



REPUBLIC OF KOSOVA
OFFICE OF THE AUDITOR GENERAL

Document No: 24.29.1-2013-08

AUDIT REPORT
ON THE FINANCIAL STATEMENTS OF THE CIVIL AVIATION
AUTHORITY FOR THE YEAR ENDED 31 DECEMBER 2013

Prishtina, June 2014

The Office of the Auditor General undertakes both Regularity and Performance Audits. The Auditor General Lage Olofsson, 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 Auditor General has decided on the audit opinion and report on the Annual Financial Statements of Civil Aviation Authority 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 Enver Boqolli (Team Leader), and Arta Birinxhiku member.

TABLE OF CONTENTS

Executive Summary	4
1 Audit Scope and Methodology	6
2 Annual Financial Statements and other External Reporting Obligations	7
3 Prior Year Recommendations	9
4 Financial Management and Control.....	10
Annex I: Explanation of the different types of opinion applied by the OAG.....	17
Annex II: Prior Year Recommendations	20

Executive Summary

Introduction

This report summarises the key findings from our audit of the 2013 Annual Financial Statements - which determine the Opinion given by the Auditor General. I would like to thank Director General of Civil Aviation Authority and his team for their assistance during the audit process.

The examination of the 2013 Annual Financial Statements was undertaken in accordance with the internationally recognised Public Sector auditing standards issued by INTOSAI. 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 18 December 2013.

Our audit focus has been on:

- The compliance with the reporting framework and the significant risks to the Annual Financial Statements highlighted in the Audit Planning Memorandum;
- The response to our 2012 and earlier recommendations; and
- The Financial Management and Internal Control of Civil Aviation Authority (including budget execution and management).

The level of work undertaken by the Office of the Auditor General to complete the 2013 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:

<p>The Annual Financial Statements <i>present a true and fair view</i> in all material aspects (ISSAI 200 Unmodified Opinion).</p>

Overall Conclusion

Our overall conclusion based on the detailed sections of this report is that:

The Management of Civil Aviation Authority has designed a good system of internal control and financial management. Effective controls have provided for a budget management fully in accordance with proper financial management principles.

In terms of lower level significance, asset registration and reporting remains as a specific area for further improvement and development.

We have no issues with high priority to report in this section.

Management's response - 2013 audit

Management has agreed with our audit finding and has committed itself to address the recommendation given.

1 Audit Scope and Methodology

It is the responsibility of Civil Aviation Authority (CAA) 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 opinions on:

- 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 and the focus of our compliance audit.

The following sections provide a more detailed summary of our audit finding with emphasis on observations and recommendations in each area of review. An assessment of how the Management have addressed recommendations made in the report on 2012 may be found in Annex II.

For completeness we have included issues identified at the interim audit where they remain relevant. 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.

Our procedures included a review of the internal controls and accounting systems and procedures 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. Findings considered low priority will be reported separately to finance staff.

2 Annual Financial Statements and other External Reporting Obligations

Overall Conclusion

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 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.

CAA has managed to submit all reports required under the applicable legal framework in time. The AFS have met the requirements of International Public Sector Accounting Standards (IPSAS) for 'Financial Reporting under the Cash Basis for Accounting' and the Financial Rule 03/2013. They provided complete and accurate information on events and presented transactions.

2.1 Audit Opinion

Unmodified Opinion¹

In our opinion the Annual Financial Statements *present a true and fair view* in all material aspects (**ISSAI 200 Unmodified Opinion**).

¹ The term, "unmodified opinion" is equivalent to the term, "unqualified opinion" used in our previous year's reports. The new wording is in accordance with the new INTOSAI audit standards (ISSAI 200). For more information refer to Annex 1.

2.2 Compliance with AFS reporting requirements

Description

The AFS are required to comply with a specified reporting framework. We considered:

- Compliance with MoF Rule no. 03/2013 on AFS of budget organisations;
- Requirements of the Law no. 03/ L-048 on Public Finance Management and Accountability as amended and supplemented; and
- Requirements of Regulation 01/2013/MoF - Spending of Public Funds and MoF Regulation no. 02/2013 on Management of Non Financial Assets of Budget Organisations.

We have no issues to raise on these matters.

2.3 Compliance with other External Reporting Requirements

Description

CAA is required to address the following external reporting obligations other than producing AFS such as:

- Budget requests;
- Quarterly reports including nine month financial statements;
- Annual operational (performance) reports;
- Draft plan and final procurement plan;
- Reports on outstanding liabilities;
- Reports on internal controls, including the self-assessment report;
- Action plan for implementation of recommendations; and
- Asset stocktaking and recording.

All external reporting requirements have been met in time by CAA.

3 Prior Year Recommendations

Overall Conclusion

CAA has showed full readiness and addressed the recommendation given in the 2012 audit report. We encourage the management to undertake appropriate measures and actions to also address this year's recommendation.

Description

Our Audit Report on the 2012 AFS of CAA resulted in one key recommendation. CAA prepared an Action Plan stating how all recommendations will be addressed in time.

At the end of our 2013 AFS audit, we have found that CAA managed to fully address the recommendation given. For a more thorough description of the recommendations and how they are addressed, see Annex II.

Recommendations

We have no recommendations in this area.

4 Financial Management and Control

4.1 Overall Conclusion

Our audit approach is focused on understanding and evaluating the actions taken by management to secure effective financial management and control and the results thereof. 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.

The management of CAA has designed a good system of internal control and financial management. Effective controls have provided for a budget management fully in accordance with proper financial management principles.

In terms of lower level significance, asset registration and reporting remains as a specific area for further improvement and development.

4.2 Budget Planning and Execution

Description

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

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

Description	Initial Budget	Final Budget	2013 Outturn	2012 Outturn	2011 Outturn
Sources of Funds	782,881	782,881	729,460	731,568	715,316
Government Grant - Budget	782,881	782,881	729,460	731,568	0
Own Source Revenues	0	0	0	0	715,316

The table shows that CAA had no changes between the initial and the final budget.

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

Description	Initial Budget	Final Budget ²	2013 Outturn	2012 Outturn	2011 Outturn
Spending of funds broken down by economic categories	782,881	782,881	729,460	731,568	715,316
Wages and Salaries	492,508	492,508	459,035	379,386	385,747
Goods and Services	274,330	274,330	258,700	339,108	314,133
Utilities	16,043	16,043	11,725	13,074	15,436

During 2013, CAA used 93% of the final budget. Good budget execution is also noted by economic categories, with the exception of utilities (73%).

The trend of expenditures over years has been similar and has highlighted a continued and consistent level of budget execution according to cash flow plan.

Table 3. Revenues collected for the Kosova Budget - outturn against the budget (in €)

Description	Initial Budget	Final Budget	2013 Receipts	2012 Receipts	2011 Receipts
Revenues from passenger safety fees			1,634,706	1,489,450	1,286,414
Revenues from licences/certificates fees			21,835	8,700	2.900
Total	1,300,000	1,300,000	1,656,541	1,498,150	1,289,314

In total, revenues generated by CAA during 2013 were €1,565,541. Compared to the planning, revenues were approximately 22% higher, while compared to 2012 revenues increased with about 11%.

Recommendations

We have no recommendations in this area.

² Final budget - the budget approved by the assembly which was subsequently adjusted for by the Ministry of Finance.

4.3 Revenues

Description

CAA has a range of controls in the collection and revenue reporting of revenues, including their presentation in AFS.

During 2013, CAA collected €1,656,541, exceeding the plan by about 22%. All revenues have been allocated into the Kosovo budget.

Source of revenues generated from passenger safety fees, and from the issuance of licenses and certificates. The passenger safety fee for those travelling with commercial flights from Kosovo is defined by Regulation 07/2008, whilst the issuance of licenses/certificate fee is determined by regulation 07/2011.

Recommendations

We have no recommendations in this area.

4.4 Expenditures

4.4.1 Procurement

Description

During 2013, CAA signed 16 contracts in the amount of €24,675. Out of these, we tested six contracts including high value contracts, (45% of the total value of contracts).

We reviewed the process of purchases through procurement in order to evaluate whether expenditures have been executed in compliance with requirements of provisions of Law on Public Procurement (LPP).

We conclude that procurement processes have been managed in compliance with LPP requirements.

Recommendation

We have no recommendations in this area.

4.4.2 Non Procurement Expenditure

Description

We have tested some samples in the category of other expenditures for which there is no need to conduct procurement procedures. This includes advances for trips abroad, telephony expenses, other contracting expenses and expenses spent from petty cash. We found that the payments tested were processed in compliance with legal requirements.

Recommendation

We have no recommendations in this area.

4.4.3 Remunerations (Wages and Salaries)

Description

Expenditures for Wages and Salaries for 2103 were in the amount of €459,035.

In order to cover the audit of this category, we have reviewed payroll lists and compared the records given by the Treasury, KFMIS and their presentation in AFS. We have also tested samples, including personnel records and recruitment procedures made during 2013. We have found that CAA has put in place good control systems over the area of remunerations.

Recommendations

We have no recommendations in this area.

4.5 Assets and Liabilities

4.5.1 Capital and Non Capital Assets

Description

According to the accounting register, the value of CAA's capital assets over €1,000 is €10,469, whilst the non-capital asset under €1,000 are €45,282.

We have reviewed whether the assets registration and recordkeeping processes was in compliance with the requirements of MoF Regulation no. 02/2013 on the Management of Non Financial Assets of Budget Organisations. We also verified whether the assets recorded in the asset register were physically present.

The inventory owned by CAA is tagged with relevant barcodes, thus making each officer responsible for the inventory in their use. The stocktaking of assets was completed at the end of the year. We have found that CAA has managed its own assets in accordance with best management practices and applicable legal framework, with the exception to the issue identified as follows.

Issue 1 - Registration of assets under €1,000 was overstated - Medium Priority

Finding The accounting asset register was complete and contained all assets over €1,000; however, the asset register (E-asset) which contains assets under €1,000 was not accurate. It contained assets over €1,000 other than assets under €1,000. Therefore, this register was overstated by €10,469.

Risk The double registration of assets in the amount of €10,469 has led to overstatement of the register of assets under €1,000.

Recommendation 1 The Director General of CAA should ensure that the asset register (E-asset) is updated and that assets over €1,000 are thereof removed.

4.5.2 Handling of Receivables

Description

The CAA's receivables presented in AFS are €102,174. These relate to the memorandum entered into between CAA and the Company "Limak Kosova" according to which funds are transferred in the account of CAA, 45 days following the end of each month.

Recommendations

We have no recommendations in this area.

4.5.3 Handling of Debts

Description

During 2013, CAA reported the outstanding liabilities in accordance with requirements of Financial Regulation no. 02/2013/MoF on Reporting of Outstanding Liabilities of Budget Organisations and MoF Regulation - no. 03/2013 on AFS of Budget Organisations.

The statement of outstanding liabilities of CAA to suppliers at the end of 2013 was €1,358. These liabilities are carried forward to be paid in 2014.

We also reviewed whether the outstanding liabilities at the end of 2013 are paid at the beginning of 2014. We found that these liabilities have been paid at the beginning of this year.

Recommendations

We have no recommendations in this area.

4.6 Internal Audit System

Description

CAA does not meet the criteria for establishing the Internal Audit Unit (IAU) according to Administrative Instruction no. 23/2009. However, the said Instruction regulates cases when organisations do not meet criteria for internal audit and provides other ways for the provision of these services.

The management of CAA has raised this issue with Committee for the Oversight of Public Finances. The committee has concluded that internal audit for budget organisations which do not meet criteria for the establishment of IAU should be carried out by the Internal Audit Department within MoF.

Following the request of CAA, IAU department within MoF conducted one internal audit in CAA during 2013 relating to the functioning of CAA Administration for 2012 and the first half of 2013. The IA has concluded that this report is that CAA has operational and effective internal controls in place.

Recommendations

We have no recommendations in this area.

Annex I: Explanation of the different types of opinion applied by the OAG

(extract from ISSAI 200)

Form of opinion

147. The auditor should express **an unmodified opinion** if it is concluded that the financial statements are prepared, in all material respects, in accordance with the applicable financial framework.

If the auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement, the auditor should modify the opinion in the auditor's report in accordance with the section on "Determining the type of modification to the auditor's opinion".

148. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor should discuss the matter with the management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, determine whether it is necessary to modify the audit opinion.

Modifications to the opinion in the auditor's report

151. The auditor should modify the opinion in the auditor's report if it is concluded that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement, or if the auditor was unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. Auditors may issue three types of modified opinions: a qualified opinion, an adverse opinion and a disclaimer of opinion.

Determining the type of modification to the auditor's opinion

152. The decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification – that is, whether the financial statements are materially misstated or, in the event that it was impossible to obtain sufficient appropriate audit evidence, may be materially misstated; and
- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

153. The auditor should express a **qualified opinion if**: (1) having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or (2) the auditor was unable to obtain sufficient appropriate audit evidence on which to base an opinion, but concludes that the effects on the financial statements of any undetected misstatements could be material but not pervasive.

154. The auditor should express an **adverse opinion if**, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

155. The auditor should **disclaim an opinion if**, having been unable to obtain sufficient appropriate audit evidence on which to base the opinion, the auditor concludes that the effects on the financial statements of any undetected misstatements could be both material and pervasive. If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the audit scope that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor should request that management remove the limitation.

156. If expressing a modified audit opinion, the auditor should also modify the heading to correspond with the type of opinion expressed. ISSAI 1705¹⁹ provides additional guidance on the specific language to use when expressing a modified opinion and describing the auditor's responsibility. It also includes illustrative examples of reports.

Emphasis of Matter paragraphs and Other Matters paragraphs in the auditor's report

157. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that is of such importance that it is fundamental to their understanding of the financial statements, but there is sufficient appropriate evidence that the matter is not materially misstated in the financial statements, the auditor should include an Emphasis of Matter paragraph in the auditor's report. Emphasis of Matter paragraphs should only refer to information presented or disclosed in the financial statements.

158. An Emphasis of Matter paragraph should:

- be included immediately after the opinion;
- use the Heading "Emphasis of Matter" or another appropriate heading;
- include a clear reference to the matter being emphasised and indicate where the relevant disclosures that fully describe the matter can be found in the financial statements; and
- indicate that the auditor's opinion is not modified in respect of the matter emphasised.

159. If the auditor considers it necessary to communicate a matter, other than those that are presented or disclosed in the financial statements, which, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, and provided this is not prohibited by law or regulation, this should be done in a paragraph with the heading "Other Matter," or another appropriate heading. This paragraph should appear immediately after the opinion and any Emphasis of Matter paragraph

Annex II: Prior Year Recommendations

Audit Component	Recommendation given	Recommendation fully addressed	Partly addressed	Not addressed
5. Internal audit system	The CAA should consider extending the role of the quality manager in reviewing internal controls related to financial systems to ensure that management receive ongoing assurance related to the effective operation of these.	Yes		