



Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS OF THE MUNICIPALITY OF FERIZAJ FOR YEAR 2023

Prishtina, Jun 2024

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1 Audit Opinion

We have completed the audit of the financial statements of Municipality of Ferizaj for the year ended on 31 December 2023 in accordance with the Law on the National Audit Office of the Republic of Kosovo and International Standards of Supreme Audit Institutions (ISSAIs). The audit was mainly conducted to enable us to express an opinion the financial statements and conclusion on compliance with authorities¹.

Qualified Opinion on Annual Financial Statements

We have audited the annual financial statements of the Municipality of Ferizaj, which comprise the statement of cash receipts and payments; budget execution report; and explanatory notes to financial statements, including a summary of significant accounting policies and other reports², for the year ended as of 31 December 2023.

In our opinion, except for the effects of the matter/s described in the Basis for Qualified Opinion paragraph, the annual financial statements of the Municipality of Ferizaj, give a true and fair view in all material respects, in accordance with International Public Sector Accounting Standards under cash-based accounting.

Basis for Qualified Opinion

- A1 Inaccurate presentation of outstanding liabilities in the AFS in the amount of €80,060.
- B1 Inaccurate presentation of accounts receivable in the AFS in the amount of €127,975.
- B2 Inaccurate presentation of contingent liabilities in the AFS in the amount of €2,600,648.
- B3 Inaccurate presentation of assets in the AFS, due to understatement for €192,138, causing the value of capital and non-capital assets not to be correctly disclosed in the AFS.
- B4 Inadequate classification of expenses in economic categories in the amount of €787,464.

¹ Compliance with authorities – compliance with all the public sector laws, rules, regulations, and relevant standards and good practices

² Other reports are required under Article 8 of Regulation no.01/2017 on Annual Financial Report

For more details, see sub-chapter 2.1 Issues with impact on the audit opinion

We conducted our 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 Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P-10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit Conclusion on Compliance

We have also audited if the processes and underlying transactions are in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

In our opinion, except for the effects of the matter/s described in the Basis for Compliance Conclusion section of our report, transactions carried out in the process of execution of Municipality of Ferizaj's budget have been, in all material respects, in compliance with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

"The compliance of transactions for the leasing of municipal properties and their monitoring in the Municipality of Ferizaj has been audited separately for the year 2023 and is not part of this report. The compliance conclusion for this category will be presented in a separate compliance audit report."

Basis for the Conclusion

Basis for conclusion

- A2 The municipality entered into contractual obligations in the amount of €2,326,548 without sufficient financial funds.
- A3 The municipality had contracted services through the open procurement procedure with a private economic operator for services provided by public municipal enterprises.
- B5 During 2023, the municipality did not register 31 employees on the payroll, who had regular employment contracts.
- B6 As a result of the delay in the payment of financial obligations, the municipality was forced to pay additional expenses in the amount of €254,260 in the name of the dispute/enforcement procedure or the interest for late payment.
- B7 The municipality had initiated procurement procedures without a detailed (executive) construction project.

- B8 In four (4) cases, the municipality had made changes to the contracts exceeding the allowed legal limit of 10%.
- B9 In 10 tested payments in the amount of €547,842, we identified that the municipality used the funds from the projects for purposes other than those for which they were planned, without applying the procedures and criteria for transfer and reallocation of budget allocations from one capital project to another.
- A4 The municipality had concluded a cooperation agreement for the execution of activities in the field of economic development with a value of €30,768, avoiding the procurement procedures.
- A5 The municipality had financed NGOs in the amount of €8,526, avoiding the public call for financing NGOs.

For more details, see sub-chapter 2.2 Issues with impact on the compliance conclusion

We conducted our 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 Financial Statements* section of our report. NAO is independent from the auditee in accordance with INTOSAI-P 10, ISSAI 130, NAO Code of Ethics, and other requirements relevant to our audit of the budget organisations' AFS. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Responsibilities of Management and Those Charged with Governance for the Annual Financial Statements

The Mayor is responsible for the preparation and fair presentation of financial statements in accordance with the International Public Sector Accounting Standards – Financial reporting under the cash basis of accounting. In addition, the Mayor is responsible for establishing internal controls which he determines are necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error. This includes the fulfilment of requirements of the Law no.03/L-048 on Public Finance Management and Accountability and Regulation no.01/2017 on Annual Financial Reporting of Budget Organisations.

The Mayor is responsible to ensure the oversight of the Municipality of Ferizaj's financial reporting process.

Management's Responsibility for Compliance

The Management of Municipality of Ferizaj is also responsible for the use of the Municipality's financial resources in compliance with the Law on Public Financial Management and Accountability, and all other applicable rules and regulations.³

Auditor General's Responsibility for the audit of AFS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Our objective is also to express an audit opinion on compliance of respective Municipality of Ferizaj's authorities with the established audit criteria arising from the legislation applicable for the auditee as regards making use of financial resources.

As part of an audit in accordance with the Law on NAO and ISSAIs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Identify and assess the risks of non-compliance with authorities, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion on compliance with authorities. The risk of not detecting an incidence of non-compliance with authorities resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Municipality of Ferizaj's internal control.

³ Collectively referred to as compliance with authorities

- Assess the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Assess the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements give a true and fair view of the underlying transactions and events.

We communicate with management and those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The audit report is published on the NAO's website, except for information classified as sensitive or other legal or administrative prohibitions in accordance with applicable legislation.

2 Findings and recommendations⁴

During the audit, we noted areas for potential improvement, including internal financial control and compliance, which are presented below for your consideration in the form of findings and recommendations. The identified weaknesses have been observed in important financial areas such as: Inaccurate presentation of outstanding liabilities, accounts receivable, non-financial assets and contingent liabilities in the AFS, inaccurate classification of expenses, entry into contractual obligations without sufficient funds, payment of projects from the budget of other projects, lack of executive projects, change of procurement contracts exceeding the legal limit, weaknesses in the management of obligations and additional enforcement costs, avoidance of procurement procedures, weaknesses in the case of signing contracts for the provision of services by Public Authorities, etc. These findings and recommendations are intended to make the necessary correction of the financial information presented in the financial statements, including disclosures in the form of explanatory notes, and to improve internal controls related to financial reporting and compliance with authorities regarding the management of public sector funds. We will follow up (review) these recommendations during next year's audit.

Also, we must emphasize that for the year 2023, the Treasury had executed through enforcement/judicial procedures the amount of €2,768,702, of which €614,835 were interest and enforcement procedure expenses for the obligations that have emerged from the collective agreement. These expenses are related to the payments made for meals, inflation and qualification for the education sector.

This report resulted in 21 recommendations, of which eight (8) are new recommendations and 13 are repeated.

For the status of previous year's recommendations and the extent of their implementation, see Chapter 4.

⁴ Issue A and recommendation A means new issue and recommendation
Issue B and recommendation B means repeated issue and recommendation
Issue C and recommendation C means partly repeated issue and recommendation

2.1 Issues with impact on the audit opinion

Issue A1 – Inaccurate presentation of outstanding liabilities in the AFS

Finding Article 6 of Regulation No. 01/2017 on Annual Financial Statements of Budgetary Organizations provides that: “Budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information”.

The municipality had not reported the unpaid obligations in the amount of €80,060 for the salaries of 31 employees who, until the end of 2023, were not registered in the payroll. These employees were accepted through regular recruitment procedures. As a result, this has influenced the understatement of outstanding liabilities reported in the AFS.

This happened because the directorate of education in the municipality did not draw up a list of employees whose salaries were not paid.

Impact The presentation of outstanding liabilities in inaccurate values causes the stakeholders or users of the AFS not to be informed accurately and correctly about their value.

Recommendation A1 The mayor must ensure that responsible officers keep accurate and complete records of outstanding liabilities, and the Chief Financial Officer must ensure that their presentation in the AFS is accurate and complete.

Response of entity’s management (Agree).

Issue B1 - Inaccurate presentation of accounts receivable in the AFS**Finding**

Article 6 of Regulation No. 01/2017 on Annual Financial Statements of Budgetary Organizations provides that: “Budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information”.

In seven (7) cases, the municipality made inaccurate presentation of accounts receivable in the AFS, in the amount of €127,976 for the errors encountered as follows:

- Accounts receivable for construction permit tax are understated by €38,868, since the municipality has not disclosed the unpaid instalments for construction permits. On the other hand, there was an overstatement in the amount of €87,625, for which the municipality did not provide evidence for the presented value. Also, in another case when the municipal property was put into use, the municipality had understated the accounts receivable for €1,483.

The municipality does not have a database where records of all accounts receivable are kept, and there is also no continuous communication between the finance department, the Chief Financial Officer and the departments that collect revenues, and inefficient operation of the internal controls in updating accounting records and maintaining documentation.

Impact

The presentation of accounts receivable in inaccurate values affects in stakeholders or users of the AFS not being informed accurately and correctly about their value.

Recommendation B1 The mayor must ensure that responsible officers keep accurate records of accounts receivable and the Chief Financial Officer must ensure that their presentation in the AFS is accurate and complete.

Response of entity’s management (Agree).

Issue B2 - Inaccurate presentation of contingent liabilities in the AFS**Finding**

Article 6 of Regulation No. 01/2017 on Annual Financial Statements of Budgetary Organizations provides that: “Budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information”.

In 20 cases, the municipality made inaccurate presentation of contingent liabilities in AFS, in the amount of €2,600,648 for the errors encountered as follows:

- Contingent liabilities have been overstated for €2,431,806, of which €2,283,490 are caused due to the presentation of cases twice to AFS, for the Directorate for Cadastre and Geodesy. Contingent liabilities were also understated in the amount of €168,842, as a result of not including the cases with all the anticipated expenses for which the municipality may be liable.

The inaccurate presentation of contingent liabilities in the AFS had occurred because the responsible persons had not updated the value of the contingent liabilities presented in the report and then also in the AFS.

Impact

The presentation of contingent liabilities in incorrect values affects their overstatement / understatement, as well as the stakeholders or users of AFS not being informed correctly and accurately about the value of the liabilities that the municipality is expected to have in the future.

Recommendation B2 The mayor should ensure that contingent liabilities are presented in the financial statements following the requirements of the regulation on Annual Financial Statements of Budget Organizations.

Auditee management response (Do not agree)

For more details see Annex I

Issue B3 – Failure to record the assets and their incomplete presentation in AFS

Finding Article 6 of Regulation No. 01/2017 on Annual Financial Statements of Budgetary Organizations provides that: “Budget organizations keep accurate, complete, up to date accounting records and in compliance with applicable law on all financial information and other non-financial information”.

The value of capital assets was understated by €192,138⁵, because some of the purchases in 2021 in the amount of €65,788 and the purchases in 2023 in the amount of €126,350 were not recorded in KFMIS.

The non-functioning of controls and the lack of proper communication between departments were the main causes of incomplete recording of wealth.

Impact Failure to record all assets increases the risk for the municipality to not have all its assets under control, and to face deficiencies in reporting by understating assets in the AFS.

Recommendation B3 The mayor should ensure increased communication between the relevant departments in order for all the assets of the municipality to be recorded in the asset register, to reduce the risk of misuse or loss of assets.

Response of entity’s management (Agree).

Issue B4 - Inadequate classification of expenses

Finding According to Financial Rule No. 01/2013/MoF on "Public Funds Expenditure" expenses must have the appropriate codes, defined by the Administrative Instruction for the accounting plan, and by the accounting plan of the Treasury, the corresponding codes and categories of expenses that the BO must apply.

In 14⁶ cases we identified that the municipality had executed payments in inadequate categories in the amount of €787,464 such as:

- From the goods and services category, the amount of €484,892 was paid for capital investments, €56,705 for subsidies and transfers, while the amount of €50,665 was paid for salaries and wages.

- From the category of capital investments, the amount of €71,000 was paid for goods and services, and €124,202 for salaries and wages.

This happened because the municipality had not made adequate planning according to the needs and requirements of reporting expenses by the relevant categories, and as a result of payments executed through court decisions.

Impact

The planning and execution of expenses from inadequate economic categories affect the overstatement/understatement of the relevant categories of expenses and assets. As a result, it affects the inaccurate presentation of expenses in AFS.

Recommendation B4 The mayor should ensure that all the necessary actions are taken so that the expenses are planned in the appropriate budget allocations or that funds are reallocated and that the payment and recording of expenses are made according to the appropriate economic codes determined by the accounting plan.

Response of entity's management (Agree).

2.2 Issues with impact on compliance conclusion

Issue A2 - Entering into contractual obligations without sufficient funds, and signing a contract for a project not planned by the budget law

Finding

According to Article 37.1 of Law no. 03/L-221 amending and supplementing Law no. 0/L-048 on Public Financial Management and Accountability, the budget organization does not undertake any obligation during the current fiscal year in an amount that exceeds the allocated funds. According to Article 9.2 of the Law on Public Procurement, the CFO ensures that it has financial means available for the relevant procurement. If the contracting authority is a public authority or a budget organization, the CFO, in accordance with the applicable provisions of the Law on Public Financial Management and Accountability and Financial Rules, shall ensure whether sufficient financial resources have been allocated for the relevant procurement in sufficient amounts to fulfil the obligations that may arise as a result of the procurement in question during the current fiscal year, as well as Article 9.3. If the contracting authority, budget organization and the relevant procurement will cause the increase of financial obligations which will be met by the budget allocations expected to be made in the next fiscal years, the CFO will (i) ensure that the tables attached to the Law on Budget Allocations provide a reasonable basis to expect that in future fiscal years, sufficient funds will be provided to meet such obligations.

In seven (7) cases the municipality had entered into contractual obligations without sufficient financial funds, violating the law on budget allocations and the medium-term expenditure framework

- The municipality had concluded contracts for regulating riverbeds and water channels in Talinoc, Koshare, Terrn, Pleshine, Greme and Gaqke in the estimated value of €540,000. The municipality had allocated budget funds for this project for the years 2023-2025, in the amount of €250,000. Despite the lack of budget, the municipality entered into contractual obligations without a budget cover of €290,000.
- The municipality for the realization of the project 'Participation in projects with donors, water supply in the village of Sojeve, Dardani-phase II' had concluded a contract in the amount of €680,698. The budget funds allocated for this project were €482,078, for the three years 2023-2025. The municipality has made payments of €200,000 from the budget of this project for the financial obligations resulting from the first phase of the contract. As a result, for this project, the municipality has entered into contractual obligations without a budget cover of €398,620.

- As regards the project "Reconstruction of new roads in the villages of Tern-Lubovc, Nerodime, Rakaj, Manastirc, Bibaj, Gaçke, Prelez, Rahovice, Greme, Komoglavë", the municipality had concluded a framework contract with an estimated value of €1,000,000 for three years, while according of the 2023 Law on Budget Appropriations, €550,000 was allocated for three years. The municipality entered into contractual obligations for €450,000, without a budget cover.
- The municipality had signed a contract for the project "Afforestation and arrangement of the park on the Sherreteve hill for two lots" worth €917,477. The municipality had €260,000 for this project which funds allocated by the law on budget appropriations for the year 2023 and €460,000 for the years 2024 and 2025. The municipality has entered into contractual obligations without budget cover for €197,477.
- The municipality had signed a contract for the project "Expansion and improvement of Liria Park in two lots" with a value of €698,756. The municipality had €150,000 for this project, funds allocated by the law on budget appropriations for the year 2023 and €350,000 for the years 2024 and 2025. The municipality has entered into contractual obligations without budget cover for €198,756.
- The municipality had signed a contract for the project "Construction of the infrastructure of tourist areas in the village of Jezerc", in two lots with a total value of €791,927. For this project, the municipality had no funds allocated by the law on budget appropriations for the years 2023, 2024 and 2025. Thus, the municipality has entered into contractual obligations without a budget cover of 791,686.
- The municipality had signed the Agreement for Maintenance Services of City Streets and Squares with protocol no. 138/22 dated: 17.05.2022, without ensuring the availability of funds in advance.

This happened due to the malfunctioning of the controls when the procurement procedures were initiated, as well as the lack of proper budget planning for certain projects.

Impact Entering into financial obligations without securing the necessary funds, causes the increase of outstanding financial liabilities and enforcement expenses and negligence of the budget law and the decisions of the municipal assembly for the realization of capital projects, or budgetary implications for the current and next year.

Recommendation A2 The Mayor must ensure that all necessary controls are in place at all times so that before initiating procurement procedures, they make sure that capital projects are included in the budget appropriations, there are sufficient budget funds allocated by the law on budget appropriations for all related contracts.

Auditee management response (Do not agree)

For more details see Annex I

Issue A3 – Failure to contract services provided by public municipal enterprises

Finding According to Article 9.4 of the Law No. 04/L-042 on Public Procurement "If the contracting authority is a public authority, such public authority shall take reasonable measures to ensure that objects meeting such needs are not available from another public authority".

For the arrangement of green spaces, squares, roads and underpasses in the city as well as their maintenance, the Municipality on 23.10.2023 had concluded a framework contract with an open procurement procedure with a group of economic operators in the amount of 1,600,000€. The municipality had not undertaken any reasonable formal actions or measures to make sure that for this case/procurement procedure, they will not be able to fulfil the requirements of this procurement procedure, from any other public authority or they are not offered by any public municipal enterprise. The municipality owns two municipal public enterprises, from which the municipality, until September 2023, had purchased services that were the subject of this procurement procedure/contract.

Officials have not offered any explanation for the non-implementation of the legal requirement.

Impact Failure to contract services provided by public municipal enterprises, in addition to affecting the financial aspect of the company owned by the municipality, also causes the Municipality to contract these services at a higher price.

Recommendation A3 The mayor should ensure that before the initiation of the procurement procedures, the procurement case/public services are not provided by a public enterprise.

Auditee management response (Do not agree)

For more details see Annex I

Issue B5 - Officials not registered on the payroll and entering into obligations without an approved budget

Finding Financial rule of the Ministry of Finance No. 01-2013, Article 33 provides that the Budget Organization must ensure that all persons in an employment relationship shall be paid through the payroll. Likewise, Law No. 08/L-193 on Budgetary Appropriations for the RKS for the year 2023, Article 12.1 defines: No budget organization may exceed the total number of employees at the sub-program level, at any time during the Fiscal Year 2023 as specified in Tables 3.1, 3.1A, and 4.1 attached to this Law, except the women after childbirth in the pre-university education system.

In 2023, the municipality did not register 31 employees on the payroll, while in 2022 there were 18 employees off the payroll. Moreover, the municipality had exceeded the number of employees allowed by the budget law and had also entered into obligations without a budget. These employees were accepted through regular recruitment procedures.

This has happened because the number of parallel classes in education has increased more than what was in the plan for the registration of students in the 10th grade for the school year 2023/2024, due to justified teacher absences, and maternity leaves. Furthermore, non-registration of employees on the payroll is also because the number allowed according to the Budget Law has been exceeded.

Impact Non-inclusion of employees in the payroll affects the increase in outstanding liabilities, and payment delays increase the risk of additional expenses through judicial/enforcement procedures.

Recommendation B5 The mayor should make sure that the budget planning for wages and salaries is preceded by a detailed analysis regarding the need to increase the number of parallel classes, namely of employees in the education sector to avoid entering into obligations without a budget.

Auditee management response (Do not agree)

For more details see Annex I

Issue B6 - Weaknesses in liability management and additional enforcement procedure costs

Finding Article 39.1 of the Law on Public Finance Management and Accountability provides that “The CFO of a budget organization shall be responsible for ensuring that every valid invoice and demand for payment for goods, services and/or works supplied to the budget organization is paid within thirty (30) calendar days after the budget organization receives such an invoice or demand for payment”.

In 14⁷ cases, invoices in the amount of €403,804 were not paid within the legal deadline. Delays in the execution of payments reached up to 581 calendar days.

Also, it is important to emphasize that the analysis of the expense report, shows that delays in the performance of financial obligations have caused additional expenses for judicial/enforcement processes. These payments were made from the municipality's budget for 2023, in the amount of €2,400,382. Of this value, €2,146,122 was the main unpaid debt, while €254,260 were additional expenses incurred for the litigation/enforcement processes or other interests involved.

This had happened due to entering into financial obligations without having planned budget funds and due to deficiencies in the management of liabilities.

Impact Delays in making payments within the deadline have caused the municipality to be subject to lawsuits by economic operators, causing additional judicial/enforcement expenses.

Recommendation B6 The mayor should ensure that all information on unpaid invoices is submitted in time to the Chief Financial Officer to avoid exceeding the legal deadline for the execution of payments. This will reduce the risk of lawsuits by economic operators and prevent additional interest expenses.

Response of entity's management (Agree).

Issue B7 - Lack of the executive project**Finding**

Paragraph 19.17 of Regulation No. 001/2022 on Public Procurement provides, among other things, that the Contracting Authority shall be responsible for the design of the executive project and which must be attached (also electronically) to the Technical Specifications, which are part of the tender file. No Contracting Authority is allowed to issue tender documentation without attaching a detailed description of the project.

- The municipality has started the procurement procedures and signed contracts for the following projects, without drawing up the executive projects in advance:
- Renovation of the annex of the former Shaban Hashani primary school in Ferizaj - second phase, with a value of €327,552,
- Reconstruction of the road in the village of Prelez i Jerlive, with a value of €169,250,
- Construction of grain storage silos, with a value of €999,508, and
- Construction of the sidewalk in Dremjak-Kosine, with a value of €188,709.

The development of procurement procedures in the absence of an executive project occurred due to the non-functioning of the controls by the requesting units, without drafting in advance the implementing executive projects and due to the non-efficient functioning of the controls at the procurement office by developing the procedures without meeting the legal requirements.

Impact

Initiating the procurement procedure in the absence of an executive project may result in poor performance of employment contracts and may cause unforeseen expenses or poor value for money.

Recommendation B7 The mayor should ensure controls and monitor the implementation of legal requirements so that when the procurement procedures for the contracting of works/construction are initiated, the drafting of projects is done in advance following the anticipated needs and requirements.

Response of entity's management (Agree).

Issue B8 - Amendments of procurement contracts exceeding the legal limit**Finding**

According to Regulation No. 001/2022 on Public Procurement, Article 71.12, the amendment must be considered substantial when one or more of the four conditions are met, as follows: d) In case the proposed contract amendment includes supplies, services or works of a different quality than what was defined in the initial contract, it shall be considered a substantial amendment, when: (i) Amendments in the contract exceed 10% of the contract value in the case of public contracts for supply, services and additional works.

Below are presented the changes in quantities across the positions of the contracts:

- Asphaltting of the road that connects the Omuraj neighbourhood with the Spahiaj neighbourhood in the amount of €549,881; quantity changes were made in positions in the amount of €214,453 or 39% of the contract value.
- Asphaltting of the roads in the villages of Sojeve, Dardani and Mirosale in the value of €386,202, there were changes in quantities in positions in the amount of €108,897 or 28% of the contract value.
- Regulation of the sewerage in the village of Zaskok and asphaltting the roads in Doganaj in the amount of €198,989, there were changes in quantities in positions in the amount of €93,303 or 46% of the contract value.
- The underground infrastructure and the asphaltting of the remaining alleys in the city, a two-year project Lot II, worth €689,726, there were changes in the quantities in positions in the amount of €233,990 or 34% of the contract value.

Approvals for all the above-mentioned changes were obtained from the Chief Administrative Officer, the changes did not exceed the total value of the contract but exceeded the legal limit of 10% of amendments.

This happened as a result of the lack of control in the implementation of the defined legal conditions and the initiation of procurement procedures and the signing of contracts for construction projects was done without a detailed executive construction plan.

Impact

Exceeding the limits allowed in the contract shows that the planning and preparations of the contracts have significant shortcomings, which affects the increase of unplanned liabilities.

Recommendation B8 The mayor should ensure that the change of contracts is not authorized beyond the limits allowed by the law on public procurement of 10% of the total value of the contract.

Auditee management response (Do not agree)

For more details see Annex I

Issue B9 - Payment of projects from the budget of other projects

Finding According to Article 16 point 11 of Law No. 08-L-193 on Budgetary Appropriations for the year 2023, changes in the budget allocations for existing projects or the replacement of capital projects of municipalities, presented in table 4.2, including the own revenues carried over, as well as registered in KFMS, must be approved in advance by the Municipal Assembly. Reallocations must be carried out following the procedures and criteria set forth in the Administrative Instruction MoF No. 05/2019 on transfer and reallocation of budget appropriations procedures.

In 10⁸ tested payments in the amount of €547,842, we identified that the municipality used the funds for projects other than those for which they were planned/budgeted. In these cases, there was no approval from the Municipal Assembly for reallocation of funds and reallocation of budget appropriations from one capital project to another.

Officials have not offered any explanation for the non-implementation of the legal requirement. Even though this situation has been repeated, such actions are influenced by poor project planning.

Impact The use of funds for purposes other than those for which they were budgeted without prior approval by the municipal assembly and the finance minister, besides being contrary to the budget law, affects the deviation of the projects from what they were approved for by the municipal assembly, in which the citizens' priorities were discussed and approved.

Recommendation B9 The mayor should ensure that the necessary actions are taken so that the approved projects are executed as planned. If there is a need to reallocate project funds, this will be done through the procedures defined by reallocation in accordance with the Law on Budgetary Appropriations.

Response of entity's management (Agree).**Issue A4 - Avoidance of procurement procedures**

Finding According to Law No. 04/L-042 on Public Procurement in the Republic of Kosovo, namely Article 2, paragraph 2 "This law applies to all persons, economic operators, undertakings, as those terms are defined herein, involved, participating or interested, directly or indirectly, in a procurement activity covered by the present law; such persons, operators, and undertakings are also required to observe and comply with the procedural and substantive requirements of the present law" as well as Refer to Regulation No. 001/2022 namely Article 70, paragraph 5 "After a contract has been signed by both parties the responsible Procurement Officer shall inform the Chief Administrative Officer CAO", and the CAO shall, in writing, appoint a Contract Manager responsible for the management of the specific contract and a direct supervisor of the Contract Manager".

In the cooperation agreement for the realization of activities in the field of economic development, the municipality had avoided procurement procedures by signing a cooperation agreement with the Non-Governmental Organization Regional Development Agency - East, for the engagement of staff in the capacity of consultants, namely the team for projects of interest for the municipality. The value of the said agreement was €30,768. Also, for the case in question, the municipality had not appointed a contract manager as required by the law in force.

Poor internal controls by the responsible officials was the reason they had not initiated the public procurement procedures and had not appointed a contract manager.

Impact Avoidance of procurement procedures, in addition to harming competition, transparency of the process, efficiency and effectiveness of actions, also increases the risk of not achieving value for money spent and the possibility of facing difficulties or even financial losses for the municipality. Also, failing to appoint a person responsible for monitoring the project increases the risk that the project in question will not reach the goal for which it was initiated.

Recommendation A4 The Mayor of the Municipality must ensure that procurement procedures are implemented for all supplies and services that are subject to public procurement. Also, the Mayor should ensure that he appoints a Contract Manager for the municipality's projects.

Response of entity's management (Agree).**Issue A5 - Financing of non-governmental organizations by not complying with the regulation of the Ministry of Finance**

Finding According to Regulation MoF-No. 04/2017 on criteria, standards and procedures on public funding of NGOs, respectively Article 2 "The provisions of this Regulation are implemented by each budgetary organization, which funds projects and programs for NGOs that are applicants or partner during the application according to a call for proposals for funding projects and programmes from NGOs, which meet the criteria according to this regulation".

The municipality has signed a Memorandum of Understanding with the Non-Governmental Organization Play International in the amount of €8,526 for the implementation of educational projects, by neglecting the public call for financing this project. The purpose of the project was teacher training and youth activities, namely a study visit to the state of France.

The actual non-functioning of the controls and the lack of knowledge regarding the application of adequate procedures in the case of the financing of the NGO in question was the cause of the financing of the project without developing adequate procedures.

Impact Signing cooperation memoranda without considering the legal requirements related to the relevant procedures increases the risk that the spent funds will not reach the objectives for which they are intended, also the same limits the possibility of participation of other NGOs with projects that could potentially offer higher value for money.

Recommendation A5 The mayor should ensure that the legal requirements are complied with regarding the determination of adequate procedures in the case of financing of Non-Governmental Organizations, taking as a basis the requirements arising from Regulation 04/2017 on subsidizing NGOs.

Response of entity's management (Agree).

2.3 Other financial management and compliance issues

2.3.1 Revenues

The revenues generated by the municipality for the year 2023 were in the amount of €7,868,804. They relate to revenues from the property tax, in the amount of €3,618,562 (which amount also includes the Land Tax) and other non-tax revenues in the amount of €4,250,242 (revenues from construction permits, administrative taxes, business activities, rent, etc.). The total amount of generated revenues also includes indirect revenues from traffic fines in the amount of €979,371, court fines €122,855 and revenues from the Forestry Agency €16,099.

Issue A6 - Issuance of construction permits on lands which were destined to be used as agricultural lands

Finding

According to 13.1 of the Law No. 02/L-26 on Agricultural Land, Change of use of agricultural land may be interim or permanent: a) Any change of use done for construction of domiciles, industrial plants, railways, road communication, water reservoirs, airports, various installation lines or other facilities which permanently unable utilization of agricultural land for agricultural production is considered as permanent change of use of agricultural land, as well as article 14.1. All natural and legal persons shall pay compensation for change of use of agricultural land into the land for non-agricultural purpose, unless the law provides otherwise. Likewise, according to Article 19, The competent municipal body, respectively the other competent body for granting permission for construction or conducting other works may give the permission if the investor or the user except the other necessary documents, produces the evidence for paying the compensation for changing the use of agricultural land.

In five (5) cases, we have identified that the Department of Urbanism had issued construction permits on land that was intended as agricultural land, without first completing the procedures for changing the type of use of the land, and without paying the tax that according to the fee had to be paid in the amount of €8,076 for changing the type of use of the land as required by law.

This happened due to the inadequate functioning of internal controls and the lack of monitoring by the management of the Municipality of the director of urbanization.

Impact Issuing a construction permit on land intended for agriculture, without carrying out the procedures for changing the type of use, has affected the municipality's budget for €8,076 since the payment was not made by the applicant.

Recommendation A6 The mayor should ensure that the relevant controls in the review of construction permit requests are functional throughout the operation, and that before issuing the construction permit the person responsible must ensure that all legal requirements have been met.

Auditee management response (Do not agree)

For more details see Annex I

2.3.2 Capital Investments

The final budget for capital investments was €12,963,373, of which €12,815,214 or about 99% of the final budget had been spent. Expenditures for capital investments are related to the asphaltting of local roads, sewerage, expropriation, and educational and health facilities.

Issue A7 - Contract management records not recorded in the e-procurement platform

Finding Paragraph 70.24.f. of Regulation no. 001/2022 on Public Procurement provides that the Contract Manager ensures that all contract management records are prepared, kept and archived in the contract management module in the e-procurement system.

The contract/project managers have not maintained and archived through the electronic public procurement system the contract management and performance evaluation of the contractors.

This happened as a result of the lack of functioning of internal controls to carry out this process on the part of project managers.

Impact Failure to maintain and archive contracts through the public procurement system may cause poor management of contracts and does not provide sufficient opportunity for management to receive timely information regarding the progress and performance of contracts.

Recommendation A7 The mayor should ask all project managers to ensure that contract management is maintained and archived in the electronic public procurement system.

Response of entity's management (Agree).

Issue B10 - Technical specification not clear/measurable

Finding

According to article 28.4 of the LPP, "A contracting authority shall formulate a technical specification by reference to (i) a Kosovo standard implementing a European standard, (ii) a European standard, (iii) a European technical approval, (iv) a common technical specification, (v) an international standard or (vi) any other technical reference system produced by European standardisation bodies", also article 28.8 states that "Performance and functional requirements must be sufficiently precise to allow tenderers to determine the subject matter of the contract and to allow contracting authorities to award the contract". Article 28.7 states "A contracting authority shall not establish a technical specification that refers to a specific make or source, or a particular process, or to trademarks, patents, types or a specific origin or production".

The issues that have been identified in the technical specifications are in the following projects as:

- Asphaltting of the road in Gaqkë - Topojan and in the Bajram Curri neighbourhood, in the amount of €199,939, in the formulation of the technical specifications, incorrect and non-measurable descriptions of the positions were made, such as the quality standard of the works or products requested was not determined, requesting only: Supply, transportation, laying and compaction of asphalt concrete AB0-16mm, but without defining the asphalt standard, i.e. without defining the test method for measuring the temperature of hot bituminous mixtures after mixing and during storage, transportation and laying. Similar weaknesses mentioned above were also observed for the project "Reconstruction of Ahmet Kaçiku Street - phase II", in the amount of €99,977.
- Construction of the Sports Hall and Regulation of the Astrit Bytyçi schoolyard in Ferizaj, in the amount of €297,382, in the formulation of the technical specifications, the municipality has made non-measurable technical descriptions for the supply and assembly of doors and windows without determining the thickness of the profile of the frame or the number of thermal bridges or the supply of ceramic tiles without determining the thickness of the ceramic tiles.

Unclear/non-measurable technical specifications occurred because the requesting entities did not do an adequate and professional review to eliminate ambiguities, and the responsible procurement officer did not exercise sufficient controls to prevent this mistake.

Impact

Failure to correctly determine the quality standard of the required works or products causes the non-efficient supervision of the contracts and poor-quality performance of works. This caused the economic operators to be misoriented and could affect the financial offer and the price of the contract.

Recommendation B10 The mayor must ensure the proper control through the procurement office in order to observe that the requesting entities draw up the technical specifications according to the legal requirements and the needs of the municipality, determining the standard of quality of work or supply.

Response of entity's management (Agree).

Issue B11 - Delay in the execution of the contract

Finding

According to Article 10.2 of the special conditions of the contract, the completion of all works should be done within three (3) years.

In the following cases, delays were observed in the execution of works in the following contracts:

- In the contract for the construction of the secondary school in the municipality of Ferizaj in the amount of €1,803,726 signed on 20.01.2017, there were delays in the completion of the project. The works were to be completed by 20.11.2020 according to the base contract. However, the works were not completed until December 2023.
- The contract for the construction of waiting shelters for passengers at bus stops in the amount of €33,203 was signed on 18.05.2022 and the deadline for the completion of all works was 12 months. However, by 11.04.2023, only 38% of the works had been completed, and for the delays in the execution of the contract, the municipality did not apply penalties as provided by the contract.

- The contract for the construction of the sports hall in the village of Balaj, €270,185, was signed on 17.09.2018 and the deadline for the completion of all works was two (2) years, but by June 2023 it had not yet been completed.

Delays had occurred due to problems with the bill of quantities of contracts initiated without detailed construction projects.

Impact

Non-fulfilment of the contract according to the conditions specified in the contract shows that the planning and preparations of the contracts have significant weaknesses, causing the works to be delayed and not realized as planned in the contract. Such problems can also bring financial difficulties.

Recommendation B11

The mayor should ensure that all obstacles that prevent the execution of contracts according to the terms of the contract are eliminated before the initiation of procurement procedures and before entering into contractual obligations so that the realization of the contract does not have obstacles and delays.

Auditee management response (Do not agree)

For more details see Annex I

2.3.3 Capital and non-capital assets

The amount of capital assets presented in AFS is €237,167,303, that of non-capital assets is €1,127,203, and stocks amount to €90,070

Issue B12 - Shortcomings in the process of inventorying assets

Finding

According to Article 19.4.3 of Regulation No. 02/2013 – on Management of non-financial assets by budget organizations, the Commission for Non-Financial Assets Inventorying is responsible for comparing the situation of inventory with the condition in the non-financial registers and for the identification of assets with non-transferred value. Also, according to Article 4.1, the Chief Administrative Officer is responsible for the adoption of internal rules and procedures on recording.

The municipality had carried out the Assets Inventorying but had not made the harmonization/comparison with the balance in the registers of non-financial assets. The municipality has not approved internal rules and procedures for the right separation of duties for the registration and reporting of assets, the evidence and preservation of assets, the charging of assets to the responsible persons who would take care of the charged assets or even the inventory and comparison procedure.

This happened due to the lack of adequate functioning of the internal controls of the municipality in terms of assets.

Impact

The lack of internal rules and the non-comparison of inventory reports with asset registers has made effective asset management difficult. Failure to compare reports with asset registers does not provide assurance of their actual status and this may further affect the loss or misuse of assets.

Recommendation B12 The mayor should make sure that the inventory reports are compared with the asset registers and the asset registers are updated according to the data of the last registrations. The mayor should analyse whether it is necessary to draft internal procedures and regulations for the management of the municipality's assets.

Response of entity's management (Agree).

Issue A8 – Dysfunctional e-assets system

Finding

According to Regulation No. 02/2013 – on management of non-financial assets by budget organizations, Article 6 states that capital assets must be registered in KFMIS, while non-capital assets and stocks must be registered in the e-assets system.

The municipality had not used the e-assets system software for the registration and maintenance of assets under €1,000 and stocks. In the absence of the use of the e-asset system, the municipality had recorded these assets in a database in Excel format.

This situation was caused as a result of the lack of necessary actions to make the e-assets system functional.

Impact

Manual data maintenance increases the possibility of record-keeping errors, potential deletions, misuse, loss or alienation.

Recommendation A8 The mayor should make sure that the e-assets system is operational in order to fulfil the requirements arising from the laws in force and the security of information.

Response of entity's management (Agree).**2.3.4 Receivables**

In the AFS of 2023, the municipality disclosed accounts receivable in the amount of €17,120,442. This value consists of property tax €12,744,750, building permits €4,207,770, rent €165,466 and nursery school €2,455.

Issue B13 - Constant increase in accounts receivable**Finding**

According to Article 26 of Law No. 06/L-005 on Immovable Property Tax, The Municipality, the Ministry of Finance and the competent enforcement bodies shall have the authority and competencies granted by this Chapter to collect outstanding tax liabilities which exceed the amount of ten (10) Euros and Article 27 If a taxpayer or debtor fails to fully pay the tax and fine if any, or outstanding tax liabilities, according to stipulated deadlines, the Municipality shall issue a final written notice within ten (10) business days after the last day for payment, requiring full payment of outstanding tax liabilities, not later than ten (10) calendar days after the day when the final notice is considered to be received by the debtor. Article 14 of Regulation No. 01/186 - on Municipal taxes, fees and fines, determines that for the non-payment of taxes and charges defined in the regulation, within the deadline set by the relevant official body, for which there is an invoice, the enforcement procedure shall be initiated.

The municipality did not have effective management in the collection of accounts receivable, as their growth continued over the years. According to the annual financial statements of 2023, compared to the previous year, they have increased by €857,337.30. The municipality had not undertaken any concrete action for the collection/realization of accounts receivable. The biggest increase was in construction permit tax and property tax.

According to the municipality, the economic and social situation of the municipality has affected the non-payment of property tax debts, while as far as businesses are concerned, the municipality has not given us any concrete reason why it is not taking action for collection.

Impact

The increase in accounts receivable over the years, and failure to take action to collect them, affects the deterioration of the collection performance of these accounts. On the other hand, this causes a negative growth trend over the years, endangering their collection, and

reflecting negatively on the financing and realization of projects from own source revenues.

Recommendation B13 The mayor should ensure that all possible options are actively being considered, by establishing policies and regulations in order to increase efficiency in debt collection by considering all measures in accordance with the law, against operators who do not fulfil their obligations.

Response of entity's management (Agree).

3 Summary on budget planning and execution

This chapter presents a summary of information the sources of budget funds, spending of funds and revenues collected by economic categories. This is highlighted in the following tables:

Table 1. Expenditures by sources of budgetary funds (in €)

Description	Initial budget	Final budget ⁵	2023 Expenditures	2022 Expenditures	2021 Expenditures
Sources of funds	38,103,752	45,615,583	45,328,253	36,730,534	35,241,146
Government Grants – Budget	31,667,828	35,905,183	35,744,461	28,081,163	28,616,373
Funding through borrowing	0	0	0	235,608	79,477
Funding through borrowing – investments clause	0	0	0	0	1,779,340
Carried forward from previous year	0	1,927,551	1,927,084	2,174,905	656,349
Own source revenues	6,435,924	7,717,667	7,612,849	5,900,940	4,025,196
Domestic Donations	0	15,797	788	44,047	79,676
External donations	0	49,386	43,070	293,871	4,736

The final budget is higher than the initial budget by €7,511,831. This increase is the result of the increase in the grant of €4,237,355, the increase from exceeding the own revenue plan for 2023 in the amount of €1,281,743, from the income carried over from the previous year of €1,927,551, and the increase of internal and external donations by €65,182.

In 2023, the Municipality of Ferizaj has spent 99.37% of the final budget, almost the same compared to 2022, where the realization was 99.62%. Explanations for the current position are detailed below.

Table 2 – Spending of funds by economic categories - (in €)

Description	Initial budget	Final budget	2023 Spending	2022 Spending	2021 Spending
Spending of funds by economic categories	38,103,752	45,615,583	45,328,253	36,730,534	35,241,146
Wages and Salaries	16,331,588	20,585,295	20,572,860	16,339,440	17,568,098
Goods and Services	7,507,500	9,376,282	9,322,932	6,686,492	5,099,813
Utilities	950,000	1,100,633	1,091,842	927,992	699,321
Subsidies and Transfers	1,200,000	1,590,000	1,525,404	1,493,631	1,101,033
Capital Investments	12,114,664	12,963,373	12,815,214	11,282,980	10,772,882

Explanations for the changes in the budget categories are provided below:

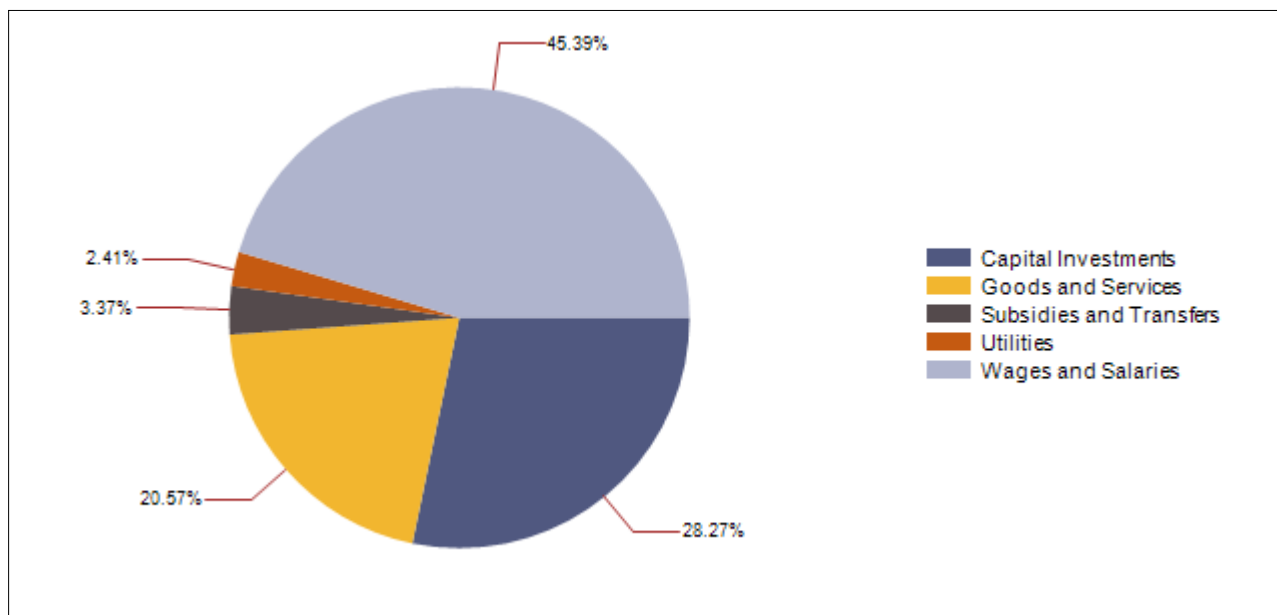
-The final budget for salaries and wages compared to the initial budget had increased by €4,253,707. This increase is €4,237,355 from the government grant and €16,352 from the donor grant.

-The final budget for goods and services and utilities compared to the initial budget was increased by €2,019,415. This budget change is from own revenues €56,743, revenues carried over in the amount of €1,927,551, and donations in the amount of €35,121.

-The final budget for subsidies had an increase of €390,000, which increase was from own revenues according to the planning exceedance for the year 2023.

- The final budget for capital investments compared to the initial budget had an increase of €848,709. This increase was from own revenues according to the exceedance planned for the year 2023, with a value of €835,000, as well as from the donor grant of €13,709. A part of this increase in the budget is dedicated to new projects such as agricultural greenhouses and participation for cows and livestock, concretization tools, information technology equipment.

Chart 1. Expenditures by economic categories in 2023



The revenues generated by the municipality for the year 2023 were in the amount of €7,868,804. They relate to revenues from the property tax, in the amount of €3,618,562 (which amount also includes the Land Tax) and other non-tax revenues in the amount of €4,250,242 (revenues from construction permits, administrative taxes, business activities, rent, etc.). The total amount of generated revenues also includes indirect revenues from traffic fines in the amount of €979,371, court fines €122,855 and revenues from the Forestry Agency €16,099.

Table 3. Revenues (in €)

Description	Initial budget	Final budget	2023 Receipts	2022 Receipts	2021 Receipts
Total of revenues	6,435,924	6,435,924	7,868,804	6,437,271	5,188,599
Tax revenues	4,048,621	4,048,621	3,618,562	2,783,469	2,510,636
Non-tax revenues	2,387,303	2,387,303	4,250,242	3,653,803	2,677,962

4 Progress in implementing recommendations

The audit report for the 2022 AFS of the Municipality of Ferizaj has resulted in 19 main recommendations. The Municipality of Ferizaj had prepared an Action Plan where it presents how it will implement the given recommendations. The municipality had not held any public hearing regarding the implementation of the recommendations from the NAO report. By the end of our audit for 2023, six (6) recommendations have been implemented, while 13 recommendations have not been implemented, as shown in Chart 2, below. For a more thorough description of the recommendations and how they are addressed, see Table 4 (or the recommendations table).

Chart 2. Progress on implementation of prior year's recommendations

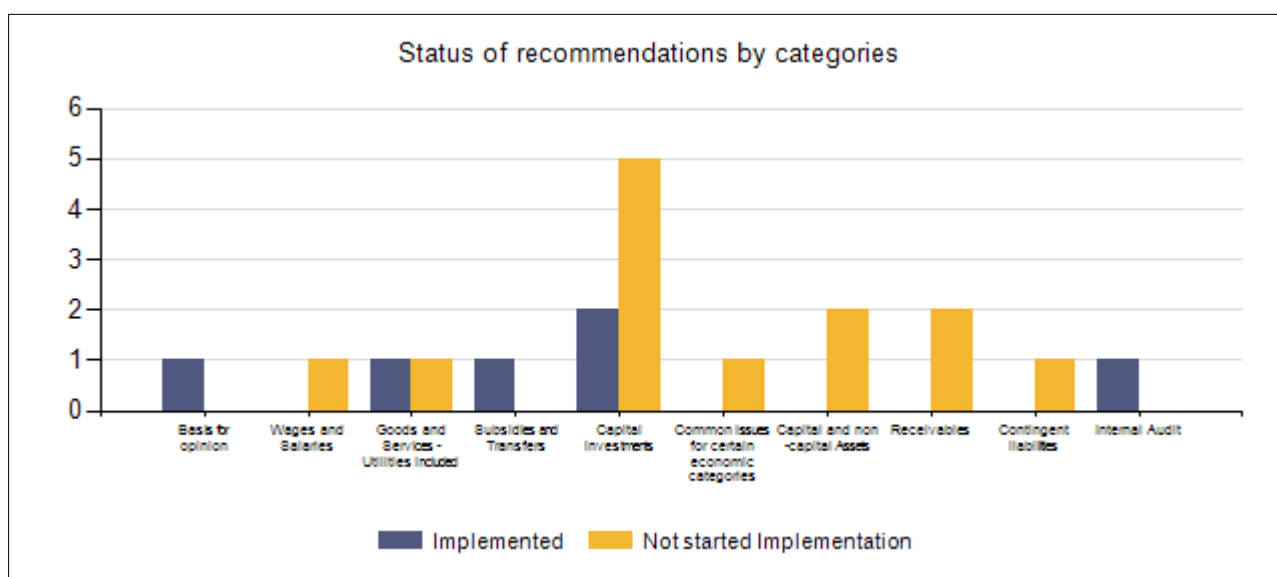


Table 4 Summary of the previous year's recommendations

Nr.	Audit area	Recommendations of 2022	Actions undertaken	Status
1.	Basis for opinion	The mayor should strengthen controls in the contract management process, to ensure that payments will be made only after providing sufficient evidence for the performance of the contracted works in accordance with the terms of the contract.	The municipality had taken measures to implement this recommendation and this year we have not encountered any case as described in the previous year's recommendation.	Implemented
2.	Wages and salaries	Before increasing the number of parallel classes, the mayor must ensure that there is a sufficient budget available for each position for recruitment and that	Actions have not been taken to implement this recommendation and even this year, the municipality had	Implementation has not started

		there are vacancies for their inclusion in the payroll.	employees not registered on the payroll. The recommendation was not implemented.	
3.	Goods and services, and utilities	The mayor should ensure that all information on unpaid invoices is submitted on time to the Chief Financial Officer in order not to exceed the legal deadline for the execution of payments.	Actions have not been taken as from the tested samples we noticed that the municipality had not made the payments of the invoices within the deadline since there were payments through court procedures/enforcement agents.	Implementation has not started
4.	Goods and services, and utilities	The mayor should ensure that the procurement office submits complete reports on the signed contracts in addition to the legal requirements, and detailed planning must be made and the requesting entities must fairly evaluate procurement requests in order to avoid separation of duties or supplies to avoid open procurement procedures.	The procurement office has submitted full reports as required by law.	Implemented
5.	Subsidies and transfers	The mayor should ensure that the announcements for the granting of subsidies are planned, ensuring sufficient funds in advance, and that at the same time, the evaluation and selection of the beneficiaries are done transparently without discrimination against any applicant.	The evaluation and selection of the beneficiaries were done according to the criteria of the announcement for subsidies	Implemented
6.	Capital investments	The mayor should ensure the proper control through the procurement office, so that the responsible procurement officer can request the confiscation of the tender security every time the EO does not comply with the requests of the procurement office regarding the tender file requirements.	Recommendation implemented	Implemented
7.	Capital investments	The mayor should provide controls and monitor the	Actions have not been taken and even in	Implementation has not started

		implementation of legal requirements so that when the procurement procedures for the contracting of works/construction are initiated, the drafting of projects is done in advance in accordance with the anticipated needs and requirements.	2023, the municipality had initiated procurement procedures without a detailed construction plan.	
8.	Capital investments	The mayor should ensure that the amendment of contracts is not authorized beyond the limits allowed by the public procurement law of 10% of the total value of the contract.	The municipality had not taken measures to address this recommendation, and this year the municipality has concluded contracts with bills of quantities not according to real needs, causing the need for contract amendments, thus exceeding the legal limits.	Implementation has not started
9.	Capital investments	The mayor should ensure that the necessary actions are taken so that the approved projects are realized as planned. If there is a need for the reallocation of project funds, this should be done through the procedures defined by reallocation in accordance with the Law on Budgetary Appropriations.	Even this year we found that payments were made using funds from projects which they were not approved for.	Implementation has not started
10.	Capital investments	The mayor should ensure that all obstacles that prevent the realization of contracts according to the terms of the contract are eliminated before the initiation of procurement procedures and the entry into contractual obligations so that the realization of the contract is not faced with obstacles and delays.	Actions have not been taken and this year we encountered several projects that were delayed in completing the works.	Implementation has not started
11.	Capital investments	The mayor should ensure the proper control through the procurement office in order to observe that the requesting entities draw up the technical specifications according to the legal requirements and the needs of the municipality, determining	Actions were not taken and even in 2023 in the initiated procurement procedures, we encountered that the Technical Specification was not clear/measurable.	Implementation has not started

		the standard of quality of work or supply		
12.	Capital investments	The mayor should ensure proper control by the responsible procurement officer by applying the requirements of the legal framework, so that, in any open procurement procedure, discriminatory criteria that limit competition or may favour an economic operator or a group of economic operators are not established. Also, the Mayor should ensure proper control through the procurement office so that the tender evaluation commissions make a fair evaluation and comparison of the offers so that the responsible EO is selected.	From the tested samples, we have not encountered discriminatory criteria in the tender files.	Implemented
13.	Common issues	The mayor should ensure that all the necessary actions are taken so that the expenses are planned in the appropriate budget allocations or that funds are reallocated and that the payment and recording of expenses are made according to the appropriate economic codes determined by the accounting plan.	Even this year, the municipality has registered expenses in inadequate economic categories and as a result we have had misclassifications of expenses.	Implementation has not started
14.	Assets	The mayor should increase the performance of staff engagement and improve communication between departments, to ensure that all assets are registered in the asset register, in order to reduce the risk of misuse or loss of assets. Likewise, the Mayor must ensure that the necessary measures and capacities are taken to put the e-assets system into operation.	Actions have not been taken as from the tested samples we have identified that the purchases of assets were not recorded in the registers	Implementation has not started
15.	Assets	The mayor should make sure that the inventory reports are compared with the asset registers and the asset registers are updated according to the data of the last registrations. The mayor should analyse whether it is necessary to draft	No actions have been taken by the management and the municipality had not compared the inventory reports with the asset registers.	Implementation has not started

		internal procedures and regulations for the management of the municipality's assets.		
16.	Accounts receivable	The mayor should ensure that responsible officers maintain accurate records of accounts receivable and the Chief Financial Officer must ensure that their presentation in the AFS is correct.	Actions have not been taken and even this year the disclosure of A.R. in AFS was not correct.	Implementation has not started
17.	Accounts receivable	The mayor should ensure that all possible options are actively considered, establishing policies and regulations in order to increase efficiency in debt collection by considering all measures in accordance with the law, against operators who do not fulfil their obligations.	No actions have been taken by the management to establish mechanisms for the collection of accounts receivable.	Implementation has not started
18.	Contingent Liabilities	The mayor should ensure that contingent liabilities are presented in the financial statements according to the requirements of the regulation on Annual Financial Reporting by Budgetary Organizations.	Even this year, the contingent liabilities have not been correctly presented in the AFS.	Implementation has not started
19.	Internal Audit	The mayor should ensure the functioning of the audit committee to critically review internal audit plans to confirm that they are risk-based and provide the required assurance to management. Also, the Committee should monitor the actions taken by the management regarding the audit recommendations.	The municipality has operationalized the internal audit committee.	Implemented

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

Vlora Spanca: Auditor General

Agron Fetiu: Assistant Auditor General

Lavdim Maxhuni: Audit Director

Elvir Krasniqi: Team leader

Albana Sahiti: Team member

Arian Zenelaj, Team member

Annex I: Letter of confirmation/ Comments of BO regarding the audit report

No.	Comments from the Municipality of Ferizaj	KNAO View
1.	<p>Issue B5 – Off-payroll staff and entering into obligations without an approved budget</p> <p>The Directorate of Education would like to inform the Audit Office that since our last report on this issue, we have successfully added 7 teachers to the payroll list, leaving only 24 teachers remaining off the list. We anticipate that this number will continue to decrease each month.</p>	<p>This finding has been confirmed by the municipality, which added seven (7) teachers to the payroll list since the time of reporting.</p>
2.	<p>Issue B11 - Delay in contract execution</p> <p>The Directorate of Education would like to inform the Audit Office that the progress of works at this school has been delayed due to obstacles from the PAK, specifically the decision of the Basic Court in Ferizaj to suspend the works, as well as the continuous price inflation in the market.</p> <p>(The relevant court decision and the letter from the PAK are attached to this letter)</p>	<p>This finding has been confirmed by the municipality, which initiated the procurement procedure and signed a contract without securing a location for the school's construction, leading to further delays.</p>
3.	<p>Issue A3 - Non-contracting of services provided by municipal public enterprises</p> <p>Attached you will find all the evidence of communication with the NAO auditor This includes agreements with public enterprises, as well as all communication between the joint commissions where they have negotiated the provision of maintenance services for public spaces in the city and villages. During the negotiations, the Municipality of Ferizaj provided a list of spaces that needed maintenance.</p>	<p>This finding has been confirmed, as the municipality has not formally requested the two (2) Local Public Enterprises, of which the municipality is the owner. Without a formal request from the municipality, there was no way for them to know that the Local Public</p>

	<p>The public company commissions, lacking technical and human resources, only negotiated for spaces they could manage based on their capacities (Specifically, agreements with Regional Waste Company Pastërtia and LWE Ambienti are attached as annexes to this commentary, containing all the communications of the relevant Commissions and the meeting minutes where agreements were reached for completing these works.) The Municipality of Ferizaj is obligated to proceed with open procurement procedures for spaces not covered by public companies.</p> <p>Attached you will find the agreements containing the minutes, communications from the commissions, decisions regarding the establishment of the commissions, and other accompanying documentation for the agreement on the performance of the respective work – these documents have also been previously sent via e-mail.</p>	<p>Enterprises do not have the capacity to provide the services that were tendered and contracted with a private Economic Operator, even though the municipality purchased these services from these two Local Public Enterprises. According to the meeting minutes from 26.04.2023 between officials from the municipality of Ferizaj and officials from RWC Pastërtia, the discussion did not cover the possibilities and capacities of the company RWC Pastërtia. Instead, negotiations focused on pricing before finalizing the contract for cleaning and washing the city's urban area streets, removing and transporting bulky waste, removing solid waste from public spaces, and disposing of illegal household waste.</p>
4.	<p>Issue A2 - Entering into contractual obligations without sufficient funds, and signing a contract for a project not included in the budget law</p> <p>These are direct agreements with public enterprises and are conducted without following procurement procedures (a practice also observed in other municipalities in the Republic of Kosovo). These activities fall under the category of goods and</p>	<p>This finding has been confirmed, as it is a legal requirement to have sufficient funding before entering into any contract that has financial implications. Budgetary organizations must ensure they have adequate funds by signing a declaration of</p>

	<p>services, and depending on the work performed, invoicing is also carried out.</p> <p>In any case, the reference value for the availability of funds is for planning the procurement plan for the year 2023, specifically it includes projects with ordinal numbers 66 and 144, as well as the Budget of Kosovo for the year 2023, program code 180, sub-program code 18032, and functional code 0451 - road infrastructure for the years 2023-2025. These funds are then allocated into economic categories in the Municipality's budget for the year 2023, under economic code No. 14032- for maintenance of local highways, and code 14060- for routine maintenance.</p> <p>Attached you will find the Procurement Plans for 2023, and the Budget of the Republic of Kosovo for 2023.</p>	<p>fund availability. In one case, the municipality entered into a contract for the maintenance of streets and city squares without securing the declaration of fund availability, even though the CFO confirmed that there are sufficient budgetary funds. Additionally, there are six other cases where the municipality has entered into contractual obligations without financial coverage.</p>
5.	<p>Issue B2 - Incorrect presentation of contingent liabilities in the annual financial statements</p> <p>There was a lack of coordination between the newly recruited staff and the old staff, resulting in the same liabilities being reported twice. Once we identified the mistake, we corrected it by updating the data in the attached report on contingent liabilities.</p>	<p>This finding has been confirmed as the municipality incorrectly reported contingent liabilities in the AFS for the year 2023 which were mistakenly submitted to the treasury.</p>
6.	<p>Issue B8 - Amendment of procurement contracts exceeding the allowed legal limit</p> <p>In this commentary/letter, we are providing an interpretation of the Public Procurement Regulatory Commission, which shows how the PPRC has allowed contract amendments of above 10% (as in this case 28.5%), emphasizing not exceeding the total value of the contract beyond 10 %. Where all the cases of projects exceedances in the Municipality of Ferizaj are in line with the interpretation of the PPRC,</p>	<p>This finding has been confirmed, as the municipality has also confirmed that there are amendments in the contract, and these changes are substantial. Any substantial alternation to the contract terms is prohibited by the procurement law and</p>

	<p>therefore the amendment of contracts is over 10%, but not the contract value.</p> <p>Attached is the interpretation from the PPRC</p>	<p>Procurement Rule 001/2022, specifically Articles 71.5, 71.6, and 71.9.2. This is because a substantial modification of the contract would alter the nature and economic balance of the contract. In the cases mentioned in this finding, we are indeed facing with substantial modifications to the contract.</p>
<p>7.</p>	<p>Issue A6 - Issuing construction permits on lands designated for agricultural use</p> <p>For your clarification, the Department of Urbanism and Environment converted agricultural land before the recommendations of the auditors who audited in October 2023. Attached are examples of such cases, along with the process of converting agricultural land to construction land before and after the recommendations. You can find supporting evidence in the form of issued invoices and payment slips.</p> <p>Attached are the relevant payment slips.</p> <p>We anticipate that you will take into account these comments and the evidence provided in the final audit report for 2023.</p>	<p>This finding has been confirmed, as the municipality confirms the finding by showing that the municipality has issued construction permits on lands with property certificates designated as agricultural land. Since this issue was identified, the municipality has now begun requesting a change in land use before issuing the construction permit.</p>



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KOMUNA E FERIZAJT • OPŠTINA UROŠEVAC • MUNICIPALITY OF FERIZAJ



LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2023 dhe për zbatimin e rekomandimeve

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- Kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e Pasqyrave Financiare të Komunës së Ferizajt, për vitin 2023 (në tekstin e mëtejshëm "Raporti");
- Brenda 30 ditëve nga pranimi i Raportit final, do t'ju dorëzoj një plan të veprimit për zbatimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për zbatimin e tyre.

22.05.2024, Ferizaj



Agim Aliu
Kryetar i Komunës

Annex II: Explanation regarding different types of opinion applied by NAO and other parts of the Auditor's Report

Auditor's Report on the financial statements⁵ should contain a clear expression of opinion referring to financial statement, based on conclusions drawn from the evidence obtained during the audit. Where the audit is conducted to assess also conformance with legislation and other regulations the auditors have an additional responsibility to report on compliance with authorities⁶. Such opinion should be separated from the opinion whether financial statements are true and fair, i.e. the opinion may be modified with respect to compliance issue(s) but still be unmodified in reference to credibility of the financial statements (or vice versa).

For the purpose of concluding whether an opinion on the financial statements is modified or unmodified an auditor should assure himself/herself whether audit results include or not (a) detected material or pervasive misstatement(s) or potential one(s) presumed in the event of a limitation of scope.

A misstatement is a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.

(Extract from ISSAI 200)

Forms of opinion

Unmodified opinion

It is formulated when no misstatements or non-compliance were detected or misstatements and/or non-compliance were detected, a single one or aggregate, that do(es) not equal or exceed the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions do(es) not equal or exceed the level of lower materiality established for this class of transactions. It is also formulated if there is no limitation of scope or a limitation of scope may not lead to omission of (a) material misstatement(s) and/or non-compliance).

⁵ Financial statements in the public sector include also the statement(s) of budget execution

⁶ Compliance with authorities: compliance with laws, rules, regulations, standards, or good practices.

Limitation of scope occurs when an auditor 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 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.

Modifications to the opinion in the auditor's report

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 and/or non-compliance, or is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement and/or non-compliance, the auditor should modify the opinion in the auditor's report. A modified opinion may be:

- Modified (qualified)
- Adverse, or
- Disclaimer

Qualified opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that equals or exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions equals or exceeds the level of lower materiality established for this class of transactions. It is also formulated if there is a limitation of scope that may not lead to omission of (a) material misstatement(s).

Adverse opinion

It is formulated when misstatement and/or non-compliance were detected, a single one or aggregate, that pervasively exceeds the level of materiality for the financial statements as a whole or (a) misstatement(s) and/or non-compliance detected within a certain class of transactions pervasively exceeds the level of lower materiality established for this class of transactions.

“Pervasive is a term used, in the context of misstatements and/or non-compliance, to describe the effects of misstatements and/or non-compliance on the financial statements or the possible effects on the financial statements of misstatements and/or non-compliance, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

- a) Are not confined to specific elements, accounts or items of the financial statements

- b) If so confined, represent or could represent a substantial proportion of the financial statements; or
- c) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Disclaimer of opinion

It is formulated when limitation of scope, i.e. inability to obtain sufficient appropriate audit evidence, is material and pervasive.

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

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.

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.

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.