied. Additional remunerations to the staff were accompanied with irregularities.
Risk	Failure to implement the recommendations and continued weaknesses of management and other controls in key financial system indicates on-going organisational inefficiencies. This will result in repetition of similar problems, insufficient transparency and competition, poor value for money in procurement practices and possible financial loss.
Recommendation 3	CEC President should ensure that a revised action plan clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members identified and with initial focus on those of greatest significance.

4 Governance

Overall Conclusion

Key aspects of governance framework are addressed by CEC as follows:

- Self-assessment – has been made in compliance with FMS rules, serving as a starting point to improve performance as appropriate;
- Risk Management – CEC did not apply any formal procedure to identify, assess and manage operational risks at organisational level;
- Reporting to Management - was made on regular basis, where issues of the organisation's operation have been discussed; and
- Internal Audit System – Audit Committee (AC) was introduced in the beginning of 2015. The challenge is now to get it up running fully.

Financial Management and internal controls over a range of areas require further enhancement to prevent the possibilities for financial loss, poor value for money and ineffective project management.

Public Procurement, Contract Management, payments of additional remunerations and asset management are the main areas where most improvements are needed.

4.1 Good Governance

Description

CEC implemented a range of controls which include financial management and organisation of operational activities, which were not always effective. Despite the shortcomings noticed in aspect of financial and operational reporting, financial management and internal control, shortcomings were noticed in authorising and delegating responsibilities.

Issue 4 – Improper segregation of duties and responsibilities – Medium Priority

Finding Testing of internal control activities highlighted the following shortcomings when it comes to delegation of responsibilities and segregation of duties.

- Officials who prepared tender dossier specifications were appointed as contract managers, whilst receiving reports for Goods and Services from KFMIS were signed by other officials instead of an Officer certified for receiving; and
- Acting Head of the Division for Budget and Finance was authorised to certify payments, record and manage revenues and deposits. Following our interim audit advice, at the beginning of 2015, the Management addressed the issue raised.

Risk Improper authorisation and delegation of responsibilities may lead to conflicts of interest, failure to timely identify problems and not achieving the goals intended.

Recommendation 4 CEC President should review existing regulations for delegation of responsibilities and accountability. Conflicting duties and functions should be delegated in accordance with the practices, and regulatory requirements in force.

4.2 Budget Planning and Execution

Description

We have considered the sources of budgetary funds for CEC, 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 Execution	2013 Execution	2012 Execution
Sources of Funds	11,534,930	11,069,321	9,501,868	10,386,190	5,465,809
Government Grant -Budget	11,534,930	11,067,744	9,501,868	10,386,190	5,450,940
External Donations	-	1,577	0.00	-	14,869

The final budget compared with the initial budget was reduced by €465,609. Despite the Government's decision no. 07/172 for budget cuts of 15% for Goods and Services and Utilities, the budget surplus appears to be €1,567,452.

In 2014, CEC executed 86% of the final budget or €9,501,868, a reduction of 3% compared with 2013. Budget execution remains at an unsatisfactory level and 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	11,534,930	11,069,320	9,501,868	10,386,190	5,465,809
Wages and Salaries	582,937	746,669	719,517	625,591	567,492
Goods and Services	6,480,513	5,900,078	4,472,974	5,584,936	630,611
Utilities	61,980	54,283	41,460	32,924	17,023
Subsidies and Transfers	4,200,000	4,200,000	4,160,674	4,115,479	4,146,546
Capital Investments	209,500	168,290	107,242	27,260	104,137

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

Explanations on changes within the budget categories are given as follows:

- The final budget for Wages and Salaries increased by €163,732. Under a Government's decision, €113,000 was allocated for additional remunerations to staff covering early parliamentary elections, and €27,152 for extraordinary elections for Mayor in Gracanica. While €23,580 were allocated based on the Government's decision to increase salaries by 25%;
- Reducing expenditures due to shortened deadline for elections resulted in the budget of Goods and Services not being executed as planned. Based on the decision for savings of 15%, budget for Goods and Services was reduced to €972,077 and Utilities by €9,297. In order to meet the additional needs which appeared as a result of early parliamentary elections, budget for Goods and Services was increased to €390,065, whilst Utilities by €1,600. External donations amounted to €1,576 were allocated to this category; and
- Capital investment budget was reduced with €41,210, since it was not executed as planned.

Issue 5 - Annual budget execution - High Priority

Finding	CEC did not manage to execute 14% of the final budget. The annual budget is used below expected level. Despite budget cuts, it remained below expected level. The budget for capital investments was used only 64% although it was reduced to €41,210.
Risk	Failure to execute the budget as planned makes the implementation of organisation's annual plans difficult.
Recommendation 5	CEC President should ensure that a rigorous evaluation process precedes the budget plan fully reflecting all relevant information including the results of the previous year.

4.3 Revenues

Description

CEC put in place effective controls when it comes to managing revenues and deposits. Revenues relate to fees for registration of political parties, penalties against political parties and revenues for participation in elections. These revenues belong to the Budget of Kosovo.

Revenues and deposits were recorded in line with rules and legal requirements. They were classified and recorded in the respective economic codes, and regular reconciliations with MoF/Treasury were made. The payments were in accordance with the fees set. Annual revenues were €29,520, CEC also managed €4,400 of political parties deposits, with the possibility of returning to those political parties which have secured seats in the Assembly.

Recommendations

We have no recommendation in this area.

4.4 Expenditures

4.4.1 Procurement

Description

In 2014, CEC signed 56 public contracts. 19 contracts were entered into through negotiated procedure without publication of a contract notice with a single economic operator, nine contracts through open procedures, 13 contracts with price quotation and 15 contracts with minimum values.

There are several aspects of these processes on which the controls were not effectively applied. Procurement activities were not always carried through fully in compliance with the requirements and public procurement rules. In most cases, open procedures were avoided by applying the negotiated procedure without publication of a contract notice (NPPCN)².

Despite the fact that parliamentary elections were planned to be held within 2014, CEC had delays in commencing procurement procedures for supplies and services related to the electoral process. Such delays imposed using NPPCNs.

² Law on Public Procurement allows applying this type of procurement procedure only in exceptional and extraordinary circumstances. Participants in the NPP should be selected among eligible Economic Operators (EOs) and should be invited to participate by the Contracting Authority not having the intention to favour any economic operator

We audited 14 procurement procedures and 39 payments totalling €1,241,370. Our findings are disclosed in the following.

Issue 6 - Applying negotiated procedure without publication of a contract notice - High Priority

Finding CEC carried through 19 procurement activities using NPPCNs with single EO, with the total estimated amount of €1,361,305. Due to early parliamentary elections, CEC cancelled 13 procurement activities started with open procedures, to carry through the same afterwards using NPPCN with single EO. Among the cancelled procurements, were two procurements with estimated value of €471,038 for which tenders were already evaluated.

One of the cancelled activities, afterwards carried through using NPPCN relates to “Public Information for early parliamentary elections”. This procurement activity was cancelled although the bids were already evaluated by the Bid Evaluation Committee. Upon cancellation, CEC negotiated directly without publishing contract terms with a single EO who, in previous (cancelled) procurement activity offered the highest price, not taking into account other bidders who had bid lower prices. The contract signed using NPPCN was suspended for several days by the Procurement Review Body (PRB), after complaints filed by one of the bidders. CEC sent a different Tender dossier from the original dossier that was sent to other EOs. The tender dossier did not include the necessary documents part (page 32 and 33), exactly where requirements that had to be met by bidders. In absence of such information, EO/complainant was not aware that he should provide evidence for those claims, the reason why CEC eliminated him from the competition. The report of the expert review from PRB confirms that TD contained shortcomings which assesses that CEC violated the LPP and operational guidelines for Public Procurement. The report of the review expert highlighted that the contract was not signed by the chairperson of the Organization since the contract was of large values.

Risk Purchases through NPPCN, especially using negotiations with only single EO are not transparent and tends to eliminate fair competition. Applying this form of contract does not ensure that supplies and services are contracted at economical market prices.

Recommendation 6 CEC President should review why internal controls failed in this aspect and undertake immediate remedial action. Procurement activities should be planned to commence at the right time in order to avoid applying NPPCN. Even if circumstances justify the use of this procedure, CEC should have an active role in selecting participants and developing negotiations, not aiming at discriminating or acting on behalf of any EO.

Issue 7 - Shortcomings when preparing and evaluating tenders - High Priority

Finding

In two contracts, one for “Toner Supply” and the other for “Supply with Administrative Materials”, the tender dossier did not include estimated quantity³ of consumption/supplies during the contracted period, but price per unit was required. In the second contract, the tender dossier or the form of price description specified list of items to be supplied, the same type of product was included twice. The winner of the tender bided different prices for the same product (€2,40 and €1,70).

The following described example shows that it is necessary to include the estimated quantity in the list of supplies:

Case 1, when prices are bided per unit.

Products as per Tender Dossier	Quantity	Bidder 1	Bidder 2
		Price per unit in €	Price per unit in €
Product 1	1	1,50	2,10
Product 2	1	1,30	1,20
Product 3	1	2,00	1,70
Total		4,80	5,00

Case 2, when determining the estimated quantity of consumption/supply and it is multiplied with the price per unit.

Products as per Tender Dossier	Estimated consumption quantity	Bidder 1		Bidder 2	
		Price per unit	Total	Price per unit	Total
Product 1	10	1,50	15,00	2,10	21,00
Product 2	20	1,30	26,00	1,20	24,00
Product 3	70	2,00	140,00	1,70	119,00
Total		4,80	181,00	5,00	164,00

The explanation given above shows that in the first case, the bidder 1 had the lowest bid, but based on the expected quantity/consumption during the contracted period, the Bid 2 was much cheaper than the Bid 1. The same calculation was expected from the Evaluation Committee including procurement officers.

³ Determining the approximate amount does not oblige the Contracting Authority to necessarily execute the planned amount.

Risk Failure to meet the requirements arising from the relevant legislation may cause financial implications and therefore additional budget costs. Offering different prices for the same product leads to the risk that the product supplied is of higher price.

Recommendation 7 CEC President should ensure that existing controls in this area are reviewed. In case of applying framework contracts, to reflect estimated consumption or quantity expected to be delivered. Projected quantity should be calculated on the basis of known consumption adjusted for expected variations.

Issue 8 - Improper Management of Public Contracts - High Priority

Finding At the request of E O, MoF/Treasury executed two payments not paid cases by CEC. Cases are described below:

- The payment of €33,163 related to printing of election forms. CEC received supplies above the value specified by the contract. Seeing that supplies exceeded the total value of the contract, the invoice was not paid, although obligations to the supplier were created; and
- In another case, where we assessed that CEC rightly did not certify for payment, an expenditure in amount of €3,082. Later on, was certified by MoF/Treasury. The payment related to supply with food and beverages. CEC staff organised training for the electoral process in meeting rooms in the building of the former Germia, where buffet services were included. The contractor of buffet services had a contract with the Ministry of Public Administration (MPA), determining that the supplies/services of this contract will be used by all government institutions operating in that building. Despite this, CEC was charged with higher prices than those in the existing contract. The price under the contract for a type of food was €1, and €7 according to the bid. Because of these irregularities, CEC did not pay the obligation to the supplier, requiring fair prices in line with the specifications of the contracted price. EO submitted a request to MoF/Treasury, whereby the payment was executed.

Risk Such obligations are a burden to the budget. Receiving supplies and services above the value of the contract and without prior commitment of funds may bring uncertainty against potential liabilities and legal disputes which may result in penalties.

Recommendation 8 CEC President should ensure that contracts are met in line with specified terms. Contract Managers should ensure that the value and quantity of supplies or services does not exceed the contracted amounts.

Issue 9 - Systematic weaknesses in procurement - High Priority

Finding	Management controls have not operated effectively to prevent the following: • CEC signed six different contracts in the amount of €221,940 with the same EO who had outstanding debts to TAK. It is a legal requirement set forth in the Tender Dossier that before signing a contract, the successful bidder should prove that it has no tax obligations against public authorities, otherwise he loses the right to be awarded with the contract; • In the contract for the “Printing and Supply of Election Forms” after initial commitment was cancelled as a result of some mistakes, the next commitment of €87,792 was made with three months delay. In another case, for the supply of toners, €10,000 was committed while supplies amounted to €18,975, committing the rest of the funds afterwards. In three other cases, funds were committed after goods and invoice was received. Further on, there were times when purchase orders were prepared and signed after the invoice or goods and services were received; and • Contract Management Plans (CMPs) except being signed by the Contract Managers, were not updated and did not contain any information in terms of the progress of implementation and conclusion of contracts.
Risk	Failure to follow proper procurement procedures and relevant guidelines may result in potentially irregular payments and financial loss. Failure to apply adequate rules and procedures may adversely affect to the quality of supplies, not achieving value for money, and failure to meet the Organisation’s objectives.
Recommendation 9	CEC President should ensure that cases where procedures and controls are not applied effectively are subject to review. Appropriate actions and processes should be taken to ensure that such weaknesses are eliminated in the future.

Issue 10 - Non-Systematic Procurement Weaknesses – Medium Priority

Finding We identified that some management controls were not consistently applied in procurement and resulted in the following findings:

- Purchases of IT equipment in the amount of €45,252 were wrongly planned and classified as Capital Investments;
- Purchases for “Connectors for ballot boxes” were planned at €70,000, while the contract was signed in the amount of €12,000; and
- Although not executed, the final procurement plan included purchasing “Software for Administration” with estimated value of €65,000, despite the fact that this project was not approved within 2014 budget.

Risk Wrong classification of payments results in unfair presentation of the costs, whilst eventual implementation of an unapproved Project would be in contradiction with the law on budget.

Recommendation 10 CEC President should ensure that procedures and legal requirements are considered at all times starting from the needs planning process and commitment of funds up to monitoring of contract execution.

Issue 11 - Use of mobile telephone services without a contract - Medium Priority

Finding CEC had no public contract with an operator for mobile services. CEC still uses prepaid mobile phone services (scratch cards) based on amounts determined by AI⁴ no. 04/2008. Annual expenditures for mobile phones were €32,984.

Risk Using mobile phone services without a public contract does not ensure that the fees applied are competitive market prices for mobile phone services in the country. Given that market prices for mobile phone services continuously declined, and alternative communication possibilities enabled by new technology for mobile devices are in place, the use of prepaid mobile services is not justifiable.

Recommendation 11 CEC President should take appropriate actions that mobile services are handled in line with legal requirements and public procurement norms, thereby providing more economic and higher quality services.

⁴According to AI no. 04/2008 on the use of landline and mobile phones, Directors of Departments have €40 phone credit cards per month.

4.4.2 Non Procurement Expenditure

Description

Other expenditures are those which due to their nature do not require procurement procedures. From this group of expenditures, we tested landline telephony costs. Our tests results show that CEC failed to secure that the costs of landline telephony are within the limits allowed by the AI no. 04/2008, including internal policies of the organisation.

Issue 12 - Exceeding monthly costs of landline telephony - Medium Priority

Finding Landline telephony costs were above the monthly limits allowed. CEC did not maintain records or monthly reports for cases exceeding the expenses. According to a calculation made Finance Division, costs for May only for 14 phone numbers were €1,359. We found no evidence that overspending were justified by employees causing the overspending, nor the measures were undertaken by management to address this issue.

Risk Lack of internal controls in this aspect creates the possibility of using phones for unofficial purposes. Exceeding of expenses burdened CEC budget with additional expenditures.

Recommendation 12 CEC President should take concrete action to ensure that the relevant Instruction is implemented including internal CEC policies governing the handling cases of exceeding expenditures ceilings. In cases when they are unjustified, the possibility of reimbursement should be considered.

4.4.3 Remunerations (Wages and Salaries)

Description

According to the payroll, CEC at the end of the year had 83 employees from 88 as approved by the Law on Budget for 2014. Annual expenditures for Wages and Salaries were €719,517 from €746,668 available. Wages and Salaries are paid through a centralised system managed by the MPA.

In addition to regular salaries, CEC members and CECS staff have also received additional remunerations in the amount of €98,928, for their additional engagements during the central election process. In addition, in December 2014 the Government allocated €27,152 for additional remuneration to staff in conjunction with the extraordinary elections for Mayor of Gracanica held in January 2015. Since these funds were not allocated in 2014, they were transferred for use in January from 2015 budget. Additional remunerations for January were €19,284.

Audit subject in this field were salaries and additional remunerations, recruitment and personnel files. Weaknesses identified in the field of personnel management and remunerations indicate that monitoring and authorisation controls are inadequate and insufficient. Management's need attention should be drawn in improving the shortcomings.

Issue 13 – Additional remunerations not in accordance with legal requirements - High Priority

Finding The Management did not apply existing controls effectively in order to ensure that personnel and remunerations compensations are managed as required by law⁵ and regulations.

- Due to increased scope of work regarding early parliamentary elections, CEC decided to extend working hours for CEC Secretariat staff up to 19:00, not excluding weekend days from 09 to 17: 00. The decision did not to determine to what date these extended working hours will apply. All CEC Secretariat staff was reimbursed for May, June and July 2014. Additional remunerations were received by CEC members as well although their salaries are outside the civil servants salary system and that the budget law prohibits receiving such remunerations. The total value of the additional salaries was €98,928. Additional remuneration was calculated at 60% of basic salary, not according to the norms foreseen by the rules and provisions in force; and
- In two cases, there was no evidence for overtime engagement including weekends, while remunerations were executed. Additional remunerations of €162 received an employee who was on annual leave.

Risk Existing controls in this area do not assure that personnel and additional remunerations are managed in accordance with the rules and guidelines. Such payments had an impact on the budget of the organisation.

Recommendation 13 CEC President should initiate review of the internal controls in this aspect. Additional remunerations should be executed only after ensuring that all calculation procedures and activities undertaken are in accordance with the current legal framework.

⁵ Law no. 03-L-149 on Civil Service, stipulates that the total amount of overtime work cannot exceed four hours a day and in no case more than 20 hours per week and forty hours per month. Also, the Law no. 04/ L-233 for 2014 on Budget, stipulates that employees of independent institutions that have their salaries out of the Salary system of civil servants, cannot use the right to meals, other allowances and increase of salaries by Government decision

Issue 14 – Acting duty positions - High Priority

Finding Rule no. 06/2010 stipulates that an acting position cannot be appointed for more than three months. In CEC, six management positions were managed by acting since August 2013.

Risk Holding acting positions for more than three months is inconsistent with the current legal framework. This form of management does not ensure that the tasks are carried out with competence and responsibility.

Recommendation 14 CEC President should ensure that a sustainable solution is found which is in accordance with legal regulations on positions held by the acting officers.

Issue 15 - Special Service Agreements - High Priority

Finding CEC Secretariat engaged 218 employees with special service contracts for 2014 parliamentary elections process. The contracts covered the period from May to July 2014 whereas contracts were extended for 38 of them for August. This staff was engaged in administrative, financial, legal, logistics, personnel, translation, training purposes, etc. Apart from the organisation chart for temporary staff for 2013 local elections, we did not find any evidence to justify the need and number of additional staff, nor any authorisation or approval by the management for the number of non-permanent staff engaged. The selection of candidates was not transparent. Evidences or Management decisions on the way and procedure this staff was selected were missing.

Risk This reflects the lack of internal controls in this field. They could have engage unnecessary number of staff, which has a direct impact on the budget of the Organisation.

Recommendation 15 CEC President should ensure that employees with special services agreement are engaged based on a proper assessment of staffing needs for fulfilling additional duties.

4.4.4 Subsidies and Transfers

Description

Under the Budget Law for 2014, €4,200,000 were allocated in the category of subsidies. These funds dedicated as support to political parties. This fund is used to finance regular activities of political parties, the work of the parliamentary groups and pre-election and election activities. Fund are divided between political parties (PP) represented in the Assembly of Kosovo on the basis of the number of seats for that mandate.

The amount of €4,160,674 or 99% of the budget was spent for 2014. Payments were certified for each quarterly period, and only after the PPs have submitted banking report and financial report of the previous quarter to CEC regarding the use of funds from the fund.

According to the law on the financing of PPs, annual financial reports and campaign financial reports shall be audited by auditors selected by the Assembly of the Republic of Kosovo, through the Committee for Oversight of Public Finance through a public open invitation for applications. Auditors are selected in January of each year. Audit process for PPs annual financial reports should be completed at the latest by June 15 next year. PPs annual financial reports together with the audit report should be published by CEC on its official website by June 30 of the following year.

Annual Financial Statements and financial reports of the campaign were not audited, since public advertisement for selection of external auditors by the Assembly was cancelled due to the lack of eligible bids. In CEC official website only audited financial statements 2011 and 2012 are published.

Recommendations

We have no recommendation in this area.

4.5 Assets and Liabilities

4.5.1 Capital and Non Capital Assets

Description

Data on assets cannot yet be considered complete and accurate for net asset value available. Shortcomings were noticed in recording assets including depreciation of assets. Expected controls did not operate as intended in the management of official vehicles as well.

CEC did not timely address previous year recommendation for recording the Election Software (software for counting and results centre) in the treasury accounting records. Following our advice

during the interim audit, this software of €45,813 was recorded in the treasury accounting records, and not the investments made in the modifying that software.

Issue 16 - Improper Management of Assets - High Priority

Finding Additional investments in the software for CRC and K-Vote of €61,990 were not recorded in the KFMIS accounting records. Further on, assets recorded in e-assets system are not depreciated. Annual and accumulated depreciation were not calculated. As a result, total assets report was incomplete and inaccurate. Value of the assets was only known under the historical cost, but not in its net value. CEC did not design internal guidance for asset management.

Risk Lack of information in the accounting records and e-assets software hinders proper asset evaluation and management. Existing financial information does not meet the requirements of the accounting and financial reporting.

Recommendation 16 CEC President should ensure that all procedures and requirements set forth by MoF Regulation no. 02/2013 are applied in cases of asset recording and management. Such process should be completed timely before AFS 2015 are prepared.

Issue 17 - irregularities in using official vehicles - High Priority

Finding CEC possesses eleven official vehicles. Nine of them are used at any time (24 hours) by CEC members and two others by the staff. Besides an Internal Instruction which foresees that CEC members may use vehicles for official purposes at any time, we neither did find any proof or evidence when it comes to the use of these vehicles. Apart from the authorisation to one commission member for using the vehicle for official purposes throughout the year, we did not find any evidences/proofs for other commission members to use official vehicles for 24 hours.

The personnel administration used official vehicle both inside and outside the country without any request approved for use. Annual fuel costs were of €21,582.

Risk Lack of information on use of vehicles raises questions that the vehicles may be used for non-official purposes.

Recommendation 17 CEC President should ensure that the users of official vehicles follow and implement all procedures and requirements set forth by the legal provisions in force.

4.5.2 Handling of Debts

Description

According to AFS, the value of outstanding liabilities to suppliers at the end of 2014 was €19,334. Most of the debts relate to utilities. Obligations were not paid because most invoices were received in January 2015 for expenditures incurred in 2014. These liabilities are carried forward to be paid in 2015.

Issue 18 - Inadequate management and failure to report obligations - Medium Priority

Finding We concluded that in four cases the liabilities to suppliers a total of €176,063 were paid after the legal deadline was due. These debts were not reported as liabilities in the MoF/Treasury. FR no 02/2013 of MoF obliges BOs to report outstanding liabilities to Treasury on a monthly basis.

Risk Failure to timely pay the dues may bring uncertainty over liabilities. Lack of reporting does not allow MoF/Treasury and other stakeholders to have the correct information on the Organisation's financial obligations.

Recommendation 18 CEC President should secure that the obligations to suppliers are paid within 30 days when receiving invoices. If for whatever reasons, unpaid obligations remain, they should be reported to MoF/Treasury within monthly time limits.

4.6 Internal Audit System

Description

Internal Audit (IA) is a key part of the organization's internal control. We considered activities and scope of work for IA. In addition, we have reviewed the actions taken by management as a result of work performed by Internal Audit.

IA prepared a strategic plan and an annual audit plan. The audit plan was based on risk level for activities and processes which were part of audit. IA has fully completed the annual audit program, while the other 5⁶ planned audits and one upon management's request. The quality internal reports were quite good. Audit reports provided information to the Management on weaknesses identified and evaluations for operation and effectiveness of controls in place. IA also made an assessment of the implementation of the recommendations made earlier. According to assessments, some of the recommendations were not addressed. Units subject to audit did not prepare action plans to address the recommendations given by the IA.

Issue 19 - Delayed establishment of the Audit Committee - Medium Priority

Finding CEC did not establish an Audit Committee (AC) in 2014. AC was established in March of 2015. The presence of AC would contribute to good governance by reviewing the issues raised in internal audit reports.

Risk The risk of absence:

- Management is not provided with support in addressing the responsibilities for implementation of internal controls;
- Independence has not been provided to the Internal auditor from eventual intervention of managers whose operations are subject to audit; and
- Recommendations of internal audit and external audit are not handled properly.

Recommendation 19 CEC President should ensure that the Audit Committee operates and complies with legal obligations and responsibilities.

⁶ Audit focus were procurement management, budget and finance management, asset management, the electoral process and financing of political parties.

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.

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Annex II: Prior Year Recommendations

Audit Component	Recommendations given	Fully addressed recommendations	Partially addressed recommendations	Unaddressed Recommendations
2.2 AFS significant risks	Before executing payments of personnel for overtime, to secure sufficient evidence confirming that overtime is fully met			The same irregularities were repeated in this year as well
2.2 AFS significant risks	Software to be recorded in accounting register KFMIS		Software is recorded but not the later investments regarding this software	
3. Addressing recommendations	Implementation of the Action Plan to be reviewed by the Management on timely basis		Plan is partially implemented	
4.4.1 Public Procurement	Expenditures to be classified and recorded in line with approved chart of accounts.	The recommendation is addressed		
4.4.1 Public Procurement	Tender Evaluation Committees should properly evaluate bids following all s criteria specified in Tender Dossier			The recommendation is not addressed
4.4.1 Public Procurement	Consider carrying through procurement for mobile phone costs procedures in order to provide efficient services with favorable prices			The recommendation is not addressed

4.4.1 Public Procurement	Ensure that the negotiated procedures without publication of a contract notice are reduced as much as possible, and starting with procurement activities in time.			Negotiated procedure without publication of a contract notice with a single economic operator is being applied in 2014 as well
4.4.1 Public Procurement	The payment process should be fully carried out in compliance with the steps defined by the LPFMA and Treasury regulations.			The recommendation is not addressed
4.4.1	Only officials who do not create a conflict of interest with positions exercised by them should participate in the Bid Evaluation Committee.	The recommendation is addressed		
Public Procurement	To ensure that the report on public procurement is complete, including all procedures performed for the year.			The recommendation is not addressed
4.4.3 Remunerations	Before beginning any recruitment procedure, initial request is made by the concerned department, and that the same is approved by the competent officials	We did not notice same irregularities		
4.4.3 Remunerations	Recruitment procedures start on time, and duration of acting is no longer than three months.			Still, certain positions continue to be managed by the acting.
4.4.3 Remunerations	When recruiting staff, the process is objective and transparent, in order to hire quality staff for positions.	The recommendation is addressed		
4.4.3 Remunerations	Recruitment process of non-permanent staff is based on criteria determined by competition.			More shortcomings were noticed in this aspect.

4.5.1 Asset Management	To ensure that every asset used by the entity is recorded according to respective barcodes.	Assets are labelled with barcodes		
4.6 Internal Audit System	To establish Audit Committee	AC is not established in the year subject to audit. it is established in March 2015.		
4.7 Audit of AFS and expenditures for PP campaign	To have better cooperation with Political Parties with aim to address recommendation given by Auditors			AFS of Political Parties have not been audited