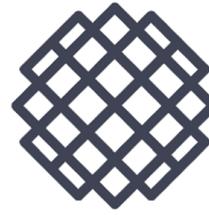




Republika e Kosovës
Republika Kosova
Republic of Kosovo



Zyra Kombëtare e Auditimit
Nacionalna Kancelarija Revizije
National Audit Office

PERFORMANCE AUDIT REPORT

Value for money in centralised procurements – Part II

Prishtina, July 2021

The National Audit Office of the Republic of Kosovo is the highest institution of economic and financial control and is accountable to the Assembly of Kosovo for its work.

Our mission is to strengthen, through quality audits, accountability in public administration for an effective, efficient, and economic use of national resources. The reports of the National Audit Office directly promote accountability of public institutions as they provide a base for holding managers of individual budget organisations to account. We are thus building confidence in the spending of public funds and playing an active role in securing taxpayers' and other stakeholders' interests in enhancing public accountability.

This audit has been carried out in line with the International Standards on Supreme Audit Institutions (ISSAI 3000¹) and good European practices.

Performance audits undertaken by the National Audit Office are objective and reliable examinations aimed at assessing whether Government systems, operations, programs, activities, and organisations operate in line with the principles of economy², efficiency³, and effectiveness⁴ and whether there is room for improvement.

The Auditor General has decided on the content of the audit report "Value for money in centralised procurements – Part II" in consultation with the Assistant Auditor General, Vlora Spanca, who supervised the audit.

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¹ ISSAI 3000 Standards and guidelines for performance auditing based on INTOSAI auditing standards and practical experience

² Economy –The principle of economy implies minimising the cost of inputs. Inputs should be available at the right time, quantity, and quality and at the lowest price possible

³ Efficiency – The principle of efficiency implies achieving the maximum from available inputs. It relates to the relationship between the input and output in terms of quantity, quality, and time.

⁴ Effectiveness – The principle of effectiveness implies the achievement of set of objectives and the achievement of expected outputs.

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List of acronyms

AK	Assembly of Kosovo
BO	Budget Organisation
CA	Contracting Authority
CC	Centralised Contract
CEC	Central Elections Commission
CK	Customs of Kosovo
CPA	Central Procurement Agency
EO	Economic Operator
IC	Individual Contract
KAS	Kosovo Agency of Statistics
KCS	Kosovo Correctional Service
KP	Kosovo Police
LPP	Law on Public Procurement
MD	Ministry of Defence (former Ministry of Security Forces)
MEST	Ministry of Education, Science and Technology
MIA	Ministry of Internal Affairs
MLSW	Ministry of Labour and Social Welfare
MSF	Ministry of Security Forces
NAO	National Audit Office
OPM	Office of the Prime Minister
PU	Prishtina University
SC	Students Centre
SKJC	Secretariat of Kosovo Judicial Council
TAK	Tax Administration of Kosovo
TD	Tender Dossier

Executive Summary

Starting from April of 2015, the Central Procurement Agency has carried out dozens of procurement activities resulting in centralised contracts which all organisations funded by the state budget are obliged to use. At the beginning, the Central Procurement Agency developed activities for procuring several types of common goods (fuel, paper, stationeries, etc.). Later on, the Agency has expanded the range of goods it procures on behalf of budget organisations, which together spend tens of millions of euros each year to buy these goods. The purpose of centralised procurement is to save the budget.

In 2018, the National Audit Office has published the audit report on the first centralised contracts, which, at that time, were still under the process of implementation and there was a considerable time ahead of their termination. Considering this, it was not possible to arrive to a final conclusion. Therefore, the National Audit Office has carried out the audit on "Value for money in centralised procurements, Part II" which is a follow-up on the audit carried out in 2018. In this audit we have audited eight centralised contracts implemented during 2016-2019 and four centralised contracts entered into during 2018-2019 which were under implementation. The objective of this audit is to assess whether value for money spent in centralised procurement activities has been achieved; namely, whether the budget has been spent and what are the lessons the Central Procurement Agency has learned from the first centralised procurements experience.

We have identified the largest users of the three centralised contracts (Kosovo Police, Tax Administration of Kosovo, Customs of Kosovo, Kosovo Correctional Service, etc.) and have compared the expenses incurred through centralised contracts for a limited number of items with those of the respective individual contracts, which could be compared.

The overall conclusion is that the Central Procurement Agency has, through centralised procurement activities, enabled budget organisations to save 2.5% of the funds designated for the procurement of certain goods. This was because the prices of items procured through centralised contracts were in general lower than the prices of respective items in individual contracts. As a result, the total amount saved in the three centralised contracts, the total of which amounted to €19 million, was over €477 thousand.

However, not all the items of centralised contracts were purchased with lower prices than those of respective items in individual contracts. The Central Procurement Agency did not enable some budget organisations to save the budget, on the contrary it caused additional costs to them.

This form of purchasing has resulted in €105 thousand of additional costs to some budget organisations because the prices of items specified in the centralised contracts were higher than those of the respective items in individual contracts.

In addition to €477 thousand of savings, the Central Procurement Agency could have saved approximately €514 thousand had the whole quantity supplied through the centralised contract been purchased at the cheapest prices of respective items in each individual contract. Therewith, the total that could have been saved through centralised procurement would reach over one million euros, which represents over 5% of the budget spent on the three centralised contracts only.

Furthermore, there were shortcomings in the Central Procurement Agency regarding communication with the intended users of centralised contracts which have resulted in overassessment or underassessment of needs, which was also the cause behind their low or excessive implementation.

Shortcomings have also been found in the monitoring of centralised contracts by the Central Procurement Agency. The lack of effective monitoring has prevented the Central Procurement Agency from taking corrective actions when the contracts were not being implemented as intended. The actions taken were delayed and consequently had no rectifying effect.

Moreover, the Central Procurement Agency did not conduct a proper analysis of the effects of centralised procurement to ascertain as to whether they are resulting either in savings or additional costs and to decide whether to proceed with centralised procurement or not. This situation was caused, *inter alia*, by the lack of market research which would have provided the Agency with reference prices which could have been compared with the prices of centralised contracts.

Based on the identified issues, we may conclude that the centralised procurement process needs to be improved. Elimination of the identified shortcomings requires concrete actions. We have therefore given six recommendations to the Central Procurement Agency, as the one responsible for the development of centralised procurement. The list of recommendations is presented in Chapter 5 of this report.

Response of the parties involved in the audit

We have not received a response from the Minister of Finance, Labour and Transfers while the Central Procurement Agency has partially agreed with our findings. The letter of confirmation and comments of the Central Procurement Agency can be found in Annex 3.

1 Introduction

A considerable part of the state budget is spent through public procurement activities. Law no.04/L-042⁵ on Public Procurement (LPP) is based on the principles of economy, efficiency and equal treatment/non-discrimination.

According to Article 94 of LPP, the Central Procurement Agency (CPA) is established under the Ministry of Finance of the Republic of Kosovo. It is responsible for: conducting joint procurements for contracting authorities; performing procurement activities on behalf of contracting authorities at their request; and assisting contracting authorities, at the request, in carrying out procurement activities.

Based on Articles 94-97 of LPP and on administrative instructions⁶ approved by the Government, CPA conducts centralised procurement activities for goods, services, or works for all contracting authorities (budget organisations) of central and local levels as well as for independent institutions of the Republic of Kosovo. These procurement activities usually result in framework contracts/agreements with a term of up to 36 months

Since 2015, CPA has conducted dozens of procurement activities that have resulted in centralised contracts used by budget organizations (BOs). At the beginning, CPA took over the responsibility to procure some types of common goods (oil, paper, stationeries, etc.) and afterwards continued to expand the range of goods it procures through centralised activities. During 2016-2019, CPA concluded contracts with a total of around €145 million for goods/services for common use.

In 2018, the National Audit Office (NAO) has audited eight centralised contracts and identified shortcomings in the process of planning and monitoring these contracts. Most of the centralised contracts had such a low level of implementation that they could not reach the 70% contract threshold provided by law, and consequently did not reach value for money.

Centralised procurement should have resulted in savings as economic operators are expected to offer their goods at lower prices, due to the economy of scale⁷ (economic operator's costs per product unit are reduced when there is a large volume of sales, therefore there is room for price reduction). In addition, centralised procurement enables the saving of resources (people and time) because it merges dozens of individual procurement activities into a single one.

Centralised procurement provides more transparency than independent procurement. This is because prior to starting with centralised procurement from CPA, some contracting authorities had made purchases with minimum values (usually stationeries) that were not made public.

⁵ [https://gzk.rks-gov.net/ActDetail.aspx?ActID=2772_ndryshuar me ligjet 04/L-237 dhe 05/L-068 dhe 05/L-092](https://gzk.rks-gov.net/ActDetail.aspx?ActID=2772_ndryshuar%20me%20ligjet%2004/L-237%20dhe%2005/L-068%20dhe%2005/L-092)

⁶ <https://aqp.rks-gov.net/wp-content/uploads/2019/09/Udhezimi-per-Prokurime-Qendrore-2019-1.pdf>

⁷ Sigma papers No. 47, fq 18, 56 dhe 63 <https://www.oecd-ilibrary.org/docserver/5kgkgqv703xw-en.pdf?expires=1582009296&id=id&accname=guest&checksum=165CA94537699D9B3C40985FBECF1936>

When conducting centralised procurement, the parties involved are required to carefully and accurately identify their needs⁸, timely communicate them to CPA⁹ and manage¹⁰ their part of the contract according to the approved plan, in order to achieve the main goal of each procurement (value for money). Whilst, CPA is required to establish effective communication with the requesting units, conduct market research, analyse preliminary contracts of BOs, continuously monitor whether the contracts are being implemented according to the plan¹¹, and to take corrective actions whenever it finds out that the plan has been departed from¹².

Requesting units, in cooperation with CPA, are responsible for taking all measures to achieve the best value for money.

Audit Objective and Questions

The objective of this audit is to assess whether value for money spent in centralised procurement activities has been achieved. Given that this audit is a follow-up to the preliminary audit, we also aim at assessing as to what extent CPA's actions in addressing the risks in the planning phase have been effective for subsequent centralised procurement activities as well as the risks during monitoring of contract implementation.

Audit Questions and Criteria

For the purpose of achieving the audit objective, we have formulated two main questions along with their respective sub-questions. The first refers to the situation in centralised procurements which were subject to the audit on Value for Money in Centralised Procurements – Part I, based on which we have given recommendations to CPA. Whilst the second question relates to lessons CPA has learned from earlier procurements and whether it has applied them in new procurements.

1. Has value for money been achieved in centralised procurements?
2. Have lessons learned from the audit report on Value for Money in Centralised Procurements – Part I been used in the new centralised procurements?

For audit sub-questions and criteria see Annex I.

⁸ Rules and Operational Guide for Public Procurement – Article 9 – Identification of needs to be met

⁹ Ibid, Article 5.7

¹⁰ Administrative Instruction (GoK) no. 05/2016 on implementation of central public procurement procedures, Article 6, section 4

¹¹ Ibid Article 4, sections 2-4

¹² Administrative Instruction (GoK) no. 03/2017 amending and supplementing Administrative Instruction (GoK) no. 05/2016 on implementation of central public procurement procedures, Article 4, section 5

2 Process Description

When CPA decides to conduct centralised procurement activities, based on the Administrative Instruction on centralised procurement issued by the Ministry of Finance, it establishes formal communication with all BOs that will be involved in these activities in order to obtain information on their individual needs.

The kind of information CPA enquires from BOs concerns the type of items and respective quantities they need to purchase as well as the contract duration (usually three years). For first-time procurements, CPA enquires the respective prices of items based on the preliminary contracts of BOs. In addition to these prices, CPA should obtain prices from market research.

To make sure that BOs have submitted true information, CPA should ask them to submit the Statement of Needs and Determination of Availability of Funds (DNAF).

CPA consolidates all BOs' needs in a single document which sets out all the needs, by type and quantity, of all BOs to be included in the contract. CPA applies prices to this quantity, which have resulted from market research and analysis of preliminary BOs' contracts. Thus, CPA calculates the estimated value of the centralised contract which is then presented in the Contract Notice whilst the detailed needs of BOs become part of the Tender Dossier (TD).

CPA announces the contract notice notifying the Economic Operators (EOs) interested to offer.

EOs submit their bids within the deadline specified in the DT. Bids are evaluated and the winning bid is announced.

The price of the winning bid must be lower or at least the same as the estimated value of the contract, otherwise the tender would have to be rejected as it may not reach the value for money

The price of the winning bid must be lower or at least the same as the estimated value of the contract¹³, otherwise the tender would have to be rejected as it may not achieve the value for money¹⁴.

Once the contract is concluded, CPA informs all BOs that are part of the centralised contract and asks each of them to appoint a contract manager it will communicate with should the contract not be implemented according as foreseen, i.e. according to the BO's declared needs. CPA monitors the implementation of the contract in line with the terms set out therein, by receiving regular reports from EOs.

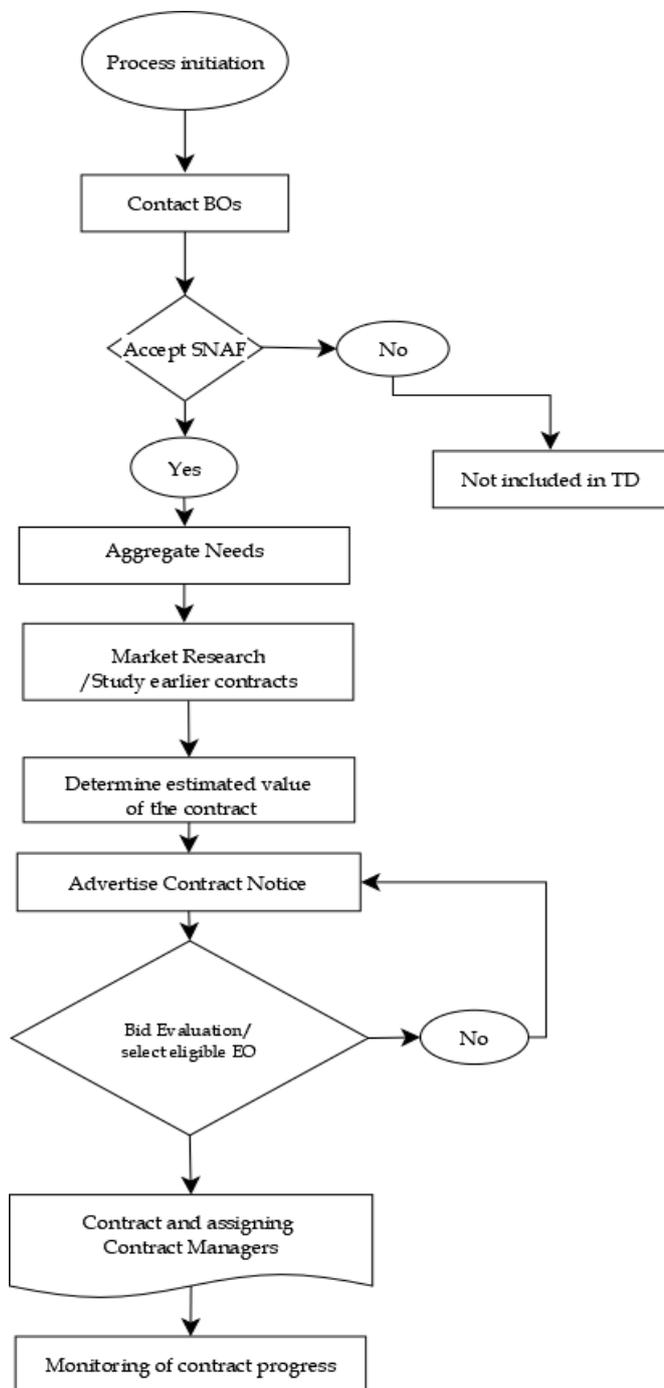
¹³ <http://webarchive.nationalarchives.gov.uk/20130802195149/https://www.nao.org.uk/report/getting-value-for-money-from-procurement-how-auditors-can-help/>

¹⁴ http://www.audit-scotland.gov.uk/docs/best_value/2010/bv_100809_procurement_toolkit.pdf

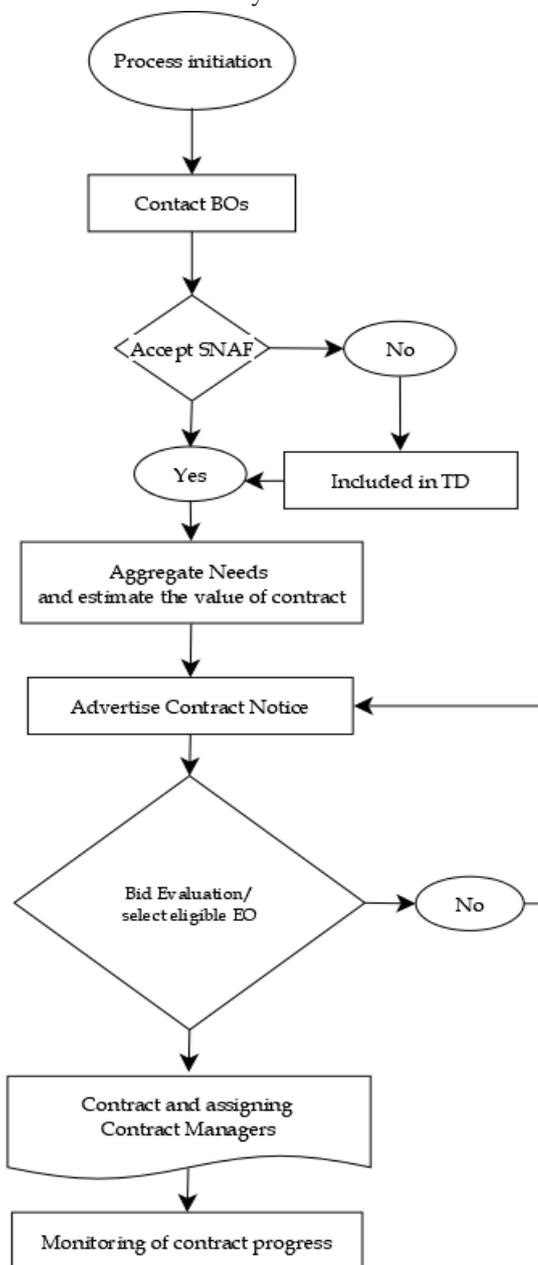
CPA should take corrective action in case BOs use contracts to a larger extent than they should. This should be done for the purpose of not exceeding the contracted quantity (ceiling of 130% of the contracted value/quantity) or reaching it (threshold of 70%)¹⁵.

Chart 1: Procurement activity carried out by CPA

How it should be:



How it currently is:



¹⁵ Law no. 04/L-042 on Public Procurement in the Republic of Kosovo, amended and supplemented by Law no. 04/L-237, Law no. 05/L-068 and Law no. 05/L-092

3 Audit Findings

In this chapter we have presented the audit findings to give answers to the two main audit questions, which are: Has value for money been achieved in centralised procurements? And have lessons learned from the audit report on Value for Money in Centralised Procurements – Part I been used in the new centralised procurements?

Findings are presented as per the questions; first we have presented the findings on the contracts that were implemented, and second we have presented the findings on new contracts concluded following termination of the first ones.

3.1 Has value for money in centralised procurements been achieved?

In this section, we have presented the findings related to the first centralised contracts, namely those that had been entered into during the years 2015-2016 and implemented over the following three years. These contracts were examined taking into account the supply aspect under the contract, the difference between the contracted price by CPA, the price of individual contracts, and the market prices, and finally in terms of profit analysis from centralised procurement.

3.1.1 Have contract users been supplied in line with the needs specified in the centralised contracts?

Following the implementation of first eight centralised framework contracts that we audited, we have analysed the reports CPA had received from respective suppliers on semi-annual basis and found that implementation did not comply with the planning. The implemented value of contracts was not even close to the planned value. According to LPP, the allowed deviation from the contracted quantity is +/- 30% of the contracted value/quantity.

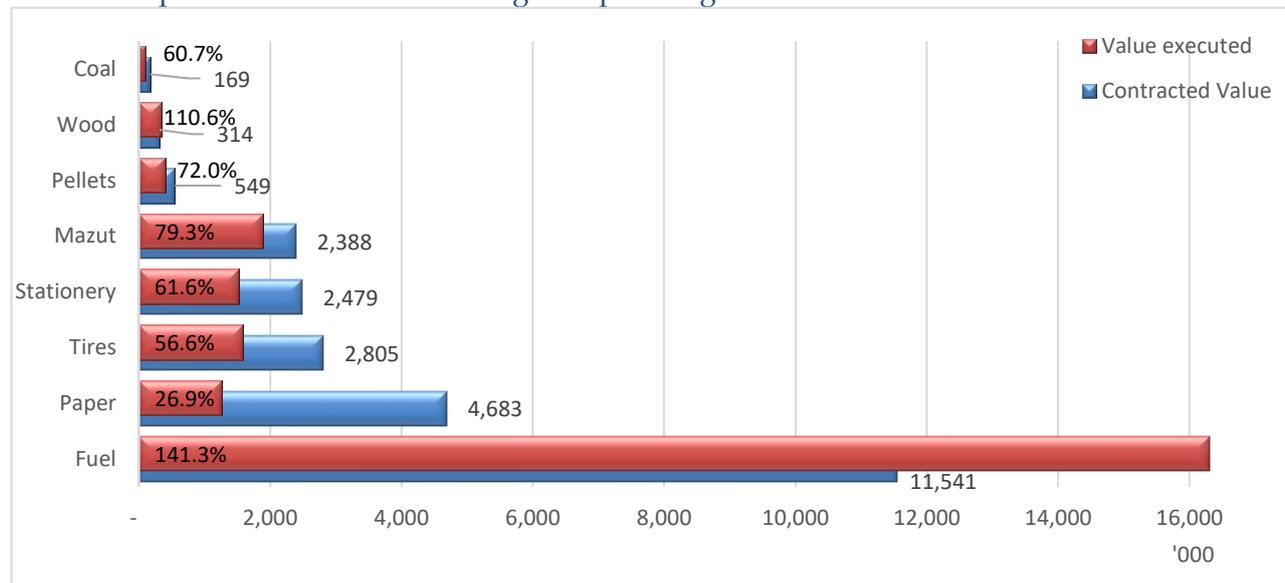
Table 1: Implementation of contracts against planning ('000 euro)

Procurement no.	Contract for:	Contracted value	Implemented value	underspending/ (overspending)	Implemented %
15-001	Fuels	11,571 ¹⁶	16,306	(4,735)	140.9%
16-005	Wood	314	347	(33)	110.5%
15-006	Mazut	2,388	1,893	495	79.3%
15-007	Pellet	549	396	154	72.1%
16-005	Coal	169	102	58	60.7%
15-002	Stationery	2,479	1,526	953	61.6%
15-004	Tiles	2,805	1,587	1,217	56.6%
15-002	Paper	4,683	1,259	3,424	26.9%

¹⁶ The ceiling of 130% of the contract for fuels has been exceeded

Of the eight contracts we audited, in one of them the allowed ceiling (130%) was exceeded by 11% whilst in four of them the threshold of 70% of the contracted value was not reached. The other three contracts were within the allowed deviation limits.

Chart 2: Implementation of contracts against planning



Meanwhile, the reason behind the low implementation of contracts was the overassessment of needs - poor planning - by the CPA, namely by the intended users of contracts (BOs/requesting units). CPA had taken for granted the contracts intended users' needs for goods, mainly declared by e-mail, without making sure that they were based on some analysis of historical data (e.g. e-assets data) and without attaching the Statement of Needs and Determination of Availability of Funds, which serves as a means of control in any public procurement activity. Thus, this overassessment of needs had led to the low implementation of centralised contracts.

CPA monitoring of the contracts implementation did not prevent the low or high implementation of contracts. Monitoring was ineffective because CPA, although it had received semi-annual reports from EOs on the implementation of contracts, did not analyse them at all. In lack of an analysis of the reports, CPA did not have information on the contracts' progress. Consequently, CPA was delayed in undertaking preventive or corrective actions.

Almost the whole time while centralised contracts were being implemented, CPA did neither contact with nor hold accountable those BOs that were not using centralised contracts sufficiently. Almost one month before the contract deadline was due, CPA contacted with some of the users of two contracts (Supply with Tires and Supply with Stationery) to draw their attention on using the contracts to a low level. However, any actions taken by users since then have had a minimal impact on increasing the implemented quantity.

Supply with fuel

The reason behind extremely high implementation of the contract for Supply with Fuel was the lack of effective monitoring of the contract by CPA. Based on our analysis on contract implementation reports, the contract was initially implemented at a slow pace because many BOs involved in the contract had not started using it because their individual contracts were still applicable. According to this trend, the contract was not expected to even reach the threshold of 70%. Following termination of individual contracts, the number of contract users increased, whilst implementation was approaching the contracted volume of fuel.

Table 2: Supply with fuel for 36 months under the contract 15-001

Quarter	Cumulative quantity supplied '000 litres	% cumulative implementation
Q 1-16	129	1.1%
Q 2-16	390	3.4%
Q 3-16	669	5.8%
Q 4-16	1,755	15.2%
Q 1-17	2,254	19.5%
Q 2-17	2,645	22.9%
Q 3-17	3,794	32.9%
Q 4-17	6,532	56.6%
Q 1-18	9,467	82.0%
Q 2-18	10,890	94.4%
Q 3-18	12,246	106.1%
Q 4-18	15,186	131.6%
January 2019	16,348	141.7%

For 28 months, contract users were supplied with a total of 10,890,293 litres, which is over 94% of the contracted quantity. Whilst during the next eight months to the contract termination, the contract users were supplied with over 5.4 million litres of fuel which summed up the supply to over 16.3 million litres. They were initially planned to be supplied with about 11.5 million litres of fuel, which brought implementation to the level of 141%, thus exceeding the allowed ceiling by 11%.

In analysing the fuel supply report, which the CPA received from the EO, we found that some contract users were supplied beyond the needs they had declared, in one case up to six times the declared amount.

Table 3: Quantity supplied against the declared one for some of contract users

Contracting Authority	Declared quantity /36 months	Supply	Over supply	Under supply %
Kosovo Police	3,218,000	5,418,260	2,200,260	168%
Kosovo Correctional Service	643,500	1,855,518	1,212,018	288%
Students Centre	107,000	737,472	630,472	689%
Ministry of Internal Affairs	505,000	1,073,817	568,817	213%
Ministry of Culture, Youth, and Sports	156,000	343,261	187,261	220%
Ministry of Education, Science, and Technology	341,000	527,090	186,090	155%
Ministry of Public Administration	202,000	358,540	156,540	177%
Istog Municipality	104,000	236,539	132,539	227%
Ministry of Justice	41,500	172,136	130,636	415%
Ministry of Agriculture, Forestry, and Rural Development	103,000	209,351	106,351	203%

The table shows that Kosovo Police (KP) declared to be needing 3,218,000 litres of fuel whilst it was supplied with 5,418,260 litres, i.e. 2,200,260 litres or 68% more. Kosovo Correctional Service (KCS) had requested 643,500 litres, whilst it was supplied with 1,855,518 litres, thus exceeding the required quantity by 1,212,018 litres or 188% more, and so on.

On the other hand, there were BOs included in this contract which were not supplied with fuel at all, regardless the request made.

Table 4: BOs that did not use the contract at all

Contracting Authority	Contracted quantity 36 months	Supply	Under supply
Election Complaints and Appeals Review Panel	2,800	-	2,800
University Centre of the Dental Clinic of Kosovo	3,000	-	3,000
Secretariat of the Kosovo Security Council	8,000	-	8,000
Albanological Institute	13,000	-	13,000
Prishtina University	39,200	-	39,200
Peja University	92,000	-	92,000
Prizren University	122,000	-	122,000
Mitrovica University	145,000	-	145,000
Trepça under PAK administration	305,000	-	305,000
Kosovo Academy for Public Safety	350,000	-	350,000
Total	1,080,000		1,080,000

The table shows that none of these BOs have ever used the centralised contract, although being part of it. CPA has never contacted with any of them to inquire about the supply, namely fuel supply. However, we contacted the last five BOs in the table and found that all, except Trepça, have used

the centralised contract. This means that the figures reported by EO are not true and that the figure of 16.3 million litres could be even higher, i.e. the ceiling could be exceeded by more than 11%.

Lack of effective monitoring by CPA, has led it in exceeding the contracting quantity. This does not only constitute a violation of LPP, but also prevented CPA to start the new procurement activity for fuel in time. Lack of effective monitoring by CPA, has led it in exceeding the contracting quantity. This does not only constitute a violation of LPP, but also prevented CPA to start the new procurement activity for fuel in time. Due to lack of effective monitoring, CPA had no information that the contracted quantities were implemented around eight months before the contract deadline was due. As a result, it did not initiate the other procurement activity in time. The other procurement activity for supply with fuels was initiated on 9/11/18, whilst the supply by that time had almost reached the level of 130% and the contract was about to expire after three months (11/2/2019).

Supply with paper

For the contract Supply with Paper, the needs were over assessed fivefold. The contracted value was close to €4.7 million for three years whilst implementation during these three years was only close to €1.3 million, or 27% of the contracted value. The reason for this overassessment was a technical error that CPA had made during the calculation and aggregation of contract users' individual needs, which resulted in low level of implementation. The declared need for paper of all types were 363,829 units whilst due to the error 1,798,181 units were contracted. CPA was not aware of this error, this was noticed by the auditors during the audit of this contract.

Table 5: Miscalculated quantities of papers

No	Item	Needs declared by 79 BOs	Multiplied by 5 (by error)
1	Universal copy paper A4/80 g/m2	322,270	1,611,350
2	Universal copy paper A4/100 g/m2	16,704	83,520
3	Universal copy paper A3/80 g/m2	10,430	52,150
4	Special office paper A4/160 g/m2	6,185	30,925
5	Special office paper 250 gr/m2	2,999	14,995
6	Plotter paper A0	1,266	1,266
7	Plotter paper A1	1,030	1,030
8	Flipchart paper	2,945	2,945
	Total	363,829	1,798,181

Intended contract users declared the quantity of paper they needed to CPA, but CPA increased the declared quantity fivefold (erroneously because one paper box contains 5 reams, the box was confounded for reams, thus it was multiplied by 5). As such it was published in the tender dossier and the same quantity was contracted thereof.

The overassessment could have been prevented had the CPA confirmed quantitative needs against the respective budget potential of the contract intended users. CPA did not require users to confirm

their needs in a **Statement of Needs and Determination of Availability of Funds**. This document serves as a control tool in any public procurement regardless of the contract value (even for those under €1,000), and in this contract that amounts to millions of euros it was not used.

Had the error been prevented, the price of this contract would have been around €950 thousand rather than €4.7 million, and it would have not only been implemented at 100% but it could have been exceeded to 132% (€1,259,123 / € 952,634).

A considerable number of contract intended users, a total of 31 out of 79 users, had not placed any orders for paper, whilst their total demand for different types of paper accounted for close to 13% of the total quantity requested/contracted. The reason because these requesting units were inactive, was that CPA did not specify in the contract the amount of paper contracted for each user, so that each one of them would take the responsibility to be supplied accordingly.

Consequently, the implementation of this contract reached the level which, despite the fact that there were no financial consequences for CPA or for contract users, could lead CPA to being perceived as an irresponsible CA. This leads to the risk that both the current contractor and potential bidders might lose interest in bidding through centralised procurement, which translates to less competition in centralised procurement.

Supply with stationery

The needs for supply with stationery were over assessed as well. Out of a total of 197 items included in the contract, only 13 of them were implemented within the allowed deviation limits (+/- 30%), seven of them were implemented over 130%, whilst the for the majority the items (177 items) the threshold of 70% was not reached. This led to a low level of contract implementation, which did not reach the threshold provided by law either. In total, the contract was implemented just close to 62%.

Supply with Tires

Overassessment of needs was the reason behind the contract implementation being close to just 57%. Poor planning by contract users led CPA to contract more than it was necessary. As a result, only a little more than half of the contract value was implemented.

In comparing the needs declared by contract users with the contract implementation report, we found that the required quantities were very different from the implemented ones.

Table 6: Implementation against request for supply with tires (units)

Contract users	Quantity requested	Quantity implemented	Difference
Kosovo Police	9,144	7,728	-1,416
Ministry of Defence (former MKSF)	4,672	3,443	-1,229
Kosovo Customs	656	782	126
Ministry of Internal Affairs	360	495	135
Tax Administration of Kosovo	752	591	-161

Contract users, particularly those who requested large quantities, were supplied less than they had requested for, e.g. Police declared to be needing 9,144 tires whilst it was supplied with 7,728 units, i.e. close to 85% of the declared quantity.

Similarly, Ministry of Defence (former Ministry of Kosovo Security Forces) was supplied with 3,443 units out of 4,672 tires that it had declared to be needing, i.e. close to 74% of the declared quantity.

Contributing factor that led to differences between the implemented quantities of tires with the contracted ones was Eos' inability to supply the contract users accordingly. We found two such instances, one in the Police where EO failed to submit a total of 150 tires requested by the Police and the other in the Ministry of Defence where EO failed to submit a total of 214 tires requested by the Ministry. Both of these users reported the case to CPA, the Police did so after having applied the fine as provided in the contract and the Ministry was advised by CPA to apply the fine as well.

Supply with Coal

Overassessment of needs was the reason behind this contract failure to be implemented as intended. This centralised contract had only two users - Drenas Municipality and the Ministry of Labour and Social Welfare. Drenas Municipality declared to be needing three types of coal and that would purchase a total of 3,600 tonnes during the three years of contract implementation, whilst the Ministry declared to be needing 120 tons (only one type of coal). The total contract value was €168,660: Drenas Municipality spent €102,451 on coal, whilst the Ministry had not placed an order at all. This led to a contract implementation level of close to 61% of the contracted value, thus not reaching the threshold of 70% of the contracted value.

The issue of contracts with low number of users was also addressed in the previous audit and CPA was recommended, inter alia, to update the list of common-use items and to list in it only the items that users need the most.

Other contracts

In regard to the other three centralised contracts - supply with wood, supply with pellets and supply with mazut - users were supplied within the allowed limits and no problems were reported either by the EO or by the users. In accordance with the recommendation given in the previous performance audit report of 2018, CPA has stopped the centralised procurement activity for these

contracts, including the contract for supply with wood, as they had a relatively small value and number of small number of users too. However, CPA continued to develop centralised procurement for the contract supply with mazut as its value was high.

When it comes to the contracts not executed as expected, the worst possible effect - lawsuits by EOs for non-implementation of the contract - was nevertheless prevented. Recognising the risk we reported in the 2018 report, CPA contacted two of the four Eos whose contracts were not at the proper level of implementation and asked them to declare that *“they agreed there were no obligations between the parties as provided in the General Terms of the contract, under articles 1.3 and 1.4.”*. This released CPA and all contract users from any potential claim for compensation by EOs or any possible fine / compensation resulting from any potential lawsuit.

Taking the BOs declarations of needs for granted, CPA has not verified whether those needs were real ones. Failure to make such verification made the declared needs being consolidated the same way as they were declared, thus becoming part of the tender dossier, to later become part of the contract. As a result, in four of the eight audited contracts have expired without being implemented as planned.

3.1.2 Are the prices of supplied products cheaper compared to those in independent contracts?

Prices of products supplied under centralised contract should be cheaper compared to individual contract prices and market prices due to economy of scale (economic operator’s costs per product unit are reduced when there is a large volume of sales, therefore there is room for price reduction).

About 11.5 million litres were contracted with the Supply with Fuel contract, while the users of this contract were supplied with over 16.3 million litres, with a premium price of 0.055 euros per litre of fuel and the price for transport was 0.0167 per litre, which means that for each litre of oil, contract users have paid 0.0717 euros, in addition to the price under the stock exchange and other costs such as customs, value added tax, etc. The largest users of this contract were the Police, followed by KCS and MIA.

Table 7: The largest users of the fuel supply contract

User	2016	2017	2018	2019	Total	%
KP		1,649,699	3,384,545	384,017	5,418,260	33%
KCS		424,470	1,206,384	224,664	1,855,518	11%
MIA	308,292	345,170	388,781	31,574	1,073,817	7%
SC	340,993	278,855	89,863	27,761	737,472	5%
KJC		152,768	427,364	92,029	672,161	4%
MLSW	167,963	228,670	229,384	39,425	665,442	4%
MEST	293,540	131,257	49,460	52,833	527,090	3%
Other (63 users)	644,689	1,565,549	2,878,128	309,894	5,398,260	33%
Total					16,348,020	100%

As the table shows, KP had spent 33% of the total amount, followed by KCS receiving 11% of the total supply and so on. These users were supplied with a premium price in their individual contracts as follows:

Table 8: Comparison of centralised contract price with individual contracts

User	Premium per litre	Transport per litre	Total price	Difference compared to the price of CPA	Quantity realized	Savings
KP	0.0940	0.0167	0.1107	-0.0390	5,418,260	211,312
KCS	0.0550	0.0167	0.0717	0.0000	1,855,518	-
MIA	0.0940	0.0167	0.1107	-0.0390	1,073,817	41,879
CS	0.0400	0.0333	0.0733	-0.0016	737,472	1,180
KJC	0.0760	0.0167	0.0927	-0.0210	672,161	14,115
MLSW	0.0900	0.0168	0.1068	-0.0351	665,442	23,357
MEST	0.1000	0.0167	0.1167	-0.0450	527,090	23,719
Total					10,949,760	315,562

This table shows the difference between the price in centralised contract and the price in individual contracts for diesel for vehicles. In addition to the premium price, which was different in these BOs, the contracts for Supply with Fuel, both centralised and individual, included the fuel transportation price, which was also different in each BO. The centralised contract had the same two prices as well, but the amount of both was lower than the respective amount of BOs in individual contract. Therefore, the centralised contract for supply with fuel, compared to the individual contracts, was more cost-effective. Thus, using this contract, the Ministry of Internal Affairs and Kosovo Police have saved together around €235,191, the Ministry of Labour and Social Welfare (MLSW) has saved €23,357, while the KCS did neither saved nor lost as its price was the same as that of the CPA. All these users together have saved a total of €315,562 while being part of the centralised contract. This amount represents around 3% of the amount of expenses that we analysed.

However, had the centralised contract (CPA 15-001) had the price in the CPA's preliminary contract (CPA 13-001) for supply with fuel, the said savings would have been even higher because the premium price was €0.026 per litre or 0.029 euros lower. This means that in addition to €315 thousand, CPA could have saved another €318 thousand.

In addition, when comparing the centralised contract subsequent to this contract, the savings could have been higher because the premium price of the subsequent contract was just €0.01 per litre and the transport price is no longer charged to the cost of fuel.

In general, compared to the procurement for supply with fuel, which the users of centralised contract have done independently, the procurement of the CPA turns out to be more cost-effective.

We compared the centralised contract on Supply with Paper with the individual ones (in the past concluded by the BOs themselves without the mediation of CPA) and found that there were differences between the prices that BOs had concluded individually and those concluded by CPA.

Table 9: Largest users of the contract on supply with paper

User	Paper A/4 80gr quantity	Share in CC	Price in individual contracts	Price in CK	Savings / additional spending from CPA contract
KP	95,531	19.0%	2.26	2.38	11,464
SKJC	70,714	14.1%	2.23	2.38	10,607
TAK	69,000	13.8%	2.35	2.38	2,070
MIA	38,926	7.8%	2.45	2.38	-2,725
PU	31,797	6.3%	2.38	2.38	0
OPM	24,350	4.9%	2.30	2.38	1,948
KCS	17,670	3.5%	2.28	2.38	1,767
AK	17,500	3.5%	3.40	2.38	-17,850
MPMS	16,324	3.3%	2.40	2.38	-326
MEST	11,012	2.2%	2.95	2.38	-6,277
Other	108,820	21.7%			
Total supply	501,644	100.0%			
Total savings					678

Comparison of the CPA contract for supply of paper has revealed that CPA contracted higher prices than those achieved by the KP, the Secretariat of Kosovo Judicial Council (SKJC) and the Tax Administration of Kosovo (TAK).), which are the three largest users of the contract. Comparison of the CPA contract for supply of paper has revealed that CPA contracted higher prices than those achieved by the KP, the Secretariat of Kosovo Judicial Council (SKJC) and the Tax Administration of Kosovo (TAK).), which are the three largest users of the contract.

However, the price of €2.38 per ream of A4 paper contracted by CPA was by €1.02 cheaper than the price contracted by the Assembly of Kosovo (AK) under an individual contract. This difference per reams made AK save €17,850; the Ministry of Education, Science and Technology saved €6,277 (difference of €0.57 per ream); and MIA saved €2,725 (difference of €0.08 euros per ream). According to this analysis, these users' savings amounted to €27,187, but when deducting the additional cost caused to some other centralised contract's users from that amount, the savings are amortised and at just €678.

Although the largest users managed to individually contract cheaper prices than CPA with a centralised contract, i.e. they suffered additional costs when joining other centralised contract users whose individual contracts had higher prices, it turns out that the centralised procurement activity was effective as a result of this acceptable outcome. However, given that the volume of the CK is many times higher than the volume of any individual contract, the price contracted by CPA is not so cost-effective, which means that CPA has not achieved the maximum potential of saving.

The total potential amount that would have been saved had CPA contracted the price of paper by the lowest price from individual contracts is €75,247 (501,644 x 0.15 euros; quantity of A4 paper reams multiplied by the difference between the price in centralised contract and the price in individual contract of SKJC).

We compared some items that are most often purchased with centralised contract on **supply with stationery** with the respective prices of some individual contracts (concluded in the past by BOs themselves without the mediation of the CPA) and found that there were differences between the prices concluded by BOs and those concluded by CPA.

Table 10: Items of the contract on supply with stationery purchased the most, by value

Item	Description	Ordered quantity	Paid amount	Price CC	Price TAK	Price PU	Difference	Additional spending
16	Folder, in colour, with boxes, 80mm	87,794	162,404	1.85	1.19	1.3	0.55-0.66	48,286-57,944
33	Transparent hole A/4 sheet protector 1/100	59,967	118,735	1.98	1.30		0.68	40,778
6	LC4 Paper envelope (peel and seal)	4,286	41,771	9.8		5	4.80	20,573
14	Folder with coloured strips, capacity 150 sheets	14,294	23,841	1.78	0.23		1.55	22,156
80	Self-adhesive, coloured notes for posting 76 * 76 mm	59,212	20,724	0.35	0.18		0.17	10,066
	Total							151,516

Although the CPA contract on supply with stationery had a large number of items the same names of which were difficult to find in individual contracts, we found, based on their descriptions, some of the above items which were purchased at lower prices than with centralised contract. This comparison of the five most frequently purchased items, which accounted for around 39% of the incurred expenses of the centralised contract, has revealed that for these items CPA contracted higher prices than those contracted by some users with individual contracts earlier. For the items shown in the table, around €152,000 could have been saved had CPA managed to obtain the same prices as those in individual contracts. In the absence of analysis of previous individual contracts, CPA accepted the prices offered by Eos, leading the contract to produce this effect, additional costs to its users. Thus, it has not fully achieved its savings potential.

Given that CPA did not conduct a study of previous contracts as part of the market research, it could not identify the achievable market prices. As a result, some items were contracted at higher prices than those contracted by BOs individually.

The effect of centralised procurement cannot be known as long as no comparative analysis of the prices of centralised contracts with those of individual users included in the CK is made.

A comparison of the centralised contract on Supply with Tires revealed that the CPA contracted higher prices than those contracted by the Ministry of Defence, which is the largest user of the contract on supply with tires, after the Kosovo Police. The Ministry spent over €466 thousand with this contract to buy over 4,300 tires of various types. We have compared the prices of 33 types of tires the Ministry was supplied with, for which it spent around €434 thousand. The Ministry would have spent only €357 thousand, i.e. would have saved around €77 thousand if it bought these tires at the prices of the contracts it had entered into on his own, before the CPA contract was entered into force. Thus, CPA's contract was more expensive by around 18% compared to the Ministry's contract.

Table 11: Comparison of tire price between individual MKSF contract and centralised contract

Type of tire	Price of MD	Price of CPA	Quantity purchased	Extra cost
365/80R20	416.5	799.2	78	29,849
315/80R22.	231	302.4	150	10,710
195/70R15C	61.31	62.05	562	434
10R22.5 16	181.3	208	163	4,093

This table shows only some types of tires which caused more costs to the Ministry of Defence (former Ministry of Kosovo Security Forces) under the centralised contract. For example, the Ministry purchased the tire 365/80R20 at a price of €416.5 under an individual contract, whilst with the centralised contract this tire cost was €799. The Ministry purchased a total of 78 tires at an additional cost of 29,850 euros $[(78 * 799) - (78 * 416.5)]$.

However, when comparing the CPA's contract with the Police's contract, it turns out that around €237 thousand have been saved. With a centralised contract, the supply with tires (10 most common types) costed to the Police around €452 thousand, whilst the supply with the same tires under individual contract would have costed to the Police €689 thousand. Thus, the CPA contract reduced the Police's costs for supply with tires by 34%.

Moreover, the centralised contract reduced the costs for supply with tires for Customs of Kosovo (CK) as well. Of the 14 types of tires supplied to Customs by the centralized contract, we found six types of tires that were comparable to its individual contracts. Customs purchased 476 tires of these six types, which costed €25,338, whilst the same tires would have costed to Customs €22,865 had they been purchased with an individual contract. This means that €2,473 or about 10% of the budget for these tires were saved through the centralised contract.

Although it saved through the centralised contract, CPA did not identify or did not take previous contracts into account in order to estimate the potential/acceptable prices for this contract. Therefore, it awarded the contract to the eligible bidder who offered the lowest prices, regardless of the fact that those were higher than potential prices, e.g. higher than the prices in Ministry of Defence' individual contract.

Lack of a study on previous contracts as part of market research made CPA to determine a forecasted value of the contract, which led to the conclusion of a contract with prices higher than those in the previous contracts.

Through the centralised contract for Supply with Tires, CPA enabled KP to save €237 thousand and CK to save €2,473 euros, whilst caused extra costs to the Ministry for around €77 thousand because the tire prices based on the centralised contract were more expensive compared to the individual contract of the Ministry. CPA's goal of cost-effective procurement was partly achieved because centralised contract prices were not always lower than individual contract prices.

3.1.3 Are the prices of the supplied products approximate to the market ones?

Prices of products supplied under centralised contract should be cheaper compared to individual contract prices and market prices due to economy of scale (economic operator's costs per product unit are reduced when there is a large volume of sales, therefore there is room for price reduction).

We have compared the contracts concluded by CPA with the retail market prices which we obtained from the prices published by the Kosovo Agency of Statistics (KAS) and from the invoices that were issued to private buyers during the time that CPA contract was in force.

The average retail price per litre of fuel (diesel), published by KAS during 2016-2019 was as follows:

Table 12: Comparison of market price with CC price for supply with fuel

Viti	2016	2017	2018
Average price per litre of oil according to KAS	0.93	1.02	1.12
Average price per litre of oil according to the CK of CPA	0.85	0.99	1.10
Difference €	0.08	0.03	0.02
Difference %	9%	3%	2%

The table above shows that the price reached by CPA was lower than the average market price ascertained by KAS. However, this change has been significantly reduced each year, from 9% in the first year of centralised contract implementation to just 2% in the last year. However, CPA's price was based on the stock exchange and the premium price has not fluctuated during the years of contract implementation.

The users of the centralised contract for Supply with Tire have mostly purchased the type 195 / 65R15 tire, in a total of 2,509 pieces, followed by the type 235 / 65R17 with 1,807 pieces.

We have obtained the retail market price for summer tires type 195/65R15 and 205/55R16 and compared them with the centralised contract prices.

Table 13: Prices of tires on the market compared to CC prices

Item	Quantity supplied	Market price	Price of CC	Change in €	Change%	Savings / Extra costs
195/65R15	1,150	39.0	38.25	0.75	4.49%	862
205/55R16	617	45	45.90	-0.90	2.0%	-555
175/65R14	208	33.15	32.3	0.85	2.50%	177
185/65R15	96	40.95	36.5	4.45	10.7%	427
Total						911

The summer tire type 195/65R15 was sold in the retail market for 39 euros, whilst CPA contracted them for 38.25 euros. The users of centralised contract purchased a total of 2,509 tires, of which 1,150 summer tires, which implies that the difference of €0.75 per unit translates to saving of about €862 for the contract users. In addition, CPA managed to save €604 on two other types of tires, which totals to €1,466 of savings.

However, CC users purchased 1,263 units of 205/55R16 tires, of which 617 winter tires that CPA contracted for €45.90, whilst in the retail market were sold for €45 per unit. In this case, CPA made contract users spend for each tire €0.90 more compared to the market price or over 2% more for each of the 617 tires purchased, which amounts to €555. This implies that the net savings for these four types of tires was €911 (€1,466 - €555).

For the other centralised contracts we could not obtain market prices respective to the time when the CCs were in effect, therefore we could not make comparisons.

Although CC prices were mainly lower than market prices, there were cases when market prices were lower than centralised contract prices. These differences were not identified before the procurement activities started, CPA because did not carry out an adequate market research. Consequently, CPA started the procurement activity without clear objectives, without declared savings targets, and did thus not fully achieved its potential for cost-effective prices.

3.1.4 Has it made a proper assessment of the benefits and costs from centralised procurement activities?

Following the implementation of contracts, CPA should conduct analyses to assess the benefits and costs incurred by centralised procurement activities in relation to individual procurement. CPA should do this every year, by preparing the annual operational report and other analytical reports that it publishes on its website.

All contracts that CPA entered into in 2016 were implemented. CPA has not conducted a comprehensive analysis of their implementation (at least not documented) to ascertain the amount of savings or costs incurred by centralised procurement.

An analysis of the CPA presented in its annual report states that savings have been achieved in each procurement activity it has conducted. This was based on the estimated value of the centralised contracts, which it had calculated by adding up all the values estimated for each contract user and comparing it with the contracted value in the centralised contract. As the contracted value was always lower than the estimated value, CPA concluded that savings were as much as the difference between these two values.

Our observation on this methodology is that the difference between the estimated value and the contracted value is not a real indicator of savings because even in individual procurements the projected value is, in most cases, higher than the contracted value. Moreover, CPA did not confirm the estimated value by each contract user for two reasons: because not every contract user responded and because the responses they received were not properly confirmed as they lacked the signature of persons authorized by law to confirm, the Chief Financial Officer's and the Chief Administrative Officer's. Therefore, the estimated value obtained by the contract users could be overstated as it was the case with Kosovo Police, which declared an estimated value of €1.2 million for supply with tires and just spent around €450 thousand.

For the implemented contracts, we tried to learn from CPA as to whether it has made the intended savings, and if yes, what was the amount of savings for some of the largest users of these contracts, if it has ascertained who the biggest users are.

We enquired the information for the following contracts:

1. Supply with Fuel;
2. Supply with Paper; and
3. Supply with Tires

The following are the questions we posed to CPA regarding the above-mentioned contracts:

- Who are the 10 largest users of the contract in terms of value?
- Who are the 10 largest users of the contract in terms of quantity?
- What are the 10 most common items purchased by these 10 users?
- What was the difference between the prices of these 10 items compared to the prices in the individual contracts of these 10 users? and
- What are the savings/extra spending incurred by centralised procurement for each of these 10 contract users?

CPA was able to draft a report in response to our requests, but the report lacked a clear and conclusive conclusion regarding the savings and additional costs incurred by centralised procurement, because it did not include reference prices for comparison, i.e. it lacked individual contracts of CC users. Such analyses were difficult for CPA also because it did not have an

information management system in place for the implementation of contracts. For monitoring purposes, CPA drafted Excel spreadsheets forms, which contractors (EOs) were responsible to fill out and send it to the CPA. However, the forms as such, contained the chances for wrong registrations, and consequently the data extracted from such reports could not be complete and accurate. In these reports (e.g. supply with stationery and supply with tires) we found that the contractor registered the same item at different prices. Another error we found in these forms is that the contract users were registered under different names, then the organisational sub-units of the contract users also appeared in the report, which complicated the monitoring of contract implementation further. Therefore, the completeness and accuracy of information on items supplied to each user was an issue that made CPA analysis difficult. The design of the report did not provide sufficient data to arrive at the information that serves the analysis either. For example, the report of the contractor for supply with coal only contained the invoiced value and lacked any other information on the type or respective price of coal supplied, regardless the presence of three different types and prices of coal.

The reason behind the lack of reliable results on the implementation of CCs was CPA's failure to use a proper method of centralised procurement analysis. In lack of this information, CPA repeated the just completed procurement activities without knowing whether it was worth continuing with centralised procurement or not.

CPA has no information as to whether it has achieved its goal of cost-effective procurement, and consequently neither Ministry of Finance nor CCs users do (unless they have done the analysis themselves, as it was the case with MD, which carried out the analysis on tires and found that the prices in its individual contract were, in most cases, lower than the prices in CC).

3.2 Have the lessons learned from the audit report Value for Money in Centralized Procurement - Part I been properly used in the new centralised procurement?

This section presents the lessons that CPA has learned or should have learned from the implementation of the first centralised contracts. It addresses the actions that CPA has taken during the implementation of new centralised procurement activities.

3.2.1 Have potential benefits from the new centralised procurement activities been properly assessed?

CPA, as the contracting authority, should properly document procurement needs by establishing communication with BOs involved in centralised contracts. The data obtained from them regarding the type and quantity of goods, i.e. their estimated value, must be confirmed by receiving the Statement of Needs and Determination of Availability of Funds with which the Chief

Administrative Officer and the Chief Financial Officer of the BO reconfirms that the BO needs the respective type and quantity of goods it has budgeted sufficient funds for.

CPA should also conduct market research by analysing previous supply contracts for the same or similar goods, in addition to conducting field research (if feasible) to ensure that the contracted price is not higher than the market price.

In order to see as to whether CPA has undertaken these actions, we selected four ongoing procurement activities, three of which were new procurements that CPA has not conducted before. They are:

1. Long-term use of rental vehicles;
2. Photocopying services at local level;
3. Supply with meat and meat products; and
4. Supply with fuels.

Findings for each of these procurement activities are the following:

For the centralised contract "Long-term use of rental vehicles", CPA established communication with the contract intended users to identify the needs for vehicles. Even though it requested the Statement of Needs and Determination of Availability of Funds to be submitted, not all users have sent it. CPA requested from users to confirm the stated quantities initially via e-mail, and for those that did make confirmations, CPA took them for granted.

However, one of the intended users has later requested to withdraw from the activity because it had not budgeted funds for this purpose. This case concerns the Central Election Commission's (CEC) request for 10 rental cars, which, the CPA had included in the tender dossier of the procurement activity in question. When it realized that CEC was lacking the funds for the foreseen period of contract duration, all the steps of the procurement process had already been completed. CPA had no choice but to sign the contract with the EO that the bid evaluation commission proposed as the contract winner. If CPA had asked for the Statement of Needs and Determination of Availability of Funds from CEC, it would have known, way before starting the procurement activity, that CEC was lacking the means to satisfy its need for 10 vehicles. This would have allowed CPA to produce a tender dossier reflecting the real needs of the contract intended users, which then enables its implementation within the terms specified therein.

In the Tender Dossier, CPA included the following BOs:

Table 14: BOs using the contract - limousine type of vehicles

No.	Name of intended user	Estimated number of vehicles	Number of vehicles in use
1	Assembly of the Republic of Kosovo	10	0
2	Office of the President	10	10
3	Ministry of Diaspora	1	0
4	Ministry of European Integration	4	0
5	Student Centre	1	1
6	Central Election Commission	10	0
7	Prishtina Municipality	2	1
8	Lipjan Municipality	1	0
	Total	39	12

The table above shows that out of 39 vehicles contracted to be used by the eight users provided in the contract firstly, only 12 vehicles are currently being used. The rest of the vehicles, the use of which has been renounced, have been re-designated to other users.

Table 15: Current contract users

No	User's name	Number of vehicles in use
1.	Office of the President	10
2.	Office of the Prime Minister	7
3.	State Prosecution	6
4.	Privatisation Agency of Kosovo	3
5.	Deçan Municipality	2
6.	Kosovo Judicial Council	2
7.	Ministry of Regional Development	1
8.	Prishtina Municipality	1
9.	Ministry of Trade and Industry	1
10.	Student Centre	1
11.	Kosovo Competition Authority	1
12.	Gjakova Municipality	1
13.	Ministry of Infrastructure	1
14.	Vushtrri Municipality	1
15.	Ministry of Finance	1
	Total	39

The main reason for this situation was the lack of adequate communication between CPA and potential contract users. Another contributing factor to this situation was poor planning by users, who had not properly planned long-term needs and did not align them with their financial capacity (with their budget). However, other BOs that had not declared their needs in time, made late ad-

hock requests, after the contract was signed, and have accepted to use the vehicles that current users no longer needed.

As a result, there was a transfer of vehicles from one user - who did not allocate sufficient funds - to the other user - who did not make the request time. This course of action leads to the risk of unpaid bills, which can later be paid through the bailiff along with fines for delays, or may result in having to spend for unused vehicles.

Communication between CPA and BOs/requesting units included in the contract on **Use of photocopiers and printers for rent - local level**, has not taken place at all. CPA did not seek to know what the approximate needs were (approximate number of pages printed/photocopied), nor did it ask for Statement of Needs and Determination of Availability of Funds in order to know the amount each one of these 13 BOs included in the contract have budgeted.

The approximate number of prints/photocopies/scans required for the centralised contract, according to the CPA, was based on the centralised contract¹⁷ for Supply with Paper, i.e. on the amount of A4 paper that was contracted for each user involved in this contract. Based on this assumption, CPA managed to make a fair needs assessment but the assumption was not correct because four out of 13 users had individual contracts that were still in force. CPA had not contacted the intended users of the contract at all, therefore their needs for this service were over assessed and consequently three of these BOs included in the contract have not started using it even after 19 months from its application, whilst the fourth started using that contract after eight months and has gradually installed the equipment over the next 10 months. As a result, during the first 19 months, this contract has been implemented to the extent of just 9%, namely 90% of the contracted value needs to be implemented for the next 55 months.

Regarding the market research, CPA did not enquire for previous contracts of these users through which comparison of their price with the potential price of CC would be made. CPA did not even have information on users involved in the contract having contracts for this service or for the supply with toner and maintenance of photocopy machines in force. As a result, there is a lack of analysis of the costs of each user included in the contract to ascertain in advance the potential savings separately. Consequently, for the procurement activity in question, CPA had not made an adequate cost estimate in relation to the expected benefits.

The price that CPA estimated for this tender was €0.009 for one copy/printing unit, whilst the price of the winning bid was 0.0055 euro or 39% lower than the estimated price. The prices of the other two bids submitted for this tender were around the same price; the second was €0.0058 per unit and the third was €0.0068 per unit. This indicates that the estimated value itself has not been determined based on a proper market or price research, either from previous centralised contracts or individual ones.

¹⁷ CPA - Contract 17-003-111

CPA had not taken any concrete steps towards market research, the conclusions of which would have identified the market prices. It did not contact with the contract intended users to enquire about their previous contracts, in order to ascertain the achievable and acceptable prices for this contract.

However, we found that four of the current users (see Table 16) of the centralised contract, before being included in the centralised contract, had entered into IC similar to CC, but at a higher price than the price in CC.

Table 16: Individual contract prices for the four users of the centralised contract

User	Price per copy over the limit	Monthly rent for equipment and number of free copies included in this amount
Obiliq Municipality	0.01 euro	20 euros (2,500 copies)
Fushe Kosovo Municipality	0.007 euro	29 euros (5,000 copies)
Drenas Municipality	0.007 euro (no limit)	0
Lipjan Municipality	0.01 €	27.34 euros (15,000 copies)
Centralised contract	0.0055 euro	0

Under the individual contract, Obiliq Municipality was obliged to pay €20 monthly rent for a device - this included 2,500 free copies - and for each additional copy they had to pay 0.01 euros in addition to the €20. This means that three of the four municipalities in the table incurred fixed monthly costs regardless of whether they used the equipment or not, whilst with the centralised contract, the contract users do not incur fixed costs but only pay for as much as they use the equipment.

For example, if Obiliq Municipality makes 2,500 copies, it would pay €13.75, which is for €6.25 cheaper compared to the IC based on which, for this number of copies, it paid 20 euros. Only Drenas Municipality designed the individual contract in the same way CPA did, however its price was 27% higher than the CPA price.

Lipjan Municipality had an individual contract with a price lower than the price in the centralised contract due to the fact that, together with the rent, they paid for 15,000 copies which translate to a price of €0.0018 per copy, or just 33% of the price in CC. However the fixed amount contracted must be paid regardless of whether they make those copies or not. Thus, in the invoice that Lipjan Municipality received for the month of June 2020, we found that none of the photocopier machines did not make more than 5,000 copies, which translates that one copy was in fact paid with the price of €0.0055, which is the same as the price in CC.

We have found that not all centralised contract intended users started using it shortly after its entry into force (April 2019). Lipjan Municipality has a contract in place for renting photocopying/

printing machines, which expires in June 2021, or 25 months after the entry into force of the centralised contract. Podujeva Municipality has not started to use the centralised contract yet as they have a contract in place for the maintenance of photocopy machines owned by the Municipality. This municipality intends to use its individual contract until it is due in February 2021. Drenas Municipality also has such a contract in place valid until June 2020, or 14 months after the entry into force of the centralised contract.

The reason behind this situation was lack of proper communication between CPA and the intended users in the contract, and the reliance on data which should have not been relied upon without prior confirmation through consultations with users or analysis of the contracts implementation.

Inadequate communication between CPA and intended users of CC, has led, inter alia, to some users starting to use CC much later (25 months) from the signing of the CC, because they had similar framework contracts in place for maintenance of equipment and supply with toner, which may result in CC being unimplemented.

For the contract Supply with Meat - Lot 1, CPA established communication with intended users to be included in this centralised contract, enquired and obtained information regarding the type and quantity of goods needed from each of them. However, except for two Statement of Needs and Determination of Availability of Funds, CPA did not received it from the other three users of the contract, although it had requested them. Despite this, CPA included them in the CC without being able to confirm the declared needs of the contract users and without confirming whether they have budgeted sufficient funds for this procurement or not.

Although CPA was conducting centralised procurement for supply with meat for the first time, it did not conduct a proper market research, did not consider previous contracts of the intended users in order to identify achievable and acceptable prices for this procurement. CPA lacked a preliminary assessment of the expected benefits from the centralised procurement in question.

We have compared the prices of four CC items for supply with meat with the prices of the same items in the individual contract of the Kosovo Correctional Service¹⁸ which is currently one of the largest users of CC. We found that for beef, the item with the largest share of the cost, CPA contracted the most expensive price.

¹⁸ Contract 21500-15-035-125

Table 17: Comparison of Kosovo Correctional Service contract prices with CPA contract prices

Item	Unit	Quantity contracted by CPA	Quantity contracted for KCS	CPA price	KCS price	Price difference	Extra costs for the KCS
1	2	3	4	5	6	7=5-6	8=3*7
Beef	kg	536,460	175,269	5.55	4.85	0.70	131,452

The table shows that CPA, for 536,460 kg of meat, contracted the price of €5.55/kg in contrast to KCS which, for 18,000 kg, managed to purchase this item at a price of €4.85/kg. The price in the centralised contract is 15% higher than the price in the individual contract of KCS. If CC is fully implemented, i.e. if the entire contracted quantity is purchased, there will be an additional cost of €131,452 for KCS.

However, according to KAS reports, the consumer price for beef increased by €0.7 per kg in 2019, when CPA contract was concluded, compared to 2015 when the individual contract of KCS was concluded. However, this increase was not documented by CPA during development of the centralised procurement, in order to justify the higher price, it had received for this item.

However, some CC prices were lower compared to the prices in the IC of KCS, which translates into savings for KCS if it uses the CC.

Table 18: Item CPA has obtained more favourable prices for compared to KCS

Item	Unit	Quantity contracted by CPA	Quantity contracted for KCS	CPA price	KCS price	Price difference	Saving for KCS
1	2	3	4	5	6	7=5-6	8=3*7
Homemade sausage	kg	68,085	38,580	1.8	2.5	0.7	27,006
Bull ham	kg	46,191	32,385	4	5	1	32,385
Burger 100 GR	kg	22,680	22,440	2.8	3	0.2	4,488
							63,879

The potential savings on these three items KCS is supplied with through CC could reach €63,879. This saving amortizes the extra costs that the higher price of beef in CC has caused to KCS, by reducing to €67,573. This amount represents over 1% of the total value of CC.

In addition to this, CPA could have saved up to €402,345 through CC had it contracted the same price as the one contracted by KCS, which represents about 5% of the CC value. This is because this item constitutes 54% of the expenses estimated in the CC.

Failure to conduct adequate market research, prevented CPA, despite the significantly larger quantities contained in the centralised contract, from contracting a more favourable price than those contracted in the individual contract, at least for the items expected to be bought the most and constitute the largest share of expenses.

3.2.2 Does CPA monitor the contracts implementation properly?

CPA should monitor the progress of contracts by obtaining regular reports on their implementation, and if necessary, in case they are being implemented according to the contract conditions, it should contact the relevant contract managers to take corrective action.

From the beginning of the implementation of CC for **Use of Rented Vehicles**, CPA has been actively monitoring it by getting involved in improving its poor management by contract users. Given it could not prevent poor planning during the tendering phase of this contract, CPA had to act as an intermediary to enable the transfer of vehicles from one user to another. The reasons for not using rental vehicles, according to CPA, were various from structural changes in organizations, to contract users, over to insufficient funds for this CC.

CPA received reports from the EOs, but they were not well designed because they only contained data on the user owning the contracted vehicles and nothing related to the mileage of vehicles, their servicing or repair. In lack of this information and of a cost-benefit analysis that had to be done before the decision to centralise this procurement was made, it is impossible to conclude as to whether value for money was achieved in this procurement.

For example, Office of the President of Kosovo requested and rented 10 vehicles. The total millage for 31 months were 601,433 km, whilst it paid the rent in the amount of 149,388, which translates to having paid an average of €0.25 on each kilometre.

Table 19: Vehicles rented by the Office of the President

Contract start date	Mileage	Rental expenses as of 31-10-2020 (31 months)	Costs per km
28-03-18	26,178	14,939	0.57
28-03-18	32,323	14,939	0.46
28-03-18	54,025	14,939	0.28
28-03-18	54,164	14,939	0.28
28-03-18	60,143	14,939	0.25
28-03-18	68,491	14,939	0.22
28-03-18	70,107	14,939	0.21
28-03-18	73,245	14,939	0.20
28-03-18	76,967	14,939	0.19
28-03-18	85,790	14,939	0.17
Total	601,433	149,388	0.25

As shown in Table 19, the mileage ranges from about 26,000 to around 86,000 kilometres per vehicle for 31 months, which means that vehicles are not used the same way. As a result, the cost per unit of vehicles is different, higher for those used less frequently and lower for those used more frequently. The cost for using the first vehicle was €0.57 per km, whilst €0.17 per km for the vehicle that travelled 85,790 km. This means that the vehicle that was mostly used provided a higher value for money compared to the one that was used less.

Table 20: Vehicles rented by the Office of the Prime Minister

Contract start date	Mileage	Rental costs until 31-10-2020	Costs per km
20.03.2018	154,162	14,939	0.10
20.03.2018	98,383	14,939	0.15
10.09.2020	2,909	498	0.17
21.07.2020	8,700	1,494	0.17
09.03.2018	73,575	14,939	0.20
09.03.2018	64,494	14,939	0.23
09.03.2018	62,927	14,939	0.24
Total	465,150	76,685	0.18

The vehicles that OPM received in March 2019, travelled a total of 465,150 kilometres, an average of €0.18 euros per kilometre travelled. Whilst the average mileage per vehicle was 90,708 km.

The analysis on two reports we received from these users of CC shows that the rented vehicles travelled from around 26,000 to 154,000 kilometres for the first 31 months of the contract, whilst the rent for each of them is the same. This means that the cost per unit (last kilometre) for the use of vehicles varies greatly, the first has a cost of €0.57 per km whilst the last just €0.1 per km.

CPA failure to monitor the use of these, without relieving the users of CCs from this responsibility either, may result in lack of information for deciding as to whether a procurement new activity for such service when the current contract expires should start or not.

If this trend of using the vehicles goes on, it is expected that, by the end of the contract (another 35 months), each vehicle will have covered an average of about 150,000 kilometres in total while they will be less than 6 years old, whilst around €33,000 will be paid until then for a such a vehicle on behalf of the rent.

CPA has not effectively monitored the centralised contract on **Use of photocopy machines and printers on rent**. CPA does not have an appropriate contract implementation monitoring system in place at the general level or at the level of individual users of CC. The report was not designed to provide sufficient information on the use of the contract. Apart from the value implemented up to the given date, the report lacks data on the use of contract by the users of CC, nor does it contain any analysis on the percentage the contract has been implemented to in general, or particularly for each user included in the contract. Therefore, the report designed by CPA does not provide effective monitoring of contract implementation.

The analysis on the received reports regarding the contract implementation (with very little information) led us to the conclusion that for 19 months (from April 1, 2019 to November 5, 2020) of the contract implementation, 13 BOs included in the contract spent just €30,433 out of a total of €357,000 contracted, i.e. less than 9% of the contract value was. The remaining 91% remains to be implemented for 55 months until the contract termination.

For the contract **Supply with Meat** and meat products, CPA has provided us with a generalised implementation report, which includes the estimated quantities versus those implemented per product (expressed in value and percentage). This report does not indicate the quantity purchased by each of the five contract users. In lack of this information, it is not known which user is facing setbacks in the contract implementation regarding the quantities required initially. Consequently, the report received from EOs can serve the CPA to only ascertain the progress/stagnation of implementation at the contract level but not also against the relevant parts of each user.

According to this report, for 17 months of contract implementation, only €914,253 were spent out of €5,496,397 contracted, which means that the contract was implemented at just 17%. About 83% of the contract had to be completed within the next 24 months.

Although the contract was not being implemented as planned, we have no evidence that CPA has contacted contract users to enquire about the delay and eventually take corrective action.

The report format designed by CPA was not adequate for effective monitoring therefore the data in the report were not sufficient to make a detailed analysis of the progress of CC.

Lack of adequate reports with comprehensive data resulted in inadequate information regarding the progress of the contract implementation. In this situation, CPA will not be able to take corrective action towards the implementation of the contract.

With this trend of implementing the CC, there is the risk of failure to achieve the 70%, as mandated in the LPP. In regard to the contract on Supply with Fuel, which CPA had concluded by using the negotiated procedure imposed by the urgency for supply because the previous CC's validity of 36 months had expired, CPA did not ask for any reports from the EO regarding its implementation. This contract envisaged the purchase of over five million litres of fuel within six months, but in lack of reports, it is not known how many litres were purchased in total.

When it comes to the threshold and ceiling set of +/- 30% for contract/lot/stage/item, the Public Procurement Regulatory Commission issued a notice in September 2020, according to which the CA could be **supplied with more than specified in the contracts in force and is not obliged to make orders to reach the 70% of the contracted quantity**. However, CA should, through gentleman agreements with EOs, amend the contracts in force to adapt them to current needs as a result of force majeure.

4 Conclusions

Based on our analysis, we concluded that procurements for centralised contracts were not properly planned. This was mainly due to the overassessment of needs stated by the intended users of the contracts. CPA has not formally verified their statements through the Statement of Needs and Determination of Availability of Funds, which serves as a control tool in any public procurement, even in small value procurements, but it was not used in the case of centralised procurement where contracts are worth millions of euros. As a result, four centralised contracts were not executed as intended, they have not even reached the threshold provided by law of 70% of the contracted value. However, failure to implement these contracts at the expected level was of no financial consequence to CPA and centralised contracts' users as CPA entered into gentleman agreements with BOs.

Another aspect of procurement planning carried out improperly was inadequate market research. CPA did not take into account the individual contracts of the users of centralised contracts, nor did it conduct adequate research on market prices, completely overlooking it as a step during the process. As a result, it concluded some centralised contracts that contained some items with higher prices compared to the prices of independent contracts. This means that CPA has not fully reached its potential for savings.

Comparison of prices in three CCs, in a total amount of €19,152,835, with items in individual contracts, which we were able to compare, has identified that the total savings made was €477,510 whilst and the extra costs of €104,490 have incurred.

In addition, CPA could have saved an additional of €544,306 if the prices in CCs were at least the same as the lower prices in individual contracts. The total savings from centralised procurement would have therefore amount to over €1 million, which represents over 5% of the amount spent in these three CCs.

CPA managed to make savings through the contract for supply with fuel, the premium price in CC was lower than the price in IC of each user, thus resulting in total of €315,562 of savings, over 10 million litres of fuel purchased by the seven largest users of CC.

In regard to supply with paper, the centralised contract enabled some of the users to make savings, in a total of €27,178, whilst to some others it caused extra costs, in a total of €27,856. This CC led to extra costs of €678 for the quantities we analysed.

The centralized contract for the supply with tires enabled one of the largest contract users to save €236,786, and another user to save €2,473, in total €239,259. On the other hand, it caused extra costs of €76,633 to one user because the prices in CC were higher compared to the prices in IC of this user. The net savings from CC for supply with tire was €162,869.

While 544,306 euros could be saved if the entire quantity supplied with centralised contracts was purchased at the cheapest prices of the respective items in each individual contract. Savings of

€317,543 could have been made if the contracted price of fuel (premium) in CC was the same as the price in the previous contract of CPA. The amount of €75,247 could have been saved if the A4 paper had the same price as in the individual contract of SKJC, and €151,516 could have been saved if the prices of certain items of stationery were the same as the lowest prices in individual contracts.

In general, in relation to market prices, as far as we were able to secure market prices, centralised contracts were more economical. However, since the CPA had previously lacked adequate market research, the comparison of most CCs with market prices was impossible to realize and quantify.

The savings, i.e. additional costs caused by centralised procurement, whether in relation to IC or market prices, were not known to the CPA because the CPA, in the absence of data based on adequate market research, failed to carry out comparative analysis to find out whether it is worth continuing with centralised procurement or not.

Obscurity over extra costs/savings happened because CPA has not assured it was receiving accurate reports from EOs and has not analysed them at all. Monitoring of the centralised contracts implementation is necessary because it can be used as a control tool that enables the CPA to prevent or correct the contract users' actions in the event, they do not use the contract accordingly. Due to ineffective monitoring, the centralised contract for supply with fuel exceeded the estimated amount by more than 41%. CPA has therefore deprived EOs of the chance to win this exceeded amount by not initiating the procurement activity on time.

Although eight centralised contracts were audited, resulting in one audit report published in 2018, CPA has not sufficiently NAO's recommendations to account. One of the recommendations was related to the cost-benefit analysis to be made before each new procurement activity, particularly centralised procurement, takes place for the first time. CPA did not take this recommendation into account, which resulted in the start of procurement activities for new contracts without adequate information on the potential effect of centralised procurement.

As in the first centralised contracts, CPA did not conduct the cost-benefit analysis that should normally precede the decision to initiate centralised procurement. Based on the conclusion drawn from the analysis, a decision should be made whether to proceed with centralised procurement or not. In lack of this analysis, CPA has no knowledge of the effect that centralised procurement has made and consequently no knowledge of whether value for money has been achieved or not.

For CC on supply with meat, the same as for the first centralised contracts, CPA has not conducted a market research, finding itself in the situation of having to accept the bid prices as they offered, without having a real reference price.

For CCs - use of rented photocopiers - CPA had done planning based on needs of CCs for supply with paper. The latter was signed just one year ago, as such the epilogue of its implementation is not known. Furthermore, CPA has not contacted with the contract users to ask them whether they already have contracted the said service and if so until when? As a result, CC for photocopier machines, as well as the first centralised contracts, made little progress.

As in the first centralised contracts, contracts implementation monitoring has not produced any effect because the Eos' reports on implementation of new centralised contracts were even more deficient than previous ones. The lack of link between planning and implementation for users makes it impossible to ascertain progress, especially in cases where monitoring reports lack sufficiently detailed data. Knowing only the implemented quantity as of the reporting date and not knowing the contract user allows the contract users to place orders by exceeding the limits set by law and in the contract or by not reaching the threshold set. Given that most of the reports CPA receives from EOs for monitoring purposes are as such, (as it was the case with the report on meat supply, report on photocopy machines, and report on use of vehicles on rent) it turns out that CPA lacks information on the contracts implementation progress.

Although CPA, as well as any contracting authority, are released from the responsibility to be supplied with +/- 30% of the contracted value/quantity due to the situation caused by the Covid-19 pandemic, in lack of this information CPA will not be able to make amendments to the CC to adapt it to the real needs of contract users.

In addition, CPA will not be able to ascertain the positive or negative effects of centralised procurement, and will therefore continue to conduct procurement, the effect of which is unknown.

Even the Ministry of Finance, as the authority for approval of centralised procurement, will not be able to make appropriate decisions in the lack of reliable and fact-based information.

5 Recommendations

For the purpose of improving the centralised procurement process and more cost-effective use of the budget, we have given recommendations to the Central Procurement Agency, as the one in charge of conducting the procurement procedures and monitoring the centralised contracts.

We recommend CPA to:

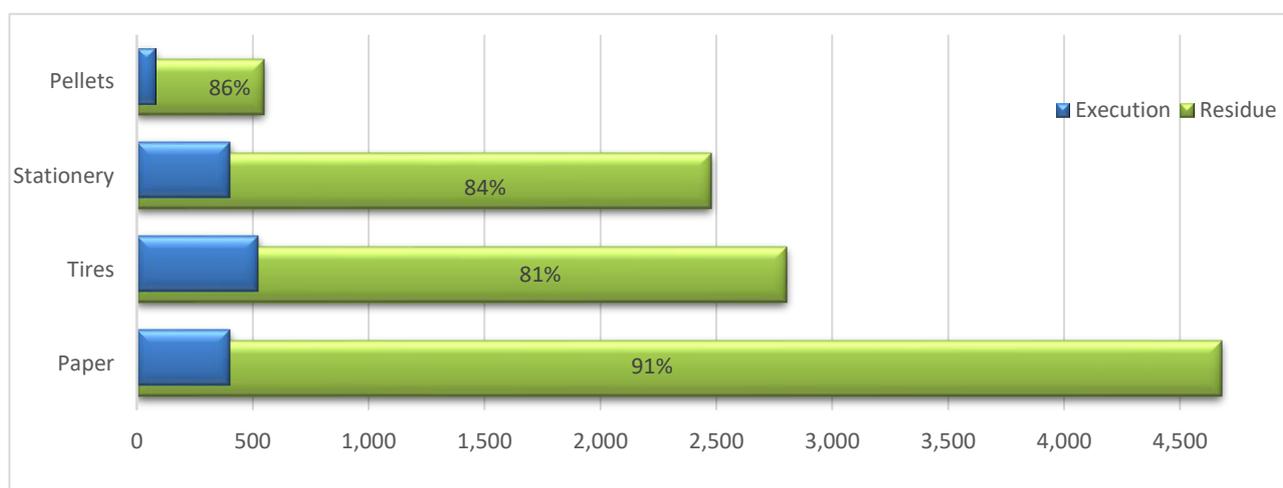
- Formally communicate and document the communication with the contract intended users in order to ensure that their stated needs are as realistic as possible, based on analysis of historical data and expected future developments, and that they correspond with their respective budgets;
 - Make progress with market research (analysis of current and previous contracts) in order to provide for an accurate estimate of the item price that would lead to better planning of the procurement activity;
 - Make progress with market research (to the extent possible) in order to ascertain achievable market prices based on which (in combination with pre-contract price analysis) the prices acceptable for a large-scale procurement, such as centralised procurement, would be determined;
 - Conduct cost-benefit analysis before launching a new procurement activity, first time procurements in particular, in order to obtain sufficient and appropriate information based on which would decide whether to initiate the centralised procurement or not;
 - Actively monitor the implementation of centralised contracts and compare their implementation in relation to contracting in order to ensure that they are being properly implemented, thus bringing corrective action forward, particularly:
 - the reporting form should provide relevant and sufficient information for analysis;
 - ensure that the data reported by EOs are accurate and ask from the relevant managers to report on the contract implementation and then harmonize the data of the parties; and
 - Ask the managers to report any deviations from the contract conditions in order to enable CPA to intervene and make any possible resolutions/corrections.
 - Conduct an analysis after the implementation of each contract, in order to evaluate the benefits and extra costs that may have incurred from centralised procurement and compare them with those that were expected in the cost-benefit analysis.
-

Annex 1 - Audit motive, criteria, methodology and scope

During the years 2015-2017, CPA carried out 16 centralised procurement activities which resulted in 35 contracts the total value of which reached over €68 million. We have audited eight of these contracts, amounting to around €26 million euros, and presented the findings therefrom in the audit report Value for Money in Centralised Procurement - Part 1¹⁹, published in 2018.

The 2018 report has identified shortcomings in the process of planning and monitoring of centralised contracts, which consequently led to the risk of not achieving value for money. At least four contracts, three of which with an individual value of over €2 million, were at such a low level of implementation that they could not reach the threshold of 70% of the contract provided by law²⁰.

Chart 3: Implementation of centralised contracts 15-20 months after signing



Failure to reach this threshold posed a risk that economic operators would sue the CPA/contracting authorities using centralized contracts and exercise their contractual right through the courts. By the time we ascertained this situation, the centralised contracts were still being implemented, there were 16 to 21 months left until expiration. Therefore, we assessed that there was a risk of failure to achieve value for money. In order to assess whether this risk would materialize, we had to wait for these contracts to be fulfilled or their terms to be expired by the end of 2019.

During the years 2018-2019, the Central Procurement Agency concluded 51 contracts for various supplies, including supply with stationery, supply with fuel, photocopying services, cleaning services, supply with passenger cars, transport services, vehicles on rent, etc. The total value of these contracts is over €84 million.

¹⁹http://www.zka-rks.org/wp-content/uploads/2018/05/RaportAuditimit_Vlera-per-para-ne-prokurimet-e-centralizuara.pdf

²⁰ Administrative Instruction no.2/2015 on Public Framework Contracts effective from 10/03/2015 <https://krpp.rks.gov.net/krpp/PageFiles/File/Udhezimet%20Adminis%202015/UA%202%202015%20per%20Kontratat%20Publike%20Kornize.pdf>

Audit Scope

This audit covered the period 2016-2019 and included:

- 1) Regarding the first question, the audit scope included eight centralised contracts that we initially audited in 2016-17, with a total value of around €26 million;
- 2) 2) Regarding the second question, we have audited four new contracts which CPA has concluded during the years 2018-2019, the total value of which is around €12 million or over 11% of the total value of contracts concluded during these two years.

Audit approach / Audit Criteria

To achieve the audit objective, we formulated the questions:

1. Has value for money been achieved in centralised procurement?
 - 1.1. Are contract users supplied in accordance with the needs specified in centralised contracts?
 - 1.2. Are the prices of supplied items cheaper compared to the prices in independent contracts?
 - 1.3. Are the prices of the supplied items approximate to the market ones?
 - 1.4. Has it made a proper assessment of the benefits and costs from centralised procurement activities?
2. Have lessons learned from VfM (Part I) been properly used in the new centralised procurements?
 - 2.1. Have the potential benefits of the new centralised procurement activities been properly assessed?
 - 2.2. Does CPA properly monitor the contracts implementation?

Audit Criteria:

In order to give a more clear definition of what “properly” in the above audit sub-questions means, we have applied the following criteria which derive from LPP, the Rules and Operational Guideline for Public Procurement, the Administrative Instructions for centralised procurement and good practices:

- 1 1 The quantities specified in the contract are reference points and should be adhered to when using centralized contracts to achieve value for money, the threshold and the ceiling set by law;
- 2 Prices of products supplied under centralised contract should be cheaper compared to individual contract prices and market prices due to economy of scale²¹ (economic operator’s

²¹ Sigma papers No. 47, p.g 18, 56 and 63, Brief 20 Central Purchasing Bodies page 4

costs per product unit are reduced when there is a large volume of sales, therefore there is room for price reduction);

- 3 3 After the implementation of contracts, CPA should conduct analyses to assess the benefits and costs incurred by centralised procurement activities in relation to independent procurements. In this regard, it should obtain feedback from the users of centralised contracts;
- 4 CPA, as the contracting authority, should properly document procurement needs²² by establishing communication²³ with BOs involved in centralised contracts. The data obtained from them regarding the type and quantity of goods²⁴, i.e. their estimated value, must be confirmed by receiving the Statement of Needs and Determination of Availability of Funds²⁵ with which the Chief Administrative Officer and the Chief Financial Officer of the BO reconfirms that the BO needs the respective type and quantity of goods it has budgeted sufficient funds for;

CPA should also conduct market research²⁶ by analysing previous supply contracts for the same or similar goods, in addition to conducting field research (if feasible) to ensure that the contracted price is not higher than the market price;

CPA should conduct an analysis to determine the ratio between the expected costs and benefits of centralised procurement activities in relation to independent procurements. In this context, CPA should choose the appropriate procurement procedure: for common (ordinary) consumables, the open procedure is preferred, whilst the most appropriate criterion for contract awarding is the "lowest price"; for goods that have operating and maintenance costs, the application of the criterion "most economically advantageous tender" is more appropriate; and

- 5 CPA should monitor the progress of contracts²⁷ by obtaining regular reports on their implementation, and if necessary, in case they are being implemented according to the contract conditions, it should contact the relevant contract managers to take corrective action.

Audit Methodology

We answered the audit questions by:

- Comparing the quantities supplied with those planned to ascertain whether there are substantial differences;

²² Law on Public Procurement Article 9 Determination of needs to be met, sections 1 and 2

²³ Rules and Operational Guide for Public Procurement Article 5. Procurement Planning section 5.19

²⁴ Administrative Instruction (GoK) No.05/2016 on Implementation of Central Public Procurement Procedures Article 6, Obligations of contracting authorities, section 3

²⁵ Administrative Instruction (GoK) no. 03/2017 on amending and supplementing the Administrative Instruction (GoK) no. 05/2016 on the implementation of central public procurement procedures, Article 4.

²⁶ Rules and Operational Guidelines for Public Procurement Article 4. General administration of procurement procedures section 4.2,c)

²⁷ <http://www.sigmaweb.org/publications/Public-procurement-Brief-11-2016-Albanian.pdf> page 5 paragraph 1

- Comparing the prices of a certain number of items in centralised contract (fully implemented) with the prices in individual contracts of BO (for largest users of centralised contracts). We also compared the same with market prices (to the extent possible for us);
- Assessing whether CPA has properly performed comparative analyses of the benefits and costs of centralised procurement activities. This includes comparing the prices of centralised contracts with the prices of previous contracts that BOs have concluded individually;
- Assessing whether CPA has properly assessed the expected benefits from new centralised procurement activities (including most accurate identification of needs possible, market research, contracts estimation value, reduced costs of BOs which it conducts centralised procurement for, etc.);
- Analysing the procurement activities developed by CPA, starting from the tender publication over to the contract conclusion (for the sample set for new procurement activities); and
- Analysing the contracts implementation monitoring reports prepared by CPA.

Annex 2 Samples of centralised contracts

The eight contracts that we audited in 2017 and were valid until 2019 are:

1. Supply with Fuel;
2. Supply with Paper;
3. Supply with stationery;
4. Supply with Tires;
5. Supply with Wood;
6. Supply with Coal;
7. Supply with mazut; and
8. Supply with pellets.

The four new contracts that have been audited are:

Contract title	Date of contract signing	Contract validity in months	Contracted value €
Long-term use of rental vehicles, category 3, Lot 2	27.03.2018	66	1,281,749
Local level photocopying services, Lot I.	26.03.2019	66	357,500
Supply with Fuel (Negotiated Procedure)	12.02.2019	36	4,795,690
Supply with meat and meat products Category 1 Lot 1	19.11.2019	36	5,496,397
Total			11,931,336

Annex 3 Letter of Confirmation/Comments of the Central Procurement Agency including National Audit Office views



Republika e Kosovës
Republika Kosova - Republic of Kosovo
Ministria e Financave, Punës dhe Transfereve
Ministarstvo za Finansije, Rada i Transfera – Ministry of Finance, Labor and Transfers
Agjencia Qendror e Prokurimit
Centralna Agjencia Nabavka / Central Procurement Agency

LETËR E KONFIRMIMIT

Për pajtueshmërinë e pjeshme me të gjeturat e Auditorit të Përgjithshëm për raportin “Vlera për para në prokurimet e centralizuara, pjesa e dytë”

Për: Zyrën e Kombëtare të Auditimit

Të nderuar,

Përmes kësaj shkrese, konfirmoj se:

- kam pranuar draft raportin e Zyrës Kombëtare të Auditimit për auditimin Vlera për para në prokurimet e centralizuara, pjesa e dytë (në tekstin e mëtejshëm “Raport”);
- pajtohem pjesërisht me të gjeturat dhe rekomandimet dhe kemi komente për përmbajtjen e draft Raportit të cilat i gjeni nga faqja 2 e tutje në shtojcën; si dhe
- presim që komentet tona të analizohen nga ana juaj dhe të ndryshohen disa pika të draft raportit.
- brenda 30 ditëve nga pranimi i Raportit final, do t’ju dorëzoj një plan të veprimit për implementimin e rekomandimeve, i cili do të përfshijë afatet kohore dhe stafin përgjegjës për implementimin e tyre.

Z. Behxhet Rrakliqi

Zv. Drejtor i Agjencisë Qendrore të Prokurimit,

Data: 17.06.2021, Prishtinë,

Findings/issues	We agree yes no	BO comments in case of disagreement	NAO's point of view
<p>Issues 1: Page 4. However, as not all items in centralized contracts were with lower prices than the prices of the respective items in individual contracts, the Central Procurement Agency did not provide budget savings to some budget organizations, but rather incurred extra costs.</p>	NO	<p>Bid assessment in order for each item to be priced lower than in the previous contracts of any institution in RKS has no legal ground. Therefore, this cannot be carried out as it is not lawfully permissible to reject an offer if the price of an item is higher than another previous contract, also you have not taken into account changes in the market price. Changes in the market price should always be taken into account when comparing two identical contracts in different periods, this may have positive or negative impact on the value of CC savings, but should be taken into account.</p>	<p>According to the Rules and operational guidelines for public procurement, count 11.1.b. stipulates that the responsible procurement officer "ensures that goods, services and works are procured in the most economical, efficient and effective manner". Also, count 13.2, in predicting the value of the contract, CC should: "take into account prices published by Kosovo Office of Statistics and/or other official indicative prices (such as tax office, customs office, chamber of commerce, etc.); and/or, local market prices; and/or, prices of previous contracts signed by the same or another contracting authority; and/or, published international awards; and / or, unit prices published at the PPRC website. There may have been fluctuations in the overall price level, you did not document this increase in order to justify the estimated value of the contract based on the increased prices.</p>
<p>Issues 2: Page 4. This form of procurement had resulted in 105 thousand Euros additional costs for some budget organizations, because prices of the items specified in the centralized contracts were higher than the prices of the respective items in individual contracts.</p>	NO	<p>In many cases, the draft report mentions additional costs and we do not accept this because if your own report is analysed the results show that CC brings savings and it does not make sense that the same contract to bring savings and additional costs.</p>	<p>To objectively present situation in addition to the presenting savings deriving from centralized contracts, we have also presented additional costs and the methodology that was used same way in both cases. Our analysis have concluded that there were savings for some BOs (most of them), but there were also additional costs for some other BOs (a smaller number. as SKJC-paper, MD - tires, KCS-meat). Previous analyses are being conducted for this purpose (according to LPP 1.10. Shared items - production or service requested by one or more contracting authorities, for which the most efficient and cost-effective use of public funds can be</p>

			achieved through the development of central, joint or consolidated procurement.
<p>Issues 3: Page 5.</p> <p>In addition to the savings of 477 thousand Euros, the Central Procurement Agency could have saved close to 514 thousand Euros as if in determining the estimated value of the contract had referred to the lowest prices of individual contracts. Thus, the estimated value would be lower than what they have determined and would provide cheaper prices of the respective items.</p> <p>By this, total savings that would result from the centralized procurement would reach over one million Euro which represents over 5% of the budget spent in only three centralized contracts.</p>	NO	<p>There is no legal ground to bids assessment in this manner. However, if we say that savings could be close to 514 thousand € in the same case, we can calculate how much budget would be used if the products that were purchased with centralized contracts would be bought with IC that had the highest prices and savings would reach up to several million €, therefore this calculation is not real and accurate.</p>	<p>To be even clearer we have reformulated the paragraph in question in order to clarify that the emphasis has been made at the estimated value of the contract and not in the bids assessment. The calculation of the savings carried out by the CPA has already been conducted and is emphasized in the report (477 thousand Euros). An additional 514 thousand Euros would have been saved if all the purchased items were at the lowest IC prices. The point is that upon a better analysis - identification of the lowest achievable previous prices - and predicting the value of the contract based on these prices would lead to the better prices and additional savings.</p>
<p>Issues 4: Page 5.</p> <p>Lack of effective monitoring had prevented the Central Procurement Agency to take corrective actions when the contracts were not being implemented, as foreseen.</p>	NO	<p>CPA conducts effective monitoring and this is evidenced with the fact that all contracts analysed by you and that are completed have been successfully concluded and there were no penalties to CPA or in public institutions.</p>	<p>Monitoring requires improvement, as we mentioned in the page 25:</p> <p>“For the monitoring purposes, CPA had drafted forms in the Excel format, which contractors (EOs) had the responsibility to complete and send to CPA. However, the forms as such, contain a great possibility for incorrect registrations, and consequently the data extracted from such reports may not be complete and accurate. In these reports (eg. supply with official material and supply with tires), we found that the contractor had registered the same item with different prices. Another error that we found in these forms is that contract users were registered under different names, then the</p>

			<p>organizational sub-units of the contract users also appeared in the report which had further complicated monitoring of the contract implementation.”</p> <p>If the monitoring by the CPA were effective, it would not exceed the amount of the fuel supply contract by 41 % or 11% of the permitted ceiling.</p>
<p>Finding 3: 3.1.4 page 25 Reason for the absence of reliable results of the implementation of CC was the lack of use of an appropriate method of centralized procurement analysis by the CPA. In the absence of these information, CPA had repeated the newly completed procurement activities without knowing whether it is worth to continue with centralized procurement or not.</p>	NO	<p>What are the facts which was not the right method and which is the right method? Along with the audit report you should explain to us which method should be used if those used by us are not appropriate.</p> <p>Therefore, according to you, CPA has repeated procurement activities without analysis, then We believe that you have carried out analysis in the proper way and you should recommend continuation or not of the procedures that you have analysed.</p> <p>CPA is not repeating the completed activities, but is heading the procedures required by the Government Decisions.</p>	<p>As mentioned in the report, CPA has not analyzed in relation to the centralized contracts which have been fully implemented.</p> <p>For a reliable analysis, the reference prices (individual contract prices or market prices) should be taken into account, the data reported by Eos’ should be accurate (by checking reporting applications).</p>
<p>Finding 5: Page 32. No proper research market has made that CPA, despite the significantly larger quantities contained in the centralized contract, to not be able to contract a more favourable price than the prices obtained with IC, at least for the items that are expected to be bought the most and that receive the bulk of the expenditure.</p>	NO	<p>This is not a finding, this is an opinion or assumption that facts are not presented.</p>	<p>As mentioned in the report, price of the meat with IC is higher than its price with IC. The quantity of IC which was 536,460 kg is significantly higher than the quantity of KI 18,000 kg, therefore the very fact that the quantity has been multiplied should provide lower price, despite the increase of the market price. (Increase in the price of meat was not documented by CPA when the estimated value of the contract was determined).</p>

<p>Finding 5: Page 33. CPA had received reports from the EO, but even they were not well designed because they contained only data on which user owned the contracted vehicles and nothing related to the mileage of vehicles, servicing or maintenance of vehicles.</p>	NO	<p>Reports are drafted according to the requirements of the contract, while the kilometres travelled do not reflect in the contract and are not mentioned in the contract, therefore are not required in the reports. If the spent km have a significant impact according to your analysis please recommend it.</p>	<p>The contract was designed by CPA, if the kilometres are not reflected in the contract, CPA is responsible for including them, and therefore you cannot justify the absence of data based on the contract. The mileage, however, has an impact because there is no economic reason - no value for money - if a car is paid close to 33,000 Euros whilst has been returned back to the landlord with only 55,000 kilometres driven, practically unused. The amount of 33,000 Euros is equivalent to the purchase price of the vehicle.</p>
<p>Finding 6: Page 34 If this trend of vehicle use continues, it is expected that by the end of the contract (another 35 months) each vehicle will spend in total an average of about 150,000 kilometres, while they will be less than 6 years old, whereas until then for such vehicle will be paid in the name of the rent, close to 33,000 Euros.</p>	NO	<p>This is not a finding since the price of the rent to be paid is in the contract and is the correct value 497.96€/per month or 32,865.36€ for 36 months. Whilst, how many kilometres are expected to be spent is just an expectation from you. However, please explain to us the meaning of your alleged finding on this.</p>	<p>The NAO's methodology in this report is to round the figures in order to make them easier to be read. Whereas, an expectation is based on data from the last 31 months, which means close to half of the contracted period.</p>

<p>Finding 6.2 Page 34 In the absence of such monitoring on the use of vehicles by the CPA, without releasing users of CC from this responsibility, may result with lack of information on whether or not to commence with other activity of procurement for this service when the current contract expires.</p>	<p>NO</p>	<p>In the audit report, the Maintenance and repair of official vehicles published by NAO in June 2015, you recommended that the Minister of Finance use leasing as a way to be more cost-effective. We have analysed that report prior to the commencement of the procurement procedure on renting vehicles and we have not calculated or recommended to calculate prices per km thereon. Based on the analysis that you have made during preparation of the audit report, we expect from you to give us recommendations on how should this procurement activity be conducted? How many km should be spent in order to achieve money value? Is it the only factor of the spent km which has to be calculated? What should be the estimated value for the last 1 km? CPA's contract is based on the duration and the rent payment is monthly fixed, but if you have reached conclusions that should be based on the km spent then please give us recommendation and provide us facts in order for Us to propose that in the future to conduct this procurement activity based on the spent km.</p>	<p>Purpose of this report is to present the situation and provide valuable information which can serve to improve the current manner of preparing and conducting the centralized procurement activities. Findings offer you an overview of the performance of CPA which is responsible to solve methods in order to advance/improve the performance.</p>
<p>Finding 7. Page 28 The main reason for this situation was the lack of proper communication between CPA and potential beneficiaries of the contract.</p>	<p>NO</p>	<p>All Institutions that are part of the tender dossiers in all procurement activities headed by CPA, including the procurement activity: "Use of rental vehicles" become part only after their request and the main reason is none properly planning from their side and CPA has nothing to do with this point. These findings are not related to CPA and communication is not the main cause either.</p>	<p>CPA has communicated with Institutions, however has not been assured that they have committed to implement their part of the contract. A concrete case was the CEC which soon after signing of the contract had withdrawn due to the absence of funds. The finding, in any case, is related to CPA, because if CPA had timely identified CEC incapability of to implement the contract, CPA would have not included it in the centralized contract at all.</p>