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**Performance Audit Report**  
**Value for Money in Centralised Procurements**  
**First part**

**Prishtina, May 2018**

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The Auditor General has decided related to this report "Value for money in centralised procurements" in consultation with the Assistant Auditor General, Vlora Spanca who supervised the audit.

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<sup>1</sup> Economy – The principle of economy means minimizing the cost of resources. The resources used should be available at the right time, at the right quantity and quality, and at the best price.

<sup>2</sup> Efficiency - The principle of efficiency means getting the maximum out of available resources, which has to do with the link between the resources engaged and the results given in terms of quantity, quality and time.

<sup>3</sup> Effectiveness - The principle of effectiveness means achievement of predetermined objectives and achievement of expected results.

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## List of Abbreviations

AI	Administrative Instruction
CA	Contracting Authority
CPA	Central Procurement Agency
EO	Economic Operator
KJCS	Kosovo Judicial Council Secretariat
KPA	Kosovo Privatisation Agency
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MCR	Ministry of Communities and Returns
MED	Ministry of Economic Development
MEST	Ministry of Education, Science and Technology
MIA	Ministry of Internal Affairs
MLSW	Ministry of Labour and Social Welfare
MPA	Ministry of Public Administration
NAO	National Audit Office
KSF	Kosovo Security Force
TAK	Tax Administration of Kosovo
TD	Tender Dossier
UCCK	University Clinic Centre of Kosovo
UP	University of Prishtina

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## Executive Summary

Central Procurement Agency in 2015 developed its first centralised procurement. Given that a large number of Contracting Authorities are involved in centralised contracts, and due to the high value of centralised contracts it is very important that this activity provides the value for money considering that small savings in large contracts is of great monetary value that can then be used for other purposes. The development of centralised procurements by the Central Procurement Agency aims to save the state budget. Since centralised procurement is at its beginnings, the audit of this kind of procurement is the first to be undertaken.

The objective of this audit is to assess the process of planning and monitoring of centralised contracts to ascertain whether the bases have been in place to achieve the targeted objective of the Central Procurement Agency through centralised procurements, i.e. whether the economy has been achieved. In order to assess whether budget savings have been made, the NAO will also carry out the second phase of this audit having contract management as a scope.

We have audited eight (8) out of a total of 15 centralised contracts that the Central Procurement Agency had developed during 2015-2016. The value of audited contracts comprises 56% of the total value of centralised contracts. The audit covered the planning process, the development of tender procedures and the mechanisms established to monitor the implementation of the contracts. Given that these contracts are framework contracts (with a three year term), the National Audit Office will perform another phase of this audit after these contracts are finalised. The second part of this audit will provide a complete overview and an assessment of whether the value of money spent is achieved.

The purpose of this audit is to recommend improving the planning and monitoring process in centralised contracts in order to achieve value for money spent.

### Overall Conclusion

Based on our audit, we have found that although the Central Procurement Agency aimed, through centralised procedures, to carry out more efficient and cost-effective procurement (with lower cost) which would result in budget savings, there are some important operational issues which are an obstacle to the fulfilment of these objectives. These issues relate to important shortcomings in the implementation of centralised procedures. The inadequate analysis of the (individual) contract by the Contracting Authorities and the absence of any form of market research resulted in contracting more expensive prices than those available in the market<sup>4</sup>. Another shortcoming in this process was the ineffective collection of data by contracting authorities, which resulted in poor planning and poor execution of contracts. As a consequence of the poor execution, i.e. not reaching the threshold of 70% of the contracted value, the Budget of Kosovo risks to suffer a loss of 2.6m euros. These

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<sup>4</sup> Individual contracts of contracting authorities which were either close to expiry or were still being implemented

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shortcomings pose potential risks for not achieving value for money while a final assessment will be made through a separate audit report after these contracts are finalised.

Furthermore, there were also shortcomings in process of monitoring the implementation of the contract due to the lack of following-up the progress of the implementation of contracts. Further on, in most contracts, the obligations and rights of each Contracting Authority were not specified and consequently there was a lack of remedial measures regarding the inadequate/excessive use of some contracts by the Contracting Authorities.

### **Key recommendations**

The Government should support the Central Procurement Agency by reviewing the Administrative Instruction for centralised procurements and work with Contracting Authorities to improve operational issues (communication) with the Central Procurement Agency obliging them to respond to all its requests in relation to centralised contracts.

We recommend that the Central Procurement Agency reviews the practice for implementation of centralised procurement, which will result in an operational procedure to be followed for all centralised procurements. Therefore, it should ensure that the Contracting Authorities' preliminary contracts are analysed, a documented market research is conducted which would determine the lowest available prices for each centralised purchase, that the contractual obligations of each Contracting Authority involved were clearly defined in a centralised contract and it should also ensure that they use the contract in line with the needs stated and set out in the contract in order to prevent the possible financial consequences.

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# 1 Introduction

Public procurement is one of the largest area receiving the state budget. Expenditures through public procurement are constantly increasing. In the last four years, through procurement, an average of 497 million euros<sup>5</sup> was spent.

The Government in 2015 issued an Administrative Instruction no. 02/2015 on the Implementation of Central Public Procurement Procedures which obliges the Central Procurement Agency (CPA) to conduct centralised procurement procedures for central and local level Contracting Authorities and Independent Agencies and, on a voluntary basis, for Publicly Owned Enterprises.

CPA during 2016 signed contracts amounted to 44 million euros, which accounts for nearly 10% of the average annual expenditure of the national budget through procurement. Centralised procurement objective is to execute economic purchases.

The analysis that CPA had made based on procurement plans submitted by the Contracting Authorities (CA), had ascertained that savings could be achieved through centralised procurements. Expectations were that the savings would be made from the wholesale purchase because, as the economic theory suggests, the higher the contract value, the lower the unit price due to the economy of scale that the Economic Operator (EO) will be able to obtain.

Decentralised procurement includes many CAs and many EOs, with a large number of procurement procedures and potential complaints, whilst centralised procurement introduces CPA as a single contracting authority that implies lesser number of procurement processes, reduced time for development of procedures, more efficient use of human resources and lower number of potential complaints.

Based on the Administrative Instruction<sup>6</sup>, CPA in 2015 initiated eight centralised procurement procedures which resulted in 13 contracts (see Annex 1) for common use items including:

- 1 Fuel Supply
- 2 Supply with Paper
- 3 Supply with Stationeries
- 4 Supply with Air transport services (flight tickets)
- 5 Supply with tires
- 6 Supply with crude oil
- 7 Supply with food items
- 8 Supply with Hygienic material

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<sup>5</sup><https://krpp.rks-gov.net/krpp/PageFiles/File/Raportet%20Vjetore/2016/Raporti%20vjetor%202015%20Shqip.pdf>,  
page 21

<sup>6</sup> Administrative Instruction no. 02/2015 for the implementation of central procurement procedures

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Centralised contracts are expected to be more economical in relation to individual contracts, therefore the National Audit Office has assessed how these goods and services are procured and whether this assertion is true.

## 1.1 Audit motive

Centralised procurements in Kosovo have been implemented for the first time in 2015. Given that these are the first centralised contracts, considering their monetary value and since they have never been audited before, we consider that this audit is very needed in order to assess the current processes and that the recommendations will add value to the future processes.

Centralised procurement involves large quantity purchases therefore the price obtained from centralised procurement should be lower than or at least the same as the lowest price that each CA received through individual procurement.

Centralised procurement procedures go through the same stages as other procurements but they are more complex given that centralised contracts aim to meet the needs of many CAs.

## 1.2 Audit Objective

The objective of this audit is to analyse the planning and monitoring of six (eight current contracts) centralised procedures to ascertain whether the bases have been established to achieve the targeted objective set by the Central Procurement Agency through centralised procurements, whether the economy has been achieved. In order to assess whether budget savings have been achieved, the NAO will also carry out the second phase of this audit having contract management as a scope. The purpose of this audit is to recommend improving the process of centralised planning and monitoring of contracts in order to achieve value for money spent.

## 1.3 Audit questions and audit criteria

In order to assess whether objectives have been achieved to provide value for money, we have compiled the main audit question and sub-questions as follows:

Has value for money through centralised procurement procedures been achieved?

1. Has the planning process been effectively managed by the CPA?
  - 1.1 Is the system for identifying and calculating needs properly designed?
  - 1.2 Have information from individual contracts been properly analysed to ensure a lower price or at least same as the lowest price from individual contracts of CAs?

## 2. Does the CPA monitor the contract implementation?

2.1 Does the CPA receive reports on the performance of contract implementation on regular basis?

2.2 Does CPA analyse the deviations from the plan and take appropriate preventive and corrective measures?

### Audit Criteria

- For effective planning it is necessary for the CPA to obtain from CAs information on the estimated quantity of goods needed to ascertain the total of quantity requested for each item;
- It is also necessary for the CPA to obtain information from CAs regarding their latest contracts to ascertain at what price they have been supplied with;
- In order to be able to calculate the estimated value of the centralised contract it is necessary that CPA ascertains the lowest price of the current contracts;
- In order to secure the value for the money spent, the contracted price should be lower or at least the same as the price at which the CAs are currently supplied (especially those that have bigger weight in the contract);
- In order to enable monitoring, the CPA is required to ensure that all CAs included in the centralised contract have assigned the respective managers from whom it receives regularly reports on the quantity supplied;
- CPA is required to receive reports from the EO regarding each delivery of the goods to the CAs who are part of the centralised contract , to ensure a reconciliation between the reports of CA and EO;
- CPA needs to analyse deviations from the plan and take precautionary measures to ensure that deviations are within the allowed limits (+/- 30% of the respective plans).

## 1.4 Audit Scope

The audit scope has included the CPA as responsible of implementing centralised procurement procedures. More specifically, the audit involved eight contracts signed during 2015-16 of the total of 13.

These contracts are framework contracts with duration of three years, i.e. their overall implementation ends in 2019. Therefore, we are focused on the planning stage for these contracts and the way CPA carries out the monitoring until September 2017. The results of the contracts from the centralised procedures will be reviewed at the coming audit after the eight following contracts are finalised which fall under the scope of this audit.

These eight contracts constitute 56% of the total contracted value by the end of 2016.

- 1 Supply with fuel;
- 2 Supply with papers;
- 3 Supply with stationaries
- 4 Supply with tires;
- 5 Supply with wood;
- 6 Supply with coal;
- 7 Supply with crude oil; and
- 8 Supply with Pellet.

## 1.5 Audit Methodology

Audit questions were answered by:

- Analysing the documentation that the CPA received from individual CAs to assess how the CPA has used this documentation and how effective it was in planning;
- Ascertaining the lowest price of the current contracts to determine the acceptable price for the CPA as a sole Contracting Authority;
- Analysing the centralised contract to ascertain that the price obtained is lower than the lowest price from the CAs contracts;
- Comparing the winning bids with the unsuccessful bids to find out whether the cheapest bid was awarded;
- Comparing the current contract for supply with fuel with the prior contract of CPA (joint contract for 37 CAs); and
- Analysing the reports that the CPA has received from the EO to look into how the CPA is following-up the implementation of the contract and preventing potential deviations.

## 2 Description of Audit Area

Centralised Procurement means that the procurement process is carried through by a Contracting Authority for many other CAs, different than decentralised procurement where each CA carries through individual procurement procedures. Responsible for developing centralised procurement procedures in Kosovo is CPA, which should adhere to the process described below.



CPA before publishing the notification for a centralised contract, based on the Administrative Instruction, should select the CAs that will be covered with the contract.

CPA contacts the CAs and requests information on the procurement plan (their annual projections) expressed in quantity and value for the goods to be purchased through a centralised contract.

CPA consolidates individual plans into a single plan and calculates the estimated value for the centralised contract based on market research and price analysis from individual contracts. The contract notice is published to notify the EOs that are interested to bid.

The price obtained should be lower or at least the same as the lowest price obtained from the CAs with decentralised procedure, therefore it must be within the estimated value of the contract otherwise the tender is rejected.

When the contract is concluded, the CPA notifies all CAs that are part of the centralised contract and requires each of them to assign a contract manager and draw up the contract management plan.

CPA draws up a consolidated contract management plan and monitors its implementation by receiving reports regularly from the Economic Operator on the quantity delivered to the CAs.

CPA takes corrective action if there are deviations from the plan, to prevent CAs from exceeding the estimated quantity (ceiling) or to order sufficiently to reach the estimated quantity (threshold).

## 3 Key Findings

### 3.1 Has the planning process been effectively managed by the CPA?

For effective planning it is necessary for the CPA to obtain information from CAs on the estimated quantity of goods required to ascertain the total quantity required for each item as well as the budget required for the implementation of the contract.

#### **Inefficient data collection to determine the real needs for the centralised contract**

CPA did not provide all the data regarding the type and quantity of goods to be procured. Some CAs did not complete and submit the questionnaire even after the reminder that CPA sent and the notice that they would be excluded from the centralised contract. Nonetheless, CPA included in the centralised contract those CAs who did not specify their needs, rather than exempting them from the contract. Therefore, determining the needs of the CPA for these CAs was made in conjecture. The drafting of the technical specification is therefore not based on real needs and consequently may not be feasible.

CPA has compiled a questionnaire (form) for each procurement which was sent to CAs listed in the Administrative Instruction (totally 80 central level CAs) in order to collect data to determine the type and quantity of goods required for the centralised contract.

The form contained, amongst others, the estimated annual value of spending, the date on which individual contracts expired (to determine when the CA will start using the centralised contract) and the quantity for each type of goods that the CA plans to purchase.

**Table 1. Number of CAs that did not complete the form**

<b>Contract</b>	<b>Number of CAs which did not complete the form</b>	<b>Number of CAs which did not complete the form, in %</b>
Fuel supply	17/80	21 %
Supply with tires	20/79	25 %
Supply with paper	14/80	17 %
Total	51/239	21%

Lack of willingness by some CAs to cooperate with CPA is evident. In total, nearly 21% of CAs did not provide the data that CPA needs to prepare the technical specification. CPA, even after having repeated the request for data, could not secure them. The AI obliges CAs to cooperate with CPA but does not foresee any penalty or fine against CAs in case of non-cooperation. Since the CPA had failed to obtain the forms from the CA, it was obliged to refer to the annual procurement plans (which CAs send to the CPA at each beginning of the year) but they do not contain details about the type and quantity of the items for joint procurement.

### **Lack of Statement of Needs and Availability of Funds**

CPA did not request the CAs' Statement of Needs and Availability of Funds to ensure that the needs expressed in the form correspond to the relevant budgets available to CAs. In absence of this statement CPA has no assurance that the determination of the estimated contract value is based on the real budget capacities of the CAs. Consequently, CAs may not order the items they have requested and therefore the contract is not sufficiently used or vice versa.

### **Small involvement of CAs in a centralised contract**

CPA efficiency was violated because it had developed several procedures for a very small number of CAs. CPA had developed three centralised procedures (four contracts) involving no more than four CAs.

CPA has compiled and sent questionnaires for collecting data to CAs for four centralised contracts - Supply with Pellet, Supply with Wood for Heating & Coal and Supply with Crude Oil. Most of the CAs did not foresee the purchase of any of the above items in their procurement plan. Only the following CAs expressed the need for these items:

**Table 2. Number of CAs involved in centralised contracts.**

<b>Contract Name</b>	<b>No. of CAs</b>	<b>Contracting Authority</b>
Supply with Pellet	4	MIA, Police, Municipality of Drenas
Supply of Wood for Heating	4	MLSW, Prizren University, MCR, Municipality of Drenas
Supply with Coal	2	MLSW, Municipality of Drenas
Supply with Crude Oil	2	UCCK, General Hospital Prizren

Despite the small number of CAs that needed the above items, CPA had developed procurement procedures since the AI obliged it to do so.

### **Lack of a market research to determine the estimated value of the contracts**

CPA did not carry out sufficient analysis of the individual contracts of the CAs to ascertain the lowest prices with which the joint use items were purchased and ascertain the estimated value of the contract.

Effective market research is necessary in order to have an effective planning in place. One way of market research is by analysing the recent contracts of CAs to ascertain at what prices they are currently being supplied to determine the available price for the centralised contract. These data would also serve for analysis after the implementation of the contract to ascertain whether savings from centralised procurement were achieved.

The table below shows how many individual contract have been analysed by CPA as a type of market research.

**Table 3. Number of analysed CAs contracts**

<b>Contract</b>	<b>No. of contracts that have been analysed</b>
Fuel supply	0 <sup>7</sup>
Supply with tires	0
Supply with paper	7 <sup>8</sup>
Supply with stationery	0
Supply with Pellet,	0
Supply with Wood for heating	0
Supply with Coal	0
Supply with Crude Oil	0

It is unclear how the estimated contract price is calculated. As it is seen, CPA did not use any reference prices against which it would compare bid prices.

According to the interviews conducted with CPA officials, the estimated value of the contract was calculated based on the value that the CAs had foreseen themselves, i.e. the amount of estimated values of CAs. This method of calculating the estimated value of the contract is incorrect. The proper way of calculating this value is by multiplying the planned quantity at market prices resulting from a proper market research (a combination of individual contract analysis and documented market research).

In 2016, over a year after the above mentioned contracts were concluded, CPA conducted a savings analysis for five contracts (Fuel Supply, Supply with Wood, Supply with Coal, Supply with Pellet and Supply with Crude Oil) but these analyses for planning purposes were too late. The value of savings for these five contracts was, according to CPA, 512,000 euros out of which 376,000 were from the fuel supply contract. However, the report was not supported with evidence especially for the fuel supply contract, and therefore the CPA's conclusion on the saved value of 376,000 euros is controversial.

<sup>7</sup> CPA took into account the analysis of 31 fuel supply contracts that CPA Special Procurement Directorate carried through in February 2013.

<sup>8</sup> CPA took into account the analysis of 32 paper supply contracts that CPA Special Procurement Directorate carried through in 2013.

### Supply with paper and stationeries

For the centralised contract for supply with paper, CPA had requested contracts from only seven CAs, hence most of the contracts (73 contracts) were not requested at all. The price of the centralised CPA contract for paper A4/80gr/m<sup>2</sup> was €2.38, however, Kosovo Judicial Council Secretariat and Kosovo Customs, who are big spenders of the paper, contracted the purchase of this type of paper at lower prices.

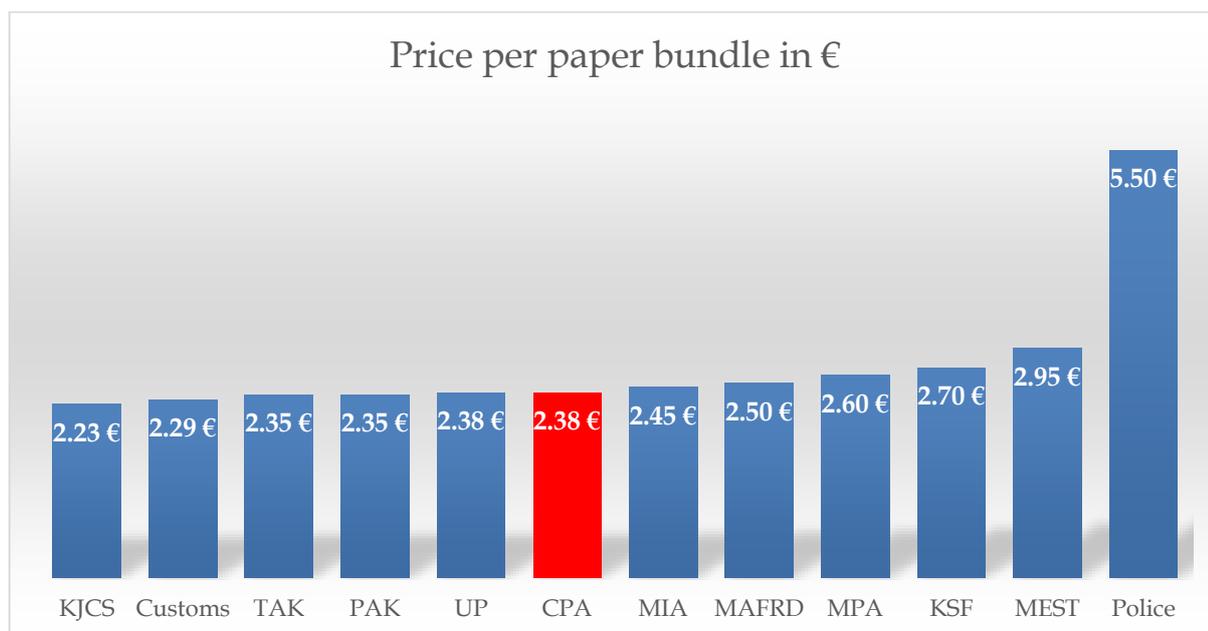
**Table 4. Comparison of CPA price for A4 paper with individual contract prices.**

<b>Contracting Authority</b>	<b>Price per bundle €</b>	<b>Difference</b>	<b>Difference %</b>
Secretariat of the Judicial Council	2,23	-0,15	-6,30%
Customs	2,29	-0,09	-3,78%
University of Pristina	2,38	0	0%
Ministry of Internal Affairs	2,45	0,07	2,94%
Ministry of Public Administration	2,6	0,22	9,24%
Ministry of Security Force	2,7	0,32	13,45%
Police	5,5	3,12	131,09%

In addition to these two CAs that CPA used in their analysis, we have found two other CAs that had contracts with a lower price than the CPA's price, which CPA had not consulted.

**Table 5. CA with lower prices than the contracted price by CPA**

<b>Contracting Authority</b>	<b>Price per bundle €</b>	<b>Difference</b>	<b>Difference %</b>
Tax Administration of Kosovo	2,35	-0,03	-1,26%
Privatization Agency of Kosovo	2,35	-0,03	-1,26%

**Graph 1. Comparison of CPA price with individual contract prices.**

The difference of €0.15 per paper bundle (contract of the Kosovo Judicial Council Secretariat) would be reflected in the value of the centralised contract with a discount of over €241,000 (the estimated quantity of x €0.15) therefore, the contract price would be lower by 5.2%.

Similarly to other contracts, CPA did not conduct a market research, so it did not receive reference prices based on which it would determine the estimated value of the contract or against which it would evaluate bid prices.

### Fuel Supply

For the Fuel Supply Contract, CPA did not analyse the prices (premiums) of the individual contracts of CAs that were included in the contract. CPA contracted the premium price for one litre of fuel of €0.055, while there were CAs which contracted premium with the lower price. We found that at least four CAs had the premium price lower than the CPA price.

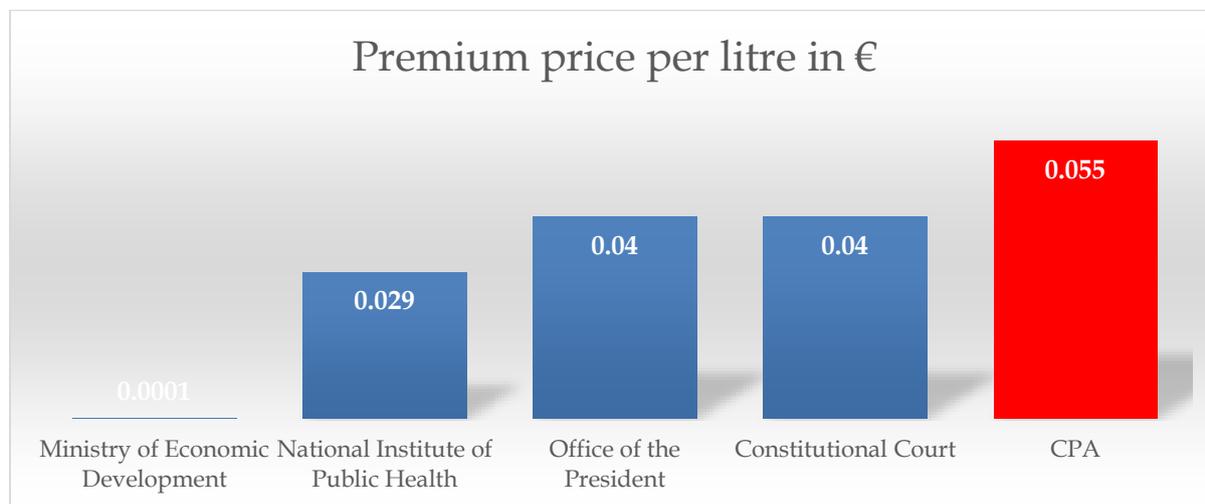
**Table 5. Comparison of CPA price for fuel with individual contract prices.**

Contracting Authority	Price premium per litre in €	Difference	Difference %
Ministry of Economic Development	0,0001	0,0549	99,82%
National Institute of Public Health	0,0290	0,0260	47,27%
Office of the President	0,0400	0,0150	27,27%
Constitutional Court	0,0400	0,0150	27,27%
CPA	0,0550	-	0,00%

Furthermore, the other directorate of CPA had a contract in force with a premium price of €0.026 per litre of diesel for vehicle, €0.0159 for petrol and €0.0199 per litre of diesel for generator and for heating.

If CPA would secure the same premium price with that of MED, i.e. € 0.0001 per litre, the CPA could save €633,000 (quantity x €0,0549) so the contract price would be lower by 99%.

**Graph 2 - Comparison of the premium price contracted by the CPA with the prices of individual contracts.**



The graph shows that the MED had a contract for supply with diesel with premium of €0.0001 that is only 0.18% of the price of the centralised contract.

If CPA would have developed a market research (analysis of the individual contracts of CAs, including the contract of the other CPA Directorate) then the estimated value of the premium for diesel for vehicles, based on the premium price would be 160,000 euros. Based on this estimated value, CPA should have reject the bid of €330,000 of the winning EO in this case, and cancel the tender as the bid value would be more than twice higher than the estimated value of the contract.

It is worth mentioning that from the bids received during the course of the proceedings, CPA had always selected the lowest price bid, which means that the procedures were conducted in line with the LPP. However, the value for money audit evaluates processes beyond legality.

## 3.2 Does CPA monitor the contract implementation?

### CPA does not effectively monitor centralised contracts

Although CPA had received six months reports from EOs, it did not make any analysis, so there is no information as to what extent the contract was executed up to a certain moment, neither at the aggregate nor at the level of CAs. Therefore, CPA did not set up a contract monitoring system at the CA level but it set up a monitoring system at the aggregate level, which it had not yet begun to implement.

In order to enable effective monitoring, it is necessary for CPA to receive reports from EO regarding each delivery of goods to CAs that are part of the centralised contract. It is also necessary for CPA to analyse deviations from the plan and take precautionary measures to ensure that deviations are within the allowed limits (+/- 30% of the respective plans).

In Section III of the Contract - Special Conditions - it is determined that the supplier, on a six months basis will report in writing to CPA, regarding the quantities of goods delivered to each CA. The report should be prepared separately for each CA (quantity of goods delivered during 6 months, type of item, invoice date, payment date etc.).

A key factor that could have contributed to the lack of efficiency, is the limited number of staff involved in these processes. In the development of these processes only the director of centralized procurement department and three officials were involved.

#### **CPA did not specify contractual obligations of each CA in a centralised contract**

In three contracts - Contract for supply with paper, stationeries as well as in the Supply with Tire - CPA did not specify the quantity of goods regarding to each CA in total of the centralised contract. Consequently, CAs did not know what their contractual obligations were. (to what quantity/value they can use the contract).

#### **CPA did not draft a consolidated contract management plan.**

The time when the order is expected to be delivered was not specified in absence of the aggregate contract management plan. CPA requested that each CA part of the centralised contract should draft a contract management plan, however these plans were not requested/accepted for the need to monitor contract management according to the plan. Consequently, no corrective measures were taken although the execution of the contracts was low - there were CAs that had not yet started to use the centralised contract - or to clarify why some CAs were supplied beyond the quantities/values they had requested.

#### **Poor execution of contracts**

LPP foresees a tolerance of +/- 30% of the deviation from executing the contracted value, therefore CAs should not order more than 130% of the contracted value or they need to order sufficiently enough to execute the contracted quantity (threshold of 70% of value). In order to prevent possible financial consequences, it is necessary for CPA to take corrective action if there are deviations from the plan.

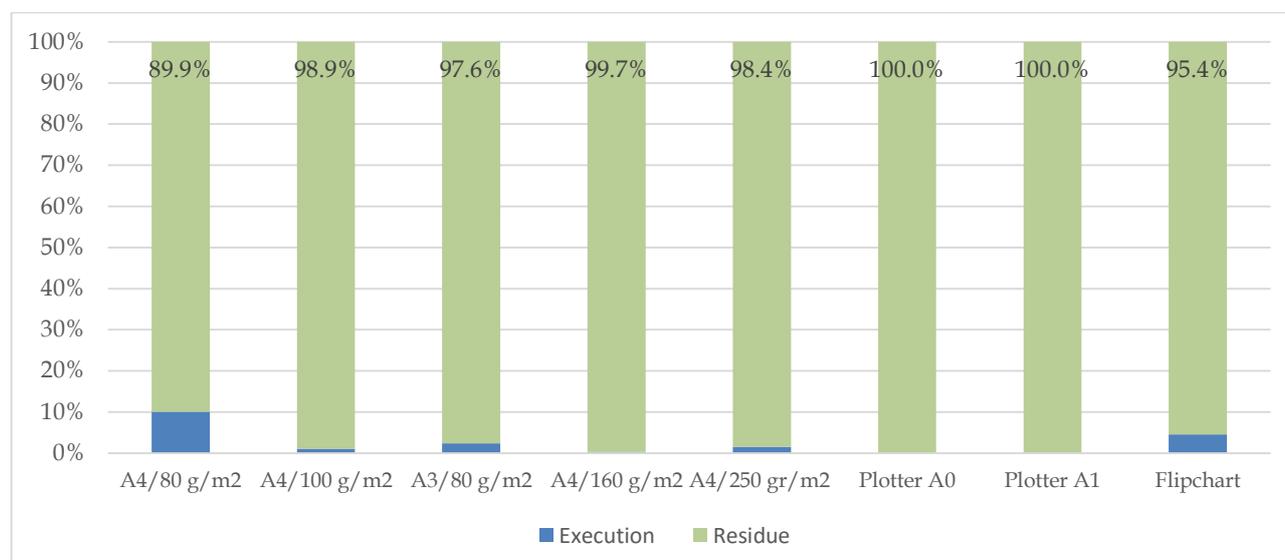
## Supply with paper

We have analysed the reports that CPA had received from EOs and we have found that around 16 months (from 1 July 2016 to 31 October 2017) of contract implementation for supply with paper, around 400 thousand Euros were spent, less than 10% of the contract value (€4,680,000).

**Table 6. Execution of contract for supply with paper**

Paper type	Executed Value	Contracted value	Percentage	Residue value to be executed
A4/80 g/m2	388 064	3 835 013	10,1%	89,9%
A4/100 g/m2	2 745	250 560	1,1%	98,9%
A3/80 g/m2	7 354	302 470	2,4%	97,6%
A4/160 g/m2	414	154 625	0,3%	99,7%
250 gr/m2	1 894	119 960	1,6%	98,4%
Plotter A0	-	7 596	0,0%	100,0%
Plotter A1	-	5 150	0,0%	100,0%
Flipchart	338	7 363	4,6%	95,4%
<b>Total</b>	<b>400 808</b>	<b>4 682 737</b>	<b>8,6%</b>	<b>91,4%</b>

**Graph 3. Contract execution for supply with paper for 16 months**



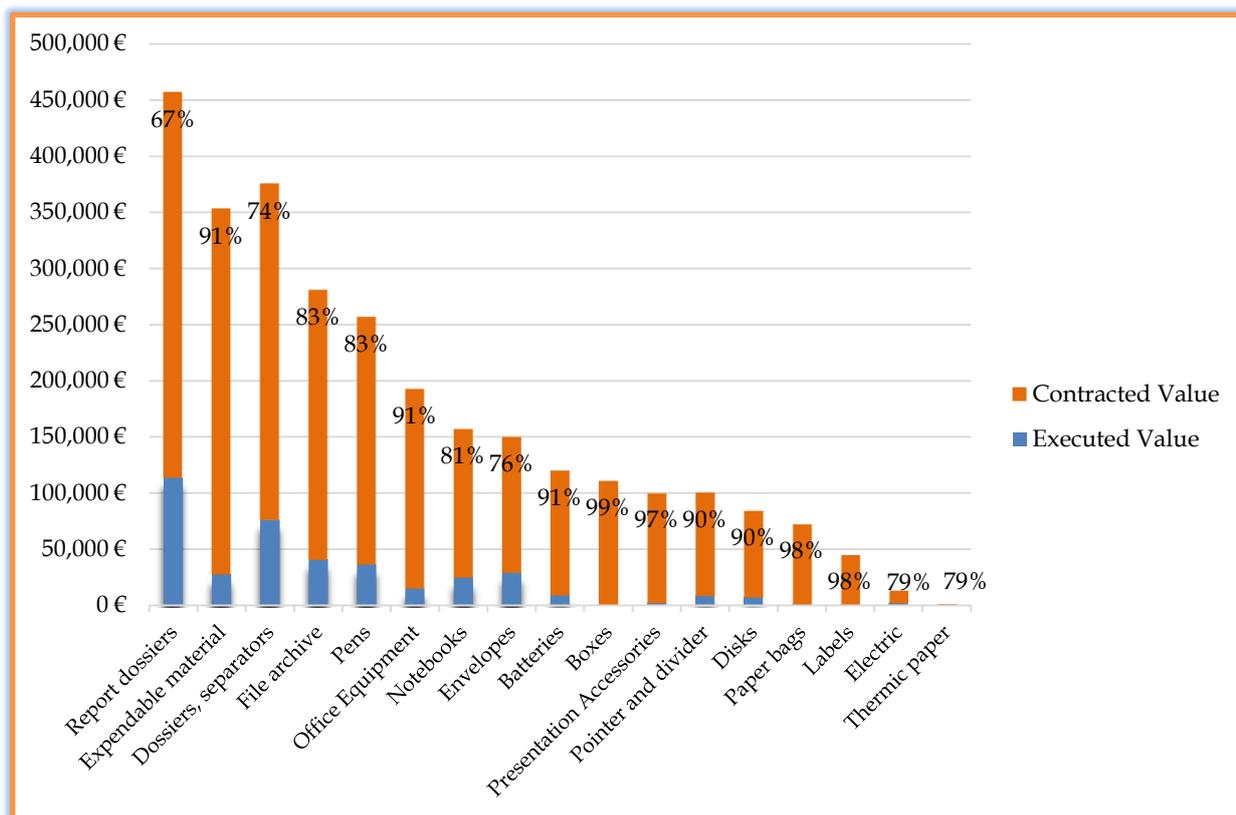
The graph above shows that from eight types of papers from centralised contract, the A4 paper was executed close to 10% while seven other types of paper have not reached even 5% of the contracted value/quantity, two of them having 0%. This means that CAs are not using the centralised contract sufficiently and that there is a risk that the threshold of 70% of the contract value will not be reached. Poor planning contributed to poor execution.

### Supply with stationeries

Since the beginning of the implementation of the centralised contract for supply with stationeries until 31/10/2017 (around 16 months) the contract was executed only 16% (around €401,000). For the remaining 20 months of the contract, over 2 million euros have been executed, and to reach the threshold of 70% of the contract value, at least 1.4 million euros will have to be executed.

**Table 7. Execution of contract for supply with stationeries ('000€)**

<b>Category</b>	<b>Contracted value</b>	<b>Executed value</b>	<b>Residue value to be executed</b>
Batteries	111	9	102
Disks	77	8	70
Report dossiers	343	114	230
Dossiers, separators	299	76	223
Electric	12	2	9
Labels	45	1	44
Boxes	111	1	110
Pens	221	37	184
Thermic paper	2	0	2
Expendable material	325	28	297
Notebooks	133	25	108
presentation accessories	98	3	96
office equipment	178	15	162
Paper bags	72	1	70
File archive	241	41	200
Pointer and divider	92	9	83
Envelopes	121	29	92
<b>Grand Total</b>	<b>2 479</b>	<b>401</b>	<b>2 079</b>

**Graph 4. Execution of the contract for supply with stationeries.**

The graph above shows what % of value of group of items for stationeries is executed and how many have remained unexecuted. The “Report dossiers” group has achieved 33% while all other groups are below this figure. Even here it is evident that CAs are not using the centralised contract sufficiently and there is a risk that the threshold of 70% of the contract value will not be reached.

Up to 31/10/2017 this centralised contract was used by 47 of the 79 CAs included in the contract. Out of 31 CAs who had not used the centralised contract, seven had individual contracts that were still in force, and 24 others should have already begun to use the centralised contract but they never used it until the above mentioned date.

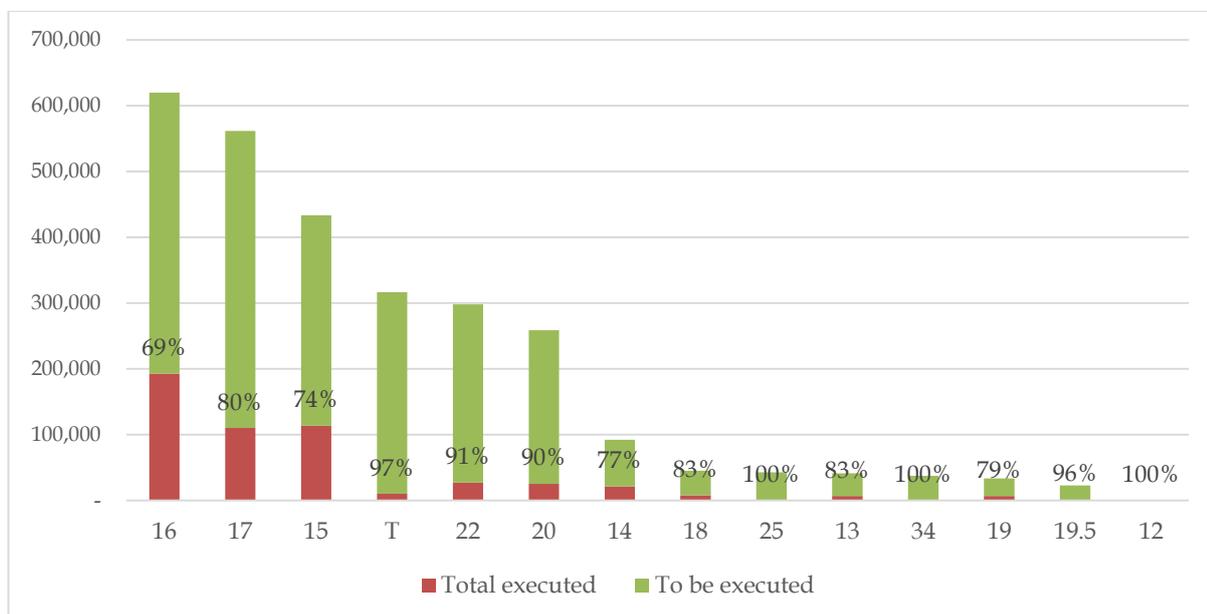
### Supply with tires

From the analysis we have made to the contract report for supply with tires results that for 17 months of implementation of the contract, CAs have ordered tires in the amount around €523,000 while have remained to be ordered over €2,281,000 which should be executed within 19 following months

**Table 9. Execution of the contract for supply of tires (value) '000 €**

Types of tires (inch)	Contracted value	Executed value	To be executed	% e executed	% e residue
16	620	193	427	31%	69%
15	434	114	320	26%	74%
14	92	22	71	23%	77%
19	34	7	27	21%	79%
17	562	110	452	20%	80%
18	45	8	37	17%	83%
13	41	7	34	17%	83%
20	259	25	233	10%	90%
22	298	27	271	9%	91%
19,5	23	1	22	4%	96%
Others	316	10	306	3%	97%
25	43	0	43	0%	100%
34	37	0	37	0%	100%
12	1	0	1	0%	100%
Total	2 805	523	2 281	19%	81%

From the table above it is seen that only 19% of the contracted value was executed. This means that CAs have not used the contract sufficiently and there is a risk that the threshold of 70% of the contracted value will not be reached.

**Graph 6. Execution of the contract for supply with tires (value)**

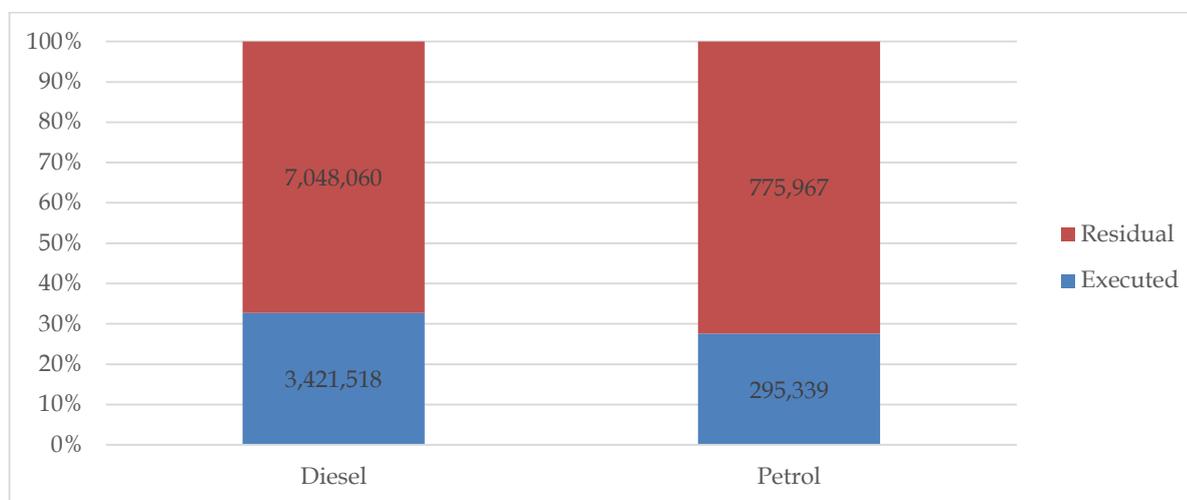
The graph above shows the difference between the executed and the contracted value for all types of tires of the centralised contract. From 2.8 million euros which is the total contracted amount, up to 30/10/2017 were executed over 520 thousand euro or 19% of the contracted value. This means that over the next 19 months CAs will have to order tires of at least 1.4m euros to reach a minimum value of 70% of the contracted value.

### Fuel Supply

Up to 30<sup>th</sup> of September 2017, the Contract for Fuel Supply was used by a total of 37 CAs out of 79 CAs included in the contract. 42 CAs have not yet begun to use it and according to the contract all should begin to use it except two of them.

The report that the CPA provided to us includes fuel supplies until 30<sup>th</sup> of September 2017, which includes deliveries that have been made for 19 months which had ordered over 3.7 million litres of fuel representing 37% of the contracted quantity.

**Graph 7. Execution of fuel supply contract (quantity)**



For fuel supply contract, CPA has not yet done an analysis of contract implementation, therefore CPA does not information on percentage of the contract was achieved so far at aggregate level or at the CA level.

### Supply with Pellet

For 16 months of implementing the contract for Supply with Pellet was executed only 14% of the contract, i.e. only 358 tonnes were ordered out of a total of 2,508 of contracted. If it continues with the same trend, this contract for 36 months will be executed at maximum 32%. Consequently, it may have financial consequences.

Three other audited contracts (Supply with Wood, Supply with Coal and Supply with Crude Oil), involving at most four CAs, execution was at more satisfactory level and with this trend of implementation, there is no risk of financial consequences.

### Excessive Use of Centralised Contracts by several CAs

Regardless of the above contracts, the Contract for Fuel Supply in Annex 7 specifies the respective amount that each CA has in the contract's total centralised which is an effective tool for monitoring the implementation of the contract. However, CPA had not used it as a tool to identify deviations and take preventive measures. Consequently, the contracted quantities had exceeded a total of 12 out of 37 CAs that had used the contract, two of which had exceeded both the contracted quantities for diesel and petrol. The total amount exceeded was 568 thousand litres of fuel. This contract has 17 months left until expiration.

**Table 10. Execution of contract for fuel supply (quantity)**

Contracting Authority	Contracted quantity		Quantity executed		Exceeding	
	Diesel	Petrol	Diesel	Petrol	Diesel	Petrol
State Agency for Archives of Kosovo		3 000		4 775		(1 775)
Telecommunications Regulatory Authority		-		3		(3)
National and University Library of Kosovo		-		231		(231)
Independent Commission for Mines and Minerals		5 000		5 266		(266)
Assembly of Kosovo		6 000		8 043		(2 043)
Ministry Communities and Returns		20 000		22 386		(2 386)
National Agency for the Protection of Personal Data	12 000	1 000	13 054	1 157	(1 054)	(157)
Istog Municipality	96 000	8 000	134 745	8 772	(38 745)	(772)
Ministry of Education, Science and Technology	301 000		383 230		(82 230)	
Ministry of Culture, Youth and Sports	108 000		149 745		(41 745)	
Student Centre	105 000		501 112		(396 112)	
Municipality of Klina	60 000		60 169		(169)	

### Report on the implementation of the contract with excessive details

In addition to the request of CPA, expressed in the contract, EO should prepare a special report on the orders of each CA. In the report of the EO for the contract of supply with stationeries and for the supply with tires we found that the report was more detailed than required. EO reported not only on orders made by CAs but also about the smaller units within CAs. For example, Kosovo Judicial Council Secretariat is presented as a CA in the contract but in the implementation report its units are presented - the basic courts - separately. This makes it difficult for CPA to monitor and analyse the data, in other words it affects the efficiency of CPA.

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## 4 Potential Risks

Based on the findings of this audit, we conclude that CPA has substantial shortcomings in managing the centralised procurement process, in particular with market research and monitoring of contract implementation.

Given that this audit will have another audit stage (second part), we will mention conclusions to this stage and the possible risks if the current situation does not improve. Regarding the main objective if the value for money is achieved through these procedures, this assessment will only be possible after these contracts are concluded.

The main shortcomings identified at this stage relate to the analysis of individual contracts of CAs for determine the lowest available prices and determine the estimated value of the centralised contract. As a result of this, CPA had concluded contracts with higher values compared with several individual contracts for the same commodity (some of which are still being implemented).

Possible loss of a contract for supply with paper (in case the contracted value is supplied 100%) can reach around 241 thousand euros, so the contract price would be lower by 5.2% if CPA would have considered the prices in the market (compared with KJCS and Customs contracts).

Similarly to the fuel supply contract, the possible loss could reach around 372 thousand euros compared with the contract only that the other directorate of CPA contracted with the same EO. Compared with the individual contracts of CAs as the Ministry of Economic Development, the potential loss could reach around 633 thousand euros.

Two contracts, the supply with tires and the supply with stationeries were more complex to be compared with reference prices and calculate possible savings. This is because they contain hundreds of items and none of the CAs need all the items specified in these contracts, e.g. out of 577 types of tires, the CA - biggest contract user using had expressed need for only 59 of them. Similar situation is on the supply with stationeries.

For three other contracts (Supply with Wood, Supply with Coal and Supply with Crude Oil), if 100% is executed, according to CPA calculations, potential savings are close to 106 thousand Euros.

The cooperation and communication of CAs with CPA was not at the expected level. CPA had failed to obtain information from more than 20% of CAs about their needs, so CPA has been hampered from determining the real needs. However, CPA took over the risk of entering into obligations without involving CAs in the process, creating financial consequences for Kosovo's budget.

CPA did not request from CA that together with the questionnaire (form) to send the Statement of Needs and Availability of Funds therefore CPA was not able to ensure that the needs expressed in forms correspond to the respective budgets of the CAs. Consequently, CAs may order fewer than they have requested and therefore the contract may not be used sufficiently or vice versa, they may order more that they have requested by terminating the contract earlier than foreseen.

CPA had deficiencies in monitoring centralised contracts, particularly at the CA level, because in most contracts it was not specified how much is the share of each CA in the contracted quantity. In addition, CPA had a lack of analysis of reports received from EOs. Consequently, CPA had not taken any corrective measures to address the low level of contract execution or to clarify why some CAs were supplied beyond the quantities/values they had requested.

The contract for supply with paper reached the level of only 10% for 16 months. Two other large value contracts, Supply with stationeries and Supply with Tires, were executed at the level of 16%, respectively 19% of which were left only 20, respectively 19 months up to the expiry. The highest execution was in the contract for fuel supply at 37%, but there are still only 17 months up to the expiration. For 16 months of implementation of contract for supply with pellets, execution was only 14% of contract value. If this implementation trend continues, most audited contracts will not reach the 70% threshold value of the contracted value determined by the LPP and this may have financial consequences for the CPA/CAs.

If the implementation of the contract for supply with paper continues with this trend, the execution for the next 20 months may reach around 20% of the contract value or at best, if the use doubled to 30% of the contract value. So there is a risk that 70% of the contract value may remain unused.

If the use of the contract Supply with stationeries over the next 20 months is doubled, the execution is likely to reach 56.5% of the total value of the contract.

Execution of the contract for supply with Tires can reach 60% of the total value only if the contract usage trend is doubled.

Execution of the contract for supply with pellets for the next 19 months may reach 41% of the contracted value only if the current contractual usage trend is doubled, otherwise until now covering 17 month period, only 14% of the value contracted is executed.

So there is a risk that the abovementioned contracts will not reach 70% threshold even if the CA uses the contract twice more than they have used so far and this could have financial consequences of a total amount of nearly 2.6 million euros for CPA and CAs. Ineffective monitoring of contract implementation may result in uncontrolled orders and unplanned expenses.

Although the likelihood that current contracts expire earlier than the date stipulated in the contract is very small, towards the end of the implementation of the contract, some CAs may remain without supplies because their share of the contract may have been used by some other CAs and therefore procurement may result to be ineffective. In addition, if the contract exceeds 130% of the contracted value before the expiry date of the contract, CPA will have to initiate a new procedure for which it may not be prepared because the process of collecting and processing data from CAs is quite time consuming and then the procurement process itself, which can eventually cost some CAs with a lack of goods or services.

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Centralised contracts involving a small number of CAs become a barrier to efficiency, because centralised procurements aim to include a larger number of CAs (according to AI up to 80 central-level CAs), therefore the development of procedures for only four CAs does not bring the desired benefits. Collating the needs of only four CAs does not reach the amount that would significantly affect the lower price nor does it spare time for CAs in developing the procedures.

Lack of a standard operating procedure also contributed to these shortcomings, which would be a guide to developing of each centralised procurement procedure.

## 5 Recommendations

### **To the Ministry of Finance**

To ensure that centralised procurements are effective and provide value for money, the Ministry of Finance should support the Central Procurement Agency by reviewing the Administrative Instruction for centralised procurements, where it would ensure that the Contracting Authorities act in accordance with their obligations regarding communication and cooperation with the Central Procurement Agency.

### **To the Central Procurement Agency**

To ensure that centralised procurements are effective and provide the basis for achieving value for money we recommend the Central Procurement Agency to:

Develop market research, in particular to analyse the individual contracts of the Contracting Authorities that will be included in a centralised contract, to identify what prices are currently contracted and given the increase in quantity there could be further price reductions for each contract.

Calculate the estimated value of the contract based on the available prices that would be used as a reference point and against which it would be determined whether bid prices are acceptable. In case the bid price exceeds the projected one, the procurement should be cancelled despite the statements of the CAs.

Require from the Contracting Authorities a statement of the availability of funds to ensure that their requests are realistic and ensure that the contracts are used sufficiently by limiting the opportunities for over use and under use of all contracts.

Ascertained needs of each Contracting Authorities should be documented as an annex to the contract which would serve as a measure to prevent possible deviations, thus ensuring that the execution is consistent with contracting both quantity and value.

Perform a monitoring of contract implementation by ensuring that Contracting Authorities adhere to the obligations and rights in each centralised contract and, in the event of any possible deviations from the plan, take corrective action in order to prevent potential risks for any financial loss.

The list of items for common use shall be updated in accordance with the realistic needs of the Contracting Authorities. To ensure operational efficiency, the list of items for common use only includes items needed most by the Contracting Authorities.

That any centralised procurement that is developed is based on an operational procedure that is currently missing and should be drafted as soon as possible.