



Performance Audit: Maintaining and Repairing the
Arterial and Distributor Road Network in Gozo

October 2017



Performance Audit

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List of Abbreviations

CDRT	Centre for Development, Research and Training
CMU	Construction and Maintenance Unit
DCS	Director Corporate Services
DPD	Directorate for Projects and Development
FO	Field Officer
LC	Local Council
MFIN	Ministry for Finance
MGOZ	Ministry for Gozo
NAO	National Audit Office
QC	Quality Control
RID	Roads and Infrastructure Directorate
RS	Roads Section
TM	Transport Malta

Executive Summary

Directorate for Projects and Development's general lack of good governance was noted in the manner by which it keeps its own documentation and the inefficiencies in its human resource element.

Why This Study?

This audit exercise was carried out in view of the high socio-economic value of the road infrastructure in Gozo. This study complements NAO's previous publications which assessed the manner by which road surface repair works are procured and managed in Malta. These two publications focused solely on the geographical area of the island of Malta, thereby not including Gozo. To this end, NAO sought to conduct a similar analysis on road repair works carried out in the island of Gozo, thereby completing its overview on the subject in question.

What NAO Recommends

DPD should engage in an overhaul of its procedural practices, while optimising its resource utilisation, thereby safeguarding the value for money element throughout. NAO also urges DPD to honour requests which it is legally bound to entertain in a timely, comprehensive and structured manner, thereby demonstrating accountability and transparency.

NAO's Key Observations

The audit team's review yielded significant concerns especially on the Directorate's overall lack of good governance in the scoped areas. Amongst others, the audit team noted that the procurement related files forwarded by the Directorate featured, to different extents, missing documentation which is considered as pivotal by this Office. From this review, NAO further concluded that DPD does not consistently ascertain that contractual and performance safeguards are in place in managing road related projects, thereby exposing itself to evitable and obvious risks.

This Office also observed that, while the annual financial capital allocation may not be sufficient for the Directorate to fully address its road related responsibilities, DPD allows significant inefficiencies to prevail in the human resource element which is assigned on this function. Specifically, NAO reports how, as at March 2017, DPD asserted that though this staff complement was considered sufficient in terms of quantity, it stated that a number of its employees lacked expertise, with some being considered as untrainable. Notwithstanding these inefficiencies however, this Office noted that, as at July 2017, this staff complement had increased further and its distribution even leaned more towards relatively higher pay-grades. NAO calculates that between March and July 2017, DPD committed to fork out an additional €277,813 per year on this roadwork related workforce.

During the progression of this audit exercise, NAO reports that information was reaching the audit team inconsistently and either in a piecemeal fashion or altogether significantly and impractically late. This Office acknowledges that the separate, albeit related, ongoing police investigations on the Directorate, may have presented some difficulties for the audited entity. Notwithstanding however, it is this Office's considered opinion that most of the problems and challenges faced by the audit team would not have materialised if the audited entity was clearer in its replies and approached this audit exercise more proficiently.

Chapter 1

Introduction

This introductory Chapter starts off with NAO’s reasoning for embarking on this audit exercise and by presenting a contextual backdrop of the subject under review. The audit’s scope, objectives and methodology utilised to complete the required analysis are also laid out, together with encountered limitations which had to be managed by the assigned audit team. This part of the report closes off by presenting a synopsis for each Chapter in this publication.

1.1. Why this study?

1.1.1. This Office decided to embark on this study in view of the high socio-economic value and financial importance of the road infrastructure in Gozo. This report complements the National Audit Office’s (NAO) previous publications which assessed the efficiency, effectiveness and economical underpinnings on the manner by which road surface repair works are procured and managed in Malta. These latter studies were comprehensively reported through the 2011 Performance Audit Report entitled “*Road Surface Repairs on the Arterial and Distributor Road Network*”, and its consequent follow-up audit published in 2013. These two publications were solely concerned with the operational activities of the Roads and Infrastructure Directorate (RID) within Transport Malta (TM), which Department’s remit is limited to the geographical area of the island of Malta. To this end, NAO sought to conduct a similar analysis on road repair works carried out in the island of Gozo, thereby completing its overview on the subject in question.

1.2. Background Information

The Role of the Directorate for Projects and Development

1.2.1. The Directorate for Projects and Development (DPD) within the Ministry for Gozo (MGOZ) is entrusted with the responsibility (amongst others) of executing, procuring, managing and monitoring road works on Gozo’s arterial and distributor road network. This network, spanning over some fifty kilometres, is maintained through MGOZ’s Budget Vote 7240 (being the official capital vote intended to address road works in Gozo) with an average annual allocation of around €1.5 million¹ (apart from DPD’s allocated personal emoluments, which will be discussed in Chapter 2). It is important to note that works carried out through this allocation do not only relate to the roads’ main carriageways, but also include works on, amongst others, street lighting, retaining walls and kerbs.

¹ This figure does not include budgeted allocations for land expropriations.

1.2.2. DPD addresses its roadwork related responsibilities through two main sections, namely the Works Branch Section through the Roads Section (RS) and the Construction and Maintenance Unit (CMU). Though the responsibilities of each of these sections will be discussed in further detail in subsequent parts of this report, Figure 1 highlights the main roadwork related responsibilities of each.

Figure 1: RS and CMU's roadwork related responsibilities



1.2.3. As will be discussed in further detail in subsequent parts of this report, DPD executes the required works through two main channels, that is, procuring major works through outsourcing agreements (which projects are generally managed by the RS) and by carrying out repairs and maintenance works through the utilisation of internal human resources, largely those deployed within the CMU. It is important to note that, although the latter method makes use of the Department's own labour force, the required materials are still procured from external suppliers.

1.3. Audit Scope and Objectives

1.3.1. Through this performance audit, NAO primarily sought to determine whether the DPD within MGOZ procures and manages road related works efficiently, effectively and economically, while observing the principles of good governance, accountability, transparency and good value for money throughout. In order to arrive at this overall analysis, this Office specifically delved into:

- the adequacy of the Directorate's financial allocation and how this is managed;
- the efficiency and effectiveness of the Directorate's human resource element;
- the Directorate's adopted processes in procuring or executing road related works.

1.3.2. As is evident, this report is scoped to cover road related works (as described in Figure 1 and section 1.2.3) which are carried out by MGOZ and which occur within the geographical island of Gozo (thereby omitting Malta). It is here important to note that this Office's

original intention was to cover road related procurement processes spanning over two and a half years of the Directorate's work (that is between January 2014 and June 2016). This time span however had to be revised as police investigations on this period are currently underway (which consideration will be referred to throughout this audit report). After consulting with DPD therefore, the audit team reset its scope to cover procurement processes which occurred in the period between April 2015 to June 2016. It is important to note however that NAO's observations on the DPD's resource management (both in terms of finances and human resources) are as at July 2017.

- 1.3.3. It is here important to highlight that, for this review, NAO has taken the prudent approach of scoping out any identified issue or concern which may be included in, or directly impacts on the ongoing police investigations. This decision was taken so that the integrity of these latter investigations is in no way jeopardised.
- 1.3.4. NAO's analysis on the subject in caption is based on information forwarded by MGOZ up till end of August 2017.

1.4. Methodology

- 1.4.1. During this study, the audit team made use of various research and analytical tools in order to obtain clear and reliable information on the audited entity and its processes. One of the primary sources of such information was through a number of in-depth, semi-structured interviews with key DPD Officials, complemented by ongoing communication with the auditee. Additionally, and in order to acquire a better understanding of DPD's operations, the audit team also accompanied a number of the Directorate's Officials on site visits, particularly: at the CMU stores; by accompanying the Directorate's Field Officer (FO) during his inspection rounds; and visiting finished asphaltting projects with DPD's Senior Architect and Quantity Surveyor.
- 1.4.2. In substantiating this flow of information, the audit team made numerous requests for documentation relating to the road related projects/works under review. While encountering significant challenges in this regard (which consideration will be discussed in more detail in sections 1.5.1 and 3.1), the audit team carried out a comprehensive and exhaustive documentary review on the files and electronic databases which were made available to it by the Directorate.
- 1.4.3. The draft report presenting NAO's findings, conclusions and related recommendations, was forwarded to the respective auditees for their feedback prior to publication of this report.

1.5. Audit Limitations

- 1.5.1. The audit team was faced with significant limitations during the course of this performance audit, with the most material revolving around the inconsistent, fragmented and late

manner in which requested information and documentation was reaching the audit team from DPD. Even though NAO was clear and concise in its requests, there were numerous instances in which the auditee forwarded either unclear, inconsistent or incomplete information. Further compounding this concern was the fact that, although the audit team held a number of meetings with DPD Officials, minutes of held meetings were never confirmed by the latter. While these challenges are discussed in greater detail in subsequent chapters, NAO here states that this situation disrupted the audit team's analysis multiple times, forcing the latter to unduly and continually re-align its focus to adequately carry out its work. This Office here also asserts that it is in no position to certify the integrity and reliability of documentation forwarded to it by DPD in view of the above mentioned context.

- 1.5.2. It is also important to note that, during the latter stages of this audit exercise, a number of DPD Officials whom NAO was considering as key auditees, were suspended from duty in relation to an ongoing police investigation at the time. This situation presented two distinct challenges to the audit team. First, and as already stated in section 1.3.3, the audit team had to tread carefully on what it analysed and reported in this publication so that it did not, in any way, affect or jeopardise the ongoing police investigations. Secondly, as from the instance in which the above mentioned suspensions came into effect, the audit team could not approach the Officials in question (whom it considered as key stakeholders in the analysed processes) with any remaining queries on the Directorate's operations and on issues emerging from NAO's review of forwarded documentation.

1.6. Report Structure

- 1.6.1. **Chapter 1** starts off with NAO's reasoning for embarking on this audit exercise and by presenting a contextual backdrop of the subject under review. The audit's scope, objectives and methodology utilised to complete the required analysis are also laid out, together with encountered limitations which had to be managed by the assigned audit team. This part of the report closes off by presenting a synopsis for each Chapter in this publication.
- 1.6.2. **Chapter 2** presents NAO's observations on the Directorate's financial and human resources and whether these are used efficiently, effectively and in an economic way by the latter to address its assigned responsibilities.
- 1.6.3. **Chapter 3** outlines the analysis of the documentary review carried out by the audit team on the Directorate's road related procurement processes. Specifically, this Chapter presents the challenges faced by the audit team through the manner in which it was receiving documentation together with the shortcomings it identified in its review, particularly the lack of pivotal documentation in the forwarded files.
- 1.6.4. This report closes off with a **Concluding Remark** which sums up NAO's overall opinion on the subject matter.

Chapter 2

A Review on DPD's Resources

This chapter highlights NAO's observations on the Directorate's financial and human resources and whether these are used efficiently, effectively and in an economic way by the latter to address its assigned responsibilities.

2.1. Annual Allocated Budget is insufficient for DPD to carry out its planned works

2.1.1. In identifying the needs of the Gozitan road network, DPD deploys a FO to carry out routine inspections on the roads which fall under the Directorate's responsibility. Once these needs are identified, they are passed to and prioritised by DPD's Senior Architect and consequently approved by Director DPD. During meetings with the Directorate's Officials, NAO was informed that in order for the DPD to bring the entire Gozitan arterial and distributor road network up to the required standard, it would require a total sum of €21 million. In view of this, the Directorate puts forward an annual request to the Ministry for Finance (MFIN) averaging approximately €4million so that it could carry out its planned projects. It is here important to highlight DPD's assertion that this figure is only intended to address already identified damages, and therefore omits any emerging needs. NAO was additionally informed that the Directorate considers this figure as a required bare minimum to reactively address the damages present on the Gozitan road network, and is therefore insufficient for DPD to carry out any proactive maintenance works. Notwithstanding the above considerations however, and as can be noted from the allocated budgets through Vote 7240 (Table 1 refers), the Directorate is allocated a far lesser sum of around €1.5million annually.

Table 1: Vote 7240 Estimates and Expenditure

Year	2014	2015	2016
Approved Estimate	€1,315,000	€1,500,000	€1,600,000
Actual Expenditure	€3,645,239*	€1,569,137**	€1,840,236

* this figure includes the financial expenditure for the expropriation of land amounting to €2,055,220

** this figure includes the financial expenditure for the expropriation of land amounting to €83,820

Source: Government of Malta Financial Estimates and Financial Reports 2014-2017

- 2.1.2. This situation, DPD Officials asserted, presents the Directorate with a continuous challenge since the allocated financial resources are insufficient when compared to the ongoing pressing demands. In fact, DPD highlighted that some of the roads under its responsibility have not been asphalted for nearly 40 years, and are now arriving at a point in which they would collectively require immediate attention. This implies that the costs needed to address this pressing issue would have to be incurred almost simultaneously, putting significant additional pressure on the Directorate's already stretched resources.
- 2.1.3. Furthermore, DPD also informed this Office that this limited yearly financial allocation is on occasions subjected to additional pressures by local councils (LC). More specifically, the Directorate asserted that, even though the repair and maintenance of residential roads do not fall under its responsibility, it still receives requests from LCs to attend to emerging damages in this road network. This, DPD Officials further informed NAO, generally occurs due to the limited funds at LCs disposal, constraining the latter to carry out maintenance on the residential road network sparingly. DPD noted that it is not uncommon that, through this practice, roads could deteriorate to a point that they would have to be reconstructed. It is here important to note however, that while (as stated previously) repairs and maintenance of residential roads do not fall under the Directorate's remit, the reconstruction of such roads does, which situation in turn puts additional pressures on the already stretched budget at DPD's disposal.
- 2.1.4. DPD's Officials highlighted a further concern to NAO, specifically that the limited allocated roads budget at times constrains the Directorate to carry out a single project in phases rather than in one intervention. This, NAO notes, would mean that certain fixed costs normally attributed to a single road related project, would have to be incurred multiple times.
- 2.1.5. **NAO Observation** - Given the potential negative repercussions which an inadequate road network infrastructure could have, both on society at large as well as on the economy, this Office is concerned that the financial allocation in Vote 7240 is generally insufficient for the Directorate to shoulder its road work related responsibilities in an efficient, effective and economic manner. NAO opines that this consideration puts DPD in an undesirable situation in which it can never act proactively, but rather has to continually engage in reactive crisis management.

2.2. DPD is overstaffed yet certain expertise is lacking

- 2.2.1. During a meeting with NAO in March 2017, DPD Officials stated that the Directorate has approximately 800 personnel in its employ, with 38 employees being deployed in the RS and 90 employees deployed in the CMU (Table 2 refers). While these two complements are directly assigned in these two sections, man hours of other personnel from other sections within DPD (such as Senior Architects, Architects and other support personnel) are also dedicated to road related works and projects. When asked what apportionment of man hours these latter Officials dedicate to road related responsibilities, DPD informed this Office that no such costings were available.

2.2.2. During meetings with NAO held before July 2017, DPD asserted that the staff complements within RS and CMU as presented in Table 2 (which presents RS's and CMU's staff complements and emoluments as at March and July 2017 respectively) were sufficient (in terms of quantity) for the Directorate to address its responsibilities, with the possible exception of architects and draughtsmen. The Directorate however also highlighted that, while not short of staff, it would have to resort to TM for expertise when faced with certain issues (especially revolving around quality and monitoring), particularly in the case of major projects. Though the Directorate asserted that it enrolls its staff in courses being organised by the Director Corporate Services (DCS) within MGOZ, the Centre for Development, Research and Training (CDRT), and on occasions, Jobs Plus, it nevertheless highlighted that a number of its employees (especially those at the lower end of the hierarchical structure) hold a very basic level of education and very limited technical expertise. DPD Officials further informed this Office that it deems some of its employees as 'untrainable', and are therefore limited to being assigned only basic tasks. Given this situation, the Directorate informed NAO that it is endeavouring to increase the current standard, and is therefore requesting a higher level of skills when recruiting new employees. Notwithstanding the above however, DPD Officials further explained that tasks carried out in-house by the CMU are still considered to be of an adequate quality standard since a number of the latter are perceived as highly-skilled in their specific area.

Table 2: RS & CMU Staff Complements and Respective Emoluments

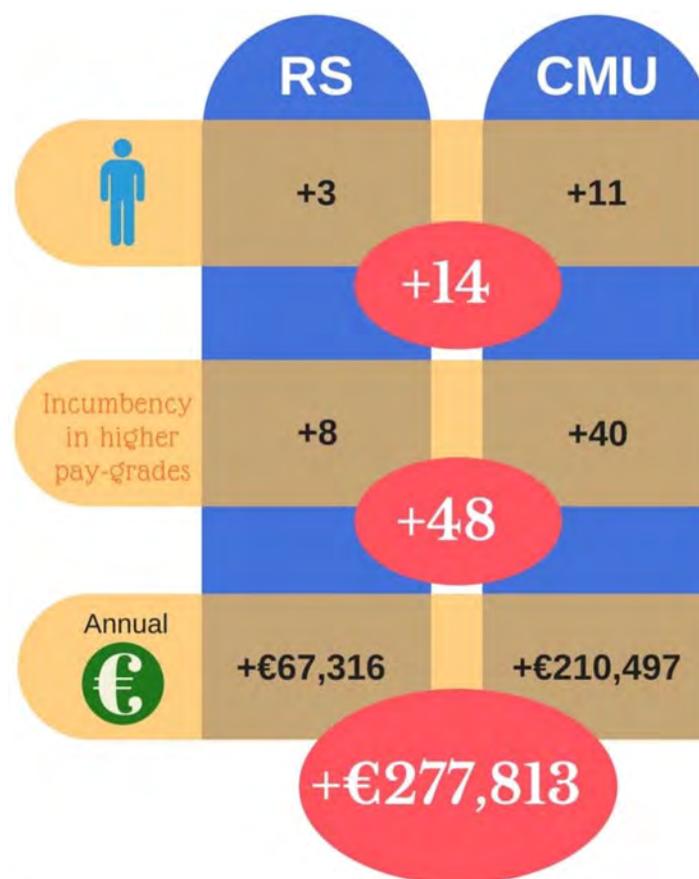
Designation	Annual Salary*	March 2017				July 2017			
		RS Total Employees	RS Total Emoluments	CMU Total Employees	CMU Total Emoluments	RS Total Employees	RS Total Emoluments	CMU Total Employees	CMU Total Emoluments
Person of Trust	€ 29,133	-	-	1	€ 29,133	-	-	1	€ 29,133
Support Service Officer	€ 22,004	-	-	1	€ 22,004	-	-	1	€ 22,004
Assistant Principal	€ 19,831	-	-	3	€ 59,493	-	-	4	€ 79,324
Senior Technical Officer	€ 19,831	-	-	1	€ 19,831	-	-	1	€ 19,831
Customer Care Official	€ 19,831	-	-	1	€ 19,831	2	€ 39,662	1	€ 19,831
Foreman	€ 18,616	2	€ 37,232	-	-	2	€ 37,232	-	-
Assistant Foreman	€ 17,474	1	€ 17,474	-	-	1	€ 17,474	-	-
Senior Tradesman	€ 16,377	4	€ 65,508	10	€ 163,770	4	€ 65,508	10	€ 163,770
Executive Officer	€ 16,377	-	-	2	€ 32,754	-	-	2	€ 32,754
Senior Clerk	€ 16,377	-	-	1	€ 16,377	-	-	1	€ 16,377
Nursing Aide	€ 15,349	-	-	-	-	-	-	1	€ 15,349
Tradesman	€ 14,369	-	-	4	€ 57,476	-	-	4	€ 57,476
Supervisor	€ 14,369	3	€ 43,107	3	€ 43,107	3	€ 43,107	3	€ 43,107
Timekeeper	€ 14,369	-	-	1	€ 14,369	-	-	-	-
Gardener	€ 14,369	-	-	2	€ 28,738	-	-	-	-
Other Industrial Grades	€ 14,369	-	-	-	-	-	-	3	€ 43,107
Senior Operative	€ 13,454	12	€ 161,448	14	€ 188,356	21	€ 282,534	58	€ 780,332
Operative	€ 12,558	1	€ 12,558	7	€ 87,906	-	-	-	-
Assistant Clerk	€ 12,558	-	-	1	€ 12,558	-	-	1	€ 12,558
General Hand	€ 11,768	6	€ 70,608	28	€ 329,504	1	€ 11,768	2	€ 23,536
Hospital Auxiliary	€ 11,768	-	-	1	€ 11,768	-	-	-	-
Labourer	€ 11,017	9	€ 99,153	5	€ 55,085	7	€ 77,119	7	€ 77,119
Health Attendant 'B'	€ 11,017	-	-	3	€ 33,051	-	-	-	-
Social Assistant	€ 11,017	-	-	1	€ 11,017	-	-	1	€ 11,017
Total		38	€ 507,088	90	€ 1,236,128	41	€ 574,404	101	€ 1,446,625

Source: DPD on March 2017 and July 2017 respectively

* Annual Salary figures quote corresponding maximum scale as cited in the 2017-2024 Civil Service Collective Agreement

2.2.3. Notwithstanding DPD’s assertion that it has no staff shortage however, NAO notes that, from updated information forwarded by the Directorate to this Office in July 2017, the staff complements of both the RS and the CMU were increased when compared to the figures forwarded in March 2017. More specifically, and as can be seen in Table 2, as at July 2017 the RS consisted of 41 employees (from the previously quoted 38), while the CMU’s complement increased to 101 (from 90), which translates in a total increase of 14 employees across both sections (Figure 2 refers). NAO additionally observed that the information presented in July shows a sharp decrease in the number of RS and CMU employees occupying amongst the lowest of grades (with the most prominent decrease noticed in the “General Hand” position – Table 2 refers) while a corresponding sharp increase is noticed in higher positions (particularly in the “Senior Operative” scale – Table 2 refers). All in all therefore, and as shown in Figure 2, DPD has committed itself to fork out a further €277,813² per annum in salaries through the deployment of additional personnel and possibly the materialisation of transfers or promotions in these two sections, even though the RS and CMU (as stated by DPD Officials themselves) were already well staffed.

Figure 2: Changes in RS and CMU Human Resources between March 2017 and July 2017



² This figure does not take into account any possible increases in supporting staff’s personal emoluments. It must also be noted that CMU staff may also be deployed to non-road related tasks.

2.2.4. NAO Observation – The fact that DPD generally does not lack human resources, yet further personnel were recently deployed with the two sections under review, points at significant inefficiencies in this area. NAO here questions the reason for the staff complement of these two sections to be augmented by a further 14 employees during the progression of this study, when DPD Officials themselves had earlier asserted that the Directorate has no staff shortage. Furthermore, and in view of DPD’s assertion on the prevailing lack of expertise, NAO does not understand why the distribution of these complements leaned more towards relatively higher pay-grades in July 2017 when compared to March 2017. It must here also be noted that these figures should not be taken in isolation, but rather compounded on the prevailing inefficiencies which were already identified as at March 2017, which primarily took form of personnel not being of an adequate standard and lacking expertise. These considerations become especially pivotal in view of the shortage of funds discussed in section 2.1, which impedes the Directorate from fulfilling its yearly plan. NAO here observes that while Vote 7240 is limited, DPD is absorbing significant excess public funds through its road works related human resource element, especially by engaging a surplus of employees and retaining those who are consistently not measuring up to their pay-grade.

2.3. Recommendations

2.3.1. NAO acknowledges the difficulties faced by DPD with the relatively limited financial allocation in Vote 7240. In view of this, NAO encourages the Directorate to exert continuous pressure, through the appropriate channels, for this allocation to better reflect the exigencies of the Gozitan arterial and distributor road network, especially in view of the social and economic implications which may materialise from a road network infrastructure which is not up to scratch.

2.3.2. This being said however, NAO strongly urges the Directorate to streamline its human resource pool and make sure that it is getting full value from its employees for the money it is investing in their wages, while ascertaining that it does not employ or retain excess staff. Seeing that the annual financial allocation made available to the Directorate for it to address road related works is rather limited, it does not help DPD’s case for this allocation to be increased if significant inefficiencies prevail in the corresponding human resource element. To this end, and in view of the lack of expertise of some of DPD’s employees, NAO strongly recommends that the Directorate engages in an internal exercise to determine whether it may reassign a segment of its workforce to carry out other work which could better justify the funds being allocated for their engagement. This exercise should be accompanied with a rigorous, carefully planned-out training programme intended at elevating each employee to a competence level that is commensurate to his/her respective grade. NAO further recommends that, in complementing these initiatives, the Directorate should carry out thorough monitoring of its staff performance and take decisive action, disciplinary or otherwise, in a timely manner, if any of its personnel is identified as consistently and unjustifiably not measuring up to one’s expected performance.

Chapter 3

NAO's review on DPD's Procurement Process

This Chapter outlines the analysis of the documentary review carried out by the audit team on the Directorate's road related procurement processes. Specifically, this Chapter presents the challenges faced by the audit team through the manner in which it was receiving documentation together with the shortcomings it identified in its review, particularly the lack of pivotal documentation in the forwarded files.

3.1. Information received from DPD was fragmented, inconsistent and at times produced late, undermining NAO's analysis

- 3.1.1.** As an integral part of the audit team's review, the latter required a full account of how Vote 7240 was availed of by DPD within the scoped period. To this end, a request was officially made by NAO to DPD for the latter to provide this Office with a comprehensive list detailing all works financed from this Vote. Upon the provision of the said list from the Directorate however, NAO noted that this compilation did not tally (by a very significant margin) with the total financial amount cited in Vote 7240 for the scoped period. Here NAO reports that, in total, six lists had to be forwarded to NAO by DPD before the cited works within reconciled (albeit with minor discrepancies) with the total budgeted amount in capital vote 7240.
- 3.1.2.** It must be noted however that, although the final forwarded list tallied with the official financial allocation for Vote 7240, NAO reports that this compilation was presented in a manner which posed significant challenges for the audit team to fully understand it, particularly as a significant number of the included entries were inconsistently categorised or unclear what they represented. When, during meetings, NAO enquired with DPD on this, the latter produced conflicting or incomplete replies, leaving the audit team with a less than complete explanation of the forwarded information.
- 3.1.3.** In spite of being unable to certify the integrity and reliability of the forwarded lists (including the final version), the audit team still proceeded to review the related physical files. It is important to note that, during meetings, at this point DPD Officials were formally categorising the listed works into two, namely what they referred to as 'major works' and 'miscellaneous works'. In the case of 'major works', the final list forwarded by DPD cited a total of €5,016,239 being allocated from Vote 7240 over the entire scoped period. From this figure, files related to expenditure amounting to €3,186,369.45 (€2,055,220 of which related to an instance of land expropriation), were marked as being 'locked by the

police', pending the already mentioned investigations. Acknowledging that these files may have been somewhat inaccessible to DPD (making it difficult for the latter to make them available to the audit team) NAO here bases its account on the remaining €1,829,870 cited as relating to 'major works' and as being 'in hand' by the Directorate. Of these, this Office reports that the DPD made available for NAO's review files which, according to the final forwarded list, amounted to an aggregate financial value of only €1,210,684. The audit team was therefore unjustifiably never presented with the physical files documenting how DPD availed of €619,185 for 'major works' from the capital vote 7240 for the corresponding scoped period. In addition, NAO here also reports that files relating to what the Directorate refers to as 'miscellaneous works' (which, according to DPD's forwarded final list, amounted to an aggregate of €541,139 for the scoped period) were never physically presented to the audit team until very late in the fieldwork stage. This Office here reports that the very late date in which these files were presented and their voluminous nature, made it highly impractical for the audit team to carry out subsequent related analysis, and therefore files relating to miscellaneous works were omitted from the scope of this audit.

- 3.1.4. Apart from these considerations, NAO also points out that, when reviewing the physical files which were actually forwarded by DPD, the audit team encountered instances in which the financial value did not correspond with what was cited in the final list, creating further difficulties in the audit team's reconciliation process.
- 3.1.5. Further compounding the audit team's challenges to carry out this analysis was the fact that information (both documented and verbal) was continually being received in a fragmented and inconsistent manner throughout the progression of this audit exercise. Amongst others, as an example, the audit team was never made aware that the Directorate makes use of supply agreements to procure the materials (from Vote 7240) used by the CMU up until the very final stages of the fieldwork period. It was only when the audit team carried out a site visit to observe CMU's operations that it was informed of the existence of such contracts, which situation, once again, forced the former to realign its fieldwork to include these in its analysis. NAO also noted that a significant number of these files were quoted in the final list provided by DPD, albeit under different categorisations (that is, 'major works' and 'miscellaneous'), while others were altogether not represented. It is important to note that, even though late in the fieldwork stage, NAO still carried out analysis on the files which DPD singled out (and consequently made available to this Office) as being related to CMU supply contracts.
- 3.1.6. NAO additionally reports that minutes of meetings held with DPD were never confirmed by the latter, even if requested by this Office to do so. This led to a situation in which the audit team could not anchor inconsistent verbal information being received by the Directorate from one meeting to the next into documented format. To this end, NAO had to resort to audio recording a final meeting held with DPD Officials to acquire one official version on issues which the audit team had pursued throughout its exercise.

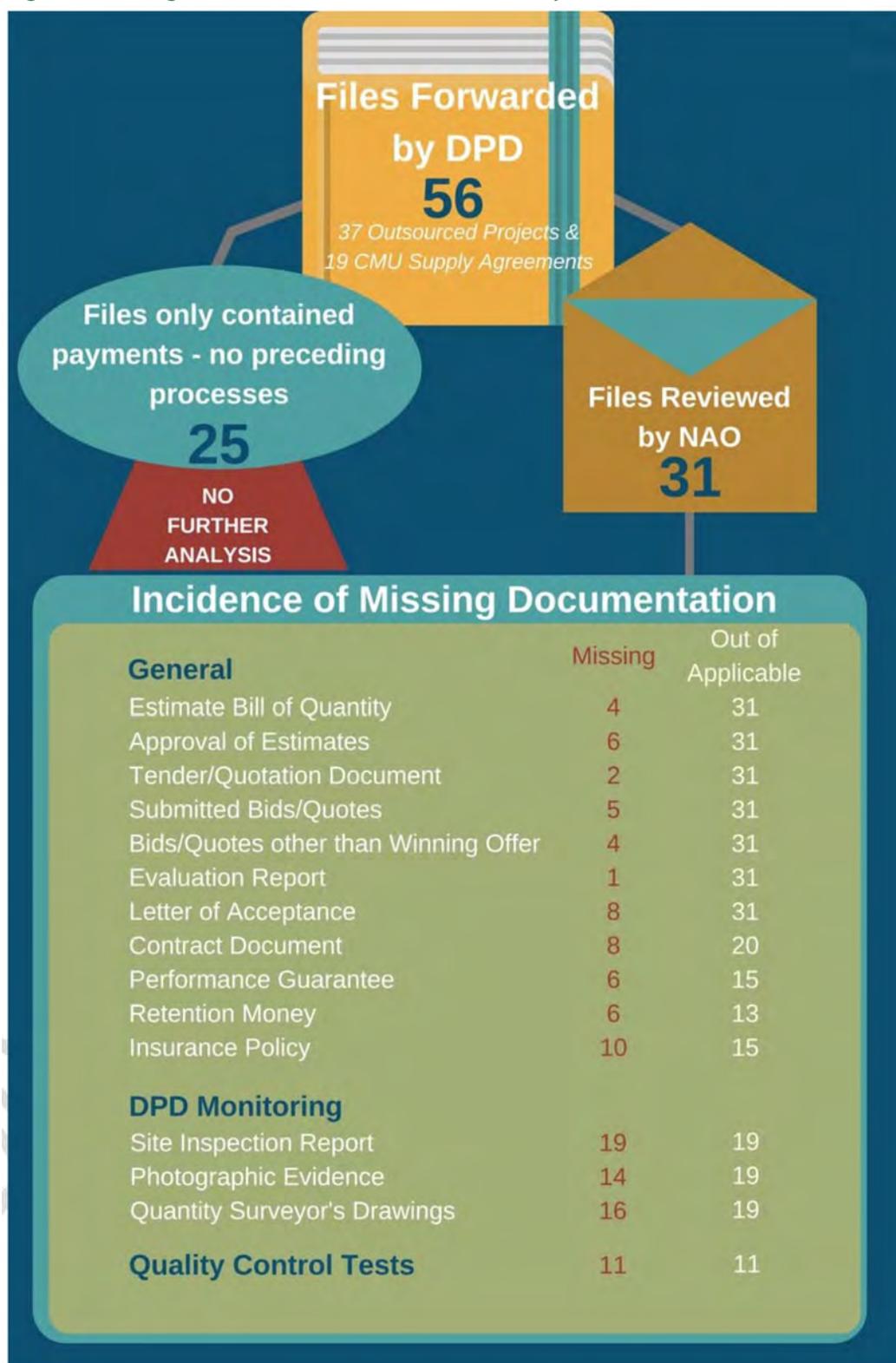
- 3.1.7. Apart from the aforementioned concerns, other issues were identified during the actual review of the forwarded files per se, which considerations will be discussed in greater detail in subsequent parts of this Chapter.
- 3.1.8. **NAO Observation** – This Office is deeply concerned with the considerations presented in this section, particularly with the fact that information was reaching the audit team inconsistently and either in a piecemeal fashion or altogether significantly and impractically late. This situation constrained the audit team to constantly realign itself in its analysis after being continually set off-course by such incidents. NAO fails to understand how a series of basic requests from its end (such as the provision of a full account of how DPD utilised the annual allocated capital vote, or a detailed explanation of how the Directorate documents its processes) seemed to have taken undue effort from the Directorate’s part to entertain, with some remaining altogether unclear to the audit team till the very end of this exercise. NAO therefore asserts that these considerations heavily impinge on the Directorate’s accountability and transparency.

3.2. Significant lack of Documentation Identified in Forwarded Files

- 3.2.1. As already mentioned in section 3.1, NAO was forwarded with a number of files, which can practically be categorised into two, namely those relating to ‘major projects’ and those referred by DPD as CMU’s supply contracts. More specifically, at time of writing of this report, the audit team had in its possession copies of 37 files relating to ‘major projects’ and 19 relating to CMU supply contracts. When reviewing these forwarded files and as can be seen in Figure 3 however, the audit team noted that a significant amount of documentation within was missing.
- 3.2.2. Figure 3 shows that, out of the total 56 forwarded files, only 25 contained payment processes for each respective project or agreement, with no other documentation being found by the audit team which details any other part of the respective undertaking. It is here important to note however that when NAO enquired as to why these files were largely incomplete, DPD Officials verbally explained that it could be the case that these were also locked by the police pending the ongoing investigations, even though these were never indicated as such by the Directorate in its forwarded lists before this stage. Given this verbal explanation by the Directorate, NAO affirms that in the case of these 25 files, it took the prudent approach of scoping out these files from its review in view of their possible inclusion in the ongoing police investigation. This Office however once again makes reference to the recurring issue of the audit team receiving inconsistent information throughout the progression of this exercise.
- 3.2.3. The remaining 31 files on which NAO was in a position to carry out adequate analysis, included 20 files which related to outsourced projects (referred to by DPD as ‘major works’ and which include, amongst others, road resurfacing works, installation of street lighting and construction of rubble walls) and 11 files which pertained to CMU supply agreements.

As can be seen in Figure 3 however, significant documentation was not found by the audit team throughout the reviewed files. The implications of this missing documentation and other considerations will be discussed in greater detail in subsequent parts of this section.

Figure 3: Missing Documentation in Files forwarded by DPD



3.2.4. NAO Observation – The situation regarding files missing documentation (to different extents) and therefore impinging on the completeness of each reviewed procurement process’ audit trail, raises significant concern to this Office. While (as will be discussed in subsequent parts of this section) NAO can certify that some of the documentation in question was never generated in the first place, it is not in a position to ascertain whether the remaining missing documentation had never been generated or whether it was in DPD’s possession but unjustifiably never forwarded to NAO in a timely manner. This situation compounds the considerations presented in section 3.1, further impinging on the Directorate’s accountability and transparency with this Office.

3.3. Not all of DPD’s Procurement Processes are covered by a Formalised Contract Document

3.3.1. During its review, the audit team noted that in numerous instances³, the actual contract document per se (binding Government and the suppliers to their respective obligations) was not included. NAO here further draws attention to one particular file in which it found correspondence (dated 1st March 2016) from MGOZ DCS clearly stating that “no contract was drafted” for this particular project. When queried on this consideration, DPD Officials informed this Office that there were occasions in which works started immediately after the issuance of the Letter of Acceptance, without signing any official contract. DPD Officials further informed NAO that it was an accepted practice that the Letter of Acceptance, together with the contractor’s BOQ and tender submission, formed the framework for the execution of the works. When queried further on why this practice was being adopted by the Directorate, the latter verbally replied that this was mainly due to the fact that the Procurement Unit within DPD was still being set up. When queried on when this Unit was set up, DPD Officials were uncertain in their replies, with various conflicting dates spanning over approximately one year being verbally transmitted to the audit team. Documented communication from DPD to this Office however stated that this Procurement Unit was set up in January 2015, which date conflicts with the dates quoted in MGOZ’s annual reports. Specifically, the 2013 MGOZ annual report states that this Unit was set up in 2013, while the 2014 report specifies that during this latter year the Procurement Unit took over the processing of tenders/quotations on behalf of DPD. In view of this conflicting information, NAO took the side of caution and based its analyses on the 2015 date as formally communicated by DPD. Taking this cut off date, NAO proceeded to conduct its review on the files in hand and noted that a number of forwarded files (corresponding to procurement processes which materialised after this mentioned date) did not feature, amongst others, any contract documents.

³ 8 out of the 20 reviewed works for which the audit team determined that a contract document was required. More specifically, there were instances in which a contract document was not found, but especially in view of the low financial materiality, the audit team decided that a contract document could have been replaced with other adequately endorsed documentation.

3.3.2. NAO Observation – The practice of not ensuring that a documented contract is in place to govern commissioned works and supply agreements is, in NAO’s opinion, an unacceptable practice and one which creates considerable risks to the value for the funds being invested. Specifically, this situation creates significant gaps in the safeguards and obligations of the understanding between the two concerned parties due to the lack of a formalised, all-encompassing documented rendition of all applicable conditions. In view of this, the fact that the audit team found files, corresponding to a period after the indicated Procurement Unit set-up date, with missing contract documents, indicates a lack of commitment by DPD towards tackling this matter. NAO further observes that even the absence of a procurement unit cannot justify the lack of preparation of such an important document as this task could easily be absorbed by other branches of the Directorate, particularly through collaboration between administrative and technical arms.

3.4. General lack of Performance Safeguards in Reviewed Processes

3.4.1. During its review and as can be seen in Figure 3, the audit team noted that, in numerous instances, documents which ensure performance safeguards (such as performance guarantees and insurance policies) were not found in the reviewed files even if cited as a requisite in the corresponding tender document. When queried on this missing documentation, DPD Officials stated that there were occasions on which works would have been already underway but the commissioned contractors would still not have provided this required documentation. When queried by this Office as to why works were commissioned to start in the first place if a required safeguard was never forwarded to the Directorate, no answer was forthcoming, with DPD further stating that this situation has been rectified since the setting up of the Procurement Unit. It is here again important to note however that most of the reviewed files in which the above mentioned shortcomings were identified, correspond to a period which materialised after the Procurement Unit set-up date (which date was indicated in written communication to NAO by the Directorate). In addition to these considerations, NAO also noted instances in which DPD even failed to include these safeguards in the tender document per se, leaving the Directorate in a weak position in case of any defaulting incidents or damages from the very start of the procurement process.

3.4.2. During meetings with NAO, DPD Officials further stated that, notwithstanding the above situation, the Directorate depends on retention money as its principal form of performance safeguard. DPD Officials further asserted that this measure is increasingly becoming ineffective due to DoC guidelines, specifically due to the current general conditions issued by the latter which cite that retention money should not exceed 5% of the contract value. To this, DPD Officials affirmed that the most practical form of performance safeguard on the road works carried out under its responsibility, would be the possibility to apply an increased 15% to 20% retention money practice. NAO however notes that, while DPD asserted that the retention money practice is the most practical and ideal form of performance safeguard, during the former’s review of forwarded files, the audit team noted instances

in which the Directorate did not include this mechanism as a contractual requisite (where applicable) in the first place. In addition, this Office also observes instances in which though being provided for in the tender document, DPD did not avail itself of the retention money mechanism, and therefore no funds were being retained when issuing payments.

- 3.4.3. In this Office's considered opinion, site inspection reports are a pivotal part of any contract management and monitoring function, which documents record whether works were carried out to the required specifications and quality standards. As can be seen in Figure 3, however, such reports were practically never found by the audit team in the reviewed files. More specifically, though photographs of ongoing works and basic, generally unsigned, quantity survey drawings were found in a very small number of instances, detailed site inspection reports comprehensively documenting progress of works were not found. On this issue, DPD Officials verbally informed NAO that photographs of ongoing works are always generated by the Directorate but not consistently included in the respective project files. Here NAO also notes that the Directorate's reply on this issue skirted round the practice of preparing fully fledged site inspection reports. While the Directorate informed NAO that, following the latter's observation, the generated photographs will be retrospectively included in the respective files, the audit team was never furnished with a copy of those identified as missing in its review at any point during this audit exercise. This implies that the audit team is therefore not in a position to ascertain whether or not these were truly generated during related works.
- 3.4.4. Further to the immediately preceding point, and in view of the technical nature of road surfacing works, NAO considers quality control (QC) testing as a natural and important part of the procurement process in question. NAO was informed by DPD that such tests are generally carried out by the engaged contractors through outsourcing agreements with one of mainly two local private laboratories. Notwithstanding this however, NAO noted that during its review, documentation on such tests was practically never found⁴. When queried on this, the Directorate affirmed that it could be the case that these tests were not found by the audit team in their respective files, as their corresponding retention period was still in effect. While not contesting this explanation, NAO here however notes that, as already explained in point 3.4.2 above, the Directorate does not always avail of the retention money mechanism or enforce it adequately. NAO opines that this situation could create risks of incentivising contractors to default on carrying out such tests and provide related documentation accordingly, as no real deterrent would be in place.

⁴ In the audit team's review, QC tests were only sought in the case of asphaltting projects. 11 of the 20 reviewed outsourced projects featured asphaltting.

3.4.5. NAO Observation – The considerations presented in this section lead NAO to conclude that DPD, in outsourcing road related works and in securing supply agreements, does not consistently ascertain that adequate performance safeguards are in place. This shortcoming presents obvious and very significant risks to the Directorate’s good governance and creates room for any defaulting incidents to be inadequately covered by effective and timely mitigating solutions. More specifically, the Directorate’s stance is further weakened in the instances in which it is not in possession of documented proof that the required performance safeguards were actually honoured by engaged contractors. This, together with its failure to consistently avail of the retention money mechanism, while also failing to document any site inspections carried out by itself, leaves DPD in an overall weak enforcement position. These considerations, NAO opines, could create very real possibilities that the value derived from the funds being invested for these procurement processes is unnecessarily jeopardised.

3.5. Recommendations

3.5.1. With respect to the issue that information continually reached this Office inconsistently and either in a piecemeal fashion or altogether significantly late, NAO strongly urges the Directorate to honour requests which it is legally bound to entertain (such as those forwarded by this Office), in a timely, comprehensive and structured manner, thereby demonstrating accountability and transparency. To this end, in the event that NAO embarks on a follow-up exercise of this audit, it expects a more professional approach to be adopted by DPD in this regard.

3.5.2. NAO further strongly urges DPD to ensure that its procurement processes are consistently covered by adequate contractual and performance safeguards. It is also of pivotal importance that these safeguards are to be consistently and adequately documented to preserve an adequate audit trail.

3.5.3. Moreover, this Office urges DPD to consistently utilise and enforce all available performance safeguards at its disposal so as to ensure that the best value for money is achieved in its operations.

Concluding Remark

Throughout this audit report, it became apparent that, at least insofar as communication with this Office is concerned, DPD scored low on the transparency and accountability metrics. While keeping the ongoing police investigations in mind, it is this Office's considered opinion that most of the problems and challenges faced by the audit team in preparing this report would not have materialised if the audited entity conducted itself in a clearer and more professional manner. In view of this, while the original intent of this performance audit exercise was to evaluate whether DPD carries out its operations in an efficient, effective and economic manner, the audit team had to dedicate a significant portion of its effort and time to address and report on these concerns.

While dealing with the above mentioned challenges, the audit team still conducted its analysis on the DPD's operations, which review yielded significant concerns especially on the Directorate's overall lack of good governance in the scoped areas. While the audit team is in a position to certify the outright inexistence of certain pivotal documentation, it notes that other documentation which was not forwarded to NAO does not necessarily mean that it does not exist. Either way however, the fact remains that the audit team was presented with less than complete documentation and information for its review, which consideration naturally further impinges on the Directorate's good practices. This Office here notes that these shortcomings were identified on procurement processes which are financed through a capital allocation which DPD itself asserts is insufficient to comprehensively shoulder its responsibilities. This leads NAO to question whether the Directorate is in any position to adequately monitor and safeguard a larger financial allocation. The Directorate's inability to comprehensively safeguard public funds can also be manifestly observed in the significant inefficiencies identified in DPD's human resource element, which consideration heavily impinges on the value for the funds being invested in this respect.

In view of these considerations, NAO strongly urges the Directorate to engage in a comprehensive overhaul of its procedural practices, particularly the manner by which it manages its documentation, while also optimising its resource utilisation, thereby safeguarding the value for money element throughout.

In a reaction to this audit exercise, the Permanent Secretary MGOZ replied:

"This Ministry is taking note of NAO findings and recommendations. Given the present circumstances where the two top officials mentioned in the report are currently suspended, pending the magisterial inquiry, this Ministry will do its utmost to adhere to recommendations as soon as possible."

2016-2017 (to date) Reports issued by NAO

NAO Work and Activities Report

March 2017 Work and Activities of the National Audit Office 2016

NAO Audit Reports

October 2016	Performance Audit: Agreements between Government and YMCA Valletta
November 2016	Performance Audit: Managing and Monitoring the State Schools' Transport Services
December 2016	Annual Audit Report of the Auditor General - Public Accounts 2015
December 2016	Annual Audit Report of the Auditor General - Local Government 2015
December 2016	An Investigation of Property Transfers between 2006 and 2013: The Transfer of Land at Ta' L-Istabal, Qormi
December 2016	An Investigation of Property Transfers between 2006 and 2013: The Acquisition of 233, 236, and 237 Republic Street, Valletta
January 2017	Contribution of the Structural Funds to the Europe 2020 Strategy in the Areas of Employment and Education
February 2017	Information Technology Audit: Cyber Security across Government Entities
May 2017	Performance Audit: Protecting Consumers through the Market Surveillance Directorate's Monitoring Role
June 2017	Performance Audit: Procuring the State Schools' Transport Service
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Transfer of the Property at 83 Spinola Road, St Julian's
July 2017	An Investigation of Property Transfers between 2006 and 2013: The Expropriation of the Property at Fekruna Bay, St Paul's Bay
September 2017	Performance audit: Landscaping Maintenance through a Public-Private Partnership