



**REPUBLIC OF KOSOVA**  
**OFFICE OF THE AUDITOR GENERAL**

**Document No: 24.15.1-2015-08**

**AUDIT REPORT**  
**ON THE FINANCIAL STATEMENTS OF THE NATIONAL AGENCY**  
**FOR PERSONAL DATA PROTECTION 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 National Agency for Personal Data Protection 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 Valbon Bytyqi, supported by Team Leader Shehrije Shala, and Team member Ajtene Llapashtica.

## TABLE OF CONTENTS

Executive Summary.....	4
1 Annual Financial Statements and other External Reporting Obligations .....	6
2 Governance.....	9
3 Financial Management and Control .....	14
Annex I Audit Approach and Methodology .....	23
Annex II Explanation of the different types of opinion applied by the OAG .....	24
Annex III Prior Year Recommendations .....	27

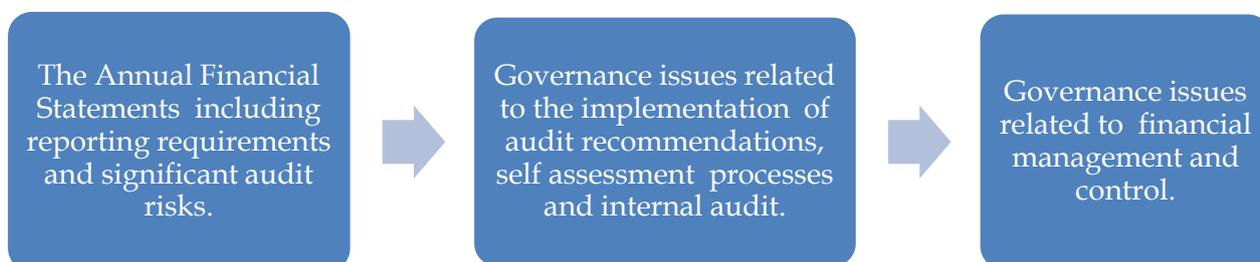
## Executive Summary

### Introduction

This report summarises the key findings from our audit of the 2015 Annual Financial Statements of the National Agency for Personal Data Protection, which determine the Opinion given by the Auditor General. We thank Chief National Supervisor 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 03.12.2015.

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:

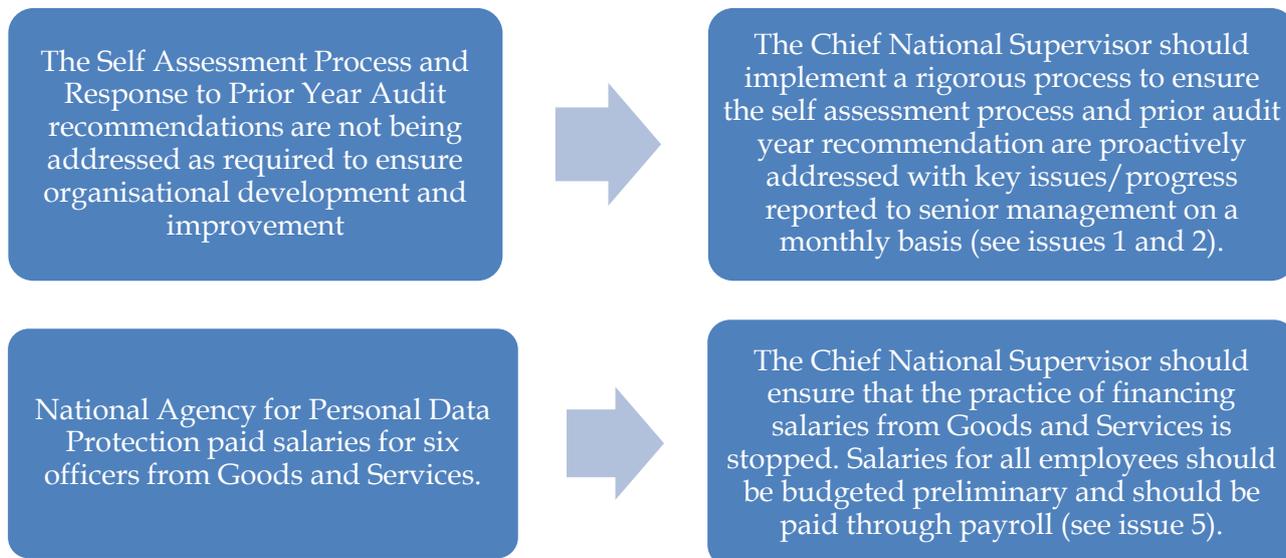
#### **Unmodified opinion**

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.

## Overall Conclusion

Our key conclusions and recommendations are:



## Chief National Supervisor's response – audit 2015

The Chief National Supervisor has taken into consideration and agreed on detailed audit findings and conclusions and committed to address the recommendations given.

# 1 Annual Financial Statements and other External Reporting Obligations

## 1.1 Introduction

Our review of the AFS of National Agency for Personal Data Protection (NAPDP) 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 Executive Officer (CEO) 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 AFS of NAPDP for the year ended on 31 December 2015, which comprise 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 NAPDP for the year ended on 31 December 2015 in compliance with International Public Sector Accounting Standards (Cash Based Accounting), Law no.03/L048 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 the audit in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the AFS section of our report. OAG is independent of NAPDP in accordance with the ethical requirements that are relevant to our audit of the financial statements of budget organisations in Kosovo and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The General Director of NAPDP 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).

The Chief National Supervisor is responsible to ensure oversight of Institution's financial reporting process.

## **Auditor's Responsibilities 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

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

- Compliance with Financial Regulation no. 03/2013;
- Requirements of LPFMA no. 03/ L-048, as amended and supplemented by Law no. 03/L-221, Law no. 04/L-116 and Law no. 04/L-194;
- Compliance with Financial Regulation no. 01/2013;
- Compliance with Financial Regulation no. 02/2013;
- Financial Management and Control (FMC) procedure requirements, and
- Action plan for addressing recommendations.

A number of financial adjustments were required to the draft AFS and we have also made a number of other suggestions to improve and to ensure completeness of the disclosures required as follows:

- In the receipts and payment statement in cash, budget allocation from the general fund (government grant) was wrongly presented in the value of €348,096, while the allocation of general fund was €337,167, a difference of €10,929. Same error followed afterwards also with the expenditure part according to the economic category; and
- In the statement of budget execution report, final budget was disclosed wrongly in the value of €360,633, while final budget was €350,950.

After our suggestions, NAPDP adjusted its AFS and final version was presented in accordance with MoF Regulation no. 03/2013 on AFS of Budget Organisations.

Given the above - the Declaration made by the CEO and CFO when the draft AFS are submitted to the Government can be considered to be correct and fair.

NAPDP reported in accordance with legal framework with the exception of obligations which are presented in detail in section 3.6.2., Handling of debts.

#### **Recommendation**

We have no recommendation related to AFS.

## 2 Governance

### 2.1 Introduction

Effective governance arrangements are fundamental to NAPDP successfully managing the challenges it faces and ensuring that service delivery is optimised for the benefit of taxpayers and 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; 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

Compared to previous year, NAPDP management made a number of adjustments in good governance arrangements. Our review of management controls applied in the key financial system highlighted a good financial reporting on expenditures.

However, a number of governance processes should be improved further, to support effective management of Institution’s activities. Only 1/3<sup>rd</sup> of recommendations given in previous year are implemented, whilst the other part are under the process of being addressed, or are not addressed yet.

There were also weaknesses in the identification and risk management, to identify potential obstacles along with the achievement of objectives. This reflects lack of accountability to senior management related to risk registers management and lack of knowledge within departments on their roles, in the provision of support to this process.

## 2.3 Prior Year Recommendations

Our Audit Report on the 2014 AFS of NAPDP resulted in six key recommendations. NAPDP prepared an Action Plan stating how all recommendations will be addressed.

At the end of our 2015 audit, two recommendations have been fully addressed; two are partially addressed; and two have not been addressed yet. For a more thorough description of the recommendations and how they are addressed, see Annex III.

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### Issue 1 - Low level of addressing recommendations - High Priority

**Finding** NAPDP Management drafted a plan for addressing recommendations, but they were not addressed in compliance with the action plan.

The unaddressed recommendations are related to delays in payment execution and payments for employees from the category of Goods and Services.

A challenge for NAPDP remains full addressing of recommendations, including recommendations which are under the process being addressed.

**Risk** Incomplete implementation of prior year recommendations has impacted on the appearance of the same weaknesses of management and other controls in key financial systems, with special focus on activities of management of personnel.

**Recommendation 1** The Chief National Supervisor should ensure that a revised action plan is implemented which clearly sets out a timetable for addressing the recommendations made by the AG with accountable staff members. Implementation of this plan should be reviewed on regular timely basis.

## 2.4 FMC Self-Assessment Checklist

The Ministry of Finance has 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 submissions made to the Ministry by assessing 1 key question in each component of the checklist.

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

NAPDP has met all general requirements set out in the self-assessment checklist determined by MoF, excluding the production of the operational risks list for 2015 (refer to section 2.5.1 Risk assessment).

## 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 NAPDP 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 Treasury Financial Regulation no. 01/2010 – Financial Management and Control requires risk assessment, risk identification and analysis of relevant risks to the achievement of objectives, forming the basis to determine how risks should be managed.

Risks management process increases the knowledge of personnel for contingency in order that they may impact on the achievement of objectives and provides a framework to discuss risks at all levels within the organisation.

## **Issue 2 – Failure to implement Risk Management Requirement - High Priority**

**Finding** NAPDP conducted the self-assessment according to FMC rules; however, it did not create formal and documented procedures for identification of potential obstacles along with the achievement of objectives.

This reflects lack of accountability to senior management related to risk registers management and lack of knowledge within departments on the roles in the provision of support to risk management process.

**Risk** Poor processes for identification of risks will reduce the effectiveness of financial management within Budget Organisation, resulting in weaknesses in the budget process and reduce the possibility for management to react to financial challenges on timely basis.

**Recommendation 2** The Chief National Supervisor should ensure that it has produced a plan for identification, assessment and avoidance of risks which may arise during the execution of strategic and annual objectives, and has named a person accountable for risk management for monthly reporting on the implementation of requirements in this area.

### **2.5.2 Management Reporting**

A range of internal controls are applied by Management to ensure that financial systems and operational activities operate as intended. Regarding the reporting issue, we noted that it is a good internal reporting system developed and an on-going monitoring.

Our review of management controls applied in the key financial systems of NAPDP highlighted a good financial reporting on expenditures and revenues and on the completed analysis on budget execution.

#### **Recommendation**

We have no recommendations in this area.

## 2.6 Internal Audit System

Based on requirements of Administrative Instruction no. 23/2009 on establishment and functioning of Internal Audit Unit in Public Sector, NAPDP is not required to establish this unit. However, in order to strengthen internal controls, NAPDP entered into a Memorandum of Understanding with the Ministry of Foreign Affairs (MFA) for support in the area of internal auditing.

Based on this Agreement, Internal Audit Unit (IAU) of MFA carried out an audit on: Functioning of Administration in NAPDP for the period June 2014 to June 2015.

Our assessment is that the report issued on this topic has provided the management with a clear overview on the level of efficiency and effectiveness of internal controls, and provided nine recommendations for further improvement. After the receipt of the report, management undertook measures and was under the process of addressing recommendations.

### **Recommendation**

We have no recommendations in this area.

## 3 Financial Management and Control

### 3.1 Introduction

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

### 3.2 Financial Management and Control Conclusion

In general, NAPDP has good controls compared to its statutory obligations. Financial Management and Control proved a relatively good process of review and assurance in implementation of legislation and other control processes.

Budget execution for 2015 was 99%, with almost same execution to that of 2014. Execution of public procurement procedures was done in accordance with rules set out for public procurement, excluding weaknesses in payment processing.

However, a number of weaknesses should be further improved, to support effective management of their activities. The current number of employees is higher than the number budgeted; therefore, a considerable part of salaries was covered from Goods and Services. In absence of the sufficient number, there were positions exercised by acting civil servants.

While from the viewpoint of lower significance, additional actions are needed in asset management (particularly vehicle management) and reporting of obligations.

### 3.3 Budget Planning and Execution

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

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

Description	Initial Budget	Final Budget <sup>1</sup>	2015 Outturn	2014 Outturn	2013 Outturn
<b>Sources of Funds</b>	<b>349,883</b>	<b>350,950</b>	<b>348,713</b>	<b>369,682</b>	<b>371,101</b>
Government Grant -Budget	349,883	338,754	337,167	369,682	361,811
External Donations	-	12,196	11,546	-	9,290

The final budget is higher than the initial budget by €1,066. This increase applied in line with Government decisions.

NAPDP used 99% of the final budget in 2015, with almost same execution to that of 2014. The expenditure trend among years is similar and highlighted a continued and consistent level of budget execution according to the cash flow plan. 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	2015 Outturn	2014 Outturn	2013 Outturn
<b>Spending of funds broken down by economic categories</b>	<b>349,883</b>	<b>350,949</b>	<b>348,712</b>	<b>369,682</b>	<b>371,101</b>
Wages and Salaries	212,183	208,358	208,358	183,567	159,772
Goods and Services	131,250	141,371	139,134	132,739	156,401
Utilities	6,450	1,220	1,220	3,486	11,569
Capital Investments	-	-	-	49,890	43,359

Explanations for changes in budget categories are given below:

- Final budget for Wages and Salaries was reduced by €3,825. Initially, upon the budget review, budget was reduced by €644, while as a result of the decision of the Minister of Finance for budget savings it was reduced by a further €3,181;
- Final budget for Goods and Services was increased by €10,121, as a result of receipt of donations; and
- Final budget for Utilities was reduced by €5,230 on the decision of the Minister of Finance for budget savings.

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

## 3.4 Procurement

Procurement rules 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 the rights, duties and responsibilities of all parties involved in procurement management. This includes the requirement to mitigate the risks related to delays in work execution, contract execution according to conditions foreseen, avoiding conflict of interest and achievement of value for money.

During the audit, we reviewed the purchase process through procurement to assess whether NAPDP implemented procedures and whether it complied with legal provisions of Law on Public Procurement.

Based on our samples, we concluded that NAPDP had good controls in management of procurement processes. Singing contracts was based on competition and complete transparency. However, we noted that the payment processing was not done in in compliance with Treasury rules.

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### Issue 3 - Processing purchase orders after the acceptance of the invoice - Medium Priority

**Finding** Article 22 of Financial Regulation no. 01/2013/ MoF, determines general procedures for processing payments. Initially, the request for purchase is made, purchase order, acceptance of report and the invoice. Out of 39 payments tested in the category of Goods and Services in NAPDP, in 23 of them, purchase orders were processed after the acceptance of invoices.

**Risk** Conducting payments for Goods and Services before requests/needs are determined by purchase order may result in Goods and Services accepted with unnecessary quantity and quality.

**Recommendation 3** The Chief National Supervisor should ensure that controls in payment execution process are being monitored constantly. The payment process should be in complete accordance with steps set out in LPFMA and Treasury rules.

#### **Issue 4 - Delays in payment execution - Medium Priority**

##### **Finding**

NAPDP did not manage to conduct payments within the legal timeline (Article 37, para. 1 of Financial Regulation no. 01/2013/MoF determines that all invoices received by Budget Organisation should be paid within 30 days).

Delays were found in 13 cases, however, for reporting issues we presented three invoices for mobile telephony services in which delays were more highlighted (invoices were received on 12 December 2014 in the value of €7,413, while they were paid on 24 April 2015 with about 86 days of delay).

CFO is responsible to create mechanisms which enable recording of invoices received and follow their processing for payment. But, NAPDP did not pay attention to this position. Ever since the institution's establishment this position has not been staffed.

##### **Risk**

Delays in payment execution increase the risk for additional payment of damages to EO. There is also a risk for failure of payment in the current year and to carry them forward as obligation in the subsequent year.

##### **Recommendation 4**

The Chief National Supervisor should ensure regular supervision of budget execution process in order that all invoices are paid within the legal timelines.

### 3.5 Expenditure not related to Procurement

In the category of other expenditures for which development of procurement procedures is not needed, we tested a number of payments, including expenditures for salaries paid from the category of Goods and Services. Based on this, we identified the following issue:

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#### Issue 5 – Payment of salaries from the budget for Goods and Services – High Priority

**Finding** According to Financial Regulation no. 01/2013/MoF Expenditures of public funds, in accordance with Article 33, Budget Organisations should ensure that all persons in employment relationship should be paid through the payroll.

NAPDP, on the decision of the Chief National Supervisor, paid six salaries of employees<sup>2</sup> from the budget for Goods and Salaries. The total value paid for 2015 was €12,063.

Payment from Goods and Salaries were made as a result of exceeding of the number of employees compared to the number budgeted. In addition, MPA/CCAD did not approve positions for additional employees according to NAPDP.

After our advices given in the interim audit stage, the NAPDP management stopped the payment of salaries (for three employees from MFA) from Goods and Services.

**Risk** Such payments cause incompliance with legal requirements, lead to incorrect reporting of expenditures according to economic categories, and cause additional costs for the services provided.

**Recommendation 5** The Chief National Supervisor should ensure that the practice of financing salaries from Goods and Services is stopped. Further, he should make attempts to include salaries for all employees in the budget of upcoming year, and their payment should be executed through the payroll.

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<sup>2</sup> Three MFA officers, according to the agreement reached for carrying out services, (procurement services, auditing and asset management), while on the decision of the Chief National Supervisor, there were three officers employed within the institution (two translators and one assistant).

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### 3.5.1 Remunerations (Wages and Salaries)

Expenditures for Wages and Salaries are paid through a centralised system. The key controls that operate at the NAPDP level deal with monthly control of payments, signing payroll, verification of potential changes, budget review for this category and Treasury reconciliations.

We tested the payroll and we compared the data presented by Treasury, KFMIS and their presentation in AFS. We also tested some samples, including personnel files, compliance of payments compared to employment contracts, determining the amount of Council's allowance and maintenance of personnel files.

NAPDP managed salaries in accordance with applicable legislation, with the exception of the issue presented as follows:

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#### **Issue 6 - Covering positions with the acting civil servants beyond the allowed period - Medium Priority**

**Finding** According to Law on Civil Service, in case a vacancy arises in the civil Service, the acting civil servant may be appointed in duration of three months.

The CFO position in NAPDP, ever since the institution's establishment, has been covered with the acting civil servant. From 17 April 2014 to 16 January 2016, the Acting civil servant for the CFO position is the personnel manager. While from this date, this position has been managed on three months rotation.

However, the Chief National Supervisor made an additional request for budget for a number of work positions, including the CFO position.

**Risk** The practice of covering key acting positions for a long time risks that positions are managed by persons not meeting necessary criteria. Further, payments which are not in accordance with legislation may be considered irregular.

**Recommendation 6** The Chief National Supervisor should ensure additional controls in management of recruitment procedures. Recruitment procedures should commence on timely basis, and the duration of the acting functions should not be longer than the period set out by legal requirements.

## 3.6 Assets and Liabilities

### 3.6.1 Capital and Non Capital Assets

Management of assets is an important part of Financial Management and Control in the public sector. This requires control and management procedures, which confirm the existence of assets and ensure updated data in accordance with new assets and other changes.

Net assets of NAPDP according to the accounting register were €117,585, while the assets in the value under €1,000 were €38,427.

Based on this, we identified the following issue:

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#### Issue 7 – Delays in recording assets in the accounting register – Medium Priority

**Finding** NAPDP did not conduct continued update of the accounting register. The purchase of the photocopy (Digital photocopy Canon IRC35) at the end of 2013 in the value of €3,584 was not recorded. However, after our audit (April 2016) management took immediate measures and recorded it in the accounting register. This value of assets was not included within AFS for 2015 although its value was immaterial.

While in absence of E-asset system, assets under €1,000 are kept in an Excel database. NAPDP made a number of requests with the Ministry of Public Administration (MPA) for installation of this system, but MPA took no steps in this matter. According to MoF Regulation no. 02/2013, non-capital assets and stocks should be recorded in “E-asset” system.

**Risk** Existing financial information may not meet the accounting requirements and financial reporting. This makes unable an effective management and control over assets.

**Recommendation 7** The Chief National Supervisor should ensure that controls in assets management are being monitored constantly. The assets registers should be regularly updated by officers responsible and at the end of the year, this register should be harmonised with the asset inventory register. Further, he should ensure that continued attempts are made (requests with MPA) for installation of the e-asset system.

## **Issue 8 - Inappropriate vehicle management - Medium Priority**

### **Finding**

NAPDP did not have adequate controls in vehicle management. It had no internal evidences related to fuel expenditures and about the kilometres covered for vehicles.

AI 03/2008 on Use of Government Vehicles, Article 11 stipulates the way of reporting by the official vehicle users. Also, decision no. 04/14 dated 24.07.2015, item 3, stipulates that the monthly payment of expenditures will not be processed without the submission of reports on kilometres covered/ dedication of use and fuelling.

In three samples, we found that officers responsible (Transport manager) did not keep reports on kilometres covered for vehicles and fuel expenditures. While in two other payments in the value of €781 and €808 on the contract "Supply with fuel for the needs of NAPDP", in absence of data of NAPDP, payments were based only on EO data related to fuel expenditures.

Failure to report by vehicle users related to kilometres covered and fuelling was due to the absence of evidences, as well as due to charging the officer responsible for transport management (Postilion of Transport manager was delegated as a secondary duty to the Archives officer).

### **Risk**

Lack of evidences required on management and use of vehicles constitutes a risk for the vehicles' irrational use. As a result, the cost of use of vehicles may be higher than the normal cost related to their management.

### **Recommendation 8**

The Chief National Supervisor should ensure that management of vehicles is done in compliance with Administrative Instruction requirements. All vehicle users should report regularly related to kilometres covered and fuel expenditures. Further, the Certification officer, before certifying cases for payment, should ensure that there are all supporting evidences in place.

### 3.6.2 Handling of Debts

The statement of liabilities not paid at the end of 2015 was €2,625.

We tested management and their reporting, based on this, we disclosed the following weaknesses:

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#### **Issue 9 – Irregular reporting of outstanding obligations - Medium Priority**

**Finding** NAPDP for 2015 did not report outstanding obligations in accordance with financial regulation no. 02/2013/MoF on Reporting outstanding obligations of Budget Organisations. Reporting was done only for two periods, including January and December 2015.

According to Finance officers, failure to report obligations comes as a result of lack of staff.

However, reporting of obligations in December, presented in AFS was complete.

**Risk** Failure to report obligations on timely basis to MoF constitutes non-adherence to legal liabilities on reporting, and creates uncertainties about the general financial situation of institution. Therefore, in absence of complete information on the level of outstanding obligations, inadequate and wrong financial decisions can be taken.

**Recommendation 9** The Chief National Supervisor should ensure that actions necessary are taken to improve the way of reporting the obligations, either through staff training or through other forms.

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

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## 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 Chief National Supervisor should ensure are taken to address identified management/control weaknesses.

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

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

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

Findings considered low priority were/will be 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 1705<sup>19</sup> 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	Recommendation fully addressed	Partly addressed	Not addressed
4.2.1 Procurement	The Chief National Supervisor should ensure that the Evaluation Commissions conduct a fair evaluation of bids by adhering to all the criteria set forth in the tender dossier.	Yes		
4.2.1 Procurement	The Chief National Supervisor should ensure sufficient expenditures management processes. Either the Agency could continue using procurement services of another public entity under a new contract or find other forms within the applicable legislation.	Yes		
4.2.1 Procurement	The Chief National Supervisor should ensure continuous monitoring on the budget execution process in order to have invoice paid within the deadline foreseen in the financial rules.			No measures taken. There were delays in 2015 in the payment execution.
4.2.2 Non procurement expenditures	The Chief National Supervisor should continuously monitor controls over salaries management in order to ensure that all employees considered as being in an employment relationship according to the financial regulation, are paid through the Payroll.			No measures taken. In 2015 too, a considerable amount of salaries were paid from Goods and Salaries.

4.2.3 Remunerations (Wages and Salaries)	The Chief National Supervisor should follow the actions undertaken to eliminate the mismatch between the payroll and Appointment Act until they are fully harmonised.		NAPDP has made requests with MPA to harmonise the titles between the Appointment Acts and payroll, however, MPA has still not made the above-mentioned harmonisations.	
4.3.1 Capita and non-capital assets	The Chief National Supervisor should ensure that all assets registries are updated with the accurate and complete information before the AFS are prepared. Further on, this register should be updated regularly with the latest information.		NAPDP took measures and recorded all vehicles in the accounting register, however, during the 2015 AFS audit; we found that one photocopy machine was not recorded.	