

SUMMARY

Summary of Report 24/2018, relating to the Costa Brava Consortium – Local Water Entity, year 2016

Barcelona, 12 December 2018

The Public Audit Office for Catalonia has issued Report 24/2018, relating to the Costa Brava Consortium – Local Water Entity (henceforth, the Consortium), financial year 2016, in accordance with its Annual Programme of Activities.

The report, which was presented by Board Member Mr Miquel Salazar, was approved by the Audit Office Board at its meeting on 25 October 2018.

The assignment was a limited financial audit of the Consortium, focussed on auditing the budget and reviewing compliance with applicable legislation in the areas of accounting and budgeting, and staff salaries, grants and governmental procurement, relating to year 2016.

The Costa Brava Consortium – Local Water Entity is a local government consortium, set up on 22 May 1971 to deal with deficiencies in water infrastructures in coastal municipalities in the province of Girona. When, later on, the Catalan Water Agency was created, the Consortium became the government entity directly in charge of running sewage treatment in the boroughs represented in the Consortium. In 2016 the Consortium was comprised of twenty-seven borough councils along the Girona coastline and Girona Provincial Council (*Diputació*).

Section 3 of the report, Conclusions, provides the most significant findings from the audit carried out, which can be summarised as follows:

- The figure of €19.25m for budgetary year-end net working capital (*romanent de tresoreria*) for general expenses carried over from years prior to 2014 was not earmarked for any particular expenditure project, even though, in actual fact, its purpose was to pay for expenditures relating to renovations of water supply and sewage treatment facilities. The Consortium should have earmarked part of this budget surplus carried over for general expenses, setting it aside for these capital expenditures, so as to properly report its calculations of budgetary year-end net working capital.
- The Consortium did not have an inventory of assets as required by legislation; nor did have a record of who formally owned these facilities.
- The public fees charged for the water recycling service covered this activity's direct costs, but not the investment costs. The Consortium should prepare the corresponding

cost study so as to ensure that public fees charged for providing this service cover all its costs, including investments.

- The review of the Consortium's public sector procurement brought to light a total lack of use of the procurement procedures envisaged by current legislation. All contracting out was undertaken using low-value contracts, when in many cases proper procurement procedures should have been used to ensure a true competitive process took place. This is an infringement of procurement legislation and, specifically, of the principles of free access to tendering procedures, publicity and transparency. During year 2016 the Consortium signed ninety-three contracts worth a total of €1,116,752, not including VAT, all awarded through the low-value contract procedure.
- The audit of the contracts for running the sewage treatment service and the bulk water supply service detected that they had been categorised as contracts for managing public services, through the creation of the part-privately- and part-publicly-owned joint-stock companies EMACBSA (Empresa Mixta d'Aigües de la Costa Brava, SA) and ABASTEM (Abastament en Alta Empresa Mixta, SA). The analysis carried out showed that the award price for these contracts covered all operating expenditures and guaranteed a profit margin of between 14.8% and 16.0%, that this price was increased in line with inflation and that the Consortium shouldered the majority of the conservation and maintenance costs of the facilities involved. Because of all this, the true nature of the contracts was that of providing a service, rather than running a public service, and the tendering process had not been carried out using procedures to ensure adequate compliance with the principles of publicity and competition and getting value-for-money.
- In the review of the tendering processes for these contracts various anomalies were detected relating to the tendering specifications, such as the lack of a price-setting mechanism, requirements which limited competition and a lack of objectivity when assessing the offers received.

Also, in the execution phase of the contract with ABASTEM, the audit detected that the fixed sum invoiced in year 2016, €1.45m, represented a cumulative increase of 16.9%, way above the increase envisaged in the contract, without any justification.

The Consortium contracted out jobs involving the repair, conservation and maintenance of facilities, which were awarded to EMACBSA and ABASTEM through low-value contracts. The analysis of these low-value contracts suggested that there had been an improper splitting-up of contracts, which constituted a breach of regulations.

- In the rest of the low-value contracts, awarded to different suppliers, certain anomalies were detected relating to the contracts' object or purpose, amounts, dates, duration or contract type, which constituted an infringement of article 86, paragraph 2, of Spain's Consolidated Public Sector Contracts Act, and therefore led to the conclusion that there was an improper splitting-up of the contract.

The audit also found that some supplies and services were periodically renewed on an

annual basis, whereas, according to regulations, low-value contracts could not last longer than a year or be extended, unless social or financial grounds could be proved.

In its report the Audit Office also makes a series of recommendations which would help to improve some of the issues mentioned.

This summary is solely for information purposes. The audit report (in Catalan and Spanish) can be consulted at www.sindicatura.cat.