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A REPORT ON THE EXPENDITURES OF THE MUNICIPALITY OF

NOVO BRDO NOVOBËRDË

MONEY AND POLITICS



ADVANCING KOSOVO TOGETHER

LOCAL
SOLUTION

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ADVANCING KOSOVO TOGETHER





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Project Description:

This project, supported by the Advancing Kosovo Together – Local Solutions (AKT-LS) through the United States Agency for International Development (USAID), aimed to increase the integrity of local governments through increased monitoring by civil society in these municipalities. Participants in the project took part in a training that trained them to: access information on public tenders at the municipal level, identify the political connections of companies or persons that received tenders after donating funds to certain political parties, as well as examine the declaration of assets of local officials. They were then put to task to reproduce these results in their local municipalities and report on the results. This work is reflective of this methodology and training.

Disclaimer:

The views expressed in this report are the work of the participants in this Project. The research in these reports is solely the work of these persons, and not of their respective organizations. They also do not necessarily reflect the views of the donor for this project, United States Agency for International Development (USAID). They also do not necessarily reflect the views of the implementing organizations, Communication for Social Development, and Organization Çohu!

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CONTENTS

08

Introduction

10

**Capital
Investment
Expenditure**

12

**Contracts signed
by the Municipality
of Novo Brdo/
Novobërdë through
public procurement
procedures**

09

**Planning
of capital
investments in
the municipality**

NT

16

**General Audit
Office
findings in the
Municipality
of Novo Brdo/
Novobërdë**

22

**Links between
business and
politics**

14

**Distribution
of funds
through public
procurement**

24

**Conclusions and
recommendations**

22

**The financing of
political subjects**



A REPORT ON THE EXPENDITURES OF THE MUNICIPALITY OF **NOVO BRDO / NOVOBËRDË**

INTRODUCTION

In the initial part of the research, which deals with the 2008-2013 period, the municipality faced difficulties in functioning, especially when it comes to budgeting for capital investment and public procurement, as well as budget spending. This can be considered normal taking into account that the Municipality of Novo Brdo/Novobërdë is one of the recently established municipalities in Kosovo (2008).

The second part of the research, covering the 2013-2014 period, shows that the functionality and the professionalism of the municipality are at a higher level. The funds were used effectively and the results were obvious.

The Municipality does not have a black list of companies which were denied access to tenders, at least according to the list provided by municipal officials.

The main findings throughout years (2008-2014) can be grouped as follows:

- Problems with financial reports, inaccurate data supported by inadequate evidence, and inaccurate claims;
- Significant differences and inconsistencies in reports of cash revenues and payments at the beginning and at the end of the year;

- Problems with the report on budget realization;
- Failure of companies to follow contractual agreements, and a lack of imposition of measures by the municipality in line with the law;
- Failure to design and implement an internal audit, in line with the requirements of the legislation in effect;
- Lack of a contract award announcement in daily newspapers and on the website of the PPRC as required by the Public Procurement Law;
- Failure to follow procedures related to the selection of “economically favorable” tenders, as stipulated by the Law on Public Procurement No. 2007/20, section 50.2;
- Failure to report accurate information on property;
- Lack of a systematic process to manage and address external audit recommendations;
- Lack of an effective strategy to collect historic debt, which affects the capability of the municipality to plan the financing of projects from their own sources;
- The need to increase controls on expenditure, especially in the field of subsidies and transfers, etc.

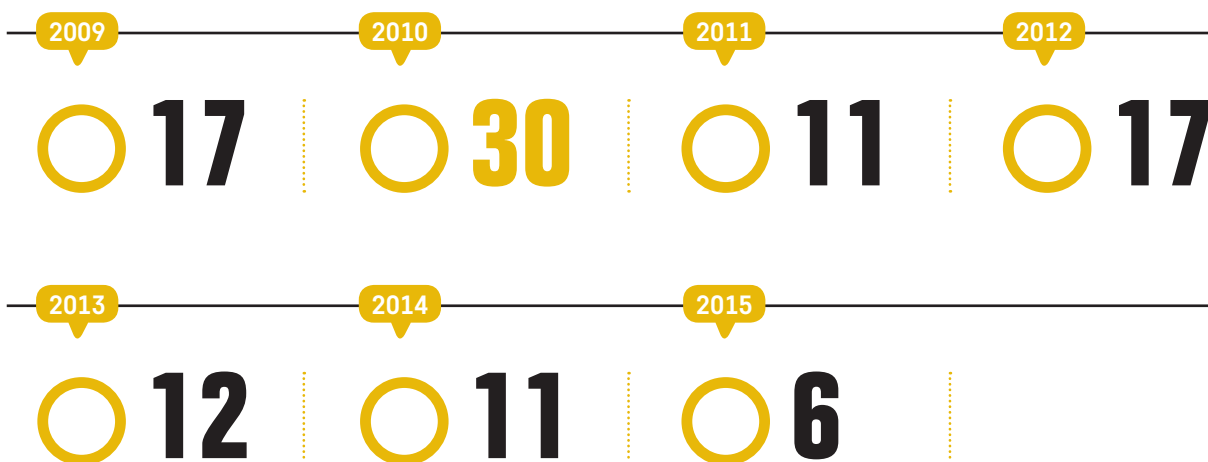
Below you can see how the municipality planned and realized funds for capital investment and public procurement.

The Municipality of Novo Brdo/Novobërdë for capital investments and public procurement for 2009-2015 allocated the planned funds as follows

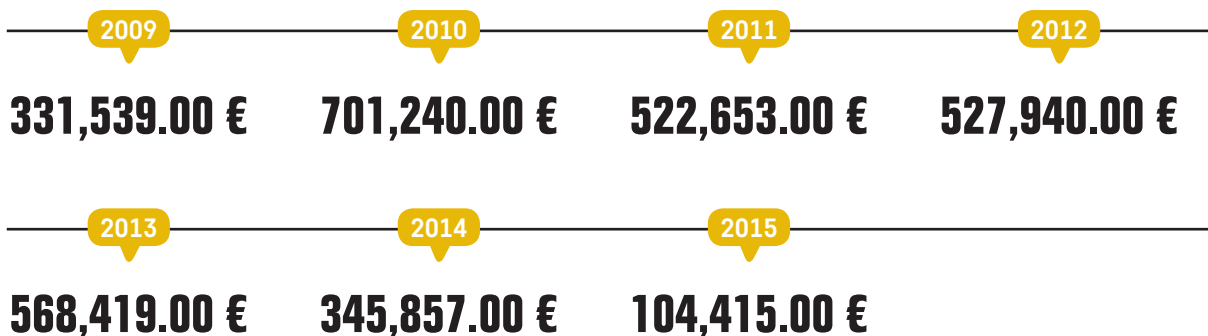
Planning of capital investments in the municipality

During the 2009-2015 period, the Municipality of Novo Brdo/Novobërdë planned to carry out 104 capital projects. The highest number of planned projects was during 2010, reaching a total of **30 projects.**

PLANNED PROJECT FOR CAPITAL INVESTMENTS



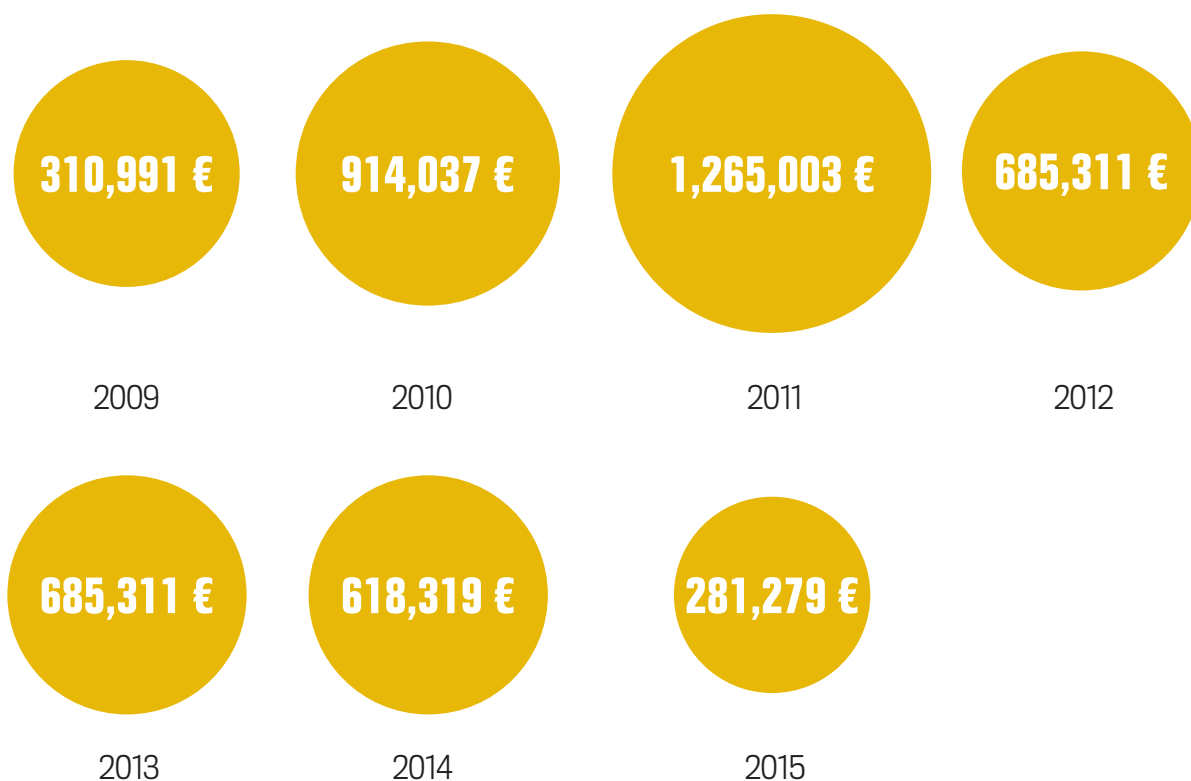
The planned amount presented in initial budgets was **3,102,063 €.** 2010 is also the year with the highest amount of allocated budget for capital investments.



According to data from annual reports and the data from the GAO, the Municipality of Novo Brdo/Novobërdë during 2009-2015 invested **€ 4,286,014** in capital investments; The highest amount was invested during 2011, and it was **€ 1,265,003.**

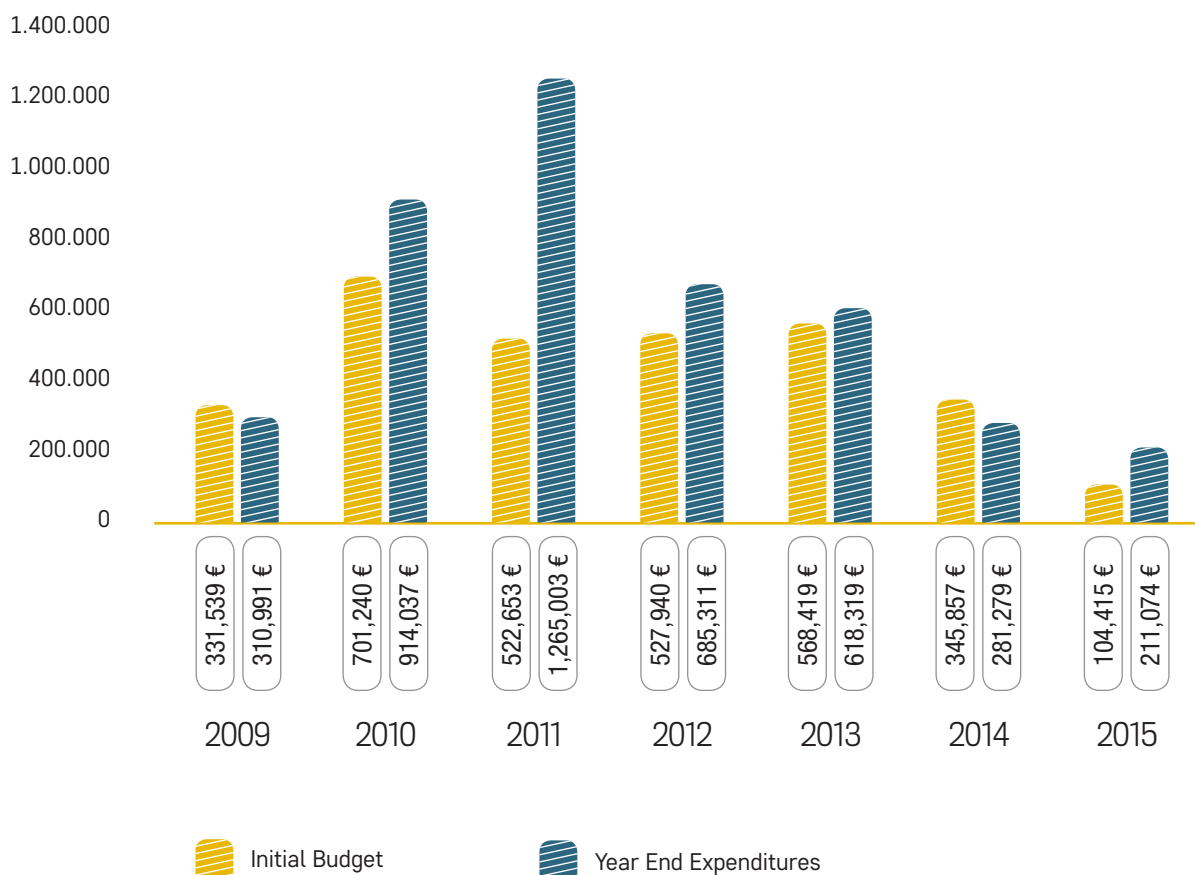


CAPITAL INVESTMENT EXPENDITURE



The differences between funds planned at the beginning of the year and the funds spent at the end of the year were rather high.

Difference between funds planned at the beginning of the year and the funds spent at the end of the year

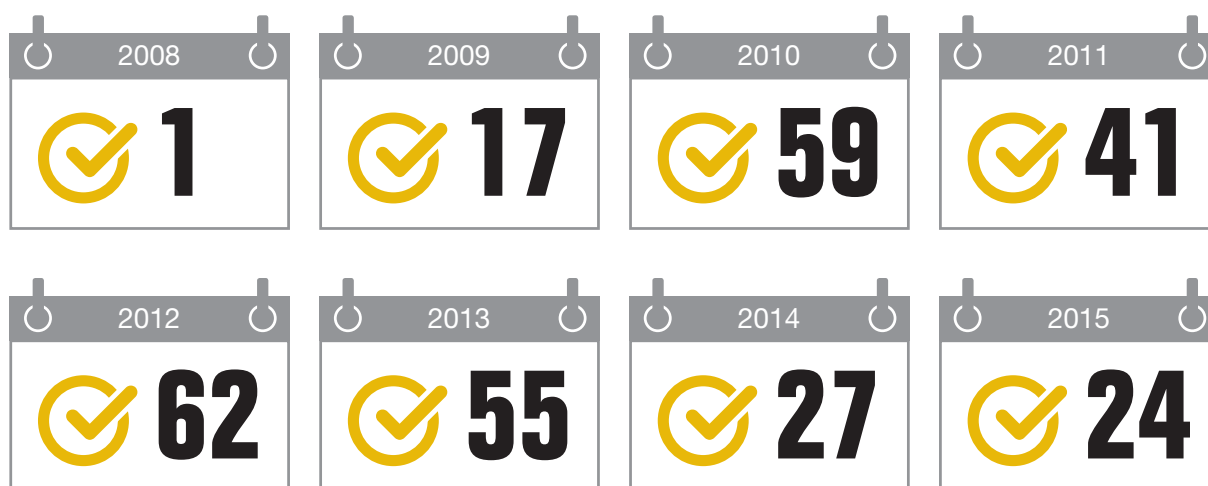


Contracts signed by the Municipality of Novo Brdo/Novobërdë through public procurement procedures

According to the data of PPRC, the Municipality of Novo Brdo/Novobërdë signed 286 contracts through public procurement between August 2008 and December 2015.

The highest number of contracts through public procurement was during 2012 with 62 procedures, while during 2015 the number of procured cases was 24

Contracts signed through Public Procurements



119 contracts belonged to the category of “works”, 89 belonged to the category of “supplies” and 77 belonged to the category of “services”.

2008 the Municipality initiated a procurement process in the category of “**supplies**”.

2009 the Municipality initiated 16 procurement processes, out of which 13 belonged to the category of “**works**”, and 3 belonged to the category of “**supplies**”

2010 the Municipality initiated 58 procurement processes, out of which 34 belonged to the category of “**works**”, 22 belonged to the category of “**supplies**”, and 2 belonged to the category of “**services**”.

2011 the Municipality initiated 40 procurement processes, out of which 16 belonged to the category of “**works**”, 18 belonged to the category of “**supplies**”, and 2 belonged to the category of “**services**”.

2012 the Municipality initiated 61 procurement processes, out of which 15 belonged to the category of “**works**”, 14 belonged to the category of “**supplies**”, and 32 belonged to the category of “**services**”.

2013 the Municipality initiated 55 procurement processes, out of which 22 belonged to the category of “**works**”, 18 belonged to the category of “**supplies**”, and 15 belonged to the category of “**services**”.

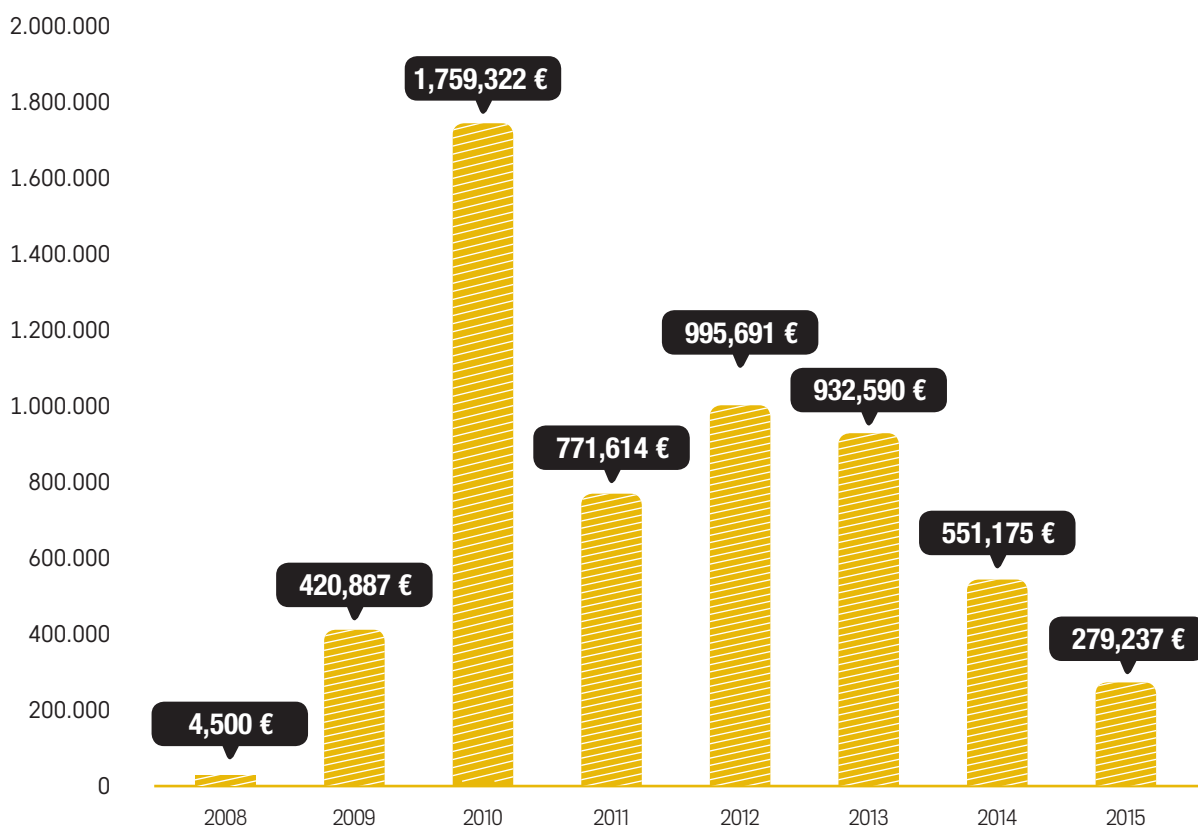
2014 the Municipality initiated 28 procurement processes, out of which 15 belonged to the category of “**works**”, 3 belonged to the category of “**supplies**”, and 10 belonged to the category of “**services**”.

2015 the Municipality initiated 24 procurement processes, out of which 3 belonged to the category of “**works**”, 9 belonged to the category of “**supplies**”, and 12 belonged to the category of “**services**”.

For 286 procurement processes during 2008-2015 period, the Municipality spent € 5,715,016. Only in 2010 the Municipality spent € 1,759,322 through public procurement, or 30.8% of the total spent funds between August 2008 and December 2015.

In 2015 only € 279,237 were spent through public procurement, or only 4.9% of the total spent funds during these years.

Amount of Contracts in Years



Distribution of funds through public procurement

113 companies benefited from 286 signed contracts. 11 companies that are registered in Novo Brdo/Novobërdë won 20 tenders.

Companies that are registered in Gjilan/Gnjilane won 96 tenders, or 34%; companies that are registered in Prishtina/Priština won 92 tenders, or 32%; companies registered in Novo Brdo/Novobërdë or Kamenicë/Kamenica won 20 tenders each, or 7%.

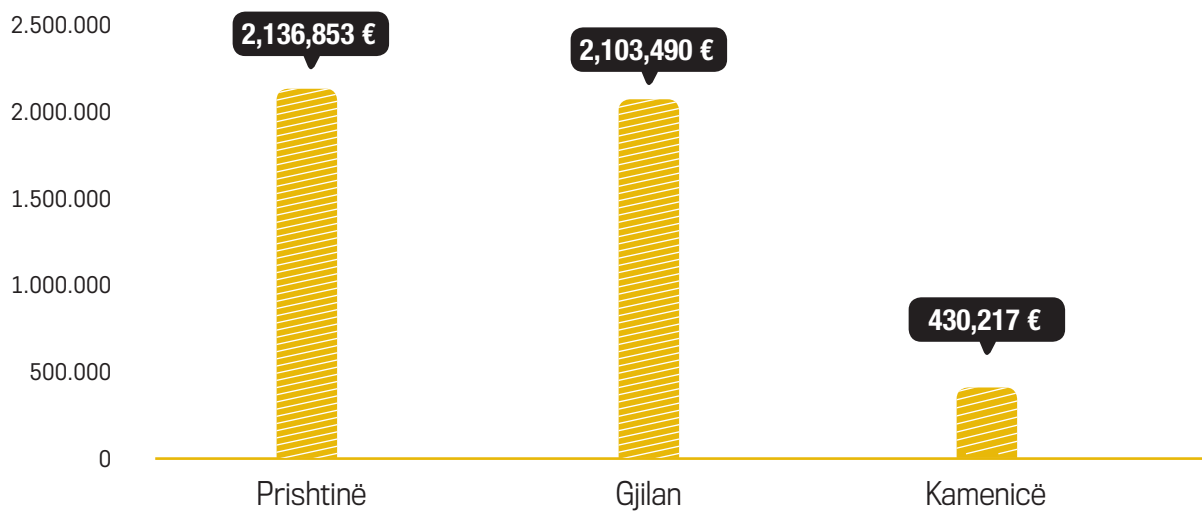
Number of Tenders won according to towns of origin



The amounts are different, since the cities with the highest amounts are: Prishtina/Priština with € 2,136,853, Gjilan/Gnjilane with € 2,103,490, and Kamenicë/Kamenica with

€430,217. Companies from Novo Brdo/Novobërdë won only € 175,202, or 3% of the total amount of tenders.

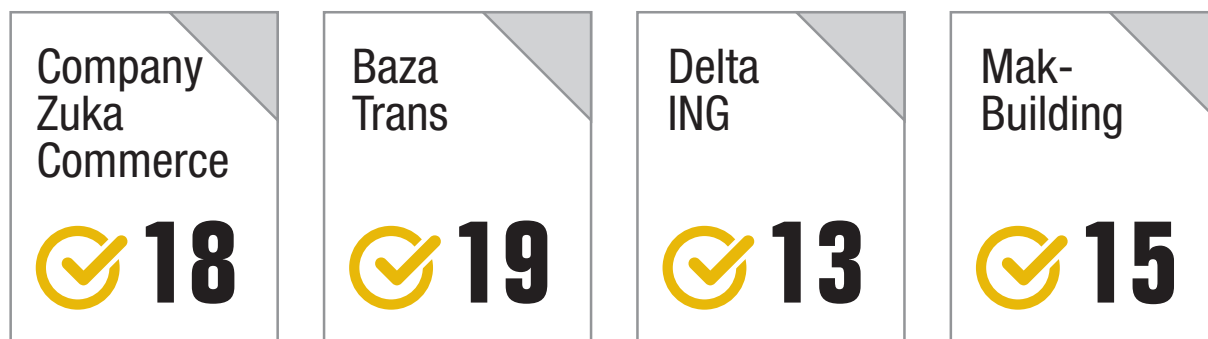
Amount of tenders won according to companies towns of origin



Five companies won 65 tenders, or 22.58% of the total number of tenders, with an amount of € 1,709,986. “Baza

Trans” won the highest number of tenders, 19 of them. On the other hand, 71 companies won 1 tender each.

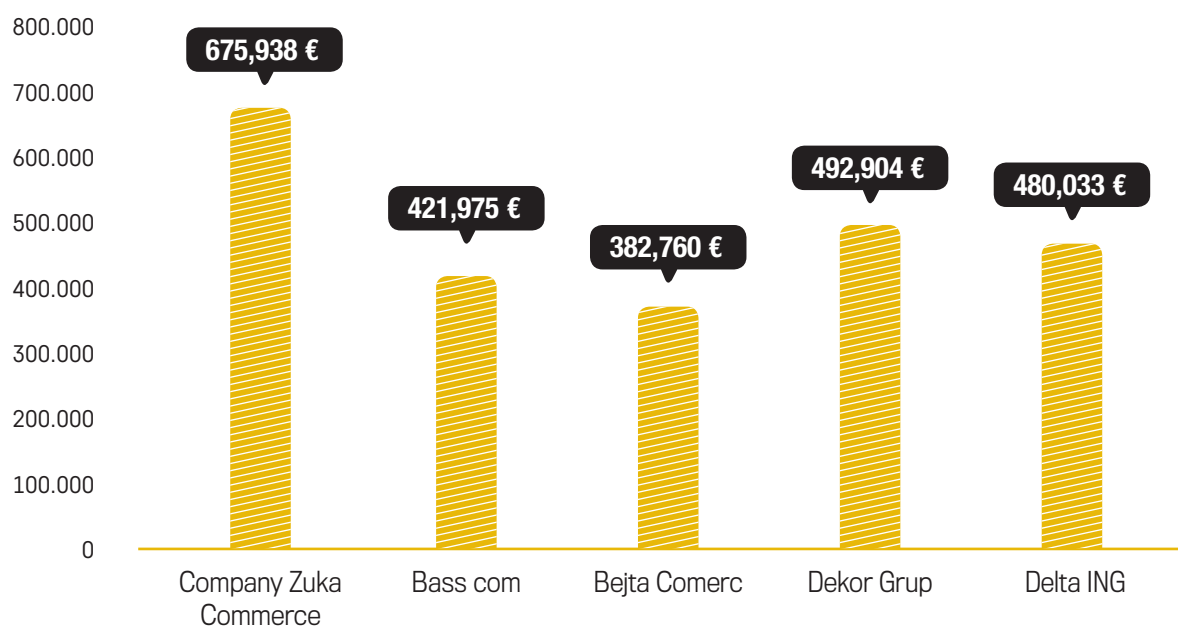
Companies that won the most Tenders



Out of € 5,715,016 of the spent funds, five companies through 63 tenders received € 2,453,610, or 43% of the total amount. “Company Zuka Commerce” received €

675,938, which is higher than average amount of tenders won by other companies, which is about € 50,000.

Preduzeća koja su dobila tendere najveće vrednosti



GENERAL AUDIT OFFICE FINDINGS IN THE MUNICIPALITY OF NOVO BRDO/NOVOBÉRDĚ

2008

According to our analysis of the GAO report from 2008, we can see that the auditors completed their task, but also faced problems due to the lack of certain documents. There were no financial reports with accurate data in line with legal provisions. Instead, there were annexes to the reports with inaccurate claims and no adequate evidence.

In addition to problems with financial reports, there were also substantial differences between cash reports and payments at the beginning and by the end of the year (the municipality claimed that they failed to carry out adequate public procurement procedures). There was also a lack of requests to initiate public procurement of goods and services such as:

- Supply with technical material for schools by “DPT Adi”;
- Construction of sewage in Labjane, and the reconstruction of toilets in the local communities’ office in Preko-vac by “NNT Abazi”;
- Construction of the high school in Bostan/Bostane by “NTP Umetnost Projekat”;

Also, no adequate measures were taken by the municipality towards companies which failed to carry out the work in line with contractual agreements. Such was the case of “Haksholli” company, which did not comply with the agreement and the municipality did not impose any measures in line with the law. The company said that their delay in supply of firewood did not risk the work of the institution. The municipality did not design or implement the function of an internal audit. This is a requirement of the legislation in effect.

RECOMMENDATIONS

- We recommend the entity not to initiate buying without request from the corresponding Department and to apply Public Procurement Law.
- We recommend the entity not initiate the procurement procedures before the commitment form is received for determination of needs and availability of funds, as it is required by Public Procurement Law.
- A penalty should be charged to the contractors that fail to fulfill the terms and conditions mentioned in the agreed contract.
- We recommend to the Entity that the opening and evaluation of bids for minimal value purchase should be made by the Procurement Officer and by the members of the commission, at it is required by Public Procurement Rules.
- We recommend to the Municipality Management to form a file check list where it clearly states the order of the documentation in the file.
- We recommend to the Municipality Management to form a file check list policy and procedure where it clearly states the documentation in the file.
- We recommend to the Mayor of the municipality to hire an appropriate qualified employee to fulfill the internal audit function.

2009

According to our research for 2009, there is still a lack of certain documents which prevents the GAO from performing a full control.

There is:

- Lack of financial reports;
- Inconsistency between the income and payment reports;
- Incomplete budget report;
- Inconsistency between cash receipt and payments;

There were cases where no requests for public procurements were made. These requests should be signed by the approval official in line with the LPP.

There were cases of contracts for capital investments and goods and services as follows:

- Construction of heating system for the Health Center of the Municipality of Novo Brdo/Novobërdë by „NNP Prespektiva“;
- Construction of corners for the conservation of heating materials (wood and coal) by „NNSH Mak Building“;
- Supply with heating materials, wood and coal (Lot I: Wood, Lot II: Coal) by „NTP Metali“;
- Supply with materials of the Education and Health Directorate by „NTH Hillari – Vitina“;
- Supply of the directorates of the Municipality of Novo Brdo/Novobërdë with computers „NTH PBC – Kosova“.

In audit reports, we have noticed two cases lacking contract award announcements in daily newspapers and on the PPRC website, as required by Law on Public Procurement; the identified cases are:

- Supply with materials of the Education and Health Directorate by „NTH Hillari – Vitina“;
- Supply of the municipal institutions with office and administration materials by „NTP Libraria ABC“;

In the case of Asphalting of the road in Lak Bunjak by “NTP Kastrioti”, and in the project of Maintenance of Wagon Fire by „NTP Miri” the minutes of the bid evaluation form were not signed by one member of the committee, while in the case of Supply of Municipality of Novo Brdo/Novobërdë with computers by „NTP PBC – Kosova”, the minutes of the evaluation bid were not signed by two members of the committee.

There were also cases where the municipality did not follow the procedures regarding criteria for the selection of “economically favorable” projects, as required by the Law on Public Procurement.

The identified cases are:

- Supply of municipal directorates with computers by “NTP PBC – Kosova”;
- Asphalting the road Lak Bunjak by “NTP Kastrioti”;

There are also no reports of oversight of works and the control list of procurement files; it is also very important to add that the Municipality did not impose any fine due to delays in carrying out the works, or in cases of supply with materials or equipment.

RECOMMENDATIONS

- We recommend to the management of the municipality that during the preparation of the financial statements reliable source of information is used, and the notes to the statements to be reconciled with the statements;
- We recommend to the management to perform regular reconciliations between Free Balance and departments, and increase the reliability of the information presented in the statements;
- We recommend to the municipality to comply with all the provisions of the Public Procurement Law, and all the initiation and approval of procurements to be done by the authorizing officer;
- We recommend to the municipality to comply with all the provisions of Public Procurement Law and ensure that the complete evaluation commission is present from the beginning of the process to the end;
- We recommend to the municipality to impose penalties for the contractors which fail to fulfill the terms and conditions agreed in contracts;
- We recommend to the entity that the members of the committees of evaluation of bids should sign the declaration of oath in accordance with the Law on Public Procurement;
- We recommend the municipality to follow the procedures of sub-criteria based on the Public Procurement Law for the selection of economically favorable tenders;
- We recommend to the municipality to ensure that each project there is close supervision and reports are in the procurement files;

2010

According to our research for 2010, there were certain irregularities during this year, especially:

- In the report on cash receipt and payments;
- In the report of budget realization;

According to our research, these reports feature inconsistencies in the number of receipts and payments, and high inconsistencies of the said amounts. This raises suspicions as to where these funds were directed or spent. This report does not mention contracts for tenders or capital investments at all.

We recommend the management of the municipality that during the preparation of the financial statements, a reliable source of information is used and the notes to the statements be reconciled with the statements.

2011

According to our research for 2011, the Municipality did not accurately and completely provide information on property. This report also did not pay attention to tenders and capital investments. As per the budget, we can draw following conclusions:

- The approved budget for capital investments was € 1,314,307, and an amount of € 1,265,003 or 96% of the funds were spent.
- 17 samples in the amount of € 365,844 or 29% of the total expenditure were tested, and no irregularities were noticed. The advice given to the committee during the inception phase of the audit to appoint a monitoring body prior to the start of works, in order to complete and admit all initiated works according to project documentation was addressed.

RECOMMENDATIONS

- We recommend the Mayor to ensure that an assets officer is assigned; assets registration and evaluations committees are established; and a register of municipality's assets in accordance with AI no. 21/2009 for managing government assets is put in place;
- We recommend the Mayor to ensure a more serious treatment of addressing the IAU's recommendations; and the establishment of an Audit Committee in order to strengthen IAU's work, addressing external audit recommendations, and an increase of the municipality's controls;
- We recommend the Mayor to ensure the introduction of necessary policies, clear guidelines and procedures for all important activities such as: budget planning, procurement, management of expenditures, subsidies and transfers and of assets, and reporting them on time;

2012

According to our research for 2012, the Municipality did not face problems in terms of documentation. However, the recommendations of the previous year were not addressed. There is a difference between the initial and the final budget. This difference is € 346,933. This budget difference is the result of own income transferred from 2011, in the amount of € 65,770, the income beyond the plan in the amount of € 64,596, and the PM office grant in the amount of € 150,001, and external donations in the amount of € 66,566.

The municipality does not have a proper and final register of property, which makes the evidencing more difficult and leaves space for misuse of funds.

One of the conclusions is that there should be an increased control of procurement in capital investments, and in goods and services (in terms of respecting the

criteria in tender dossiers and in the process of bid evaluations), contracts should not be signed without prior commitment of sufficient funds, and the payments of 2011 should be made.

FINDINGS

In "Construction of bus station shelters" in the amount of € 37,257, the municipality did not execute payments due to lack of commitments. All the payments were supposed to be paid until the end of year 2011, whereas so far the paid amount is € 24,348, and the remaining debt is € 12,873.

In "Supply with stationery" signed on 24.07.2012 in the amount of € 10,556, we have noticed that the commitment of funds in the amount of € 907 was made on 19.11.2012. In addition, the goods receipt report was not signed by any of the three staff members in charge.

In "Asphalting of the road in Jasenovik/Jasenovik village" in the amount of € 110,433, on 14.08.2012 the supervising authority had submitted the final situation report in the amount of € 29,833, but only € 19,400 were paid. This was as a result of entering into contract without sufficient committed funds.

Lack of execution of payments for completed works in the realization of capital projects was manifested with poor budget planning and entering into obligations with an economic operator without coverage. This is an indicator that the municipality does not have control over procurement activities and their harmonization with budget funds.

RECOMMENDATION:

- The Mayor should strengthen the procurement control, budget, and financial control in order to complete the contracts, both in terms of provision of works/services and in terms of payment.

2013

According to our research for 2013, the GAO report noticed the following:

- Incomplete presentation of assets reflecting weakness in controls implemented by the management to confirm completeness and accurate recording of assets owned by the Municipality in the Kosovo Financial Management Information System;
- Lack of a systematic process to manage and address external audit recommendations;
- High expenditures and a large number of payments made during December lead to the risk that these payments are not sufficiently controlled and made for unfinished works;
- Lack of activities for identification of new properties increases the risk that these properties are not subject to tax. Lack of an effective strategy to collect historic debts will reduce the municipality's ability to plan the financing of projects from its own resources;
- The need to increase controls over expenditures, particularly in the area of Subsidies and Transfers; and
- The Internal Audit Unit function was not sufficiently supported by the management and the Audit Committee. The management implemented only a small number of internal audit recommendations.

The final budget, compared to the initial one, was higher by € 137,381. This change was due to: carried forward own source revenues in the amount of € 70,285, revenues from co-payments in the amount of € 11,331, an increase of € 2,040 in the category of wages and salaries, and revenues from external donations in the amount of € 53,725.

The final budget for capital investments was executed at 92%, but only in December €330,345 or 49% of the total budget was spent;

The GAO tested 18 payments for capital investments in the amount of € 389,674, or approximately 63% of the value of contracts and 16 payments from the category of goods and services in the amount of € 72,231, or ap-

proximately 22%. With exception to the cases identified in the following, the procurement procedures did comply with the Law on Public Procurement (LPP).

FINDINGS

In "Supply with agricultural equipment" a contract was signed in the amount of € 65,085. In the Tender Dossier, the municipality requested 89 pieces of agricultural equipment, while the contract with the Economic Operator (EO) covered 108 pieces of agricultural equipment. The bidders competed for 89 pieces of agricultural equipment. This action undermined the competition and made the procurement process not transparent.

While assessing contract management, we tested the payment in the amount of € 81,920 dated 31.12.2013. The payment was made but we did not find the progress payment attached to the description of works completed.

While testing a payment in the amount of € 13,000 dated 27.12.2013 made for supply with schools' inventory, we did not find any written reports about the inventory received by schools.

The management controls over these processes are ineffective and there is a risk that the organization has not managed to achieve the value for money spent with such procurements. Due to emphasized shortcomings, some irregular payments and non-transparent procurements have taken place.

RECOMMENDATION:

- The Mayor should review the abovementioned cases where processes were not efficiently implemented. In addition, he should ensure that measures will be taken to eliminate the shortcomings presented, and hold responsible officers to account as needed.

2014

The audit report for 2014 does not reflect shortages as was the case in previous years.

The final budget was by € 305,551, higher than the initial one. Based on audit report, this difference was the result of the following:

- The government grant was higher, and in the amount of € 277,706;
- Transfer of own sources from the previous year in the amount of € 26,625; and
- Internal donations in the amount of € 1,209.

In 2014 the Municipality used € 2,114,079 or 89% of the final budget, which represents a decrease compared to 2013 with 95% of the budget used. The explanations are given further down regarding the current position.

Despite the increase of the budget for capital investments, only 71% of the final budget was spent. The unspent funds in the amount of € 114,432, is a result of lack of projects and poor management of existing projects;

The audit report includes findings, risks, recommendations, and conclusions for 2014. Here are some of them:

FINDINGS

Our review of contracts and payments identified a range of common weaknesses with an impact on some contracts reviewed. In particular, management controls have not been effectively implemented to prevent the following issues:

- The Municipality conducted 20 procurement procedures for activities which were not planned. Five (5) of them were open procedure contracts (in the amount of € 207,407). Fifteen (15) of them were small value contracts for meeting momentum needs foreseen.
- On Mayor's decisions, the municipality made irregular payments over € 14,000 for supply and services without a contract with suppliers as follows:

- Spending material in the amount of € 1,580;
- Invoice in the amount of €9,070 for vehicle services. The payment certification, other than the lack of contract, was done irregularly, without commitment of funds, without purchase request, and without purchase order;
- Repair of water pumps in the amount of €1,365;
- Payment in the amount of €1,398 for schoolchildren from villages of the municipality;

Payment in the amount of € 974 on drafting detailed working projects; in another case, one of three members of commission did not sign the receipt of goods. There is further risk that poor value for money spent was achieved without contract and the same may be subject to fraud.

RECOMMENDATION:

- The Mayor should initiate a review to determine why specific procurement requirements are not addressed in these cases, and implement enhanced controls to ensure that such cases are not repeated. Payment practices contrary to the procurement regime should immediately be stopped.

Although the municipality developed a plan to address the recommendations from the previous year, none of those recommendations was fully addressed.

THE FINANCING OF POLITICAL SUBJECTS

The audited reports of the financial statements were published only for 2009-2012. The Central Election Commission never published the financial statements of political subjects for the years before 2009, since those were audited by OSCE.

On the other hand, financial statements after 2013 were not audited as the Kosovo Assembly failed to select the audit company.

Until 2013, the Municipality of Novo Brdo/Novobërdë/ was run by Democratic League of Kosovo (LDK).

After 2013, the Municipality of Novo Brdo/Novobërdë was run by Lista Srpska.

During 2009-2012, the LDK reported € 99,685 of income from donations, out of which € 76,811 came from natural persons, and € 22,874 from legal persons.

In 2009, the auditor found that LDK sold immovable property in the amount of € 380,000, breaching the Rule No. 01/2008 Article 17 On Registration and Operation of Political Parties, paragraph 17.4 which says: "A registered Political Party shall not engage in any commercial or for-profit activity of any kind, except that a Party may sell goods, such as publications or posters, bearing the Party's logo or acronym having a total value of no more than two thousand euro (€2,000) per year".

In 2010, the LDK was obliged to return a donation in the amount of € 2,856.95 since it surpassed the allowed daily limit of received donations.

LINKS BETWEEN BUSINESS AND POLITICS

Based on the reviewed contracts and the data of financial statements of political parties, we found that five companies financed the Democratic Party of Kosovo (PDK), the political subject which runs the central government. One of these companies also financed "Vetëvendosje" movement.

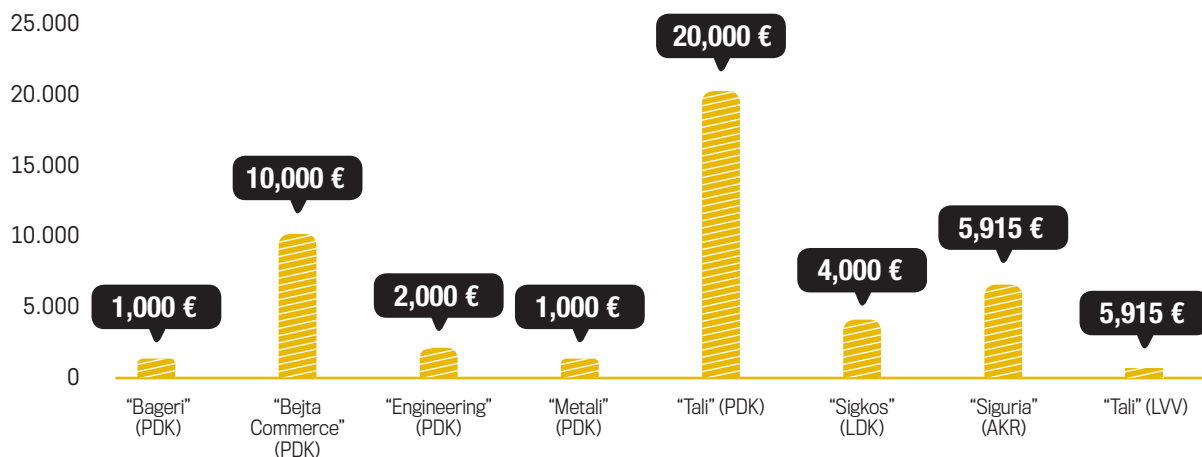
Another company financed the LDK, and this company is owned by former LDK deputy, Hashim Deshishku.

One company financed the New Kosova Alliance (AKR), and this company is owned by the head of this company, Behxhet Pacolli.

The PDK received donations in the amount of € 34,100 from five companies, while "Vetëvendosje" received an amount of € from a company which also funded PDK.

The LDK received an amount of € 4,000, while the AKR received € 5,915 from companies which won tenders in the Municipality of Novo Brdo/ Novobërdë.

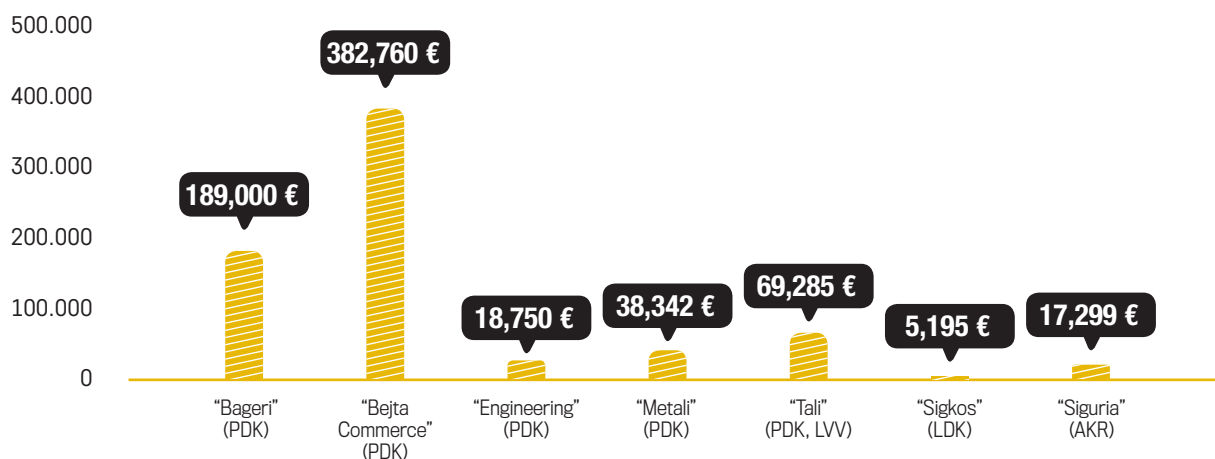
Amount of received donations



These seven companies got an amount of € 721,441 from the Municipality through 23 tenders.

The companies which funded the PDK received highest amounts of tenders. These companies received an amount of € 698,947 through 19 tenders.

Amount of Tenders won by companies that financed political subjects



CONCLUSIONS AND RECOMMENDATIONS

Based on our research, the Municipality of Novo Brdo/Novobërdë faces many problems related to planning, operations, and budget reporting. The audit report, which was carefully analyzed, reflects numerous problems which affect the functional budget operation, especially in terms of budget planning and realization.

Different problems were identified from 2008-2014, ranging from inadequate budget planning, to the lack of application of legal provisions related to public procurement. In this aspect, we identified a lack of announcements of tender awards in daily newspapers and the PPRC website, as stipulated by the LPP, and a lack of implementation of procedures in terms of criteria for the selection of “economically favorable” tenders. Therefore, competent bodies should undertake necessary measures so that the responsible subjects are held accountable for the breach of legal provisions regulating public procurement, and announcements should be made in line with public procurement rules, considering Article 50.2 which deals with the selection of “economically favorable” tenders.

Inaccurate financial data, supported by inadequate evidence and big differences and inconsistencies in cash income and payments in the beginning and at the end of the year, are only some of the findings of the GAO.

The auditor recommended not initiating the procurement procedures before the commitment form is received for determination of needs and availability of funds, as it is required by Public Procurement Law. The GAO also recommended the commission of an internal audit that would help prevent the professional financial problems, but that was not taken into account.

Lack of accountability and adequate measures was also noticed in contractual agreements between the municipality and certain economic operators. Although works have not been completed by the company, the munic-

ipality did not undertake adequate measures towards that company due to their failure to fulfill contractual obligations. In light of this, we consider that the failure to meet the obligations deriving from contractual agreements is a breach of contract and, as such, it should be punished by law.

The audit reports found a series of other shortages such as: inaccurate presentation of information on property, lack of a systematic process to manage and address external audit recommendations, lack of an effective strategy to collect historic debt, affecting the capability of the municipality to plan the financing of projects from their own resources, as well as a need to increase the control over expenditure, especially in the field of subsidies and transfers.

Taking into consideration the recommendations throughout years, we consider that the external auditor recommendations should be addressed through a systematic process. This would help the addressing of such problems, and would contribute to the prevention of such problems in the future.



