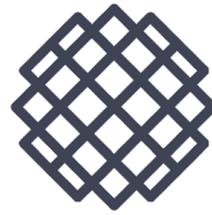




Republika e Kosovës  
Republika Kosova  
Republic of Kosovo



Zyra Kombëtare e Auditimit  
Nacionalna Kancelarija Revizije  
National Audit Office

**Document No: 23.6a.1-2017-08**

**AUDIT REPORT**  
**ON THE ANNUAL FINANCIAL STATEMENTS OF GJAKOVA**  
**AIRPORT J.S.C FOR**  
**THE YEAR ENDED 31 DECEMBER 2017**

**Prishtina, June 2018**

The National Audit Office 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 National Audit Office undertakes regularity and performance audits and is accountable to the Assembly of Kosovo.

Our Mission is through quality audits strengthen accountability in public administration for an effective, efficient and economic use of national resources.

We perform audits in line with internationally recognized public sector auditing standards and good European practices.

The reports of the National Audit Office directly promote accountability of public institutions 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 on the Annual Financial Statements of the Central Publicly Owned Enterprise Gjakova Airport J.S.C in consultation with the Assistant Auditor General, *Vlora Spanca*, who supervised the audit.

The report issued is a result of the audit carried out by Team Leader *Bahri Statovci* and team member *Valbona Pllana* under the management of the Head of Audit Department *Enver Boqolli*.

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## Executive Summary

### Introduction

This report summarises the key issues arising from our audit of the 2017 Annual Financial Statements of Central Publicly Owned Enterprise Gjakova Airport J.S.C which determines the Opinion given by the Auditor General. The examination of the 2017 financial statements was undertaken in accordance with the International Standards on Supreme Audit Institutions (ISSAIs). Our approach included such tests and procedures as we deemed necessary to arrive at an opinion on the financial statements. The applied audit approach is set out in our External Audit Plan dated 13.09.2017.

Our audit focus has been on:



The level of work undertaken by the National Audit Office to complete the 2017 audit is a is determined depending of the quality of internal controls implemented by the Management of the Gjakova Airport.

The National Audit Office acknowledges Senior Management and Staff of Gjakova Airport for cooperation during the audit process.

### Opinion of the Auditor General

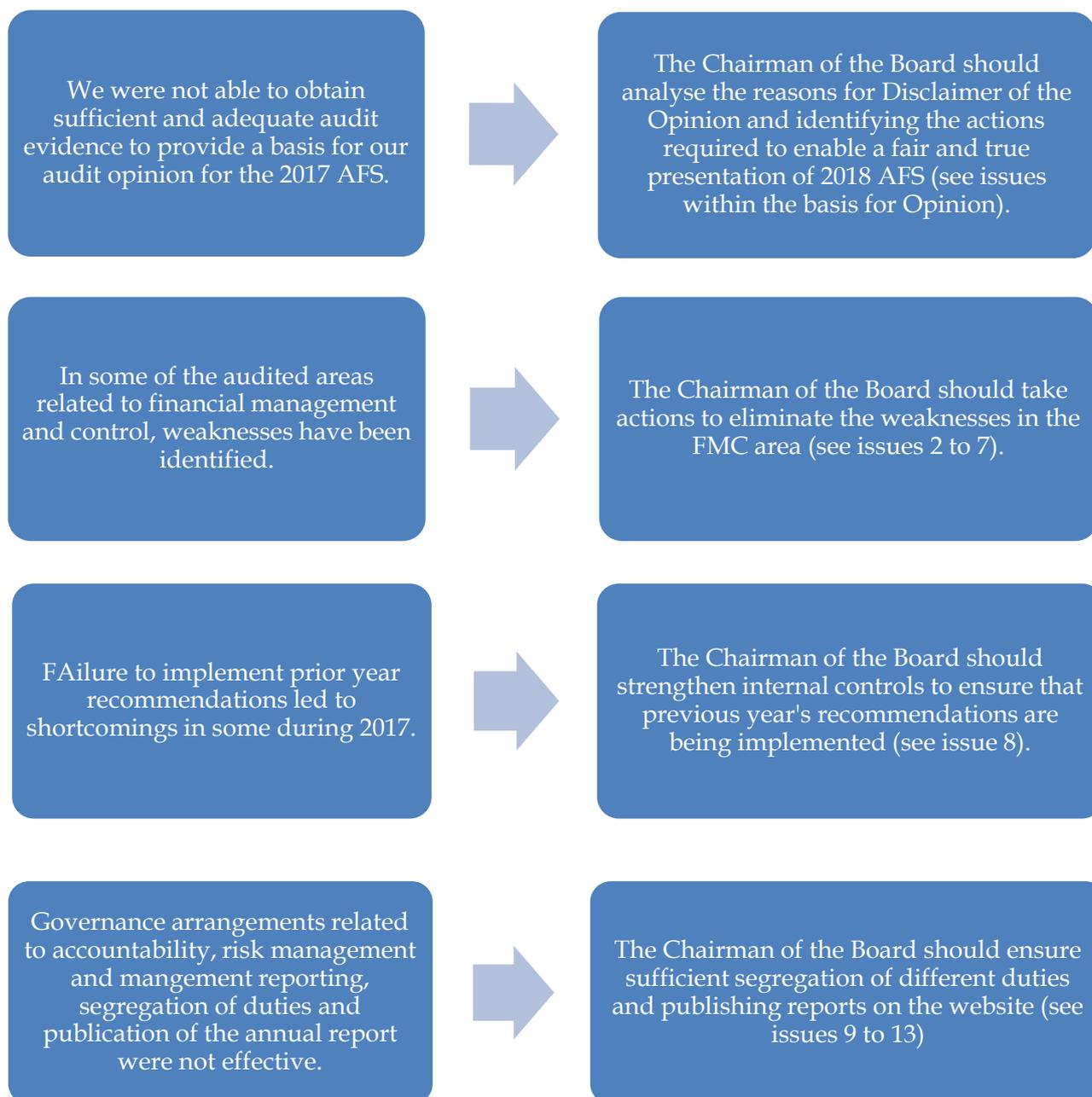
#### Disclaimer of Opinion

Due to the lack of sufficient and adequate audit evidence we were not able to give an opinion on 2017 AFS.

For more, please refer to Section 1.2 of this report.

Annex I explains the different types of Opinions applied by the National Audit Office.

## Key Conclusions and Recommendations



The Chief Executive Officer agreed with the audit findings and conclusions, and committed to address all given recommendations.

# 1 Audit Scope and Methodology

## Introduction

The National Audit (NAO) is responsible for carrying out a Regularity Audit which involves the examination and evaluation of Financial Statements and other financial records and expression of opinions on:

- Whether the financial statements 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.

Audit work undertaken reflected our audit risk assessment for Gjakova Airport (hereinafter: Airport). We have analysed the Publicly Owned Enterprise's business to 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 (AG's) opinion.

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

Our procedures included a review of the internal controls, accounting systems and related substantive tests and related governance arrangements 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

### Introduction

Our audit of the Annual Financial Statements (AFS) considers both compliance with the reporting framework and the quality and accuracy of information recorded in the AFS. AFSs have been prepared and signed by the Chief Financial Officer and Treasury (CFOT) and the Chief Executive Officer (VEO) and submitted for approval to the Board of Directors (BoD).

The approval of the AFS incorporates a number of assertions relating to compliance with the reporting framework and the quality of information within the AFS. These assertions are intended to provide the Shareholder and wider public with the assurance that all relevant information has been provided to ensure that an audit process can be undertaken.

### 2.1 Audit Opinion

#### Disclaimer of Opinion

We were engaged to audit the annual financial statements of the Gjakova Airport for the year ended on 31<sup>st</sup> of December 2017 which comprise the Balance Sheet, Statement of Incomes, Cash Flow Statement, Statement of Changes in Equity and the Explanatory Notes.

Due to the significance of issues described in the paragraph for the Basis for Disclaimer of Opinion, we have not been able to obtain the required audit evidence to create the basis for an audit opinion. Therefore, we will not express an opinion on the annual financial statements.

#### Basis for Disclaimer of Opinion

We were not able to express an opinion for the following reason:

- Airport on the statement of financial position in the “buildings” items presented the value of €8,241,374, while in the analytics of this item there is a list of 405 items, out of which 118 are presented without a value. There was no depreciation plan for these assets. Further on, heavy machinery and vehicles in this item were incorrectly included and consequently the depreciation rates were not used as defined by company policies (for heavy machinery and heavy equipment by 10% and vehicles by 20%), but all depreciated were at the rate of 5%. This caused the overstatement of the “buildings” item and the understatement of the “heavy machinery and equipment” item, as well as the understatement of depreciation and grants revenues. We were not able to classify and measure these assets which we would have to depreciate by 10% or 20% to measure misstatement effect.

- Due to the lack of adequate evidence to confirm the value of the item of buildings at fair value in relation to all other items in the AFS, we are unable to give an opinion on these financial statements.

### **Key Audit Matters**

The Airport still does not generate revenues from its own activity, but all revenues come from the shareholder (Government of Kosovo) in the form of subsidy that covers its own expenses. Further on, the Airport has 146 hectares of land (104 hectares of public property and 42 hectares of private property) which it has been in use and managed since its establishment, respectively from 18.12.2013 when it was handed over by Italian KFOR to the Government of Kosovo. However, now there are some land claimants and therefore the Airport requested from the shareholder to start a expropriation process for these cases. The Airport for these concerns is awaiting a response from the shareholder (Government of Kosovo).

### **Other Issues**

The Enterprise's annual financial statements for the year ended 31<sup>st</sup> of December 2016 have been audited by a private audit firm that has refused to give an opinion because the company did not prepare financial statements in accordance with the international financial reporting standard for the entity's small and medium sized companies published by the International Accounting Standards Board. The evidence was led on an Excel basis and no double registrations were made.

### **Responsibility of the Management and Persons Charged with Governance for AFS**

The Chairman of the Enterprise's Board is responsible for the preparation and fair presentation of financial statements in accordance with International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and Laws of Kosovo, under the accrual 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 no. 03/L-048 on Public Financial Management and Accountability (as amended and supplemented) and Law no.04/L-087 on Publicly Owned Enterprises (as amended and supplemented).

The Chairman of the Board is responsible to ensure oversight of the Enterprise's financial reporting process.

### **Auditor General's Responsibility for the Audit of the AFS**

Our objectives were to obtain reasonable assurance on whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error and give an audit opinion. However, due to the significance of issues described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain the required audit evidence to formulate proper basis for an opinion.

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## 2.2 Compliance with AFS and other reporting requirements

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

- Requirements of Law no.03/L-048 on Public Financial Management and Accountability (as amended and supplemented);
- Requirements of the Law no.02/L-123 on Business Organisations;
- Requirements of the Law no.04/L-087 on Publicly Owned Enterprises (as amended and supplemented);
- Requirements of the Law no.04/L-104 on Accounting, Financial Reporting and Auditing;
- Requirements of the Law on Public Procurement (as amended and supplemented);
- Requirements of the Instruction no.2/2013/MF on the Structure and Content of Annual Financial Reports
- POEs are also required to prepare the following reports:
  - POE Charter;
  - Business Plan;
  - Quarterly reports;
  - Annual reports;
  - Consumer satisfaction Report; and
  - Draft plan and final procurement plan in time.

The draft AFS required some financial adjustments in the balance sheet, cash flow statement and explanatory notes which were accompanied by material errors. Despite our suggestions to undertake the required actions, the Airport made some adjustments. As a result we have identified the findings that we have presented within the Basis for Opinion.

Taking into account the above, AFS prepared by the CEO and CFOT cannot be considered as accurate because material errors have been identified during the audit.

In the context of other external reporting requirements, we identified non-compliance as follows:

According to Article 31 of Law no. 03/L-087 on Publicly Owned Enterprises- annual report and quarterly reports within 30 days after receiving the annual report and quarterly reports, the BoD will review the change and as it sees reasonable to approve; and

The reports of the last two quarters of 2017 of the Airport and the Annual Report 2017 were compiled and submitted within timeframes by the Airport Management to the Publicly Owned Enterprise Monitoring Unit not approved by the BoD. This is because four members of the BoD were dismissed

by the decision dated 29.09.2017 and (until 30.05.2018 the completion of the audit) the BoD was not completed yet.

## 2.3 Recommendations related to Annual Financial Statements

**Recommendation 1** The Chairman of the Board should ensure that a comprehensive analysis is undertaken to determine the causes of the Disclaimer of audit opinion and all actions are undertaken that issues which have affected these are adjusted and not repeated.

Further on, the Chairman of the Board should ensure that effective processes are in place to confirm that the 2018 AFS production plan formally addresses all compliance related issues, quarterly reports, annual reports. This includes Management review of the draft AFS with specific focus on high risk areas and areas where errors have been identified in previous years. The Statements should not be signed by the CEO and CFOT unless all necessary checks have been applied before the same are submitted to the BoD.

## 3 Financial Management and Control

### Introduction

Our work related to Financial Management and Control (FMC) reflects the detailed audit activities undertaken on Revenue and Expenditure Systems within POEs. Specifically, the focus of the audit was management of receiving subsidies, expenses, assets and liabilities.

### Financial Management and Control Conclusion

Controls over the overall management of the Airport were inadequate and need to be improved. Lack of strategy as an effective system of internal control results in ineffectiveness of the operational and financial plan of the Airport and causes delays in its functioning. Failure to set timeframes in the business plan for executing business and financial goals and failure to review the business plan when it is needed increases the risk that these goals are not actually met in the relevant period.

Furthermore, the Airport did not issue regulations for asset management and preservation of assets from loss and damage. Consequently, thefts and damages of the assets owned by the Airport had taken place. This was due to insufficient internal control measures in the preservation and securing airport assets. Further on, keeping records of assets in Excel spreadsheets increases the risk of losing assets records and unauthorised interventions by risking their assets and value.

Employment recruitment processes also need to be improved. The recruitment committee established not in accordance with the Administrative Instruction and continuing with recruitment process without meeting the criteria of the advertisement for having at least three candidates risks hiring employees who are not competent for that job position.

### 3.1 Business Plan (Revenues and Expenditures)

We have considered the sources of revenues and expenditures planned with the annual business plan for the Airport according to the respective categories.. This is highlighted in the following tables:

**Table 1. Table on Revenues and Expenditure according to annual plan for 2017 (in €)**

Description	Initial Planning 2017	Final Plan 2017	Outturn 2017	Outturn 2016
Revenues from subsidies	653,068	653,068	175,288	201,423
Revenues from Grants	-	-	504,532	504,465
Extraordinary Revenues	-	-	542	-
<b>Total Revenues</b>	<b>653,068</b>	<b>653,068</b>	<b>680,362</b>	<b>705,888</b>
Expenditures for wages and salaries and contributions	261,768	261,768	126,871	124,358
Depreciation costs	-	-	504,465	506,536
Other operating costs	391,300	391,300	49,026	74,994
<b>Total expenditures</b>	<b>653,068</b>	<b>653,068</b>	<b>680,362</b>	<b>705,888</b>

Planning and execution of revenues and expenditures were as follows:

- The enterprise planned to receive the budget in the amount of €653,068 from the shareholder, while only €200,000 had been allocated as a subsidy for covering all expenditures for 2017, besides the enterprise had €69,424 were carried forward from the previous year. These differences were due to the lack of allocation of funds planned by the shareholder;
- For wages and salaries, including pension contributions, €126,871 was spent against €261,768 planned, or around 48%;
- Other operating expenses for the current year were executed in the amount of €49,026 from €391,300 planned or only 12%; and
- Depreciation expenses amounted to €504,465 relating to assets received as donations, which are recognized as income from grants at the time of their depreciation.

## Issue 2 – Failure to draft the enterprise’s strategy

**Finding** According to Article 14.2.2. of the Airport Charter, BoD is responsible for preparing, defining and approving the Enterprise’s long-term strategy and at least every three months to review it.

The Airport did not draft a strategy that would provide support for the operational planning process and would facilitate monitoring towards achieving the intended outcome. Failure to define the activity for the functionality of the Airport, the lack of funds and proper expertise of the activity have affected delays in starting the compilation of the strategic plan.

**Risk** Failure to draft the strategy as an effective system of internal control affects the effectiveness of the Airport’s operational and financial plan and causes delays in its functionality.

**Recommendation 2** The Chairman of the Board should ensure that actions are taken for drafting and adoption of the Enterprise’s Strategy and follow up strategic objectives and their implementation.

## 3.2 Statement of Financial Position (Balance Sheet)

We have audited the Balance Sheet by testing the account balances as well as the transactions occurring during the year within these accounts. In addition to examining the accounting balance of accounts, we have also addressed aspects of compliance with laws and regulations and we have provided the following recommendations.

**Table 2: Statement of Financial Position of Gjakova Airport on 31<sup>st</sup> of December 2017 in €**

<b>Assets</b>	<b>2017</b>	<b>2016</b>	<b>Liabilities and Equity</b>	<b>2017</b>	<b>2016</b>
<b>Cash in the bank and cash register</b>	63,556	69,545	Trade payable accounts	4,028	-
Stocks	437,711	417,590	Tax obligations	1,540	1,715
Prepayments	19,858	12,034	Payments	(22)	-
Land	-	-	Long-term liabilities	8,798,729	9,303,262
Buildings	8,241,374	8,699,228	Deferred revenue from subsidies	79,577	54,865
Equipment	145,929	186,445	Charter capital	25,000	25,000
Ongoing investment	424	-	Reserve capital	-	-
<b>Total assets</b>	<b>8,908,852</b>	<b>9,384,842</b>	<b>Total liabilities and equity</b>	<b>8,908,852</b>	<b>9,384,842</b>

## Recommendations

We have no recommendations in this area.

### 3.3 Statement of Income and Expenditures

Airport has all types of revenues it has generated during the year, expenses, and financial outcome presented in the following statement.

**Table 3: Statement of Income and Expenditures as of 31<sup>st</sup> of December 2017**

Description	2017	2016
Revenues from subsidies	175,288	201,423
Revenues from grants	504,532	504,465
<b>Total Revenues</b>	<b>680,362</b>	<b>705,888</b>
Wages, Salaries and pension contributions	126,871	124,358
Depreciation expense	504,465	506,536
Other operating expenses	49,026	74,994
<b>Total Expenditures</b>	<b>680,362</b>	<b>705,888</b>
<b>Profit/Loss before tax</b>	<b>0</b>	<b>0</b>
Profit Tax	0	0
<b>Net Profit/Loss</b>	<b>0</b>	<b>0</b>

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**Issue 3 - The recruitment procedures were not in compliance with the rules and procedures for establishing the employment relationship**

**Finding** The Administrative Instruction no. 14/2011 on regulating procedures for establishment of employment in the public sector requires that the recruitment committee is composed of five members. The Airport established a recruitment committee which had only three members in its composition. Further on, the above mentioned instruction requires that if they do not meet the criteria of at least three candidates, the competition must be re-advertised. The Airport did not re-announce the advertisement even though only one of the three candidates met the criteria of the experience but continued with the procedure by selecting the candidate who had met the criteria in the position of the Security Officer. This is due to lack of proper oversight by management.

**Risk** The recruitment committee not complying with the Administrative Instruction and the continuing the recruitment process without meeting the eligibility criteria of at least three candidates risks hiring employees who are not competent for that job position.

**Recommendation 3** The Chairman of the Board should ensure that recruitment procedures are developed in line with the criteria set out in the competition and with the Administrative Instruction on Establishing of a Public Sector Employment Relationship.

**Issue 4 - The Receiving report was not in line with the quantity provided by the invoice**

**Finding** The receiving report of the goods should include the quantity and qualitatively received, in accordance with the terms stipulated by the contract in quantity and value. In one case, we have identified that the receipt for the merchandise was not in line with the amount offered by the invoice, where three of the items (5 adapters, UTP cable 100 meters and plastic box & fuse) included in the invoice are not included in the acceptance report, their value was €134. This is due to inadequate functioning of the internal control system when receiving the goods respectively the invoice.

**Risk** Mismatch of the number of items purchased between the receipt and invoice increases the risk of payments for items of unaccepted goods.

**Recommendation 4** The Chairman of the Board should ensure that measures are taken to strengthen internal controls that payments are made only according to the qualitatively and qualitatively accepted goods/services.

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**Issue 5 - Loss of assets due to the lack of sufficient security of assets managed by the Airport**

**Finding** According to Article 8 of the Charter, the Airport is responsible for the ownership, assets, management, operation and maintenance of the Enterprise and should produce regulations containing provisions on the administration and operation of the Enterprise. The airport did not produce regulations for managing and preserving assets from loss and damage. Based on management reports, we noticed that assets (600 meters of four-wire cable) owned by the Airport have been stolen and damaged. This is due to insufficient internal control measures in preserving and provision of Airport assets.

**Risk** Lack of issuance of a regulation on airport property management increases the risk of mismanagement, misuse, damage and loss of assets.

**Recommendation 5** The Chairman of the Board should ensure that the Airport drafted and approved a regulation on the management and oversight of the Airport's assets and facilities in order to achieve asset management and protection against loss and damage.

**Issue 6 - Lack of software for non-current assets registration**

**Finding** Asset registers should be kept in a trusted program (software) where data is protected from loss and from unauthorized access. The Airport did not maintain non-current assets registers in functional and safe software for asset records, but the records of these assets were kept only in Excel spreadsheets. This is because of failure to plan properly the inclusion of asset module when the accounting software has been purchased.

**Risk** Keeping records in Excel spreadsheets risks losing asset records and unauthorized accesses exposing assets and their value to a risk.

**Recommendation 6** The Chairman of the Board should ensure that asset records are kept in a software that provides data protection against losses or access by unauthorised persons, in order to increase the security of information and assets.

### 3.4 Statement of Changes in Equity

In the Annual Financial Statements of the enterprise, capital is presented under the following structure:

**Table 4: Capital of the Gjakova Airport on 31.12.2017** in €

Description	31 December 2017	31 December 2016
<b>CAPITAL</b>	<b>25,000</b>	<b>25,000</b>
Charter Capital	25,000	25,000
Profits/Losses carried forward	0	0
Current Year Profits/Loss	0	0

#### Recommendations

We have no recommendations in this area.

### 3.5 Cash Flow Statement

Cash Flow Statement provides data on changes in cash during the reporting periods presented and classifies the cash flow generated through business, financial and investment activities. Information on the cash flow of the Enterprise is useful to give the user of financial statements an estimate of the cash flow.

**Table 5: Cash Receipts and Expenditures**

Description	31 December 2017	31 December 2016
<b>Net cash from operating activities</b>	<b>(200,451)</b>	<b>(210,452)</b>
Cash increase	-	-
Cash paid to suppliers and employees	(200,451)	(210,452)
<b>Net cash from investing activities</b>	<b>(5,537)</b>	<b>-</b>
Cash increase	-	-
Reduction of vash (purchase of basic assets and other investment activities)	(5,537)	-
<b>Net cash from financing activities</b>	<b>200,000</b>	<b>230,000</b>
Cash increase	200,000	230,000
Cash reduction	-	-
<b>Net increase/(reduction) in cash and cash equivalent</b> s	<b>(5,988)</b>	<b>(19,548)</b>
Cash in beginning of 2017	69,545	49,997
<b>Cash in the end of 2017</b>	<b>63,556</b>	<b>69,545</b>

### **Recommendations**

We have no recommendations in this area.

## **3.6 Handling of Explanatory Notes**

Explanatory notes provide information on the basis of preparing the financial statements and accounting policies required by the IFRS and provide additional information that is not disclosed in the Balance Sheet, Income Statement, Cash Flow Statement or Statement of Changes in Equity, but are important to understand each one of them.

The enterprise has made necessary disclosures for the general information, accounting policies used and clarified the amounts of the statement of financial position, the statement of comprehensive income, also disclosed whether or not there are contingent liabilities and events after the balance sheet date.

### **Recommendations**

We have no recommendations in this area.

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## 4 Progress in implementing recommendations

The external auditor's audit report for 2016 AFS of the Airport was carried out by a private audit firm that resulted in Disclaimer of the Opinion. This is due to the following reasons: the Enterprise did not have a software for recordkeeping according to the requirements of international accounting standards and the principle of continuity. Whereas, 8 (eight) key recommendations were presented in the Management Letter. The Airport prepared an Action Plan for implementing the recommendations. By the end of our audit for 2017, 4 (four) recommendations were implemented and 4 (four) others were partially implemented. The Airport was established in 2015 and the first audit was carried out in 2016.

The implementation of the external audit recommendations from previous year as a key tool for improving processes has not been sufficiently taken into account by the Management.

For a more thorough description of the recommendations and how they are addressed, see Annex II.

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### Issue 7 - Partial implementation of issues from the previous year

<b>Finding</b>	The Airport prepared an action plan for addressing the recommendations of the previous year audit. As a result, it addressed half of the recommendations given, however, some of them were still in process of implementation, with particular emphasis on recommendations regarding the accounting recording of assets and their preservation which were not fully implemented. This is because of insufficient internal controls.
<b>Risk</b>	Failure to address the prior year's recommendations increases the risk that same shortcomings related to AFS and internal controls continue to exist.
<b>Recommendation 7</b>	The Chairman of the Board should ensure that all necessary measures are taken to timely address issues arising from external audits.

## 5 Good Governance

### Introduction

Specific areas of our governance related reviews have been the internal audit, accountability and risk management process, while the other components are handled within the chapters or subchapters above.

### Overall Governance Conclusion

There are a number of governance weaknesses at the Airport especially with regard to the segregation of duties. The lack of a Certifying Officer reduces the level of the control system in the execution of payments and increases the risk of payments irregularly and with errors. Further on, assigning the same member to two commissions, increases the risk of receiving goods and services without meeting the criteria, and also creates inadequate segregation of duties.

The manager of maintenance department provided the supply of vehicles with fuel from the tank and kept the records of fuel status and mileage status of the vehicles. Authorization and inadequate segregation of duties and responsibilities reduces effective control and management ability to actively monitor the implementation of employee authorisation.

Eliminating the weaknesses identified by the earlier year external audit as a key tool to support effective governance is not sufficiently taken into account by management. This is an indication that the Airport did not strive to develop existing processes and strengthen internal controls in many areas.

IAU made important recommendations to management to improve the functioning of internal control and that it is required to implement them.

### 5.1 Internal Audit System

The Internal Audit Unit (IAU) is comprised of the Internal Audit Director. IAU had compiled an annual audit plan for 2017. The design of the plan was based on the level of risk for the systems and processes involved in the audit. Out of the eight planned audits, six of them were completed during 2017. IAU provided important recommendations to management to improve the functioning of internal control. The Audit Committee was functional who in the first six months of 2017 held two meetings and reviewed the reports finalised by IAU.

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**Issue 8 - The Internal Audit Unit did not draft a strategic plan**

**Finding** The Internal Audit Unit should prepare its strategic and annual work plan. The Airport prepared the annual internal audit plan but failed to prepare a strategic internal audit plan covering a three-year audit period based on the risks and specifics of the Enterprise. According to Airport management, this is due to the lack of overall enterprise's strategy to rely on.

**Risk** Failure to draft a strategic audit plan could affect the efficiency of the IAU and the assistance provided to management in strengthening internal controls.

**Recommendation 8** The Chairman of the Board through the Audit Committee should request from the IAU to draft a strategic audit plan and update it on an annual basis.

## 5.2 Management Reporting, Accountability and Risk Management

Accountability as a process is the acceptance of responsibilities, holding persons into account for their actions and disclosing results in a transparent way. Whereas, risk management is a process related to identification, analysis, evaluation and actions/measures taken by the Management to control and respond to risks threatening the Organization.

Although, the Management have implemented a number of internal controls to ensure that our systems operates as intended, we have noticed that the measures applied are poor and ineffective and do not provide an effective and timely response to the identified operational problems.

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**Issue 9 – Improper segregation of duties**

**Finding** The Airport has implemented a number of controls that include leadership and organization of operational activities. Meanwhile, controls in some areas have not operated well, irregularities have been noticed in segregation of duties. The manager of maintenance department made the supply with fuel for vehicle from tanks located at the airport and kept the records of fuel status and mileage status of the vehicle.

Managerial controls implemented in the financial management and internal control system have not identified proper assignment and segregation of duties. This is because of insufficient internal controls and limited number of employees.

**Risk** Authorization and improper segregation of duties and responsibilities reduce effective control and management ability to actively monitor the implementation of employee authorization.

**Recommendation 9** The Chairman of the Board should make a review of existing arrangements for delegating responsibilities and accountability by ensuring proper segregation of duties.

**Issue 10 - Failure to appoint the Certifying Officer**

**Finding** According to Article 14 of the Law on Public Financial Management and Accountability, the public company must have the certifying officer in place. The Certifying Officer is responsible for ensuring that the applicable terms of a public contract are met prior to making or authorizing payments under the contract. The Enterprise did not assign a Certifying Authorising Officer for payment authorizations and in his absence the payments were approved by the Chief Executive Officer. The lack of a Certifying Officer resulted in shortcomings in expenditure management. Payments were made without sufficient control and prior approval by the Certifying Officer for payments. Failure to appoint a Certifying Officer was due to insufficient internal controls and limited number of employees at the Airport.

**Risk** The lack of a certifying officer reduces the level of the control system in the payment execution and increases the risk of irregular payments and with errors.

**Recommendation 10** The Chairman of the Board should take the necessary measures to cover the position of a Certifying Officer in line with legal requirements to ensure proper segregation of duties in order to strengthen the internal control system for the management of public money.

**Issue 11 - The same member in the Tender Evaluation Committee and the Oversight Committee for Receiving of Goods**

**Finding** According to the Public Procurement Guidelines, a member of the Tender Evaluation Committee cannot be appointed as a Project Manager. In one case we noticed that the same person was assigned to the Tender Evaluation Committee and the Committee for Supervision of Receiving and Installation of Cameras. This is due to insufficient internal controls and limited number of employees at the Airport.

**Risk** Appointment of the same member in two committees, appraisal and acceptance increases the risk of receiving goods and services without fulfilling the quantitative and qualitative criteria and also creates inadequate segregation of duties.

**Recommendation 11** The Chairman of the Board should ensure that the criteria set out in the Public Procurement Guideline for the segregation of duties between the different committees are being implemented.

**Issue 12 - Failure to publish documents on the company's website**

**Finding** Article 34.2 of the Law on Publicly Owned Enterprises requires that a full and current copy of all POE's regulations are published and maintained on a publicly accessible website maintained by the POE. Business plan, quarterly reports, annual reports and other important information to the public are also required to be published. While, the Airport still (by the end of the audit dated 30.05.2018) did not publish the annual report for 2017 for the purpose of transparency. All this due to contract expiration for website maintenance and lack of internal experts to maintain it.

**Risk** Failure to publish an enterprise's annual report on its website creates non-compliance with the requirements of the law and the lack of transparency required.

**Recommendation 12** The Chairman of the Board should ensure the maintenance of the Enterprise's website and publish the annual report according to the requirements of the law on Publicly Owned Enterprises for the purpose of transparency towards the public.

## Annex I: Explanation of the different types of opinion applied by NAO

(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.

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*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.

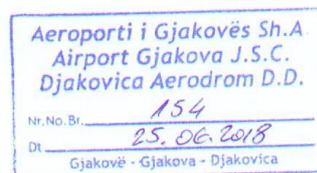
## Annex II: Progress in implementing Prior and Earlier Year Recommendations

Audit Component	Recommendations given in 2016	Implemented	In proces of implementation	Not implemented
Accounting Software	That the enterprise manages its records in the accounting software according to the requirements of international accounting standards and applicable legal rules in the Republic of Kosovo. Financial statements are drafted on the basis of complete, accurate records.		Gjakova Airport had installed the accounting software, while assets register are kept in Excel spreadsheets.	
Preparation of financial statements	The enterprise prepares the financial statements using the accounting basis on rights and liabilities and accounting items should be recognised as assets, liabilities, net capital, income and expenses.	The enterprise has prepared the financial statements on an accrual basis.		
Statement of financial position	The statement of financial position should be drafted according to the accurate records and the surplus of the analytical items at the end of the period under the double accounting managed by the accounting software.		The statement of financial position are compiled on the basis of the evidence at the end of the item of assets held in Excel spreadsheets.	
Comprehensive Income Statement	A comprehensive income statement should be compiled according to the accurate evidence and the surplus of analytical items at the end of the period under the double accountancy managed by the accounting software.	The income statement is compiled based on items at the end of the period.		

Statement of Cash Flows	The cash flow statement should be prepared in accordance with the requirements of paragraph 7.3 of the International Accounting Standard for small and medium-sized enterprises faithfully to present operational, investment and financing activities of the cash flow for the relevant period.	In the statement of cash flows are presented operational, investment and financing activities for the respective period.		
Statement of Changes in Equity	To provide at the end of each year the statement of changes in equity under section 6 of the International Accounting Standards for small and medium-sized enterprises.	The enterprise had prepared the statement of changes in equity.		
Information Reports	The POE "Gjakova Airport" JSC in the future is encouraged to prepare information on the direction, state institutions and stakeholders, but relying on reliable and accurate data, complete and timely. Further on, take into account the rules of the law on accounting, financial reporting and auditing for the management of financial records in the accounting software .		The enterprise had prepared quarterly reports and annual report while in the accounting software did not install the asset registration module.	
Maintaining financial records under double registrations	To complete accurate and reliable records, take these actions: In the accounting software to create a new database with a cut of 01.01.2017, to correctly present the surplus of short-term assets (cash in cash box and bank accounts, accounts receivable, inventories, material assets and other assets, to present the initial surpluses of short and long-term liabilities, to present the initial surplus of the share capital.		The enterprise had kept records in the accounting software with the exception of evidence of assets held in Excel spreadsheets.	

## Annex III: Confirm Letter

NPQ "Aeroporti Gjakoves" Sh.A



### LETËR E KONFIRMIMIT

Për pajtueshmërinë me të gjeturat e Auditorit të Përgjithshëm për vitin 2017 dhe për implementimin e rekomandimeve

**Për: Zyrën Kombëtare të Auditimit**

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Raportit (Pasqyrave) Financiar të NP Aeroporti i Gjakovës sh.a, për vitin 2017 (në tekstin e mëtejshëm "Raporti");
- pajtohem me të gjeturat dhe rekomandimet dhe nuk kam ndonjë koment për përmbajtjen e Raportit; si dhe
- brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

znj. Vlora Gojani

Data: , Prishtinë,

25.06.2018

