



**REPUBLIKA E KOSOVËS/REPUBLIKA KOSOVA/REPUBLIC OF KOSOVA
ZYRA E AUDITORIT TË PËRGJITHSHËM/KANCELARIJA GENERALNOG
REVIZORA/OFFICE OF THE AUDITOR GENERAL**

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**AUDIT REPORT ON THE PROJECT “RECONSTRUCTION OF
SKENDERBEU SQUARE” IN PEJA**

25 October, 2011

I. Introduction

We have carried out an audit of the financial statement over the use of funds under the project “Improvement of Skënderbeu Square” in Peja. The agreement between UN-HABITAT and the municipality of Peja, in the amount of €245,292, was entered into on 01/10/2010. The agreement states (Article 6c) that an audit like this is a condition for the final instalment from the UN-HABITAT side.

The project was co-financed between UN-Habitat and Peja Municipality, whilst the procurement procedures have been conducted by the Municipality. According to the Agreement, it was foreseen that for UN-Habitat to co-finance with 50% and the Municipality with 50%.

Given that Peja Municipality had not included this project in its Procurement Plan for 2010, it entered into a Co-financing Agreement with the Ministry of Local Government and Administration (MLGA) for co-financing this project. The MLGA provided €150,000 for the project in question.

The Municipality awarded the contract to company “Vraga” from Peja according to the Most Economically Advantageous Tender criteria.

II. Scope

In our audit we have examined this project starting from the Tender Announcement going over to the tendering process, selection of the winner up to the project’s final execution. We have also compared the result of the project in relation to the agreement between UN-HABITAT and Peja municipality; and between Peja municipality and the contractor.

The audit started on 20/09/2011 until 22/09/2011 and it has been carried out upon the request of Peja Municipality.

III. Findings

Based on the testing and field examination of the project, our audit has identified the following:

1. The financial statement reflects the payments made during the project;

Besides this a number of shortcomings are noticed in the implementation:

2. The responsible committee concluded on 24 June 2011 that the work had been carried out in accordance with the contract. Despite this we have noticed quality deficiencies in the following areas:
 - The construction of the part referred to as “chess board” with certain dimensions was partially finalised. Text, numbers and two UN-HABITAT logos were not put in place as required; and
 - The quality of the marble tiles installed was not satisfactory. We have noticed that the marble tiles were cracked and not placed in a line.
3. The procurement process was flavoured with a number of shortcomings firstly related to the phase of awarding the contract:
 - The Contract’s Special Conditions explicitly specified that “The Contractor is obliged to provide a 24 months guarantee on the executed works following their technical acceptance”. Such guarantee was not provided by the winner (Vraga);
 - Vraga did not fulfil the criterion regarding the technical and professional capacities. Such criterion was a requirement of Tender Dossier. Vraga was lacking evidence of having its employers registered in the Tax Administration;
 - Vraga did not provide some of the required evidences on equipments; such as vehicles registration and other evidences; and
 - Vraga’s tender security did not cover the entire period as required in the Tender Dossier. The tender security was provided from 30/08/2010 until 24/12/2010, i.e. a total of 117 days rather than 120 as required.
4. Secondly, during the implementation of the works heavily delayed we have noticed shortcomings related to payments:
 - We noticed mistakes in the progress payments. Based on the review of the first and second instalment payments, we found that only 22 manholes were completed out of 25 paid ones.
 - We noticed that payments were not specified by level of progress. Therefore, the amount of progress payments was not made according to percentages which should be paid by each parties; and
 - Peja have not applied penalties as stipulated in the contract with Vraga.
5. Regarding the final payments we noticed that the value of work completed and invoiced was €242,843 or €2,448 less than contracted. This occurred due to the fact that pre-calculation and bill of quantity have been changed after extra ordinary measurements requested by UN-Habitat.

The amount paid by MLGA was €136,500 while the UN-Habitat paid €9,313. The last payment by Habitat in the amount of €7,030 will be made once OAG gives a final opinion on the executed project.

IV. Conclusions

We conclude that the financial outcome of this project turned out more favourable for the municipality of Peja than foreseen in the agreement. At the same time the Kosova budget have paid more than 50% of the costs.

A number of question marks remains related to awarding the contract to Vraga.

Insufficient internal controls at appropriate levels resulted in an implementation of the project not totally in accordance with the terms and conditions in the contract.

The job carried out by Vraga has been heavily delayed and the result in some instances is not in accordance with the contract.

Recommendation 1

We recommend the Mayor to ensure that:

- Procurement Office shall analyse the causes for entering in the contract with Economic operator not meeting the required criteria;
- The Tender Evaluation Committee in the future strictly evaluates all bids in accordance with the criterion set;
- All marble tiles are placed as required by the contract; and
- The Technical Committee in the future accept the works in accordance with the terms of the contract when it comes to quality and quantity.

Recommendation 2

We recommend the UN-HABITAT to:

- Not pay the last instalment before the cracked tiles are repaired and the required numbers, letters and the logo are placed at the “Chess board” as per the agreement; and
- Consider in the future representation in the Tender Evaluation Committees.

The Management of the Municipality has been given the possibility to give comments on a draft of this report.

The Management of the Municipality has acknowledged our findings and conclusions presented in the audit report on the Project “Reconstruction of Skenderbeu Square” in Peja.

Further on, they committed themselves to make every effort to address the recommendations given.