Republika e Kosovës
Republika Kosova
Republic of Kosovo

Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

**COMPLIANCE AUDIT**

# "ASSESSMENT OF THE COMPLIANCE OF PAYMENTS MADE BY THE MUNICIPALITY OF PRISHTINA FOR THE PROJECT 'ENERGY EFFICIENCY IN PUBLIC BUILDINGS' FOR THE PERIOD 2024–2026"

**Table of Content**

**EXECUTIVE SUMMARY. ..... 3**

**I. INTRODUCTION. ..... 4**

**1. TITLE AND AUDITEE ..... 5**

**2. AUDIT PERIOD ..... 6**

**3. RATIONALE AND LEGAL BASIS FOR CONDUCTING THE AUDIT ..... 6**

**4. APPLIED AUDIT STANDARDS. ..... 7**

**5. AUDIT OBJECTIVES ..... 7**

**6. AUDIT SCOPE ..... 7**

**7 AUDIT CRITERIA ..... 8**

**III. AUDIT FINDINGS ..... 8**

**1. Payments executed in contradiction to the Loan Agreement ..... 9**

**2. Roles and responsibilities of the Municipality of Prishtina and the Ministry of Finance in oversight, monitoring and reporting... ..... 13**

**PJESA IV. CONCLUSIONS ..... 18**

**PJESA V. RECOMMENDATIONS ..... 19**

**PJESA VI. AUDITEE RESPONSE ..... 20**

The Auditor General of the Republic of Kosovo is the highest institution of economic and financial control, whose functional, financial and operational independence is guaranteed by the Constitution and the Law. The National Audit Office is an independent institution that assists the Auditor General in discharging his/her duties.

The National Audit Office, in accordance with internationally recognised public sector auditing standards, carries out mandatory annual financial and compliance audits as well as performance audits.

Through its audits, the NAO provides high-quality information on the use of public funds, supporting the auditees in improving their financial management and control systems. These audits help enhance transparency, accountability, prevention of corruption, and the efficiency and effectiveness of public spending, thereby adding value to both the operational and strategic activities of public institutions. We are thus contributing to strengthening public trust in the use of public resources and play an active role in securing the taxpayers' and other stakeholders' interests in increasing public accountability.

Through our audit reports, we have provided a clear overview of how the Government and public institutions have managed expenditures and revenues, public assets, and overall governance at the national level.

We have assessed the effectiveness and efficiency of internal control systems, the proper use of resources, and other related systems within the Municipality of Prishtina. An important area to which the National Audit Office pays particular attention is the execution of payments in accordance with the terms and objectives of financing agreements, considering that this directly affects the legality, regularity and efficiency of public spending. These audits play an important role in enhancing transparency and efficiency in the execution of payments, ensuring that public funds are used in accordance with the objectives set out in the project agreement. Furthermore, they contribute to the proper use of funds and the achievement of the planned project results.

This audit was carried out in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000). Compliance audits conducted by the National Audit Office are objective and reliable examinations designed to assess whether government actions, systems, operations, programs, activities, or organisations comply with the applicable authorities.

The Auditor General has decided on the content of the compliance audit report on "Assessment of the Compliance of Payments Made by the Municipality of Prishtina for the Project Energy Efficiency in Public Buildings".

Audit team consisted of:
Blerim Kabashi, Director of the Audit Department;
Arnisa Aliu, Team Leader; and
Team Members.

## SECTION I. EXECUTIVE SUMMARY

The National Audit Office has conducted the compliance audit on "Assessment of the Compliance of Payments Made by the Municipality of Prishtina for the Project 'Energy Efficiency in Public Buildings", amounting to €5,000,000. The project was financed through the Loan Agreement "Green Cities Framework 2, Window 2 – Energy Efficiency in Public Buildings", concluded between the Ministry of Finance and the European Bank for Reconstruction and Development (EBRD), signed on 12 April 2022. Afterwards, on 22 December 2023, a Subsidiary Loan Agreement was signed between the Ministry of Finance and the Municipality of Prishtina and ratified by the Assembly of the Republic of Kosovo on 4 January 2024. The purpose of the financing was to support the Municipality of Prishtina in implementing energy efficiency measures in municipally-owned buildings, including kindergartens, schools and primary healthcare centres.

The project was initially planned to be completed in December 2025. However, due to delays in the implementation of the planned activities, the project completion deadline was extended until December 2027 through an annex. The prescribed energy efficiency measures include the upgrading and replacement of heating systems, thermal insulation of buildings, and the installation of windows and doors in accordance with energy efficiency standards. The agreement also provides an investment grant of up to €1 million for the project, bringing the total project investment to €6 million.

The audit objective was to assess whether the loan funds allocated to the project "Energy Efficiency in Public Buildings in the Municipality of Prishtina" were managed and used in accordance with the Loan Agreement and Project Agreement, the applicable legislation and the project objectives. In addition, the audit has assessed the roles and responsibilities of the institutions responsible for project oversight, namely the Municipality of Prishtina and the Ministry of Finance, with regard to monitoring the implementation of the agreements and managing the loan funds. The audit covered the process of managing and using the loan funds for the period from January 2024 to April 2026.

The audit conclusion is that the Municipality of Prishtina did not manage the loan funds in accordance with the Loan Agreement with the EBRD. The Municipality had used the funds for purposes other than those stipulated in the terms and objectives of the Loan Agreement, the Subsidiary Loan Agreement and the Project Agreement (hereinafter referred to as the Agreements). The Agreements provided for investments in energy efficiency in public buildings owned by the Municipality of Prishtina, such as the upgrading of heating systems, thermal insulation, and the replacement of windows and doors with energy-efficiency elements.

The audit has found that the Municipality of Prishtina spent had spent €2,180,417 on six other projects, namely: the energy efficiency project in public buildings; the project for the construction, expansion and modernisation of the public lighting network; the project for the renovation of façades of old buildings in the capital; the project financed through the IPA III instrument/co-financing agreements with the Kosovo Energy Efficiency Fund (KEEF); the project for traffic safety barriers; and the waste management project.

The audit identified that the Municipality of Prishtina had spent €2,180,417 on six other projects, namely: the energy efficiency project in public buildings; the project for the construction, expansion and modernisation of the public lighting network; the project for the renovation of façades of old buildings in the capital; the project financed through the IPA III instrument/co-financing agreements with the Kosovo Energy Efficiency Fund (KEEF); the project for traffic safety barriers; and the waste management project.

These projects were not provided for under the Loan Agreement; rather, they were projects planned to be financed through the Law on Budget Appropriations. Furthermore, some projects had not been envisaged at all, either under the Law on Budget Appropriations or the Medium-Term Expenditure Framework (MTEF). To initiate public procurement activities for projects outside the scope of the loan funds, the Municipality of Prishtina had used the declaration of availability of funds under the budget of the loan-financed project/investment clause.

International borrowing funds are public resources subject to clear legal and contractual obligations. They must be used for the purposes they have been obtained for, monitored by the responsible institutions, and deliver the intended results for citizens. Failure to comply with the financing conditions undermines the international financial institutions' trust in the country's public financial management and control system. The use of loan funds for other purposes has compromised controls over the allocation of public funds and the legislature's confidence in the legality of budget appropriations.

In addition to the use of funds for purposes other than those intended, the audit also identified shortcomings in the formal establishment of the structures responsible for project implementation. The Project Implementation Unit and the engagement of municipal staff were not supported by formal acts clearly defining their roles, responsibilities and duties. This weakens accountability, the traceability of decision-making and the ability to assign responsibility for project management.

Moreover, payments were made by the Municipality through the Treasury Single Account, although the Loan Agreement provided for direct payments by the EBRD to contractors or works contractors. This indicates that payment procedures were not implemented in accordance with the mechanism stipulated in the Agreement and highlights the need for stronger ex-ante controls by the responsible institutions.

On the other hand, the reports submitted by the Municipality of Prishtina to the Ministry of Finance did not provide detailed information on the use of loan funds for other purposes. Similarly, interdepartmental reporting and reporting by the Treasury within the Ministry of Finance did not provide harmonised information on the funds disbursed from the loan either. The lack of complete information limits monitoring as well as the timely identification of problems and the adoption of corrective measures.To address the identified shortcomings, concrete actions are required, and we have issued recommendations to the Mayor of the Municipality of Prishtina and the Minister of Finance accordingly.

## SECTION II. AUDIT SUBJECT MATTER AND SCOPE

### 1.1. TITLE AND AUDITEE

Pursuant to the Law on Local Self-Government, Article 5, the Municipality of Prishtina is a legal entity enjoying legal capacities, including, *inter alia*, the capacity to own and manage property and to enter into contracts.

The Municipality is entitled to manage and administer public financial resources and funds obtained through loans, in accordance with the applicable legislation and relevant financial agreements. Municipalities are responsible for the planning, implementation and supervision of projects financed from the municipal budget and through public borrowing. Pursuant to Article 10 of the Law on Local Self-Government, the municipal bodies are the Municipal Assembly and the Mayor. The Municipal Assembly and the Mayor are entitled to issue acts and undertake any implementing measures within the scope of their respective powers. The mayor is entitled to issue instructions and decisions within the scope of his/her powers. All municipal acts must comply with the constitutional and legal framework of the Republic of Kosovo.

The Municipality's functions, roles and responsibilities in managing and implementing projects financed through loans are governed by the relevant legal acts and financial agreements. As part of the project "Energy Efficiency in Public Buildings in the Municipality of Prishtina", the implementation and management of activities are financed through the Loan Agreement amounting to €5,000,000. These agreements define the terms and conditions, responsibilities, financing categories, procedures for the use of funds, as well as monitoring and reporting requirements throughout project implementation.

For the project "Energy Efficiency in Public Buildings", the Municipality of Prishtina had made payments of €2,225,222 in total. In 2024, the Municipality incurred expenditures amounting to €969,980 under the project, whilst expenditures of €1,000,000 was incurred during 2025. Furthermore, expenditures amounting to €255,242 was incurred during 2026, up to April.

Likewise, the Ministry of Finance, within the scope of its responsibilities as defined by the applicable legislation, is responsible for the development and implementation of policies in the areas of public financial management, fiscal and macroeconomic policies, the Budget of the Republic of Kosovo, public debt, public sector internal control and auditing, as well as other financial matters established by law.

As part of its scope, the Ministry proposes and implements legislation and financial policies, coordinates the budget process, ensures the execution and oversight of public expenditure, manages processes related to public borrowing and sovereign debt, and ensures the macroeconomic and macro-fiscal stability of the Republic of Kosovo.

In addition, the Ministry exercises its responsibilities in overseeing the financial management of public institutions, implementing tax and customs policies, financing and supporting local government in the area of public finance, and cooperating with domestic and international financial institutions, in accordance with the Constitution and applicable legislation.

## 1.2. RATIONALE AND LEGAL BASIS FOR CONDUCTING THE AUDIT

The audit was conducted at request of the Minister of Finance, pursuant to Decision No. 31, dated 05.06.2026. The Minister identified non-compliance with the conditions and procedures governing public financial management in relation to the expenditure of public funds by the Municipality of Pristina, as a result of the authorisation of expenditure in violation of Article 17 of Law No. 03/L-048 on Public Financial Management and Accountability, as amended and supplemented by Law No. 03/L-221, Law No. 04/L-116, Law No. 04/L-194, Law No. 05/L-063 and Law No. 05/L-007. The Auditor General decided to conduct this audit based on the financial and social significance of managing projects financed through the Loan Agreement ratified by the Assembly of the Republic of Kosovo.

## 1.3. AUDIT STANDARDS APPLIED

The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs). In accordance with INTOSAI-P 10, ISSAI 130 – Code of Ethics, ISSAI 400 – Compliance Audit Principles, ISSAI 4000 – Compliance Auditing Standard, the NAO's Financial and Compliance Audit Manual, and other relevant compliance audit requirements, the NAO is independent of the auditee. We believe that the obtained audit evidence is sufficient and appropriate to provide a basis for the audit conclusions.

## 1.4. DESCRIPTION OF THE AUDIT SUBJECT MATTER AND SCOPE

The audit scope covers the process of making payments under the loan agreements, as well as the role and responsibilities of the Municipality of Pristina and the Ministry of Finance in overseeing and monitoring project implementation. The audit covers the process of managing and utilising the borrowing funds from the January 2024 to April 2026 period.

No limitations were encountered during this audit that would have affected our audit work.

## 1.5. AUDIT OBJECTIVES

The audit objective was to determine the extent to which the management, utilisation and monitoring of borrowing funds for the project “Energy Efficiency in Public Buildings in Pristina” during the period 2024–2026 complied with the requirements set out in the Agreements, applicable legislation and the project objectives. As part of the audit scope, we assessed whether:

1. The project funds were managed and utilised in accordance with the purpose and conditions stipulated in the relevant agreements;

2. Institutional roles and responsibilities for budget allocation in KFMIS, payment processing, project management, monitoring and reporting were clearly defined and effectively implemented; and
3. Control mechanisms ensured the timely identification and addressing of deviations from project requirements.

## 1.6. AUDIT CRITERIA

The list of relevant laws, regulations and agreements establishing the requirements for the procedures, financial management and implementation of the project "Energy Efficiency in Public Buildings in the Municipality of Pristina" is as follows:

**1. Financial and Institutional Agreements for Project Implementation**

- The Loan Agreement and the Subsidiary Loan Agreement for the project "Green Cities Framework 2 – Window 2 – Energy Efficiency in Public Buildings in the Municipality of Pristina", concluded between the Ministry of Finance, the Municipality of Pristina and the EBRD, in accordance with the roles and responsibilities defined in the respective agreements;
- The Project Agreement for the project "Green Cities Framework 2 – Window 2 – Energy Efficiency in Public Buildings in the Municipality of Pristina", concluded between the Municipality of Pristina and EBRD.

**2. Legislation on Public Financial Management**

- Law No. 03/L-048 on Public Financial Management and Accountability, as subsequently amended and supplemented; and
- The Law on Budget Appropriations of the Republic of Kosovo for the respective periods.

**1. Secondary Legislation:**

- OPM Regulation No.02/2023 on the Internal Organisation and Systematisation of Job Positions in the Ministry of Finance, Labour and Transfers;
- MF Regulation No.03/2017 on the Administration of Borrowing Funds, as amended and supplemented;
- Regulation No. 01/2013 on Public Money Expenditure;
- Procedure for Recording Receipts and Payments Related to Sovereign Debt; and
- Medium-Term Expenditure Framework (MTEF) for the periods 2024–2026 and 2025–2027.

## SECTION III. FINDINGS

The National Audit Office has identified deficiencies in the implementation and management of the capital project "Energy Efficiency in Public Buildings in the Municipality of Pristina", including the use of loan funds, the compliance of expenditure with the loan agreements with the EBRD, as well as the documentation and monitoring of project activities.

This report presents information indicating that the Municipality of Prishtina used the loan funds for purposes other than those stipulated in the agreement and made payments for activities and contracts falling outside the scope of the project. Furthermore, it used project codes for activities that were not aligned with the project activities and the requirements of the EBRD loan.

These findings are based on the analysis of documentation obtained from the Municipality of Pristina and the Ministry of Finance, including all agreements, contracts, payment documentation and supporting records. Based on this documentation, the Municipality of Pristina is responsible for project implementation and for ensuring that funds are used exclusively for the activities stipulated in the agreement.

The project aims at implementing energy efficiency measures in municipally-owned buildings, including improvements to heating systems, thermal insulation, and replacement of windows and doors with energy-efficient elements.

The audit findings have been structured into two parts: payments made in violation of the loan agreement; and the roles and responsibilities of the parties in monitoring and reporting

### 1. Payments made in violation of the loan agreement

The audit criteria relating to the processing of payments within this audited area derive from:

- The Loan Agreement and the Subsidiary Loan Agreement for the project "Green Cities Framework 2 – Window 2 – Energy Efficiency in Public Buildings in the Municipality of Pristina", concluded between the Ministry of Finance, Labour and Transfers, the Municipality of Pristina and the EBRD, in accordance with the roles and responsibilities defined in the respective agreements;
- The Project Agreement for the project "Green Cities Framework 2 – Window 2 – Energy Efficiency in Public Buildings in the Municipality of Pristina", concluded between the Municipality of Pristina and EBRD. Based on the audit work performed, we found that the Municipality had not managed and utilised the borrowing funds for the project "Energy Efficiency in Public Buildings in Pristina" in accordance with the requirements of the Loan Agreement, the Subsidiary Loan Agreement and the relevant legal framework;
- Law No.03/L-048 on Public Financial Management and Accountability, as subsequently amended and supplemented;
- Law on Budget Appropriations of the Republic of Kosovo for the respective periods; and
- Regulation No. 01/2013 on Public Money Expenditure.

Based on the compliance tests performed, the audit team found the following:

**Issue 1: The use of loan funds and the processing of payments were not in compliance with the Agreements**

The Loan Agreement, dated 12 April 2022, between the Republic of Kosovo and the EBRD, ratified by the Assembly of Kosovo through Law No. 08/L-203, stipulates that the Project's purpose is to implement energy efficiency measures in buildings owned by the Project Entity (the Municipality of Pristina), with financial support from the EBRD.

According to Schedule 1 – Project Description of the Loan Agreement, the purpose of the Project is to implement energy efficiency measures in 47 municipally-owned buildings, including kindergartens, schools and primary healthcare centres. The planned measures include the improvement and replacement of heating systems, thermal insulation of buildings, and the installation of energy-efficient windows and doors. Furthermore, the Agreement stipulates that the proposed measures do not include the installation of solar panels.

The Subsidiary Loan Agreement, concluded between the Ministry of Finance, Labour and Transfers (the Borrower) and the Municipality of Pristina (the benefiting Project Entity), bearing the protocol date of 22.12.2023, stipulates under Article 3, Section 3.01, that loan funds amounting to €5,000,000 shall be made available to the Project Entity (in this case, the Municipality of Pristina), subject to the terms and conditions set out in the Agreement.

According to Section 3.07 of the Subsidiary Loan Agreement, the funds made available must be used solely and exclusively to finance the works necessary for the implementation of the Project, in accordance with the Agreements. It also obliges the Municipality, as the Project Entity, to inform the Borrower and the EBRD of any material change or deviation from the Project Agreement that may affect the use of loan funds or the Project implementation.

Furthermore, under the Project Agreement concluded between the Municipality of Pristina and the EBRD on 12 April 2022, Article 2, Section 2.01, the Municipality is obliged to implement the Project in accordance with the Agreements.

According to Section 2.03, a Project Implementation Unit, meeting the requirements acceptable to the EBRD, must be established and operational for the implementation, coordination, management and monitoring of the Project. Meanwhile, Section 2.04 stipulates that the procurement of works, goods and services for the Project must be carried out through open tendering procedures, in accordance with the EBRD Procurement Policies and Rules, and that the contracts are subject to review by the EBRD.

Under Article 3, Sections 3.01, 3.02, 3.03 and 3.04 of the Project Agreement, the Municipality is obliged to keep adequate ledgers and books disclosing the financial position of the Project activities, and to ensure sufficient records for monitoring and recording Project progress, including the costs incurred and benefits arising therefrom. Furthermore, the Municipality is required to ensure compliance with the applicable financial requirements and borrowing restrictions, as well as to comply with all agreements to which it is a party with the EBRD. It must not permit changes to the budget or Project activities that could materially affect its ability to fulfil its contractual obligations.

The audit has identified irregularities in 21 payments amounting to a total of €2,180,417, made by the Municipality of Pristina during the period 2024–2026 from the loan/borrowing funds allocated to the capital project "Energy Efficiency in Public Buildings in Pristina". The payments made were not in compliance with the requirements of the Agreements. The irregularities are presented below:

The funds designated for the project "Energy Efficiency in Public Buildings in Pristina" were used for the following six projects/contracts, which were not included in the Agreements:

- Project/contracts for energy efficiency in public buildings;
- Project/contracts for the construction, expansion and modernisation of the public lighting network;
- Project/contract for the facade renovation of old buildings in the capital;
- Project financed through the IPA III instrument/co-financing agreements with KEEF;
- Project/contract for traffic safety barriers; and
- Project/contract for waste management.

**1. Project/contracts for energy efficiency in public buildings:**

A total of seven payments amounting to €827,911 were made for this project, as follows:

- Four payments amounting to €560,572 were made under the framework contract "Energy Efficiency in Public Buildings – Lot 1", concluded in 2025 (total estimated contract value: €2,000,000); and
- Three additional payments amounting to €267,339 were made under the framework contract "Energy Efficiency in Public Buildings – Lot 2", concluded in 2025 (total estimated contract value: €1,000,000).

Based on the works logbooks, photographs provided by the contract managers and the physical inspection conducted by the audit team, we found that the works concerned the facade renovation of old buildings in the capital, which were not included in the list of designated buildings and were not in compliance with the Agreements.

Moreover, the project/contract for energy efficiency in public buildings had not been included in the Law on Budget. Nevertheless, for this activity, the declaration of funds availability at the time of initiating the procurement procedure was based on the budget of the borrowing-financed project/investment clause.

**2. Project/contracts for the construction, expansion and modernisation of the public lighting network**

The Municipality of Pristina made payments amounting to €700,374 from EBRD loan funds for the project involving the modernisation of the public lighting network, which fell outside the scope of the Agreements, as follows:

- Two payments amounting to €470,315 were made under the contract "Construction, Expansion and Modernisation of the Public Lighting Network – Lot 1", concluded in 2024 (total indicative contract value: €1,500,000);
- One payment amounting to €120,059 was made under the contract "Construction, Expansion and Modernisation of the Public Lighting Network – Lot 4", concluded in 2024 (total indicative contract value: €345,000); and
- One payment amounting to €110,000 was made under the contract "Construction, Expansion and Modernisation of the Public Lighting Network – Lot 3", concluded in 2024 (total indicative contract value: €350,000).

All these payments were made from the funds allocated under the Agreements, specifically using the capital project code "Energy Efficiency in Public Buildings in Pristina", even though public lighting activities were not envisaged under these Agreements. This project was included in the Law on Budget, Table 4.2 – Financing of Municipal Capital Investments, and was planned to be financed from the Municipality's own-source revenues. However, the budget allocated for this project had also been spent on other purposes.

**3. Project/contract for the facade renovation of old buildings in the capital**

Six payments amounting to a total of €441,025 were made under the framework contract "Facade Renovation of Old Buildings in the Capital and Provision of Services", concluded in 2024 (total indicative contract value: €500,000).

Based on the works logbooks, photographs provided by the contract managers and the physical inspection conducted by the audit team, we found that the works concerned the facade renovation of old buildings in the capital, which were not included in the list of designated buildings and were not in compliance with the Agreements.
The project "Facade Renovation of Old Buildings in the Capital and Provision of Services" had not been included in the Law on Budget. Moreover, the declaration of funds availability issued at the time of initiating the procurement procedures for these activities was based on the budget of the borrowing-financed project/investment clause.

**4. Project financed through the IPA III instrument/co-financing agreements with KEEF.**

On 01.11.2024, the Municipality of Pristina signed a co-financing agreement with the Kosovo Energy Efficiency Fund (KEEF). The Agreement establishes cooperation between KEEF and the Municipality of Pristina for the co-financing of a project aimed at improving energy efficiency in a Social Multi-Apartment Residential Building.
Within the framework of the European Union-supported project under the IPA Programme – Energy Support Package, arranged by the Government of the Republic of Kosovo, KEEF provides the Municipality with grant financing (non-repayable) covering 90% of the project value, amounting to €1,118,423, while the Municipality is required to co-finance the remaining 10% of the total project value, amounting to €124,269, from its regular budget.

The audit found that, instead of providing the planned 10% co-financing contribution (€124,269) from the Kosovo Budget, the Municipality used funds from the Agreements with the EBRD, making two payments from these funds.

**5. Project/contract for traffic safety barriers;**

One payment amounting to €48,089 was made from the borrowing funds under the framework contract "Construction of Traffic Safety Barriers", concluded in 2025 (total estimated contract value: €750,000).

This payment was made using the capital project code "Energy Efficiency in Public Buildings in Pristina", although the activities carried out for the installation of traffic safety barriers deviated from the requirements of the Loan Agreement and the Project Agreement. This project was included in the Law on Budget, Table 4.2 – Financing of Municipal Capital Investments, and was planned to be financed from the Municipality's own-source revenue budget. However, the budget allocated for this project had also been spent on other purposes outside the approved budget appropriations.

**6. Project/contract for waste management**

Another payment of €38,748 was made from the funds allocated under the Agreements, under the framework contract "Provision of Municipal Waste Collection, Transportation and Disposal Services", concluded in 2025 (total indicative contract value: €1,200,000). This payment was made using the capital project code "Energy Efficiency in Public Buildings in Pristina", although the activities carried out for waste collection, transportation and disposal deviated from the requirements of the Loan Agreement and the Project Agreement.

The payment requests referred to above were initiated by the Municipal Directorate of Public Services of the Municipality of Pristina, while the Project Implementation Unit was not informed that the Municipality was making payments from the borrowing funds for purposes other than the designated ones.

Furthermore, the NAO's finding is also corroborated by the fact that the project/contracts for the construction, expansion and modernisation of the public lighting network, as well as the project/contract for traffic safety barriers, were included in the budgeting process under the Law on Budget and planned in the Municipality of Pristina's procurement plan for 2024–2025.

This situation occurred as a result of the Municipality's management failing to exercise due responsibility and the Municipality of Pristina's weak internal control system regarding compliance with the requirements of the loan/borrowing financing agreements and the Project Agreement.

Failure to comply with the terms and purposes stipulated in the borrowing agreements poses a high risk to the Municipality, particularly by undermining institutional trust among lenders. It may result in the failure to achieve the intended objectives of projects designed to serve the public interest, particularly those related to energy efficiency. Considering that securing financing from international financial institutions provides an opportunity to obtain funding under favourable conditions, but also involves lengthy and complex negotiation and assessment processes, as well as strict compliance with the conditions set by financiers, such non-compliance further increases the risk of failing to secure future loans.

Furthermore, the use of funds for purposes other than those specified, or in violation of the conditions of the Agreements, undermines the Municipality's financial and institutional credibility with lenders and affects its relations with international financial institutions. It also increases the risk that resources secured for specific projects will not achieve their intended purposes or generate the planned benefits for citizens.

## 2. Roles and Responsibilities of the Municipality of Pristina and the Ministry of Finance in Oversight, Monitoring and Reporting

This chapter includes an analysis of the roles, responsibilities and oversight mechanisms of the institutions involved in project implementation, including the Municipality of Pristina and the Ministry of Finance.

The audit criteria relating to institutional roles and responsibilities in project oversight, applied to this audited area, derive from:

- The Loan Agreement and the Subsidiary Loan Agreement for the project "Green Cities Framework 2 – Window 2 – Energy Efficiency in Public Buildings in the Municipality of Pristina", concluded between the Ministry of Finance, Labour and Transfers, the Municipality of Pristina and the EBRD, in accordance with the roles and responsibilities defined in the respective agreements;
- The Project Agreement for the project "Green Cities Framework 2 – Window 2 – Energy Efficiency in Public Buildings in the Municipality of Pristina", concluded between the Municipality of Pristina and the EBRD; and
- OPM Regulation No.02/2023 on the Internal Organisation and Systematisation of Job Positions in the Ministry of Finance, Labour and Transfers, Article 20 – Central Support Division for the Implementation of Development Projects. According to paragraph 1.4, the duties and responsibilities of the Central Support Division for the Implementation of Development Projects include closely monitoring the implementation of development projects financed through borrowing or grants, in cooperation with the project implementation units established within the beneficiary entities, and addressing issues to ensure the efficient implementation of development projects.

The Municipality of Pristina had operationalised the Project Implementation Unit for the purpose of coordinating and implementing project activities. However, this was done without any decision or formal act approved by the Municipality, but solely through electronic communications between the responsible officials.

The Municipality had followed a similar approach in assigning its regular staff to specific duties under the Project. Their engagement was not supported by additional decisions or formal documents defining their roles, responsibilities and duties in project implementation.

With regard to monitoring, the Ministry of Finance, specifically the Financing Department, had prepared and submitted quarterly reports for 2025 on projects financed under the Investment Clause to the respective institutions. However, these reports did not provide detailed information on the project in question in the Municipality of Pristina.

Based on the compliance tests performed, the audit team identified the following issues concerning the Municipality of Pristina:

**Issue 2 – Lack of formalization of responsible structures**

According to the Agreement dated 12 April 2022, the Municipality of Pristina, in its capacity as the Project Entity, is directly responsible for implementing the project "Energy Efficiency in Public Buildings". The Municipality is obliged to ensure the coordination, management, monitoring and evaluation of all project activities, as well as compliance with the requirements stipulated in the Agreement. To this end, Article 2, Section 2.03 of the Project Agreement requires the Municipality to establish and maintain a Project Implementation Unit throughout the execution of the Project.

The Municipality of Pristina had assigned staff to implement the Project, who functioned as the Project Implementation Unit. However, this Unit was not established through a formal decision, but solely through electronic communication (email).

The Municipality had followed a similar approach in assigning its regular staff to specific duties under the Project. Their engagement was not supported by additional decisions or formal documents defining their roles, responsibilities and duties in project implementation.

This occurred due to weak controls by the Municipality, which failed to ensure that decisions and formal acts were issued to establish the responsible structure and define the roles and responsibilities of the personnel engaged in the Project.

Failure to establish this Unit through a formal approach, in accordance with the requirements of the Agreement, created a risk that responsibilities, authority and accountability for project implementation and monitoring would remain unclear and undocumented. Consequently, this resulted in weaknesses in project oversight, contract monitoring and verification of physical and financial progress, leading to non-compliance with the Agreement. This may affect the effective management of borrowing funds and result in incomplete and inaccurate reporting, which in turn has contributed to payments and activities being carried out in violation of the conditions established by the lender.

**Issue 3 - Failure to Implement the Payment Mechanism Stipulated in the Agreement**

Based on the Agreements, confirmations and relevant EBRD documents concerning the project "Energy Efficiency in Public Buildings in the Municipality of Pristina", the disbursement and payment conditions provide for payments to be made through a direct payment mechanism to the contractor.

In addition, according to the Procedure for Recording Receipts and Payments Related to Sovereign Debt in the KFMIS, the workflow for direct payments under on-lent loans is presented as follows:

The Ministry of Finance, in accordance with the Law on Budget and other applicable legal provisions, allocated the borrowing funds in KFMIS to enable the technical process of recording expenditure in KFMIS, but not to facilitate payments from the Treasury Single Account for the project "Energy Efficiency in Public Buildings".

Despite this, during 2024, 2025 and 2026, the Municipality of Pristina irregularly used these funds and made payments for other projects through the Treasury Single Account (TSA). Specifically, the funds were transferred from the TSA to the bank accounts of economic operators.

As a result, the payment method used by the Municipality of Pristina, through transfers from the TSA to the bank accounts of EOs, constitutes a departure from the payment mechanism and conditions stipulated in the Loan Agreement.

Such irregular payments occurred because the Municipality of Pristina, in contravention of the Agreements and the purpose which the funds had been allocated for, misused the technicalities provided by the Treasury for accounting purposes – i.e. the recording and reporting of expenditure. The responsible municipal officials had not implemented adequate controls to ensure that the funds allocated in KFMIS were used exclusively for the purpose of recording expenditure in KFMIS.

The failure to verify the payment method before allocating the borrowing funds created a risk that expenditure recorded in KFMIS from the borrowing fund might not be accepted by the lender when the disbursement request is submitted.

**Issue 4 – Inaccurate Reporting and Failure to Reconcile the Information on the Implementation of Borrowing-Financed Projects/Investment Clause**

According to MF Regulation No.03/2017 on Amending and Supplementing MF Regulation No.01/2016 on the Administration of Borrowing Funds, Article 10A – Reporting by Implementing Budget Organisations: (1) the Chief Financial Officers (CFOs) of implementing budget organisations shall report to the Treasury on the level of execution of projects financed through international borrowing; (2) no later than the fifth (5th) day of the month following each quarter, the CFOs shall submit the reports electronically and in hard copy to the Ministry of Finance..

Furthermore, according to the Medium-Term Expenditure Frameworks (MTEF) for 2024–2026 and 2025–2027, under the section relating to the Investment Clause, another stipulated requirement is for the Ministry of Finance to prepare a narrative report twice a year on the implementation of projects financed through the Investment Clause.

The Municipality of Pristina had prepared and submitted reports to the Ministry of Finance in 2024 and 2025 concerning the project “Energy Efficiency in Public Buildings”. However, the Municipality of Pristina had not informed the Ministry that the funds allocated to this project were being spent on other projects or purposes.

These reports provided information only on the project's start and completion dates, the level of project execution, reported challenges and the actions required to address those challenges.

On the other hand, inconsistencies in the information were identified among the reports prepared by the Ministry of Finance's organisational units. The Financing Department, the Treasury and the Budget Department had reported different figures for expenditure incurred over the years.

For 2025, the Financing Department had prepared quarterly reports for the Minister of Finance on the level of execution of borrowing-financed projects. However, for the project “Energy Efficiency in Public Buildings in the Municipality of Pristina”, it reported that no expenditure had been incurred. In its nine-month financial report for the period January–September 2024, the Treasury had reported expenditure amounting to €44,805, whereas in its subsequent nine-month report for January–September 2025, it had reported expenditure amounting to €732,660.

The Budget Department had also reported the same amount as the Treasury for 2024, namely €44,805, in the Law on 2025 Budget. However, in the Law on 2026 Budget, cumulative expenditure up to the end of 2025 was presented as amounting to €1,999,980.

The lack of coordination between the Ministry's organisational units, combined with the Municipality of Pristina's failure to provide accurate and reliable information, resulted in inconsistencies and unclear reporting. Furthermore, the internal control system did not function effectively to ensure that the monitoring and reporting process complied with the applicable legal framework.

## SECTION IV. CONCLUSIONS

The audit conclusion is that the Municipality of Prishtina did not manage the loan funds in accordance with the Loan Agreement entered into with the EBRD. The Municipality spent funds of €2,180,417 for purposes other than those specified under the terms and objectives of the Loan Agreement, the Subsidiary Loan Agreement and the Project Agreement. The Agreement provided for investments in energy efficiency in public buildings in the Municipality of Prishtina, such as: improving heating systems, thermal insulation, and replacing windows and doors with energy-efficient elements.

Furthermore, some projects financed by the Municipality through the loan were projects planned to be financed through the Law on Budget Appropriations, while other projects had not been envisaged at all, either in the Law on Budget Appropriations or in the Medium-Term Expenditure Framework.

This constitutes a material non-compliance with the intended use of the financing as defined in the loan agreements, with potential legal and financial consequences for the Municipality and the Budget of the Republic of Kosovo.

Failure to comply with the financing conditions undermines the international financial institutions' trust in the country's public financial management and control system. The use of loan funds for other purposes has compromised controls over the allocation of public funds and the legislature's confidence in the legality of budget appropriations.

The failure to formally establish the structures responsible for project implementation weakens accountability, the traceability of decision-making, and the ability to determine responsibilities for project management.

The Municipality's departure from the payment procedures stipulated in the Agreement indicates a lack of responsibility in the implementation of internal controls. On the other hand, the lack of complete information in reporting limits monitoring, the timely identification of problems, and the taking of corrective decisions by the Municipality and the Ministry of Finance.

## SECTION V. RECOMMENDATIONS

**The Mayor of Prishtina** should ensure that, in accordance with the relevant agreements and applicable legislation:

1. The authorisation of the use of loan funds for purposes other than those provided under the agreements for the project "Energy Efficiency in Public Buildings", including the use of funds outside the scope of the Law on Budget Appropriations is terminated;

2. The amount of loan funds and the funds used for other purposes are fully identified and documented, and that the Parties to the Agreement are informed of the actions taken thereon;

3. Concrete measures are taken to ensure the full recovery of funds used contrary to their authorised purpose, by returning them to the account and in accordance with the procedures determined by the Ministry of Finance, in compliance with the applicable legal and contractual framework;

4. The financial and contractual consequences are analysed and reported on, and that the responsibilities of officials involved are identified and addressed in accordance with the legal procedures;

5. Internal controls are established to ensure that external financing funds are used exclusively for their authorised purposes and that any change in their intended use is made only after obtaining the necessary written approvals from the parties authorised under the agreements;

6. Documented evidence of the measures taken and the implementation of the recommendation is submitted to the Parties to the Agreement, within the deadline specified in the action plan;

7. The Project Implementation Unit is formally established through the issuance of an official decision specifying its composition and the roles and responsibilities of its members; and

8. In cooperation with the Treasury, the process of recording allocations, the payment method, and the recording of expenditures in the KFMIS accounting records is carried out fully in compliance with the procedure for recording receipts and payments relating to State Debt in KFMIS, as well as with the terms of the Loan Agreement.

**The Minister of Finance** should, in cooperation with the Municipality of Prishtina and in coordination with EBRD:

1. Conduct a legal and financial assessment of the use of funds outside their designated purpose, identifying breaches of the relevant agreements and the potential consequences for the State in its capacity as sovereign borrower and guarantor, in accordance with the specific contractual structure;

2. Assess and implement the necessary contractual and financial measures, in accordance with the agreements and applicable legislation, to safeguard the State's interests, including measures to address the breach, recover the funds, and reduce exposure to budgetary risk; and

3. Strengthen monitoring and reporting mechanisms for sovereign loans and guarantees, to ensure that any use of funds outside their authorised purpose is identified in a timely manner and addressed through corrective measures.

## PART VI. RESPONSES/COMMENTS FROM THE AUDITED ENTITY

| Observations/ Recommendations | Agree Yes/No | Comments of the Audited Entity | The ZKA's response |
|---|---|---|---|
| Issue | No | Regarding the Formalisation of the Project Implementation Unit (PIU)<br><br>With regard to the National Audit Office's finding concerning the lack of formalisation of the PIU for the "Energy Efficiency in Public Buildings" project, we consider that this finding does not fully reflect the manner in which this unit was organised, operated and supervised.<br><br>The establishment and operationalisation of the PIU were carried out in accordance with the standard practices for implementing projects financed by the EBRD, as well as the guidelines and requirements of the financing institution. The composition and functioning of this unit underwent the relevant review and approval processes by the EBRD, in accordance with the procedures applicable to projects of this nature.<br><br>Consequently, all project activities, actions and implementation stages were carried out in continuous coordination with the EBRD and the Ministry of Finance, both of which were kept informed and received systematic reports on the progress and implementation of the project. | The finding holds. |

| | | | |
|---|---|---|---|
| | | Furthermore, in order to ensure professional and independent supervision, an international consulting company based in Sarajevo was also engaged under the project to continuously follow up and monitor its progress. This consultancy provided technical and professional support and regularly reported to the relevant parties involved in the project.<br><br>Taking these circumstances into consideration, we consider that the absence of a separate administrative decision formally establishing the PIU should not automatically be interpreted as the absence of a responsible structure, its functioning, or the relevant supervision and accountability mechanisms.<br><br>For this reason, we request that the audit finding be reconsidered, taking into account the procedures followed in accordance with the EBRD guidelines, the approvals granted by the financing institution, the regular reporting, and the existing project monitoring mechanisms. | |
| Issue | No | Regarding the Responsibility of the Ministry of Finance for the Allocation and Control over Funds<br><br>Another issue that we consider requires more in-depth consideration in the audit report is the role and responsibility of the Ministry of Finance in the process of allocating, controlling and executing payments from the loan funds. | The finding holds. |

| | | | |
|---|---|---|---|
| | | As also noted in the report, the Ministry of Finance had allocated the loan funds in the Kosovo Financial Management Information System (KFMIS), with the purpose of enabling the accounting recognition of expenditures and not the execution of direct payments through the Treasury Single Account.<br><br>Nevertheless, we consider that the report does not examine with the same level of detail the institutional responsibility of the Ministry of Finance and the control mechanisms that should have ensured that the allocated funds could not be used to execute payments for purposes other than those specified in the Loan Agreement.<br><br>Given that the Ministry of Finance, through the Treasury, administers the payment execution system and the corresponding financial control mechanisms, we consider it necessary to examine whether the existing controls were adequate to prevent payments from being executed in breach of the terms of the Agreement.<br><br>In this regard, we consider that responsibility for preventing and identifying irregularities should be analysed at all institutional levels involved in the process, including not only the institution receiving the funds but also the institution responsible for their allocation, administration and control.<br><br>We recommend that the National Audit Office expand its analysis of the responsibilities of the Ministry | |

| | | | |
|---|---|---|---|
| | | of Finance, particularly with regard to preventive controls within KFMIS and Treasury mechanisms, in order to determine whether systemic deficiencies existed that enabled irregular payments to be executed. | |
| Issue | No | Regarding the Matter in Question, The Municipality of Prishtina has undertaken concrete institutional actions with the aim of finding a solution and fulfilling the relevant obligations.<br>Initially, the Municipality of Prishtina submitted an official request to the Ministry of Finance seeking confirmation and documentation of the fulfilment of the obligation under Code 06, relating to the value of funds received for this project. It was envisaged that, upon receipt of the official response from the Ministry of Finance, the relevant funds would be allocated during the respective month.<br>However, as we have not received a response from the Ministry of Finance to date, the Municipality has undertaken a second institutional step by submitting a request to the Municipal Assembly for approval to cover this obligation from own-source revenues, specifically from the reserve code.<br>The Municipality remains committed to addressing and resolving this matter in accordance with the applicable legislation and relevant financial procedures.<br>In this regard, we would highly appreciate any additional recommendations or | The finding holds. |

| | | | |
|---|---|---|---|
| | | suggestions from your side, in your capacity as the External Auditor, concerning the further options available for resolving this situation and ensuring its fair and appropriate treatment. | |

This report is a translation of the original version in Albanian language. At the time of the inconsistency of the pre-version in the Albanian language

REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVO
QEVERIA / VLADA / GOVERNMENT
MINISTRIA E FINANCAVE-MINISTARSTVO ZA FINANSIJE-MINISTRY OF FINANCE
Njësia Org. / Org. Jedinica / Org. Unit 01/400
Nr. Prot. / Br. Prot. / Prot. No: 1680-1/26
Nr. i faqeve / Broj stranica / No. pages:
Data / Datum / Date: 06, 11, 26
PRISHTINË/ PRIŠTINA / PRISHTINA

**Republika e Kosovës**
Republika Kosova – Republic of Kosovo
*Qeveria – Vlada – Government*
Ministria e Financave
Ministarstvo za Finansije - Ministry of Finance
*Thesari i Kosovës – Trezor Kosova - Treasury of Kosovo*

# LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2024, 2025 dhe 2026

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,
Përmes kësaj shkrese, konfirmoj se:

- Kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin "Vlerësimi i pajtueshmërisë së pagesave të realizuara nga Komuna e Prishtinës për Projektin Efiçienca e Energjisë në Ndërtesat Publike" në përputhje me nenin 75 të Ligiit Nr. 03/L-048 për Menaxhimin e Financave Publike dhe Përgjegjësitë, i plotësuar dhe ndryshuar me Ligiin Nr. 03/L-221, me Ligiin Nr. 04/L-116, me Ligiin Nr. 04/L-194, me Ligiin Nr. 05/L-063 dhe me Ligiin Nr. 05/L-007;

- Nuk kam ndonjë koment për përmbajtjen e Raportit;

- I kemi parasysh Rekomandimet e Raportit që ndërlidhen me veprimet e Ministrisë dhe të njëjtat do t'i adresojmë përbrenda Departamenteve përkatëse.

Hekuran Murati

Ministër i Ministrisë së Financave

Datë: 06.11.2026

REPUBLIKA E KOSOVËS · REPUBLIKA KOSOVA · REPUBLIC OF KOSOVO · MINISTRIA E FINANCAVE · MINISTARSTVO FINANSIJE · MINISTRY OF FINANCE
PRISHTINËJA

REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA-REPUBLIC OF KOSOVO
ZYRA KOMBËTARE E AUDITIMIT
NACIONALNA KANCELARIJA REVIZIJE / NATIONAL AUDIT OFFICE
DATE E PRANUAR/DOBIJENO/RECEIVED: - 9 -11- 2026
DATUM PRIMLJEN DOSTAVLJEN:
Njësia Org. Jed. / Org. Unit | Shifra Klasif. Kod / Class. Code | Nr. Prot. Br. Prot. / Prot. No. | Nr. i faqeve Br. Stranica / No. Pages
04 | 47 | 2070 | 1

2041
REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA
KOMUNA E PRISHTINËS/OPŠTINA PRIŠTINA
05 -11- 2026
14- 016/01- 166359126
NR. BR.

**Republika e Kosovës**
**Republika Kosova – Republic of Kosovo**

**Komuna e Prishtinës**
**Opština Priština –Municipality of Prishtina**

PRISHTINA

LETËR E KONFIRMIMIT

Për pajtueshmërinë me gjetjet e Auditorit të Përgjithshëm për vitin 2024, 2025 dhe 2026

Për: Zyrën Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- Kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin e pajtueshmërisë së procesit të realizimit të pagesave sipas marrëveshjeve kreditore, si dhe rolin dhe përgjegjësitë e Komunës së Prishtinës në mbikëqyrjen dhe monitorimin e realizmit të projektit Efiçienca e Energjisë në Ndërtesat Publike në Komunën e Prishtinës".

- Pajtohem me gjetjet dhe rekomandimet dhe kemi komente për përmbajtjen e Raportit te cilat mund t'i gjeni ne shtojcën e komenteve.

- 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.

**Z. Përparim Rama**

Kryetari i Kryeqytetit

Data: 05.11.2026