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SUMMARY

Summary of Report 13/2015, relating to the Intermunicipal Joint Services Entity for El Penedès and Garraf, year 2012

Barcelona, 29 July 2015

The Public Audit Office for Catalonia has issued the report on the Intermunicipal Joint Services Entity for El Penedès and Garraf (*Mancomunitat Intermunicipal del Penedès i Garraf*), relating to the financial year 2012, in accordance with its Annual Programme of Activities.

The report, presented by Board Member Ms Maria Àngels Servat, was approved by the Audit Office Board at its meeting on 9 June 2015.

The purpose of the work carried out was a regularity audit of the entity's General Account for the financial year 2012, to check that it had been presented in compliance with the relevant financial reporting regulatory framework and that during the period audited the organisation had carried out its activities in accordance with applicable legal requirements.

This *mancomunitat* or joint services entity, which was set up on 9 July 1981, is a non-territorial local corporation, with its own separate legal identity. It is constituted by the thirty-three municipalities that make up the two counties (*comarques*) of Alt Penedès and Garraf. Its headquarters is located in the town of Vilanova i la Geltrú.

During the financial year 2012, the main activities of the entity were the joint organisation and provision of the works and services necessary for managing urban solid waste and for water management, in return for an annual quota charged to the town councils. It has also carried out other activities such as water quality analysis, stray pet sheltering, drug dependency attention and monitoring and promoting local development.

The entity's Balance Sheet as at 31 December 2012 showed assets and liabilities totalling €41.14m and there was a profit of €0.42m. The final budget for 2012 was for a total of €25.30m, out of which actual recognised revenues came to €25.10m and expenditures to €24.64m.

In section 3 of the report, the Audit Office concludes that because of the possible effects of the limitation described in finding 1, and the very significant effects of the circumstances described in finding 4, the General Account does not represent a true and fair view of the assets and financial position of the Joint Services Entity as at 31 December 2012, or of the results and the budget outturn for the financial year ending on that date.

The report also includes an audit scope limitation with regard to the accounting subcategories of Fixed assets and Assets received on loan, because the organisation does not have an asset inventory or any break-down or auxiliary register for these subcategories, and a series of findings which are summarised below:

In the area of internal control, the report highlights the severe lack of segregation of duties arising due to the fact that the comptrollership function has been carried out by the entity's Manager; thus the same person reviews and authorises operations. It must also be noted that the person in charge of the accounting division made a payment into their own personal bank account, which was later returned after this fact was detected by the Public Audit Office. Because of this, the Audit Office is unable to ascertain if similar actions may have taken place which were not detected by the audit carried out.

Regarding the entity's accounts, the following findings are particularly noteworthy:

- Each year the entity recognises expenditures without any actual monetary outlay, in order to completely use up the expenditure budget, and it fails to account for budgetary revenues received in the financial year, when these are not needed to fund its activities. In 2012, the net effect of these expenditures recognised with no real outlay and revenues unaccounted for means that the Budgetary result is understated by €1.26m and the Year-end net working capital (*Romanent de tresoreria*) by €7.92m. Furthermore, the Results from previous financial years should be increased by €5.68m and the current year's Financial result by €0,97m.

- The entity adopted the criterion of using the amounts paid into its bank account to cancel out the oldest debts outstanding, instead of using the invoices which these payments related to. In addition, the invoices issued by the entity to the town councils were paid by them not to the entity but directly to the suppliers of services, with the corresponding balances in the accounts then being adjusted.

- The entity does not charge VAT on the quotas corresponding to services provided at the sorting and composting plant, but *is* deducting input VAT; this contravenes legislation and represents a tax contingency for the organisation, notwithstanding the possibility of submitting the corresponding tax declaration amendment.

- As regards personnel expenditure, the report highlights a lack of information in the Schedule of Staff Positions (SSP) and the recognised workforce; how proper selection processes have not been used for hiring staff; working hours below those established by current legislation; the inclusion, in the pay packets of some employees, of supplementary wage items not envisaged in the SSP; and monthly payments to the entity's Chairman for a fixed amount, without him needing to present vouchers for expenses or these payments being included as a wage item and deductions for pay-as-you-go income tax being made.

In respect of public sector procurement, the main findings of the report refer to the following:

- The audit found an excessive degree of direct awarding of contracts without due justification, when the amounts involved were over the limits for low-value contracts. It also found contracts with guarantees deposited below those established in the specifications and awards not publicised.

- With regard to how tenders were assessed, the report indicates that contract specifications did not determine how non-objective criteria were to be judged; nor did they give a weighting for quantifiable criteria. Furthermore, assessments were not adequately justified in the reports by technical staff.

- Changes were found in contract clauses with respect to the stipulations in the contract specifications, and also clauses relating to price adjustments which fail to comply with legislation.

- One of the contracts was awarded for an amount lower that the offer tendered and some of the improvements proposed by the contractor were not taken up, without any explanation being left in the files.

The Audit Office makes seven recommendations relating to the need for the entity to speed up the appointment of a comptroller; to undertake an inventory of its assets; to correct certain accounting practices, such as accounting for expenditures when no actual outlays are involved and/or not accounting for budgetary revenues; to improve the way it manages collection of balances outstanding; to set up a process for monitoring expenditures and payments to ensure that these are all properly authorised and that no ultra vires payments are made; to improve procurement procedures in order to ensure an adequate segregation of duties and allow fair competition on an equal footing for all possible tenderers; and lastly, it recommends that the town councils make their invoice payments directly to the Joint Services Entity.

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