

# Performance Audit

## Housing Authority's Procurement of Repair Works on Residential Units

Report by the Auditor General

November 2014





# Performance Audit

## Housing Authority's Procurement of Repair Works on Residential Units

# Table of Contents

<b>List of Figures and Tables</b>	<b>3</b>
<b>List of Abbreviations</b>	<b>4</b>
<b>Executive summary</b>	<b>5</b>
<b>Chapter 1 – Background Information</b>	<b>11</b>
1.1. Conceptual Backdrop	12
1.2. Audit Scope and Objectives	14
1.3. Methodology	15
1.4. Report Structure	16
<b>Chapter 2 - An Analysis of the Housing Authority’s Repair Operations</b>	<b>17</b>
2.1. The Housing Authority’s Procurement Process – Primary Internal Stakeholders	18
2.2. The Housing Authority’s Repairs Policy	19
2.3. HA’s Database and Records Management	21
2.4. Handling Complaints	22
2.5. Carrying Out Inspection Visits prior to Commissioning Works	24
2.6. Prioritising, Commissioning and Monitoring Works	26
2.7. Conclusions	27
2.8. Recommendations	29
<b>Chapter 3 - Procuring Works by Call for Quotations and Direct Orders</b>	<b>31</b>
3.1. Procurement Methods	32
3.2. Procurement by Call for Quotations	32
3.3. Procurement by Direct Orders	42
3.4. Procurement by Direct Orders through Framework Agreement	43
3.5. Conclusions	48
3.6. Recommendations	52
<b>Appendices</b>	<b>55</b>
Appendix A: Application form to partake in HA’s FA	56
Appendix B: FA Declaration of Agreement	59

## List of Figures and Tables

Figure 1: HA's Reporting Structure	13
Table 1: Allocation of Repairs and Maintenance Responsibilities between HA and Tenants	20
Table 2: Number of Telephone Calls received by CCU between July 2014 and April 2014	23
Table 3: Number of Physical Visits received by CCU between October 2014 and April 2014	24
Table 4: Additional Defects identified during Inspection Visits	25
Table 5: Breakdown of Works completed or in progress during 2013	32
Table 6: Differences between HA's Estimates and Winning Bids	39
Table 7: Variances between Awarded Amounts and Actual Amounts paid to Contractors	41
Table 8: Variances between Awarded Amounts and Actual Affected Payments	46
Table 9: Descriptions and Rates of Work Item 2.12 Configurations as specified in the FA Document	47
Table 10: Description and Rate of Work Item 2.12 in Measured Works of Reviewed Contract.	47

## List of Abbreviations

A&CE	Architect & Civil Engineer
BOQ	Bill Of Quantities
CCU	Customer Care Unit
CEO	Chief Executive Officer
Eoi	Expression of Interest
FA	Framework Agreement
HA	Housing Authority
MFSS	Ministry for the Family and Social Solidarity
NAO	National Audit Office
OTSW	Order To Start Works
PL	Project Leader
PS	Permanent Secretary
RMS	Repairs and Maintenance Section
TO	Technical Officer
TSOD	Technical Services and Operations Department



## Executive summary

The availability of decent housing across all society is of paramount importance to strengthen the local community. The government body entrusted with the responsibility of ascertaining that this objective is met, is the Housing Authority (HA), which *raison d'être* is established in Act XV of 1976.

Apart from the provision of new housing units to accommodate emerging demand, the Authority is also responsible for repairs required on tenement blocks already under its responsibility. Such works are acquired through outsourcing agreements with the private industry and by means of three different methods of procurement, namely by: calls for tenders; calls for quotations; and direct orders. The latter two methods are used by HA to address works requiring immediate attention, and consequently are the ones examined in this publication. Procuring such works to address damages in tenement blocks under HA's responsibility, requires an extensive support structure which, among others, is geared towards: identifying where such interventions are required; prioritising works accordingly; as well as monitoring and keeping overall control on all processes involved.

Seeing the importance of the responsibilities assigned to HA, the National Audit Office (NAO) conducted an extensive performance review on the Authority's operational processes. This examination is complemented by case studies of the two above identified methods of procurement.

Apart from a number of good practices, this report features a compilation of concerns that emerged following the completion of pertinent analysis, as well as NAO's recommendations to rectify these shortcomings. The following is a synopsis of this Office's salient observations and suggestions.

Identified Concerns	NAO's Recommendations
<p>i) NAO is concerned by the lack of a comprehensive electronic database listing all the residential units under HA's responsibility. In not keeping such a compilation, the Authority runs significant avoidable risks, especially insofar as abuse is concerned. To this end, NAO opines that the methods used by HA to determine whether a residential unit falls under its responsibility or otherwise are weak. In addition, the absence of such a tool also makes HA's task of identifying whether a unit falls under its responsibility or otherwise much more onerous, needlessly diverting precious time and resources from other areas of attention.</p>	<p>i) NAO strongly recommends that this situation is rectified at the earliest possible opportunity. Given that the risks and inefficiencies associated with such a situation are significant, this Office suggests that HA devotes the necessary time and resources to address this issue in a timely manner.</p>
<p>ii) The situation of having two separate tenant complaints databases (neither of which consists of the complete compilation of data), is cause for serious concern to NAO, as is the fact that different staff members making use of these tools have different limited access rights. Keeping in mind that the information logged in these tools is the foundation into which HA roots its course of action for operations (insofar as repairs and maintenance are concerned), this Office opines that the Authority cannot afford to have anything less than a consistently fully updated and comprehensive compilation at its disposal.</p>	<p>ii) Certain basic tasks (such as assigning read/write access to particular individuals) can be carried out with minimal work and cost, but would prove to be immeasurably useful to the HA officials operating this management tool. Additionally this Office also recommends that the Authority should either carry out a complete data transfer exercise from the old database to the new counterpart at one go, or (if the former is considered too labour intensive) gradually phase out the use of the older version of the database in question.</p>
<p>iii) NAO is also concerned on the fact that, although a new database (compiling tenants' complaints) was developed to rectify shortcomings identified in the older version, it still does not accommodate for all the needs of the HA officials who are actually operating this management tool on a daily basis.</p>	<p>iii) NAO recommends that the design of the new database is revisited, possibly during the same period as the recommended transitions in the preceding recommendations. NAO is also of the opinion that in re-designing this management tool, the Project Leader (PL) assigned with this task should consult with the HA officials who operate this database on a daily basis.</p>
<p>iv) NAO acknowledges the Authority's apprehensions in areas in which the latter feels it does not have sufficient resources to carry out the assigned responsibilities comprehensively and to a high level of quality. Predominately, these shortages relate to the lack of human resources in the Customer Care Unit (CCU) and in the inspection Teams assigned to carry out on site visits following the lodging of complaints by tenants.</p>	<p>iv) NAO recommends that the Authority engages in an internal exercise to determine the optimal level of human resources it requires to carry out its assigned responsibilities. Once this is established, HA should endeavour to deploy the optimum number of Officers to each respective task. Should the Authority not have sufficient Officers to address all the areas of responsibility, HA should seek the necessary approvals to recruit additional Officials.</p>



<p>v) This Office also shares the Authority's concern on a somewhat prevailing mentality harboured by residing tenants that the latter are not obliged to carry out any maintenance whatsoever in the Units they reside in. Such an outlook on this issue is by far not an acceptable one as this often is the cause of the occurrence of significant damages to the residential structures due to the lack of simple, regular and largely inexpensive maintenance.</p>	<p>v) This Office urges HA to rigidly enforce the clause in its Repairs Policy stipulating that works required to address damages occurring to the residential structure due to negligence by the residing tenants should be funded by the latter. Furthermore, NAO also suggests that HA should rigidly adhere to the allocation of responsibilities as detailed in the same policy, thereby refraining from carrying out any works (even if considered to be very minor) which fall under the tenants' responsibility.</p>
<p>vi) The Bill of Quantities (BOQ) prepared before the acquisition of any works or services is an integral part of the overall procurement process, being one of the main benchmarks against which the contracts' performance is measured. To this end, NAO is concerned about the instances in which BOQs were found to be unsigned and undated, as such a shortcoming could shed doubts on the integrity of such a document.</p>	<p>vi) NAO urges the Authority to rectify this practice at the earliest so that it puts itself in a position of strength should any contestations about the integrity of such documents arise.</p>
<p>vii) NAO is also concerned on the instances in which the necessary approvals for the issuance of calls for quotations were not found in the respective procurement files.</p>	<p>vii) NAO urges HA to ascertain that adequate approvals for call for quotations are consistently documented.</p>
<p>viii) The terms and conditions outlined in the Expression of Interest (EoI) governing procurement by call for quotations, do not provide for regularisation in the eventuality of variances from the agreed upon price.</p>	<p>viii) This Office recommends that the Authority expeditiously includes a clause in the terms and conditions governing procurement by call for quotations, which clearly defines the process by which variances to agreed upon works are accepted or otherwise.</p>
<p>ix) NAO is concerned about HA's decision to consider and consequently accept ten contractors who applied after the deadline set for the 2012 EoI. Additionally, this Office perceives as a shortcoming the fact that in the same instance, the Authority also accepted two other contractors who did not satisfy the clear requirements set in the application document.</p>	<p>ix) NAO urges HA to issue requirements for such calls with care so that otherwise evitable contestations by the industry are avoided. Accepting late applications and being lenient on set specifications or thresholds are unjustifiable practices which may lead to unwarranted complications.</p>
<p>x) In view of the instance in which a particular contractor was disqualified from the contractors' list eligible to partake in call for quotations, and then reinstated after a period of time, NAO is significantly concerned about the lack of documentation kept by the Authority, specifying the details of the case and the merits unto which HA acted.</p>	<p>x) This Office strongly urges the Authority to take care in keeping proper documentation in all its processes, especially in sensitive instances such as when dealing with disqualification of contractors.</p>

<p>xi) NAO also perceives as a shortcoming the fact that HA does not have a set threshold which determines whether a received bid is too high when compared to the original estimate designed by the Authority.</p>	<p>xi) NAO recommends that the Authority rectifies this position at the earliest so that it reduces the possibility of contestation from supplying contractors who may feel aggrieved by such a practice.</p>
<p>xii) NAO fully appreciates the difficulties faced by HA's Officers during site visits when assessing the quantity and type of works required to address defects, mainly due to other potential hidden damages which would not be immediately detectable. This Office, however, is still somewhat concerned on certain repercussions such a challenging circumstance can impose on the Authority's planning processes.</p>	<p>xii) This Office suggests that the Authority explores the possibility of acquiring aid (such as dedicated tools and other relevant equipment) to better assess residents' claims prior to compiling the relevant BOQ. This Office opines that the initial investment in such tools would be redeemed through increased operational efficiency.</p>
<p>xiii) With respect to the EoI for participation in the Framework Agreement (FA), NAO has two separate concerns with the manner by which HA designed the respective application and with the approach it adopted during the consequent evaluation process. The first relates to what can be considered as shifting of goalposts during the evaluation process. Secondly, by omitting certain bidders from the FA (which featured fixed prices) and instead offering them the option to render their services through calls for quotations, HA forewent the certainty of these suppliers being paid not more than what the Authority considered to be fair and reasonable rates for work carried out.</p>	<p>xiii) Once again, NAO urges HA to issue requirements in such calls with care so that otherwise evitable contestations by the industry are avoided and ascertain that fair and reasonable rates are quoted in the procured works.</p>
<p>xiv) NAO is concerned on the methodology HA employed in determining the rates which were consequently quoted in works acquired through FA call offs. In analysing past bidding rates (submitted by contractors over the years) as a basis of such an exercise, HA essentially took into account the suppliers' asking price which, potentially, may be inflated from what can be considered as a fair and reasonable rate.</p>	<p>xiv) In order for the Authority to determine what can be considered as fair and reasonable rates for work items it procures, a costing exercise could be carried out in which costs to be incurred by the contractor in providing particular work items (such as raw materials, man-hours, fuel, etc.) are calculated. A reasonable profit margin can then be added and this would result in a fair and reasonable price for the work item in question.</p>

xv) While acknowledging HA's intention to attempt to address the accumulated backlog of over seven hundred requests in the shortest possible time, NAO is somewhat ill at ease by the fact that approval was granted for all of these interventions to be procured by direct orders through an FA.

xv) This Office recommends that, in such cases, HA could group these requests in a manner in which it sees fit (for example by location or by nature of works required), and then proceed to issue competitive FA call-offs for each grouping, thereby decreasing the number of issued call-offs and consequently the administrative work required to process each call. Additionally the estimate rates calculated internally by HA could be considered as maximum prices for each respective work item rather than a set price, and bidders could be invited to submit their bids at an equal or lower value than these set rates, thereby introducing a competitive element.

xvi) This Office also perceives risks in the manner by which the Authority opted to draft the first FA, go through the administrative task of processing an EoI and, finally entering into agreements with the selected contractors, all prior to having requested and secured the required authorisation from the Permanent Secretary (PS).

xvi) NAO urges HA to observe conventional good practices in every aspect of its operation. In having all necessary authorisation in hand before embarking on any project, HA would ascertain the smooth running of the initiative in question while mitigating the possibility of time and resource waste in carrying out administrative work in vain.



# Chapter 1 – Background Information

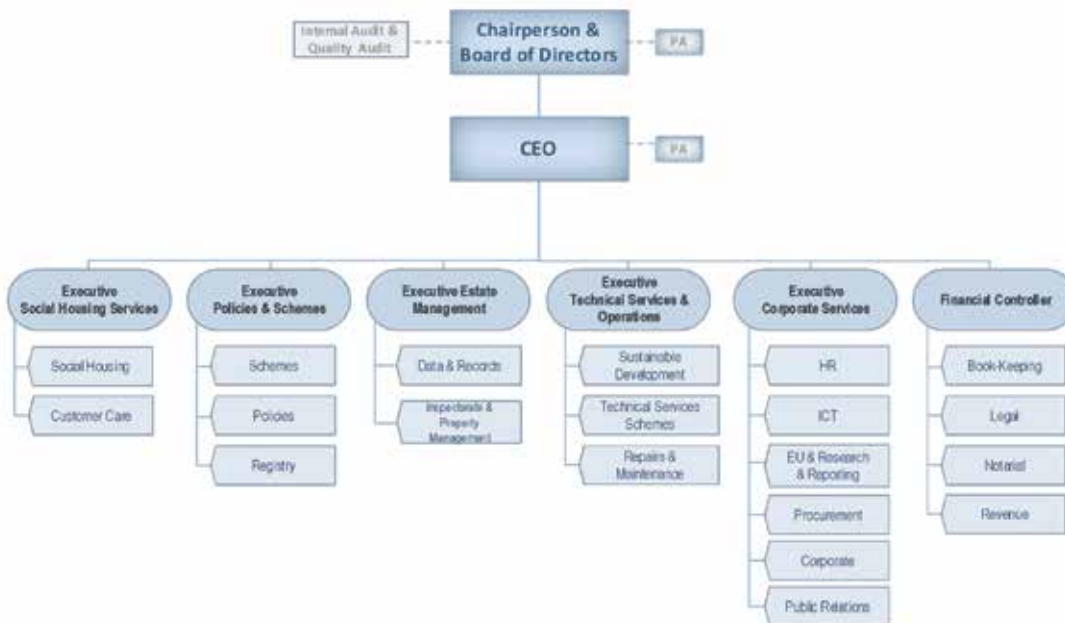
**The first part of this chapter is intended to present an overall background of the Housing Authority's functions and responsibilities. It then proceeds to identify the audit's scope and objectives as well as the methodology utilised to complete the required analysis. A synopsis for each chapter in this report closes this first part of the publication.**

## 1.1. Conceptual Backdrop

- 1.1.1. A good standard and overall adequacy of housing units, is a fundamental priority for a thriving society. Derelict buildings in need of major attention, which offer their inhabitants little more than an unacceptable standard of living, not to mention posing health and safety risks to those in their immediate surroundings, are both a result and cause of serious social concerns. It is with this disquiet in mind that the Housing Act, more specifically Act II of 1949, was drafted and put into force. This Act binds government to “make provision for securing living accommodation to the homeless, for ensuring a fair distribution of living accommodation and for the requisitioning of buildings.” The entity assigned with the responsibility of ensuring that such a commitment is maintained is the Housing Authority (HA) which *raison d'être* is quoted in the Housing Authority Act, more specifically Act XV of 1976. This Act stipulates that there is to be a provision “for the establishment of a body corporate to be known as the Housing Authority and for the exercise by or on behalf of that Authority of functions relating to housing, residential and commercial accommodation and related functions and amenities; to provide for the transfer to that Authority of certain properties; to make provision with respect to the transfer of certain other assets; and to make provision with respect to matters ancillary thereto or connected therewith”.
- 1.1.2. The HA was established, and consequently has been in operation, since 11th October 1976 and currently falls under the Ministry for the Family and Social Solidarity (MFSS). In line with the above-mentioned Acts, HA's philosophy is that “*Decent housing strengthens communities and provides a better setting in which to raise our children*”. In 2007, the Department of Social Housing as well as the Housing Construction and Maintenance Department were integrated into the HA, creating one all-serving entity. This setup still prevails and Figure 1 below illustrates the reporting structure of HA's management as at time of writing of this report.

Figure 1: HA's Reporting Structure

## Housing Authority



Source: Housing Authority Website

1.1.3. The Housing Authority Act clearly specifies a range of responsibilities which the HA is expected to address in its operations. More specifically, this Act stipulates that the HA should:

- a. "Develop, or cause the development of, any land for residential and commercial purposes and for purposes connected therewith or ancillary thereto;"
- b. "Construct, or cause the construction of, any property for residential and, or commercial purposes and for purposes connected therewith or ancillary thereto;"
- c. "Provide, manage, administer and revise schemes related to housing;"
- d. "Administer, maintain, upkeep, carry out structural repairs of residential and commercial accommodation and general repairs of common areas of properties owned or administered by it and related facilities and amenities;"
- e. "Develop and embellish areas surrounding properties owned or administered by it, including public areas, gardens, recreational facilities and open spaces;" and
- f. "Carry out urban regeneration and landscaping".

Adapted from: Housing Authority Act, ACT XV of 1976

## 1.2. Audit Scope and Objectives

- 1.1.4. The above-mentioned endeavours undertaken by HA are essentially all targeted towards the provision of social housing to persons who are considered to be somewhat less privileged than those enjoying an average standard of living. More specifically, HA targets individuals or family units which cannot afford to buy or rent properties at set market prices. In so doing, HA would essentially be giving equal opportunities to all and promoting home ownership across society. In order for the entity to achieve such a goal, a number of initiatives and schemes have been introduced and launched over time. Some of these schemes were aimed to include the residents in being actively involved in the construction, repair or maintenance of the residential units assigned to them. Conversely other projects are executed solely by HA, both in terms of financing and execution of works.
- 1.1.5. The pool of residential units which HA could make available to applicants are mainly acquired either by procuring already built property from the private sector or by engaging in new construction projects. This latter option, when opted for, has developed principally into an outsourcing operation, mainly due to the closure of the HA in-house construction and maintenance unit in 2009. This being said however, by the time of publication of this report, HA had essentially ceased outsourcing construction projects and rather sought to sustain its pool of housing units through schemes with private owners of already built property. To this end projects, outsourced by HA during the scoped period of this study, were principally concerned with maintenance and repair works.
- 1.1.6. Insofar as maintenance and repairs are concerned, HA has set parameters to which its responsibility extends. It is important to note that the Authority is not responsible for the maintenance or repair of any internal furnishings and finishing, regardless of whether the property is owned or rented by the tenant. Such a responsibility is to be shouldered solely by the latter. HA, however, retains responsibility for the overall maintenance and repairs of the common areas and amenities of residential blocks made available by it (such as staircases, roofs and drainage works). This responsibility is still shouldered by the Authority even if all the housing units within the complex in question would have been acquired by the respective occupiers and not merely rented. In addition, HA is also responsible to carry out repairs in the case of dangerous structures (such as roofs and balconies with a real risk of collapse) within residential units made available by itself. Repairs to such dangerous structures still falls under HA's responsibility even if the affected housing unit would have since been fully procured by the respective resident.
- 1.1.7. It is also important to note that, since August 2010, HA has started allocating part of its budget for embellishing of the surroundings of its housing estates. This operation is however managed by the respective local councils rather than by HA itself and consequently, the latter forwards funds to the former respectively.
- 1.2.1. Although HA is axiomatically primarily known for its endeavours in providing and allocating housing units to prospective applicants, in order for it to be in a position to do so, it needs a constant pool of available and suitable housing units at its disposal. While the manner by which HA acquires new property to consequently allocate as housing units is a very valid audit area in its own, this study will focus on the manner by which the Authority repairs and maintains the residencies provided by itself, thereby ensuring that they are of an acceptable standard for families to live in. This means that this study will not feature an examination on how the HA acquires property but rather on the manner by which it procures the services required for the upkeep of the housing units under its responsibility.

- 1.2.2. Furthermore, it must be stated that HA adopts three main methods of procurement to acquire necessary repair works on the tenement blocks under its responsibility, namely by call for tenders (including period tenders), call for quotations and direct orders. The latter two are the two methods of procurement used by the Authority for works requiring immediate attention and which are intended to address structural defects which may present imminent health and safety risks to the residing tenants. To this end, this Office opted to examine in detail these latter two methods of acquiring such works, thereby scoping out procurement by call for tenders.
- 1.2.3. In compiling this study, the audit team endeavoured to assess a number of considerations within HA's operations. Most notably, the National Audit Office (NAO) vetted processes relating to the manner by which HA: identifies the need for interventions; upkeeps a database of the pool of housing units under its responsibility as well as any identified needs of interventions; and prioritises between work interventions to be carried out. Furthermore, a number of projects procured through call for quotations and direct orders have been selected by the audit team for review. The processes by which these selected projects were procured and monitored were also analysed in detail.
- 1.2.4. The audit team's endeavours were mainly focused to assess compliance, performance as well as value-for-money considerations in HA's operations. While an in-depth assessment was carried out on the processes' adherence to procurement regulations and good practices, the vetting of the Authority's overall financial accounts was not included within the audit scope.
- 1.2.5. This study is scoped to analyse systems and cover works which were completed or still in progress during the year 2013.
- 1.3.1. This study is the result of the implementation of various methodologies for the collection and compilation of data as well as subsequent analysis. During the initial stage of this exercise, desk research and preliminary semi-structured meetings with key-stakeholders formed the backbone of the audit-team's fieldwork. A review of pertinent legislation, parliamentary questions and relevant media articles, as well as the attainment of a general situational overview from HA representatives during initial meetings, all formed part of this preliminary exercise. From this work, a general awareness of the issues at hand was obtained and a more detailed audit plan could consequently be drafted. To this end, an in-depth 'Issue Analysis' was compiled, clearly detailing all the areas the audit team had determined as being of most relevance to the audit's scope. This compilation served as a constant guide throughout the progression of this study, keeping the audit team on track and focused on the identified areas of assessment.
- 1.3.2. Once relevant areas to be reviewed had been successfully identified by the audit team and allotted into manageable areas for analysis, NAO started forwarding requests to set up semi-structured meetings with relevant stakeholders to tackle specific topics and queries (rather than taking a broader approach as was the case during the initial stages of the exercise). Discussions held during such meetings generally gravitated around the Authority's *modus operandi*. These meetings were often accompanied by detailed requests for documented information, so that further analysis could be compiled by the audit team. Furthermore, NAO also accompanied HA Officials on site visits, some of which were intended to assess what works were required following complaints received by tenants, while others were aimed at assessing whether already commissioned works were carried out satisfactorily.

## 1.3. Methodology



## 1.4. Report Structure

1.3.3. NAO also sought to examine the manner by which works are acquired through the aforementioned two methods of procurement. For the purpose of this exercise, this Office opted to adopt a case study approach, selecting works according to their respective financial materiality. While by and large, projects with higher monetary value were selected for review, this Office also randomly selected a few projects with lower price tags so that it could assess the Authority's consistency in its monitoring and control functions throughout procured works of varying values. The selected works amounted to approximately half the value of all works procured by call for quotations and direct orders during 2013.

1.3.4. Once the above-mentioned projects had been selected, the audit team communicated with the Authority for the relevant documentation to be made available for review. After extracting copies of this documentation, NAO started its review process and forwarded queries where warranted. Once a full picture was drawn on all the facts surrounding the review sample, an analysis was carried out to identify performance and value-for-money considerations accordingly.

1.3.5. A number of working papers were prepared by the audit team, each presenting audit findings on its particular area of analysis. Once these were completed, the audit report was drafted, presenting the findings from preceding analysis, NAO's conclusions on the issues at hand and recommendations for the rectification of any identified shortcomings.

1.4.1. This audit report is made up of three main chapters. A brief synopsis of each is presented hereunder:

- **Chapter 1: Introduction** – The first part of this chapter is intended to present an overall background of the Housing Authority's functions and responsibilities. It then proceeds to identify the audit's scope and objectives as well as the methodology utilised to complete the required analysis. A synopsis for each chapter in this report closes the first part of this publication.
- **Chapter 2: An Analysis of the Housing Authority's Repair Operations** – This second chapter sets off by presenting a brief description of the various departments involved in commissioning repair works for defects identified in residential units under the Authority's responsibility. An overview of the Authority's repair policy ensues, which is in turn followed by NAO's assessment on a number of operational activities the Authority undertakes to carry out the aforementioned repair works.
- **Chapter 3: Procuring Works by Call for Quotations and Direct Orders** – This last chapter features NAO's analysis on the approach which the Housing Authority utilises in procuring repair works by call for quotations and direct orders. An in depth evaluation is presented on the manner by which these methods of procurement were established by the Authority and how they developed over time. This is followed by a comprehensive review of the projects selected by this Office as case studies.



## Chapter 2 - An Analysis of the Housing Authority's Repair Operations

**This second chapter sets off by presenting a brief description of the various departments involved in commissioning repair works for defects identified in residential units under the Authority's responsibility. An overview of the Authority's repair policy ensues, which is in turn followed by NAO's assessment on a number of operational activities the Authority undertakes to carry out the aforementioned repair works.**

### 2.1. The Housing Authority's Procurement Process – Primary Internal Stakeholders

- 2.1.1. Out of the various departments within HA, four units can be considered as being the main driving force behind the Authority's procurement process, namely: the Technical Services and Operations Department (TSOD); the Customer Care Unit (CCU); the Procurement Section and; the Accounts Department. A brief description of the composition as well as the principal roles and responsibilities of each follows.
- 2.1.2. The TSOD is headed by an Executive Head and comprises of three sub-sections, that is: the Repairs and Maintenance Section (RMS); the Sustainable Development Section and; the Technical Services Section. Insofar as procurement functions are concerned, the TSOD is principally represented by RMS. This unit is made up of two Clerical Administration Officers and two Technical Teams. Each of these teams is headed by an Architect & Civil Engineer (A&CE) who manages a number of Technical Officers (TO), with the latter numbering three and two in the aforementioned two Technical Teams respectively. Although both of these teams are flexible in their operations, they are individually intended to specialise in particular areas. One of these units deals with reactive works which primarily involve dangerous structures while the other team specialises in other repairs, most notably drainage works as well as electrical and other minor interventions. It is important to note that this allocation of roles and responsibilities between the two teams is not what was originally designed by the Authority. While HA initially intended for one of the teams to tackle reactive works and the other to take care of scheduled maintenance, the sheer volume of complaints and requests for interventions being channelled towards the Authority as well as the ever present backlog of such pending work, has constrained HA to reconfigure its resources to the current set up to deal with the situation as efficiently and effectively as possible.
- 2.1.3. The CCU within HA, consists of six officers in total. One of these deployed personnel is responsible for manning the department's front desk, two others are entrusted with handling incoming telephone calls, while another two are tasked to meet HA's

clients on a face-to-face basis. A Coordinator completes the six-month compliment and, apart from being responsible for directing day-to-day operational and administrative activities of this Unit, is also tasked with meeting the more demanding clients and complaints.

- 2.1.4. The CCU, among other responsibilities, is entrusted to handle complaints being forwarded by tenants residing in residential units which maintenance falls under HA's responsibility. Such complaints reach the CCU through various channels, but primarily by phone, by email or by the petitioner physically calling to the HA offices to lodge his/her complaint. CCU Officers proceed to log requests forwarded by tenants in a purposely constructed database, which records are also accessible by the RMS. At this point, it is also important to note that the latter section also, at times, receives complaints directly from tenants and therefore has to log these requests accordingly. However, RMS officials can only access the aforementioned database on a 'read-only' basis and consequently have to make use of a separate tool to log complaints lodged directly to them. This issue and CCU's responsibilities will be discussed in greater detail in subsequent parts of this chapter.
- 2.1.5. Of obvious importance to the overall procurement process is the Procurement Section within HA. This section is tasked to draft and publish all calls for procurement, in the various utilised formats (as discussed in greater detail in Chapter 3) required by the Authority. This Section processes both the internal procurement needs of HA (including maintenance on the Authority's own buildings and offices) as well as procurement of maintenance works as required in the tenement blocks under HA's responsibility. A total of three officers are deployed within the Procurement Section, that is, one Senior Officer and two holding the grade of Officer II. This Section is intended to be managed by a Head of Section, which position was vacant during the scoped period of this audit. As a consequence, during the period in question, this Section fell under the direct administration of the HA Chief Executive Officer (CEO) while any required technical support (such as technical specifications to be included in a tender document) was provided by one of the Authority's A&CE. NAO was further informed that in June 2014 (that is, after the scoped period), a Section Coordinator was appointed to fill this vacant position.
- 2.1.6. Finally, but by no means the least important, the Finance Section, headed by its own Executive Head, is responsible for managing the Authority's finances and processing any required payments. To this end, this section becomes of pivotal importance at the beginning and end of each procurement cycle. Before any works are commissioned, the Finance Section needs to ascertain that the Authority holds sufficient funds for the project in question to be budgeted. Axiomatically, at the end of each project, this Section needs to process payment accordingly against the PL's certification of completed works.
- 2.2.1. The maintenance and repair interventions, often required on housing units under HA's responsibility, are of various forms and natures. This being said, however, not all maintenance repairs usually associated with a normal household fall under the Authority's responsibility, and consequently HA has designed a 'Repairs Policy' in an attempt to clearly define what interventions are to be carried out by itself, and others which costs should be borne by the residing tenants.

## 2.2. The Housing Authority's Repairs Policy

**Table 1: Allocation of Repairs and Maintenance Responsibilities between HA and Tenants**

Common Parts <i>(which in the case of apartments include: the main door; entrance; corridors leading to apartment doors; common stairways; roofs; shafts and lifts, as well as any other common parts around the residential building)</i>	
<b>HA's Responsibility</b>	Reconstruction and repairs to roofs deemed in risk of collapse. This includes all works (plastering, painting as well as electrical and water supply utilities) which need arises as a direct consequence of the intervention.
	Replacements and repairs on the drainage and rain water systems in cases in which tiles have to be removed or require the replacement of the major part of the system.
	Replacements and repairs in the electrical system. This does not include repairs to intercoms or doorbells which would have been individually installed by tenants.
	Replacements and repairs of doors leading unto the roof, windows, railings, handrails, tiles and marble.
	Replacements and repairs of roof-floor screed wherever required and the necessary waterproofing where applicable.
	Replacement of deteriorated stone and balustrades as well as the address of warps in mortar in parapet walls and any other structures deemed to be part of the common area.
	Plastering of facades, parapet walls and any other structures deemed to be part of the common area. These are carried out depending on the gravity of the situation.
<b>Tenants' Responsibility</b>	Removal and re-installation of television aerials, satellite dishes, solar panels, solar water heaters and other similar installations as required, for necessary interventions to be carried out.
	Replacements and Repairs to broken glass, locks, light-bulbs and switches.
	Ordinary roof and membrane maintenance, where applicable.
	Painting of the roof stairway structure at least once every four years.
	Removal of blockages in common drain pipes and individual gullies. Replacements of small parts of the drainage system where this only affects the individual residential unit.
	General upkeep and cleaning of the common parts, including the roof, stairways, entrances, corridors and yards.
Individual Residential Units	
<b>HA's Responsibility</b>	Reconstruction and repairs to roofs deemed in risk of collapse. This includes all works (plastering, painting as well as electrical and water supply utilities) which need arises as a direct consequence of the intervention.
	Replacements and repairs to balconies. Such repairs are only carried out when the structure in question presents health and safety risks to the residents themselves as well as to the general public.
<b>Tenants' Responsibility</b>	Replacements and repairs to internal walls including back-walls, support walls and yard enclosing walls.
	Replacements and repairs on doors and windows (both internal and external), internal tiles, bathrooms and the individual residence unit's drainage system.
	Repairs to wells.
	General Maintenance.

*Adapted from HA's Repair Policy as updated on 01/04/2014*

2.2.2. The Repairs Policy clearly identifies and allocates to whom particular repairs and maintenance responsibilities are to be assigned, both in cases in which such work would be required within the common parts of a housing block, as well as in instances in which interventions would be required in individual residential units. Table 1 presents this allocation of responsibilities as detailed in this policy.

2.2.3. Apart from the allocation of responsibilities, the Repair Policy also clearly highlights five conditions which have to be complied with by the residing tenants for the Authority to engage in the listed repair and maintenance works, namely:

1. *Works are approved subject to verification that the residential unit or block in question does actually fall under HA's and/or government's responsibility.*
2. *Works are approved subject to verification that the request put forward is in line with the Authority's Repairs Policy through an inspection by HA Officials.*
3. *Any works are to be carried out by contractors commissioned by the Authority and depending on the priority and urgency assigned by HA.*
4. *Damages caused due to neglect or lack of maintenance intended to be carried out by the tenant, have to be addressed and funded by the latter.*
5. *Approved works are to be carried out solely by contractors commissioned by the Authority and under the supervision of the latter's representatives. HA does not accept requests for refunds of works carried out by the tenants themselves or commissioned by the latter to third parties.*

*Adapted from HA's Repair Policy as updated on 01/04/2014*

2.2.4. Axiomatically, the Authority is only obliged to carry out repair works in tenement blocks under its responsibility. During meetings with HA Officials, NAO was however informed that the Authority does not keep a detailed and comprehensive electronic database identifying all of these housing units. HA representatives further elaborated that, in view of this deficiency, officials tasked with vetting whether a complaint is eligible or otherwise use four main methods of authentication. First and foremost, a check is carried out to identify whether a file has already been opened to document previous works on the same residential unit. The reasoning behind this method is that if maintenance has already been effected on a particular unit, than that is an indication that the latter falls under HA's responsibility. Secondly, should no such file exist, the Authority checks with the Joint Office and the Government Property Department in an attempt to establish ownership. Alternatively, the Authority carries out checks in the HA schemes and sale-book database to determine whether the residential unit had been acquired by the residing tenants from the HA. Failing these checks, the Authority asks for receipts of rent payments from the respective tenants, thereby establishing land-ownership and consequently whether it is responsible for the unit in question or otherwise.

2.3.1. As already indicated earlier in this chapter, HA logs incoming complaints in two separate databases, each of which is mainly used by one of two different units within the Authority. While both databases are currently in use (that is, the newer version did not supersede the other but rather both are now running in a parallel manner) one of these tools evidently precedes the other. To this end, for this report's purposes and for ease of reference they are referred to as the 'new' and 'old' databases respectively.

## 2.3. HA's Database and Records Management

- 2.3.2. As indicated earlier, the two HA departments making primary use of these databases are the CCU and RMS, with the latter having read/write access to the old database and read-only privileges on the new, while the CCU only has read/write access to the new tool, with no visibility on the older version. This therefore means that any complaints put forward by tenants to the CCU are logged in the new database, however complaints coming in through the RMS have to be logged in the older version.
- 2.3.3. While both databases operate on the same, identical operational platform, they are not linked together and, as a consequence, information cannot be easily shared between the two management tools. During meetings with HA officials, NAO was informed that this situation created a number of difficulties in the day-to-day management of this very important data. One such difficulty is created by having the RMS not being able to log any changes made vis-a-vis the respective complaint on the new database (as it is limited with read-only access to this part of the database). As a result, CCU are largely left uninformed on developments to the logged complaints and would not be able to give positive and accurate feedback to the respective tenants should the latter follow-up on the original request. Not having visibility on the older version of the database, also puts the CCU in a position in which it cannot determine whether a particular complaint has already been lodged with RMS or otherwise. This state of affairs is naturally disposed to cause duplication problems, with CCU inputting all complaints it receives in the new database without having the possibility of checking for replication in the old system.
- 2.3.4. In view of the rather obvious apprehensions presented by such a situation, NAO queried why no attempts are currently underway to integrate the two systems into one. In response to this, HA officials stated that, in view of the limited staff available as well as the labour intensive nature of the task at hand (especially given the vast compilation of information in the old database version), it is currently next to impossible to embark on such an undertaking, as it would mean diverting much needed resources from other, more critical, responsibilities.
- 2.3.5. During meetings with HA representatives, NAO was also informed that the old database was considered to be more user friendly and consequently easier to operate than its newer counterpart. It did, however, have one major restriction, that is, it did not allow the user the possibility to create additional fields where necessary. This constraint was the principal reason for the design of the new database to be commissioned, with the intent of having this much needed function available to its users. The introduction of the new database (which stores data in a different format from the older version), however, presents HA with the challenge of not only having such data segregated in two, but also having this information not immediately compatible between the two versions.
- 2.3.6. HA officials further stated that this undesirable situation (created by the challenges such as those mentioned previously), could have been averted if the HA employees designated to finally operate these management tools, were consulted during the design of the new database. Although, as stated earlier, the new tool does allow the user to create additional fields, it also lacks other functions which its operators opine are essential for the efficient and effective running of such a management tool.

## 2.4. Handling Complaints

- 2.4.1. During meetings with HA officials, NAO was informed that the CCU handles requests of varying nature, which include queries of the various schemes offered by the Authority as well as requests for repairs and maintenance by tenants residing in homing units within HA's portfolio. As can be seen in Table 2, in the ten month period between

July 2013 and April 2014, incoming telephone calls relating to repairs or maintenance amounted to 1,708. This Department handled another 12,798 calls from third parties with queries and complaints on other matters. This means that calls relating to repairs and maintenance constituted a weighted average of 11.77% of all calls received within the period in question. NAO was informed that the volume of such calls is ever on the increase, putting ever more pressure on customer care staff. CCU has two dedicated help-desks intended to service incoming queries by phone from third parties and, given the vast volume of complaints lodged with the Authority, these officials are of the opinion that additional help-desks should be allocated and manned to ascertain a better service to the Authority's clients.

2.4.2. As stated earlier in this chapter, the CCU also tackles queries and complaints submitted in person by third parties at HA premises. Complaints lodged in this manner relating to repairs and maintenance for the seven month period between October 2013 and April 2014 (Table 3 refers), amounted to 331. An additional 7,115 queries on other matters were similarly processed by HA within the same timeframe. This implies that complaints of a repairs and maintenance nature comprised of a weighted average of 4.45% of all visits made by third parties to HA premises in the period in question.

**Table 2: Number of Telephone Calls received by CCU between July 2014 and April 2014**

Month	Telephone Calls to CCU with requests for repairs	Telephone Calls to CCU with other requests	Telephone Calls relating to repair requests as a percentage of total calls received
July 2013	93	967	8.77%
August 2013	172	1,141	13.10%
September 2013	202	1,185	14.56%
October 2013	171	1,124	13.20%
November 2013	118	1,166	9.19%
December 2013	92	841	9.86%
January 2014	213	1,682	11.24%
February 2014	407	2,393	14.53%
March 2014	147	1,326	9.98%
April 2014	93	973	8.72%
<b>Total in 10 Months</b>	<b>1,708</b>	<b>12,798</b>	<b>Average of 11.77%</b>

2.4.3. During meetings with NAO, HA Officials highlighted the fact that the work of the Authority is made significantly more difficult by a particular mentality commonly harboured by tenants residing in Units under the former's responsibility. It is not uncommon to find that such individuals do not carry out any maintenance whatsoever both within their own residential unit as well as the common areas of the block. HA Officials expressed grave concern that this complacency sometimes goes as far as not changing a light bulb and lodging a complaint with the Authority for the latter to come and replace this simple fitting. Such a mentality of not carrying out regular but inexpensive maintenance works, may result in much more severe damages to occur which would in turn require considerable costs for them to be addressed.



Table 3: Number of Physical Visits received by CCU between October 2014 and April 2014

Month	Physical Visits to CCU with requests for repairs	Physical Visits to CCU with other requests	Physical Visits relating to repair requests as a percentage of total registered visits
October 2013	57	1,098	4.94%
November 2013	38	1,036	3.54%
December 2013	32	540	5.59%
January 2014	55	1,127	4.65%
February 2014	99	1,231	7.44%
March 2014	33	1,001	3.19%
April 2014	17	1,082	1.55%
<b>Total in 7 Months</b>	<b>331</b>	<b>7,115</b>	<b>Weighted Average of 4.45%</b>

## 2.5. Carrying Out Inspection Visits prior to Commissioning Works

- 2.5.1. The aforementioned repair and maintenance complaints forwarded to the CCU by residents, together with those lodged directly with RMS, are subsequently handled by the latter so that the required procurement process is initiated. A Clerical Administration Officer deployed within the RMS checks the complaints for duplication or whether such complaints have already been addressed, and then proceeds to schedule site visits in order to obtain a clearer indication of what works are required. These site visits are scheduled and allocated between the two technical teams according to their areas of expertise.
- 2.5.2. During meetings with HA, NAO was informed that the members of the two technical teams (being few in number) find it somewhat challenging to carry out comprehensive inspections for all lodged complaints. To this end, priority is given to complaints which the Authority would classify them as involving dangerous structures, for obvious reasons. The Authority also pointed out that the presence of HA Officials in one Unit within a Residential Block, or that of contractors carrying out works, often triggers a wave of complaints by other tenants who, before observing these Officers on-site, would have remained rather complacent with any defect they would have noted in their own Unit.
- 2.5.3. The inspection visits carried out by the Authority, prior to commissioning required works, are planned in a way that they are grouped by area to maximise efficiency. Tenants forwarding complaints, who reside within the particular site visit's catchment area of the day, would be informed accordingly so that they would be present when HA Officials arrive on site. HA estimates that, on average, each inspection visit varies between thirty minutes and an hour and a half depending on the particular exigencies of each case. NAO was also informed that, on occasions, certain projects (which would be more substantial or have particularly complex circumstances) would have to be inspected by HA officers more than once so that the latter would obtain as much of an accurate estimation of required works as possible.
- 2.5.4. In order for NAO to better understand the process HA Officials go through when carrying out these visits, the audit team accompanied the latter on two of these inspections. The residential units in question were located in Bormla and Hamrun and complaints received by the Authority quoted a damaged balcony and internal spalling respectively.

- 2.5.5. During the above mentioned inspection visits, the audit team noted that, once HA Officials go to a particular housing unit to inspect a lodged complaint, they also carry out an extensive review to determine the condition of the residential unit as a whole. In so doing, however, more defects are generally noted and consequently added to the works-required list. When queried about this practice, HA representatives stated that in the practice of conducting a complete inspection of the whole unit once there, can potentially save HA from having to visit the same unit shortly afterwards if another defect (previously undetected by the owner) is observed and a complaint lodged accordingly. Additionally, NAO was informed that from the instance that an HA Architect steps into a residential unit, s/he becomes automatically responsible for detecting and addressing structural defects. To this end, an HA inspection team cannot focus solely on the lodged complaint but it needs to ascertain that the visited residential unit is safe for habitation with no apparent risks to the residents' safety.
- 2.5.6. The above practice can be substantiated by observations made by the audit team during the aforementioned site visits. As shown in Table 4, by the time HA Officials completed their inspections in these two residential units, a number of defects were identified and earmarked for address.
- 2.5.7. It is also important to point out that, on occasions, addressing complaints lodged by tenants may negatively affect the property of neighbouring residents. One common circumstance, which is prone to cause such consequences, is when the ceiling of a residential unit (which ceiling would also be the floor of the housing unit immediately above) would have to be replaced. In such instances, the Authority is obliged to address both the defects identified by the respective tenant as well as any other defects occurring within neighbouring residential units as a direct result of HA's interventions. Inevitable defects caused to neighbouring units by such work may vary from floor-tiles being replaced to a re-installation of a complete bathroom, depending on each individual case.

**Table 4: Additional Defects identified during Inspection Visits**

Original Complaint	Locality	Works to be carried out
Damaged Balcony	Bormla	<ul style="list-style-type: none"> <li>• Address of spalling of parapett wall;</li> <li>• Address of spalling beneath balcony;</li> <li>• Making Enemalta power cable (running near balcony) safe;</li> <li>• Painting of parapett wall;</li> <li>• Address of spalling in spare bedroom plus painting;</li> <li>• Address of spalling in stairwell ceiling;</li> <li>• Membrane all over roof;</li> <li>• Water tanks to be raised;</li> <li>• Cart away of asbestos tank;</li> <li>• Painting of ceilings in stairwell and washroom;</li> <li>• Replace roof timber door with aluminium door.</li> </ul>
Internal Spalling	Hamrun	<ul style="list-style-type: none"> <li>• Replace concrete lintels in window aperture;</li> <li>• Remove aluminium frame and reinstate after works are completed;</li> <li>• Replace windows with aluminium aperture;</li> <li>• Insert new windowsill;</li> <li>• Pointing;</li> <li>• Restore beams;</li> <li>• Shifting of water tank;</li> <li>• Remove antenna and re-install after works are completed;</li> <li>• Remove electrical point and re-instate after works are completed.</li> </ul>

## 2.6. Prioritising, Commissioning and Monitoring Works

- 2.5.8. Once the inspection visit is completed, the HA Officials who would have carried out the assessment prepare an inspection report unto which the eventual Bill of Quantity (BOQ) is drafted for works to be procured. An estimate timeframe for the works duration is also documented and included in this report. During the inspection visits, the HA Officials also take photographic evidence of the inspected damages and upload these on the Authority's server to be used as reference when the respective BOQ is being compiled.
- 2.6.1. The various complaints lodged with the Authority have to be prioritised so that a sequence of remedial works can be planned. This prioritisation generally falls under the responsibility of the Executive Head TSOD, who regularly goes over the list of pending works and determines which complaints require the Authority's attention before others.
- 2.6.2. During meetings with HA, NAO was informed that such a decision is heavily affected by how dangerous each defect is considered to be to the residing tenants, and how urgent each case is deemed to be. HA Officers also stated that although the Authority aims at adopting a proactive approach to carry out maintenance rather than repairs on the tenement block under its responsibility, this is not currently possible due to recurrent limited resources and the vast amount of pending work. To this end, HA is presently forced to operate on a reactive repair basis.
- 2.6.3. HA Officials also pointed out that, on occasions, certain defects would require extensive works and, for which, procurement would require a substantial period of time. In such cases, the Authority endeavours to provide temporary remedial solutions so that any immediate danger to the residing tenants is removed. Such measures include the use of shuttering (a second, lower roofing made of wooden planks and supported by steel columns) in the case of damage to roofs, so that, if parts of the ceiling collapse, this temporary structure would prevent such debris from posing considerable risks to the inhabitants and potentially cause further damage to the structure.
- 2.6.4. In instances whereby the identified defects pose serious and potentially dangerous risks to the residing tenants, HA endeavours in finding alternate accommodation for the former till the necessary works are carried out and the hazard addressed. In such instances, HA primarily encourages the residents to try and make housing arrangements with relatives. If this is not possible, the Authority attempts to find a vacant residential unit from its own stock and provide it as temporary replacement. Should both these options prove to be unfeasible at the time, HA either offers low-end hotel accommodation for the duration of the repair works, or grant subsidies to assist the tenants in temporarily renting a private property. HA informed NAO that of the two latter identified options, subsidising private renting is more commonly utilised than offering hotel accommodation, as this is considered to be a last resort and is mainly the exception rather than the rule.
- 2.6.5. Complaints considered as dealing with dangerous structures by HA, are further classified into three sub-categories, namely: extremely high risk (in which the structure would be in immediate risk of collapse), high risk and medium risk. Complaints, which are not considered to fall in any of these categories, are given second priority by the Authority.
- 2.6.6. Once this prioritisation process is finalised, the Authority proceeds to start commissioning required works through one of a number of procurement methods. These procurement methods are explained in greater detail in the next Chapter of

this report. During meetings with NAO, HA representatives informed the former that the choice of the procurement method largely depends on the nature of the works required for each particular project. While projects with a very substantial monetary value are usually procured through a call for tenders, other not so urgent works which amount to less than six thousand euro (excluding VAT) are usually acquired through a call for quotations. On the other hand, should works be considered as urgent and posing a significant risk to the residing tenants, HA opts to commission such works by a direct order through its FA.

- 2.6.7. Following the award of works through one of the procurement methods identified above, works are initiated by the designated contractor. HA Officials conduct work-in-progress inspections only on a need basis. Rather straightforward works which would not entail complex circumstances generally would not require these Officials to carry out inspections during the actual progression of works. HA representatives do however carry out in-progress inspections in other, more complex, interventions (such as a roof replacement) and whenever consultations are solicited by the commissioned contractors.
- 2.6.8. Regardless of the complexity of the intervention in question, NAO was informed that HA Officials always carry out an on-site inspection after works are completed. In these final inspections, HA Officials ascertain that all works have been comprehensively carried out and that they are of the required quality standard. Final measurements of work are also taken so that the Authority can then prepare and effect payment to the respective contractor accordingly. In order for NAO to get a better understanding of how these final inspections are carried out, the audit team once again accompanied HA Officials on four of such visits. Three of these inspections were intended to assess works completed in Valletta while the remaining visit was carried out in Siggiewi. During these visits, NAO observed HA Officials measure and document works carried out by the respective contractors.
- 2.6.9. During meetings with HA representatives, NAO was informed that should works be not considered satisfactorily completed upon this final inspection, the Authority directs the contractor in question to rectify the situation. This practice was noted by the audit team when it observed HA Officials drawing the attention of one particular contractor to complete agreed-upon works (which in this particular case entailed painting of a balcony's railings) which were not yet carried out by the time of the inspection.
- 2.7.1. NAO commends HA for designing a detailed repairs policy which clearly highlights the allocation of responsibilities between the Authority and the respective tenants. Such a document puts HA in a position of strength should any contestations arise about who is responsible to carry out required works.
- 2.7.2. This Office is however significantly concerned by the lack of a comprehensive electronic database detailing all the residential units under HA's responsibility. With approximately one thousand, two hundred residential blocks under its care, the need of such a management tool is self-evident. In not keeping such a compilation, the Authority runs significant avoidable risks, especially insofar as abuse is concerned. NAO opines that the methods used by HA to determine whether a residential unit falls under its responsibility or otherwise is therefore weak as, among others, this Office envisages risks, such as maintenance files being erroneously opened in the past or rent receipts being forged to claim repair works. In addition, the absence of such a tool also makes HA's task of identifying whether a unit falls under its responsibility

## 2.7 Conclusions

or otherwise much more onerous, needlessly diverting precious time and resources from other areas of attention.

- 2.7.3. The situation of having two separate tenant complaints databases (neither of which consists of the complete compilation of data) is cause for serious concern to NAO. Keeping in mind that the information logged in these tools is the foundation into which HA roots its course of action for operations (insofar as repairs and maintenance are concerned), this Office opines that the Authority cannot afford to have anything less than a consistently fully updated and comprehensive compilation at its disposal. Duplication of entries, incomplete access by all individuals operating these databases and incompatible data between the two versions, present axiomatic and avoidable risks to the efficient and effective utilisation of this otherwise invaluable management tool. Such a situation exposes HA to potential waste of time and resources which could be much better utilised carrying out more productive tasks.
- 2.7.4. In addition to the previous remark, NAO is also concerned on the fact that, although a new database was developed to rectify shortcomings identified in the older version, it still does not accommodate for all the needs of the HA officials who are actually operating this management tool on a daily basis. This undesirable situation could be exposing the Authority to unnecessary operational risks, such as data transmitted by complainants not being comprehensively recorded, as well as the possible inefficient utilisation of human resources who would have to engage in more lengthy processes than they would need to if this management tool was more adequately designed.
- 2.7.5. NAO understands HA's apprehensions that the CCU might not have sufficient helpdesks to adequately tackle all incoming queries by phone. If this is the case, the Authority runs the risk of increasing human error when inputting complaints due to its Officials trying to tackle a greater load than what is considered ideal.
- 2.7.6. This Office also shares the Authority's concern on a somewhat prevailing mentality harboured by residing tenants that the latter are not obliged to carry out any maintenance whatsoever in the Units they reside in. Such an outlook on this issue is by far not an acceptable one as this often is the cause of the occurrence of significant damages to the residential structures due to the lack of simple, regular and largely inexpensive maintenance.
- 2.7.7. NAO is also concerned about the fact that the Authority feels it does not have sufficient manpower to carry out comprehensive inspection visits for all lodged complaints within a reasonable timeframe. It must be borne in mind that once a complaint is lodged by the respective residing tenant, the Authority automatically becomes responsible to ascertain that any possible health hazard is removed at the earliest. To this end, carrying out immediate inspections following the lodging of complaints becomes an immeasurably important task so that any such risks are eliminated. Lack of adequate resources to adopt a timely procedure puts the Authority at risk of not identifying such risks in time with axiomatic negative repercussions.
- 2.7.8. This Office commends HA on the practice of carrying out a full inspection of any visited residential unit rather than assessing solely the defects identified in the respective tenant's complaint. In so doing, HA is reducing the number of site visits it has to carry out (as other defects are bound to be flagged by the residents if noted in the future) and ascertaining that no structural damages posing significant hazard to the residents are left unchecked.
- 2.7.9. NAO also commends HA's practice of employing temporary remedial solutions in case of identified dangerous structures (such as shuttering or alternate accommodation)

while it engages in the necessary procurement process for permanent works to be carried out, thereby minimising health hazards to the residing tenants.

2.7.10. Given that inspection visits are somewhat labour intensive and time consuming in themselves, NAO endorses HA's practice of carrying out such inspections during the progression of works on a need basis. Seeing that some works would be rather simplistic in nature, HA does well in not dissipating valuable human resources to conduct these visits during the actual progression of works. This Office also positively noted that HA Officials always carry out inspection visits upon completion of works to ascertain that these have been carried out comprehensively and to the required standards.

2.7.11. Notwithstanding the above, NAO perceives risks in the Authority not being able to act proactively rather than reactively. Such a situation could see relatively minor defects developing in considerable damages which would require significantly higher costs to be addressed.

2.8.1. Given the axiomatic benefits which the repairs policy in place (which clearly outlines the allocation of responsibilities between the Authority and the respective tenants) affords to HA, NAO strongly encourages the Authority to keep this document constantly updated so that it would consistently meet the operational requirements of the latter. An effective periodic review to this affect would guarantee such a result.

2.8.2. In view of the lack of a comprehensive electronic database detailing which residential units fall under the Authority's responsibility, NAO strongly recommends that this situation is rectified at the earliest possible opportunity. Given that the risks and inefficiencies associated with such a situation are significant, this Office suggests that HA devotes the necessary time and resources to address this issue in a timely manner.

2.8.3. With evident risks emanating from the situation of having two, non-linked tenant complaint databases being in operation simultaneously, NAO urges the Authority to give this state of affairs its due importance and endeavour in addressing this issue at the earliest possible opportunity. Certain basic tasks (such as assigning read/write access to particular individuals) can be carried out with minimal work and cost, but would prove to be immeasurably useful to the HA officials operating this management tool. In addressing solely this issue, however, the problem of having two separate databases would still prevail and, to this end (without discounting the possibility of other solutions to this problem), this Office recommends two possible approaches to resolve the latter challenge. The first, and the more preferable option, is to carry out a comprehensive data transfer exercise from the old database to the new counterpart, and giving the required access to all involved internal stakeholders. In so doing, the Authority would have one complete compilation of information, thereby greatly mitigating duplication risks while securing added clarity of communication between the two departments in question. Keeping in mind that such a solution is somewhat labour intensive and will require a significant number of man hours, NAO also puts forward a second recommendation, that is, to phase out the use of the older version of the database in question. To do this, both the RMS and CCU are to have complete visibility and access to the two databases. A cut off date can then be established, after which all incoming complaints will be exclusively logged in the new database, implying that the old version will desist from expanding. A transition period can then follow in which HA officials will process new complaints comprehensively on the new version while constantly endeavouring to resolve the now exhaustible compilation of complaints in the old database. Once all cases in the older version have been

## 2.8. Recommendations

addressed, this tool should no longer remain active but simply safely stored for record keeping purposes.

- 2.8.4. Should HA maintain that it cannot afford to divert its in-house resources from the day-to-day operational requirements to address the complaint database issue as recommended in 2.8.3. above, NAO suggests that the Authority considers engaging third parties to carry out this transition, possibly through an outsourcing agreement.
- 2.8.5. With respect to the new database not fully accommodating the operational requirements of its internal users, NAO recommends that its design be revisited, possibly during the same period as the recommended transitions in the preceding recommendations. NAO is also of the opinion that in re-designing this management tool, the Project Leader (PL) assigned with this task should consult with the HA officials who operate this database on a daily basis. Such individuals would axiomatically be highly conversant with the system in question and would therefore be the best source of information insofar as areas for improvement are concerned.
- 2.8.6. NAO recommends that the Authority engages in an internal exercise to determine the optimal average load of calls each CCU helpdesk is able to handle. Once this is established, HA should endeavour to deploy the optimum number of such helpdesks so as to ascertain a consistent level of service quality, as well as reduce risks of any inputting errors due to overload.
- 2.8.7. In view of the unacceptable mentality harboured by a portion of tenants residing in HA's housing estates, this Office urges HA to rigidly enforce the clause in the Repairs Policy stipulating that works required to address damages occurring to the residential structure due to negligence by the residing tenants should be funded by the latter. Furthermore, NAO also suggests that HA should rigidly adhere to the allocation of responsibilities as detailed in Table 1, thereby refraining from carrying out any works (even if considered to be very minor) which fall under the tenants' responsibility.
- 2.8.8. Given that once a complaint is lodged with the Authority, the latter becomes automatically responsible to ascertain that there are no significant hazards to the residing tenants, NAO recommends to HA to endeavour in allocating sufficient resources to this important task. Should the Authority deem it impossible to relocate any of its existing Officers to address this shortcoming, NAO suggests that additional Officers are recruited and deployed effectively to carry out such a task.
- 2.8.9. In spite of the above, NAO augurs that the Authority endeavours to put itself in a position from which it could adopt a proactive rather than a reactive approach to maintenance on the tenement blocks under its responsibility. In so doing, NAO perceives the possibility of a reduction in costs to upkeep residential units to an adequate standard.





## Chapter 3 - Procuring Works by Call for Quotations and Direct Orders

This last chapter features NAO's analysis on the approach which the Housing Authority utilises in procuring repair works by call for quotations and direct orders. An in depth evaluation is presented on the manner by which these methods of procurement were established by the Authority and how they developed over time. This is followed by a comprehensive review of the projects selected as by this Office as case studies.

### 3.1. Procurement Methods

3.1.1. Once the process as previously explained in Chapter 2 has run its course, HA proceeds to procure the required works so that the identified works are carried out. During meetings with HA officials, NAO was informed that the Authority mainly makes use of three different types of procurement methods, namely by issuing: tenders, direct orders (conventional and through a FA) and call for quotations. While, as stated earlier in this report, procurement by call for tenders has been scoped out of this study, the other methods of procurement will be discussed in detail in subsequent parts of this chapter.

3.1.2. Table 5 presents the total monetary values of works acquired by the reviewed methods of procurement during the year 2013.

Table 5: Breakdown of Works completed or in progress during 2013

Procurement Method	Number of Work Files	Amount
Call for Quotations	154	€280,444.23
Direct Orders through Framework Agreement	27	€129,972.57
Direct Orders	46	€78,742.12
<b>Total</b>	<b>241</b>	<b>€489,158.92</b>

### *Brief overview of the Procurement Process through a Call for Quotations*

3.2.1. Similar to other methods of procurement employed by the HA, the identification of the need for the acquisition of works emanates from complaints lodged by tenants residing in residential buildings under HA's responsibility. As explained in the previous chapter, once such complaints are registered, the Authority carries out inspection

### 3.2. Procurement by Call for Quotations

visits so that a clear indication of the intervention needs as well as their urgency is obtained. Measurements and other information yielded from this visit form the basis upon which the consequent procurement process materialises.

- 3.2.2. During meetings with HA, the audit team was informed that the first documented procedure of how the Authority should engage in procurement through a call for quotations, dates back to 2009. According to this set procedure, the respective Architect or Technical Officers who would be responsible for the works in question, initiate the procurement process by preparing an estimate and a BOQ of works envisaged. This BOQ is consequently endorsed by the Executive Head TSOD. Worth of note is the fact that the estimate costs quoted in HA's BOQ are based on an internal exercise carried out by the Authority on observed contractors' past bidding patterns (which exercise is explained in greater detail in the next section of this chapter). NAO was informed that, at the time of publication of this report, this procedure was being revised by the Authority.
- 3.2.3. Once the above mentioned requirements are identified and comprehensively documented, the Authority proceeds in issuing a call for quotations for the required works to be carried out. HA informed NAO that, according to the aforementioned procedure, five contractors are selected at random from a pool of approved suppliers to submit their quotations for the works in question. This pool of contractors was established through an Expression of Interest (Eoi) which will be explained in greater detail later in this chapter. If considered necessary, a site visit is also organised by the Authority with these potential suppliers, so that the former can better explain the intricacies of the works required.
- 3.2.4. Each issued call for quotations is axiomatically allocated with a closing date for submissions. Once this deadline comes to a close, three officers from the Procurement Section open the tender box and proceed to draw up a schedule which clearly identifies the contractors who have placed their bids and the respective amounts. The received quotations are consequently checked for arithmetical errors and forwarded to the PL responsible for the works in questions. An evaluation by this officer ensues and a recommendation is presented for the Executive Head TSOD's endorsement. An Order To Start Works (OTSW) is prepared and sent to the selected bidder, who in turn proceeds to carry out the works in question. The PL closely follows the works carried out and, once these are satisfactorily completed, a completion report is drafted and forwarded to the Finance Section for release of payment.
- 3.2.5. In order to assess the above procurement process in detail, NAO vetted thirty-four files, each related to one awarded call for quotations. All of the analysed works were awarded during the year 2013.

#### *Approving a Call for Quotations*

- 3.2.6. An essential part leading to the approval for a call for quotations is the preparation of the BOQ prior to the actual issuance of the call in question. Given the importance of this document, NAO reviewed the BOQs of the aforementioned thirty-four works procured by call for quotations. Upon its examination, while this Office observed that the quantities within were generally comprehensively documented, NAO also noted that, in some cases, the respective BOQ was neither signed nor dated, while in other instances this document was signed but no date was recorded. When queried about this, NAO was informed that, although these BOQs were not signed, approvals can be traced through internal emails, determining that such documents were produced and/or reviewed by relevant Officials.

- 3.2.7. During meetings with NAO, HA representatives indicated that the approval for a call for quotations is sought from different officials according to the total value of estimated works. HA officials further stated that the current procedure dictates that for projects (such as those procured through a call for quotations) which do not exceed six thousand euro (excluding VAT), approval should be sought from the Financial Controller, CEO HA as well as the Chairperson HA. During its review, NAO observed that in twenty cases out of the thirty four examined quotations, no such approvals whatsoever could be found. It was also noted that in another four cases, approval was only obtained from the Financial Controller while the remaining ten were endorsed as stipulated by the procedure. It is important to note that the requirement for the above-mentioned approvals was not always in place, and when queried on the exact timing when such a system came into force, HA representatives were unable to provide a specific date. From the reviewed quotations, NAO could however trace back approvals being sought from June 2013. With this rather limited information however, this Office could not conclusively establish the reason why no approval was sought or obtained in each of the aforementioned twenty cases (that is, whether the procedure was already in place and approval was not sought or whether no approval could be found due to there being no procedure in the first place).
- 3.2.8. Furthermore, during its review, the audit team noted that in the cases in which a downward revision in the BOQ was effected prior to the actual issuance of the call for quotations, no approval was again sought to endorse these changes. When queried about this, HA representatives stated that in the case of downward revision, it was not deemed necessary to go through the approval process all over again. It is worth noting that during its review, NAO did not encounter upward revisions of such BOQs.

#### *Issuing a Call for Quotations*

- 3.2.9. During meetings with HA officials, NAO was informed that while call for quotations issued by the Authority are not published in the Government Gazette, an invitation for the forwarding of quotations is however sent to a number of contractors chosen to partake in such procurement through an EoI.
- 3.2.10. The first of these EoI was issued in early 2011, in which the Authority invited contractors who considered themselves capable of carrying out adaptation works in government owned residential buildings to apply and consequently be considered for engagement to carry out such works. A total of forty-six applications were received by the Authority by the stipulated deadline. Another three were forwarded at a later date, but HA declined to process these latter applications to preserve fairness. The aforementioned forty-six applications were all accepted by the Authority and the contractors were categorised according to their areas of expertise (with fifteen being turnkey contractors).
- 3.2.11. Seeing that the previously mentioned EoI did not sufficiently bind participating contractors with relevant terms and conditions, another EoI was issued in 2012, more specifically, with a deadline for submissions set for the 27th of July of the same year. The following are the terms and conditions specified in this new EoI:
- If the Contractor fails to complete the works by the deadline(s) specified in the Order to Start Works, the Housing Authority shall, without formal notice and without prejudice to any other remedies, be entitled to liquidate damages for every day or part thereof which elapses between the end of the period of performance or extended period of performance and the actual date of completion, at the rate of EUR 10 per calendar day of delay, including Sundays and holidays. The amounts

due as penalty shall be computed for each day between the target completion date and the actual date of completion.

- The Contractor is bound to conform to LN 281 of 2004 (Occupational Health and Safety Authority Act) and is to nominate a Project Supervisor who shall, during the execution of the work, ensure Health and Safety on site.
- On his own responsibility and at his expense, the Contractor shall take all the precautions required by good construction practice and by the prevailing circumstances to safeguard adjacent properties and avoid causing any abnormal disturbance therein.
- The Housing Authority reserves the right to refuse any offer submitted, even the most advantageous.
- Evidence of relevant experience in execution of works of a similar nature in the past year with total value not less than EUR 50,000.

3.2.12. In its review, the audit team noted that the above do not include provisions regulating any variances which might occur during the progression of works, nor any applicable thresholds of such deviations from agreed quantities and course of action should these be exceeded.

3.2.13. A total of thirty one contractors applied for participation in this second EoI by the stipulated deadline and an evaluation report (dated 25th September 2012) was consequently compiled. Upon reviewing this evaluation report, NAO observed that one of the contractors, who forwarded his application for this EoI, did not meet the set criteria (requiring that any supplier wishing to partake in this procurement system had to have previously completed works that amounted to no less than fifty thousand euro). NAO however noted that the application of this specific contractor was still accepted. When queried about this, HA representatives stated that this contractor was still considered as he applied to solely carry out rather simplistic works (more specifically cleaning and carting away of debris). Although this specific case was the only one highlighted in the evaluation report, during its review, NAO also identified another contractor (whose application was also accepted) who did not meet the 'works-previously-carried-out' threshold.

3.2.14. During its review, NAO additionally noted that ten further contractors were accepted to participate in this procurement system, even though their applications were filed after the expiration of the set deadline. While evaluation reports confirming the acceptance of these applications were found in the relevant files, no documentation could be produced by the Authority when queried about the reason for accepting these late applications.

3.2.15. In September 2013, the Authority opted to start commissioning works through an alternate method of procurement, that is, through a Framework Agreement (FA) (discussed in further detail later in this chapter). Once again, an EoI was issued to invite contractors to partake in this agreement through which direct orders were to be issued (of a value not exceeding six thousand euro excluding VAT) at fixed rates calculated by HA itself. While a number of contractors agreed to join this FA, others voiced concern on the offered rates and subsequently chose not to partake in this agreement. As a consequence, the Authority decided that these latter contractors were to be considered for works which the HA opted to issue through a call for

quotations. To this end, this new compilation of potential suppliers superseded the pool of contractors as determined by the above mentioned Eol (issued in late 2012). HA further informed NAO that works commissioned to these contractors by call for quotations also do not exceed six thousand euro (excluding VAT) in value.

3.2.16. The contractors participating in calls for quotations are categorised according to services they deem themselves fit to deliver. More specifically, these suppliers are categorised as being able to carry out:

- Construction Works (further sub-divided in Masonry and Reinforced Concrete);
- Services (further sub-divided in Electricity, Plumbing and Drainage);
- Tiling Works (further sub-divided in Floor and Wall);
- Apertures (further sub-divided in Timber, Aluminium and Steel);
- Metal Works;
- Bathroom Works;
- Decoration Works (further sub-divided in Internal Plastering, External Rendering and Painting Works);
- Roofing Works (further sub-divided in Roof Screed and Maintenance Works);
- Waterproofing Works (further sub-divided in Welded Type and Liquid Membrane); and
- General Cleaning (further sub-divided in Cleaning and Carting Away).

3.2.17. As part of its review, NAO carried out an exercise to determine whether all contractors (accepted by HA to carry out work in respective categorisations) were duly notified for each reviewed call for quotations. It is worth noting that such notifications are sent by email to all contractors bar one, who is in turn notified via normal mail. During this examination, this Office noted that on certain occasions, some contractors listed for works were not notified of HA's intent of procuring works which fall under the category for which they applied. When queried about this, HA could not provide justifications for all the instances of such practice identified by NAO.

3.2.18. During meetings with HA representative, NAO was informed that every time that a call for quotations is issued, the pool of contractors are given a three-week period in which they are to submit their bids. The review of the selected thirty four files however showed that this period for submissions varied widely between two and twenty six working days. When queried about this observation, HA representatives replied that no documented reason for such deviation from the three-week period discussed during the previously mentioned meetings could be produced.

3.2.19. NAO also observed that in all the reviewed cases bar one, the bid box was compliantly opened on the date specified in each respective call. In these cases, a Schedule of Offers Submitted was always prepared and endorsed by two HA officials. In the one remaining case, the above mentioned schedule was not forwarded to NAO. When queried about this, HA officials stated that they could not conclusively identify whether

this documentation was actually prepared at the time when the respective submission period expired or otherwise, but affirmed that the case in question was a particularly urgent one. To this end, the audit team could not confirm or otherwise, whether the Authority itself adhered to the submission deadline in this particular instance.

### *Evaluating Call for Quotations*

3.2.20. Once the schedule of rates has been compiled and presented on the Authority's notice board for the bidders' perusal, the submitted offers are evaluated by the respective PL. For the cases analysed within the scoped period, the evaluation was to be consequently endorsed by the Executive Head TSOD as well as by HA's Financial Controller. Upon review NAO noted that in certain instances, the Executive Head or the Financial Controller (or both) did not endorse this evaluation, however, other high ranking HA Officials (such as the CEO or Chairperson) endorsed the process in their stead. NAO was additionally informed that, close to the time of publication of this report, this procedure was altered to allow other HA Officials to serve in the capacity of evaluators, while the Financial Controller is no longer required to carry out this responsibility. This new procedure however also calls that the Executive Head TSOD shall always be appointed as one of the evaluators.

3.2.21. During meetings with NAO, HA representatives confirmed that the Authority always awards works to the bidder with the cheapest submitted offer. While analysing the procurement files of the works selected as its case studies, NAO however noted that on some occasions, works were awarded to the second cheapest bidder. The incidents in which this occurrence was observed always featured the same bidder as the one submitting the lowest bid. Upon further investigation, NAO noted that in these cases, the initial evaluation report was always superseded with an updated one, in which works were invariably awarded to the next cheapest bidder. When HA were asked to clarify these occurrences, NAO was informed that the contractor in question had to be disqualified from this procurement system due to a number of reasons, namely bad workmanship and an undesirable demeanour towards HA officials and residents. Upon further analysis, NAO noted that the decision to disqualify this particular contractor from the call for quotations procurement system was taken during an Executive Meeting held in May 2013. When reviewing the minutes of this meeting, NAO observed that a paper was presented for discussion, which NAO presumes was the basis unto which the final decision was taken. When asked to forward a copy of this document to this Office, HA officials however stated that this could not be found. Upon further investigation into this issue, NAO also noted that this supplier was reintroduced in the contractors' list in August 2013. Relevant internal HA correspondence showed that this supplier was to be reinstated subject to his performance in future works. When queried about how the Authority arrived at such a revocation of its original decision, HA representatives informed this Office that no such documentation could be found and consequently could not fulfil NAO's request.

3.2.22. In another reviewed case, works were not awarded to any of the bidders since the cheapest quote was 68.49% higher than HA's original estimate. HA representatives informed NAO that such practice is generally adopted when submitted bids are considered to be too high when compared with the Authority's estimations. When queried what variance from the estimated costs is deemed as acceptable by the Authority, HA stated that there is no set thresholds by which evaluators are guided in their assessments. They further elaborated that each work item in the forwarded offer is individually assessed against HA's original estimate, in order to identify those presenting the more significant variances. If a particular call for quotations

is contested by a number of bidders and the majority of submitted offers feature a notable variance in one (or a number of) specific work item, then HA might consider this as an indication that its original estimate was undervalued. However, if the call only attracts a single bid which exceeds an unofficial twenty per cent variance, the Authority generally opts to re-issue the call for quotations. In the eventuality that a second call yields similar offer levels, HA would again generally accept that it has undervalued its original estimate. This is especially the case if the required works are classified as urgent and amount to less than two thousand euro.

- 3.2.23. In the one particular case reviewed by NAO in which the original estimate was considerably lower than the received bids, the latter averaged two hundred and seventy per cent higher than the former. During meetings with NAO, HA representatives stated that, in view of this, all offers were declined by the Authority and a new call for quotations was sent to the listed contractors who had not submitted their bids in the original call, and who were perceived by the Authority of having competitive prices.
- 3.2.24. The evaluation processes of the call for quotations under NAO's review yielded considerable differences between HA's original estimates and the winning bid. These variances are presented in Table 6. Of the thirty four reviewed cases, NAO observed that in twenty three cases HA's estimation was higher than the winning bid, while the remaining eleven calls for quotations attracted bids which were higher than the Authority's calculation.

Table 6: Differences between HA's Estimates and Winning Bids

Reference	HA BoQ Estimate	Winning Bid	Winning Bid % Difference from HA BoQ estimate
1	4,145.02	5,335	28.71 %
2	2,426.42	3,441	41.81 %
3	4,651.5	5,071.05	9.02 %
4	2,800	4,678	67.07 %
5	2,954.48	4,920.84	66.56 %
6	3,630	3,700	1.93 %
7	4,846	4,187.3	-13.59 %
8	1,786	2,989	67.36 %
9	4,966.5	3,275	-34.06 %
10	6,633	4,990	-24.77 %
11	2,361.96	2,927	23.92 %
12	4,652.6	2,361	-49.25 %
13	4,902.6	2,661	-45.72 %
14	4,604.15	4,192.04	-8.95 %
15	3,835.53	4,638.12	20.93 %
16	3,901.64	5,466	40.09 %
17	3,222	2,548	-20.92 %
18	6,557.75	5,235	-20.17 %
19	5,130.44	4,516	-11.98 %
20	4,449.5	4,029.7	-9.43 %
21	4,135	3,290	-20.44 %
22	1,333	1,393.9	4.57 %
23	6,242.68	3,409.3	-45.39 %
24	6,773.5	3,280	-51.58 %
25	1,625.1	999.75	-38.48 %
26	1,747	837	-52.09 %
27	2,341	2,099.96	-10.3 %
28	4,958.9	3,184	-35.79 %
29	3,551.38	2,577.03	-27.44 %
30	4,146.59	1,921.04	-53.67 %
31	3,993	2,559.5	-35.9 %
32	4,472.27	2,930	-34.49 %
33	5,584.9	3,778.2	-32.35 %
34	713	705	-1.12 %



### *Awarding and Paying for Works through a Call for Quotations*

- 3.2.25. Once the selection process is completed, a notification email is sent to the selected contractor to start the works in question. This email also specifies the start and end date within which works have to be carried out. While this email was found in every procurement file under review, no written confirmation was found by the contractors that they would be carrying out the assigned works and within the stipulated timeframe.
- 3.2.26. Furthermore, NAO also observed that no correspondence was ever sent to unsuccessful bidders, notifying them that they were not awarded with the works in question. When queried about this practice, HA officials stated that the Authority had made it clear to the contractors (in an information meeting in late 2012) that the former will always award works to the bidder with the lowest offer. HA therefore opines that unsuccessful bidders are informed (albeit indirectly) through the published Schedule of Submitted Offers.
- 3.2.27. Following the completion of works, HA proceeds to certify that the respective contractor has carried out all interventions required as directed by itself. Once the Authority is satisfied that all works have been carried out satisfactorily, the Procurement Section seeks authorisation from HA CEO and/or Chairperson for payment to be forwarded to the supplying party. During review, NAO observed that HA is never in receipt of invoices by supplying contractors, and effects payments against the PL's certification of works carried out.
- 3.2.28. During the review of the selected procurement files, this Office noted that on a number of occasions variances prevailed between the total value for which the quotation was awarded and the actual amount paid to the respective contractors (Table 7 refers).

Table 7: Variances between Awarded Amounts and Actual Amounts paid to Contractors

Reference	Amount Awarded	Amount Paid	Difference between Amount Awarded and Amount Paid	% Variance
1	5,335	5,335	0	0 %
2	3,441	3,441	0	0 %
3	5,071.05	4,653	-418.05	-8.24 %
4	4,678	4,678	0	0 %
5	4,920.84	4,920.84	0	0 %
6	3,700	3,700	0	0 %
7	4,187.3	4,187.3	0	0 %
8	2,989	3,021	32	1.07 %
9	3,275	3,275	0	0 %
10	4,990	4,840	-150	-3.01 %
11	2,927	3,563.5	636.5	21.75 %
12	2,361	4,547.17	2186.17	92.60 %
13	2,661	4,391.58	1730.58	65.03 %
14	4,192.04	4,129.32	-62.72	-1.50 %
15	4,638.12	4,599.03	-39.09	-0.84 %
16	5,466	5,256.89	-209.11	-3.83 %
17	2,548	2,519	-29	-1.14 %
18	5,235	5,235	0	0 %
19	4,516	3,901.03	-614.97	-13.62 %
20	4,029.7	3,764.2	-265.50	-6.59 %
21	3,290	455	-2835	-86.17 %
22	1,393.9	1,397.13	3.23	0.23 %
23	3,409.3	3,035.82	-373.48	-10.95 %
24	3,280	3,280	0	0 %
25	999.75	951.31	-48.44	-4.85 %
26	837	947	110	13.14 %
27	2,099.96	2,547.46	447.50	21.31 %
28	3,184	3,184	0	0 %
29	2,577.03	2,577.03	0	0 %
30	1,921.04	1,935.79	14.75	0.77 %
31	2,559.5	2,681	121.50	4.75 %
32	2,930	1,130	-1800	-61.43 %
33	3,778.2	3,916	137.80	3.65 %
34	705	1,161	456	64.68 %

### 3.3 Procurement by Direct Orders

3.2.29. As can be noted in Table 7, eleven out of the thirty four reviewed files featured works which were awarded with a monetary value which corresponded exactly to the rate at which the quotation was awarded. On the other hand, in twelve projects the amount paid was less than the amount quoted during the bidding stage, while the remaining eleven cases were awarded with an amount which is higher than the value cited in the contractor's offers.

3.2.30. At this point it is important to note that there are operational considerations which have to be taken into account and which may result in the inevitable occurrence of the above mentioned variances. When HA representatives carry out site visits prior to the commissioning of works (explained in detail in Chapter 2), although they would be making use of their professional judgement to determine what type and quantity of works are required, assumptions invariably have to be made. This is the case as the possibility of hidden defects, which is impossible to determine accurately unless demolition works are carried out, is ever present. In the case of occupied residential units falling under the Authority's responsibility, HA Officials face the challenge of not overly disturbing the integrity of the structure so as not to make it dangerous for the residing tenants. To this end, HA officials are sometimes constrained to take an educated guess at the required works, possibly leading to the possibility of variances between the estimation and actual works required. As noted in Table 6 above, this variance can go either way, as the possibility of added works required over and above what was estimated exists as much as the possibility of less works being needed than originally perceived. It is once again important to note that, especially in the case of upward variances in costs, all works are certified by the respective PL (confirming that the additional works have indeed been carried out) before payment is effected to the contractor in question.

3.3.1. During meetings with HA representatives, NAO was informed that the Authority used to issue urgent works by direct orders up till the introduction of the FA (which superseded procurement by the conventional method of direct contracts and will be explained in greater detail in the next part of this chapter). Seeing that this method of procurement was widely used by HA during the scoped period, the Office selected two of such work contracts for review. The two selected contracts relate to plastering works carried out in Mgarr and repair works to address fire damage Hamrun. The total billed value of these two contracts amounted to €2,839.75 and €23,975 respectively.

#### *Plastering works in Mgarr*

3.3.2. After reviewing the file documenting these works, NAO noted only one shortcoming in the manner by which this particular project was managed. While all other related processes seem to have been carried out diligently, NAO could not find documentation produced by HA Officials certifying that the procured works were in fact comprehensively carried out and to the required quality standards prior to payment being effected to the contractor in question.

#### *Repair works to address Fire Damage in Hamrun*

3.3.3. During the review of the documentation relating to this particular contract, NAO noted that practically no correspondence highlighting the manner by which these works were procured was filed accordingly. An extract from minutes of a meeting held between HA Officials was however found in the reviewed file. This extract gave an overview of how these works were hastily commissioned due to their urgency. It continues in stating that the damage was caused by individuals who allegedly set fire

to a vehicle which was used in a homicide in Valletta. The vehicle was allegedly set ablaze in the common driveway leading to the internal garages of the tenement block in question. Seeing the rather sensitive nature of the incident and the urgency of the required works, an HA Officer was directly appointed by the Minister incumbent at the time to lead this project. This document further states that the appointed Officer reported that works carried out amounted to approximately €24,000. This document finally made reference to a report compiled by the appointed Officer, which report was also found in file.

- 3.3.4. The report compiled by the Officer in question gave a brief overview of damages requiring redress (occurring on 31st May 2013) and included photographic evidence accordingly. It further pointed out three contractors which were engaged to carry out the required works according to their respective area of expertise. Finally, this report ascertains that all works were successfully completed by 24th June 2013.
- 3.3.5. The only other documentation found in this file were the respective certificates of payment and payment vouchers detailing amounts paid to the three individual contractors. These amounts comprised of: €8,525 for fixing water supply, cleaning the area and decorating the affected section; €14,720 to address damages to the drainage system and to decorate half of the affected garages; and €730 for the required repairs in the electrical utilities.

#### *Expression of Interest to Participate in the Framework Agreement*

- 3.4.1. The significant volume of complaints, forwarded over the years to the Authority by tenants residing in HA's tenement blocks, resulted in an accumulation of a substantial backlog. As at end 2013, HA estimated that this accumulation amounted to a total of over seven hundred pending requests.
- 3.4.2. In an attempt to address this undesirable situation, HA sought to find a workable solution which would be less time and resource consuming than by going through a call for quotations each time it commissions such works but at the same time to operate in a more rigid structure than it does by procuring works through direct orders. In view of this, the Authority opted to draw-up an FA with which it could start commissioning a number of direct orders, each intended to address one or a small number of complaints lodged by tenants. To this end, on 10<sup>th</sup> September 2013 an EoI was published by means of a Department Of Information advert as well as through the local newspapers. This call had a deadline set to the 27<sup>th</sup> of the same month.
- 3.4.3. This EoI called for contractors who could provide documentary evidence that they have already been assigned with, and successfully completed, twenty-five thousand euro worth of similar works with the Authority. It also specified that each work project to be assigned under this system cannot exceed six thousand euro (excl. VAT). Furthermore, the application (reproduced in Appendix A) solicited information on which specific work areas the applicant deems himself competent. A compilation of works varying in nature was provided, and each contractor was directed to indicate which of these fall within his area of expertise.
- 3.4.4. Upon the expiration of the set deadline, a total of sixty-nine submissions were received by the HA and an evaluation committee was consequently set up (comprising of the Chairperson HA, CEO HA and two other HA Officials) to vet the submitted applications. During this evaluation, the applications of six contractors were refused by HA, primarily due to the fact that they did not meet the set requirement of having completed works with an aggregate value of twenty-five thousand euro. Additionally,

#### 3.4. Procurement by Direct Orders through Framework Agreement

during this process one contractor informed HA that he was no longer interested in partaking in this agreement and consequently dropped his application.

- 3.4.5. Following this evaluation, it was decided to further shortlist the pool of accepted applications by omitting those contractors who were not considered to be turnkey. In other words, applications of contractors who indicated that they were not able to carry out all types of works as listed in the EoI, were no longer considered to partake in the FA. When queried about this decision, HA however stated that those contractors omitted on these grounds, were in turn listed to be awarded works by quotations (discussed in greater detail earlier in this chapter). This further short listing brought the number of applications accepted to participate in the FA down to thirty-seven.
- 3.4.6. The above mentioned remaining thirty-seven successful applicants were consequently invited by HA to attend an information meeting, which was held on 17<sup>th</sup> October 2013. Twenty-seven of the chosen contractors attended this meeting, in which an HA Officer presented the attendees with the FA fixed rates as calculated by the Authority. During meetings with HA representatives, NAO was informed that the Authority carried out an extensive internal exercise to determine fixed rates for the various work items envisaged to be procured. This exercise consisted in the analysis of contractors' past bidding prices and resulted in a compilation of what HA considers to be an accurate estimation of the rates for which contractors would be willing to render their services.
- 3.4.7. A Declaration of Agreement (reproduced in Appendix B) was presented to the invited contractors (that is, not only to those who actually attended the meeting) for them to endorse by not later than 23<sup>rd</sup> October 2013. From the thirty-seven invited contractors, twenty-nine of these Declarations were received by HA within the stipulated timeframe. While twenty-eight of these forms were deemed satisfactorily filled in and consequently accepted by the Authority, the one remaining contractor later indicated that he will not be accepting the FA fixed rates as calculated by HA. This latter declaration was consequently rejected by the Authority, leaving the latter with a final pool of twenty-eight participating contractors with which to operate the FA.
- 3.4.8. The Declaration of Agreement signed by the participating contractors, bound them to carry out works at the rates stipulated in the 'schedule of fixed rates'. Upon analysis, NAO found that the document this agreement refers to is entitled 'Preambles' and identifies some general conditions, definitions and a list of work items with an assigned rate per unit. The term 'schedule of fixed rates' as identified in the actual agreement was however never included in this latter document.
- 3.4.9. Additionally, NAO also noted that the Declaration of Agreement was signed solely by the each participating contractor and never by the Authority itself.
- 3.4.10. Once the respective Declarations of Agreement were in hand, HA CEO proceeded to write an official correspondence to the Permanent Secretary (PS) MFSS, dated 5<sup>th</sup> November 2013, seeking approval to put the FA into practice. This means that the required approval from the PS to start making use of such a method of procurement was sought after the EoI process was completed, and the Declarations of Agreement were already signed by the selected contractors.
- 3.4.11. This request for approval specified that the Authority intended to start commissioning projects with a value not exceeding six thousand euro (excluding VAT) each, to address the aforementioned backlog of over seven hundred requests. The twenty-eight selected contractors, which in HA's opinion were adequately suited to carry out the works in question, were also specifically identified in this request. Furthermore,

this document made a final request for approval so that the Authority could award works with an aggregate value not exceeding twenty-five thousand euro (excluding VAT) to each contractor, so as to expedite the address of the accumulated backlog in the shortest possible time. Approval for this request was granted by the PS on 12<sup>th</sup> November 2013.

3.4.12. In view of the above specific condition cited in the PS's approval, NAO enquired whether works acquired through this method of procurement always complied with the specified parameters, primarily that the said works are part of the identified backlog. In their reply, HA confirmed that the use of this method of procurement has been extended to address all works deemed as urgent or involving dangerous structures. In other words, direct orders through this FA have also been awarded to carry out works which need has been identified after the actual initiation of the FA. The Authority however, further informed NAO that on 26<sup>th</sup> November 2013 (that is shortly after the approval from the PS) the Minister MFSS signed a Delegation of Authority to the Chairperson HA, empowering the latter to approve procurement not exceeding €6,000 (excl. VAT). It is through this Delegation of Authority, HA stated, that the Authority obtained the right to extend the use of direct orders through FA to new complaints being lodged by tenants.

#### *Procuring Works through the Framework Agreement*

3.4.13. During its review, NAO noted that HA authorised a total of twenty-seven direct orders through this FA during 2013 (that is between PS's approval and end of year) with a total value of €129,972.57. For the purpose of this audit, NAO selected seven of these contracts as its sample for review. These works were all intended to address what the Authority considered to be dangerous structures in various locations, namely Bormla, Paola, Qormi, Valletta, St. Lucia and Kalkara. The values for which these contracts were issued varied marginally within a range of between €5,052.80 and €5,735.99 (excl. VAT), making them all compliant with the set €6,000 (excl. VAT) threshold.

3.4.14. As stated in the previous chapter of this report, the responsibility of prioritising between the various pending and newly lodged requests is assigned to the Executive Head TSOD. This Officer conducts regular checks on the complaint population listed in the databases (which were explained in detail in Chapter 2) and commissions works according to their urgency. It is also important to point out that work projects (consisting of one or more interventions with an aggregate value which does not exceed the stipulated threshold) are assigned to participating contractors by means of a ballot. A 'rounds' system is employed, whereby the Authority endeavours to allocate an equal amount of works to each contractor as they are selected by ballot. Once a contractor is awarded works, he is omitted from the ballot for the remainder of that 'round', but re-introduced in the next.

3.4.15. Similarly to the other methods of procurement analysed in previous sections of this report, the procurement of works by direct orders through HA's FA, is initiated by the compilation of a detailed BOQ. While reviewing the procurement files chosen as its sample, NAO however noted that, once again, these BOQs were not consistently signed and dated by the issuing officer.

3.4.16. Once the contractor who is to be responsible to carry out the required works is selected through the ballot system and the respective BOQ compiled, HA initiates the actual works by communicating an OTSW to the contractor in question. During its review of the selected seven direct contracts through the Authority's FA, NAO found a detailed OTSW document in all of the vetted cases. On the other hand, however,

this Office once again observed that, in these same cases, no documentation could be found which clearly shows that the contractor in question had accepted the works offered and confirmed that he will be completing them by the set deadline.

3.4.17. During its review, NAO also observed that in one of the direct contracts in question, the monetary amount quoted in the final, typed email, which served as the OTSW for the project in question, was amended in handwriting when printed and filed. This amendment was accompanied by neither a signature nor initials and also did not feature the respective date of when such a change was made. Additionally, NAO could not find any evidence that another email was sent to the respective contractor, notifying him of this amendment in the OTSW.

#### *Paying for Works Carried Out*

3.4.18. Similar to other methods of procurement mentioned previously in this report, HA effects payment to contractors once the works in question (commissioned through the FA) have been completed and duly certified as satisfactory by the respective PL. As illustrated in Table 8, six out of the seven reviewed contracts featured variances between the value of works as calculated in the Authority's estimates when assigning the direct contract to the respective contractors (and consequently the value at which works were awarded), and the actual payment affected following completion and measurement of works. The remaining one reviewed project featured a zero per cent variance between the awarded price and the amount actually paid. NAO acknowledges that, as mentioned earlier in this report, such variances could be caused by one of two considerations. The first is that the initial estimates prepared by HA could have been a somewhat imprecise reflection of the required works. Secondly, there exists the distinct possibility of hidden defects (meriting additional works) which would be next to impossible to detect by conducting a mere visual inspection prior to compiling the relevant BOQ.

**Table 8: Variances between Awarded Amounts and Actual Affected Payments**

Contract Ref.	Awarded Amount incl. VAT (€)	Actual Payment incl. VAT (€)	Variance
A	5,426.00	5,694.52	4.95%
B	5,052.80	5,184.55	2.61%
C	5,208.15	5,359.78	2.91%
D	5,638.65	6,473.91	14.81%
E	5,423.30	5,744.30	5.92%
F	5,735.99	5,735.99	0.00%
G	5,411.32	5,521.82	2.04%
<b>Total</b>	<b>37,896.21</b>	<b>39,714.87</b>	<b>4.78%</b>

3.4.19. Worth of note is the fact that in one of the reviewed contracts, NAO observed an incongruity in the Measured Works document (detailing HA's calculation of works carried out) compiled at the end of the respective project. More specifically, this Office noted a discrepancy between the description of work item 2.12 as well as its applicable rates, and what is actually quoted in the FA document. Table 9 shows the description and rates of work item 2.12 as specified in the FA document.

**Table 9: Descriptions and Rates of Work Item 2.12 Configurations as specified in the FA Document**

Description	Unit	Rate €
a) Supply and lay 230mm thick soft stone walls, fair faced both sides, above D.P.C. at roof level bedded and jointed in 1:2:6 cement sand mortar. Rate is to allow for the necessary toothing (mursalli) and bonding.	m <sup>2</sup>	23.00
b) Extra over for "fuq il-fil".	m <sup>2</sup>	10.00
c) Extra over for the formation of projections in walls ("faxex") not exceeding 25mm.	m run	8.00
d) Extra over for the formation of projections in walls ("faxex") exceeding 25mm.	m run	16.00
e) Extra over for "imbroll".	m run	7.00

3.4.20. On the other hand Table 10 shows how work item 2.12 was quoted in the Measured Works document of the contract in question.

**Table 10: Description and Rate of Work Item 2.12 in Measured Works of Reviewed Contract.**

Description	Unit	Rate €
Scrape/clean the existing surface (more than 20m <sup>2</sup> ). Supply and apply in 1 primer coat and 2 separate layers of liquid membrane with fibre mesh, each coat applied in opposite directions. Liquid membrane is to produce a highly water resistant and flexible system for coating the surface of concrete roof. The product is to produce a tough water resistant polymeric film. Written 10 year guarantee is to be submitted on completion of works.	m <sup>2</sup>	12.00

3.4.21. Upon further investigation, NAO observed that the description as illustrated in Table 10, and consequently as presented in the 'Measured Works' of the relevant contract, relates to work item 7.08 in the FA template document. In addition, the rate for this particular rate item is quoted at €15.00 per every m<sup>2</sup> in the FA document, which is €3 higher per m<sup>2</sup> from what was quoted in this particular contract. These discrepancies between the product description and applicable rates made it impossible for the NAO to conclusively determine what works were actually carried out.

#### *Way Forward*

3.4.22. It is important to note that, during the progression of NAO's study, HA has drafted and published a new FA through DOC. This new FA will supersede the version analysed in this report. The period for contractors to submit their applications to partake in this new agreement had a deadline set for 21st October 2014. While, NAO's fieldwork was largely concluded by this date and consequently this Office opted to scope out an examination of this new agreement



## 3.5. Conclusions

- 3.5.1. As stated earlier in this report, the documented procedure which governs HA's acquisition of services through a call for quotations specifies that the Authority is bound to invite five contractors to submit bids for such issued calls. NAO however disagrees with this practice, especially in view of the published EoI and the consequent compilation of a contractors' list. Having invited contractors to express their interest in participating in such works, NAO is of the opinion that it is not conducive to good practice when, in the eventuality of such works being required by the Authority, the latter does not invite all listed contractors to submit their bids. This Office perceives such a practice as being counterproductive to both the EoI process itself as well as to the maximisation of competitive behaviour. Such a practice may also cause speculation of unfair treatment by contractors who would not be invited to partake in certain projects, which could possibly lead to reputational loss and otherwise avoidable disputes.
- 3.5.2. The BOQs prepared before the acquisition of any works or services is an integral part of the overall procurement process, being one of the main benchmarks against which the contracts' performance is measured. To this end, NAO is concerned about the instances in which BOQs were found to be unsigned and undated, as such a shortcoming could shed doubts on the integrity of such a document. Although such approvals could be traced in internal email correspondence, this is significantly more onerous than having the BOQ endorsed for ease of reference. In the cases in which no signatures were found, this Office perceives risks of contractors contending that such BOQs were not compiled by authorised HA officials, to the obvious detriment of HA's smooth running of operations.
- 3.5.3. NAO is also concerned on the instances in which the necessary approvals for the issuance of calls for quotations were not found in the respective procurement files. The lack of documented approvals may indicate that the Officers responsible for such endorsement were not adequately informed about the procurement in question, thereby raising concerns on the integrity of the Authority's overall procurement control and strategy. The same also applies in instances where a BOQ is revised to meet changing needs without adequate endorsement.
- 3.5.4. This Office also draws the Authority's attention to the fact that, in the terms and conditions (outlined in the latest EoI) governing procurement by call for quotations, no provisions are made to regularise the eventuality of variances from the agreed upon price. NAO opines that not having a documented procedure identifying the manner by which variances should be processed can present control risks and can put the Authority in a weak position should any contestations arise.
- 3.5.5. While NAO commends the Authority in not accepting late applications to the first EoI for contractors wishing to be considered for works commissioned through calls for quotations, it is nonetheless concerned about HA's decision to consider and consequently accept ten contractors who applied after the deadline set for the 2012 EoI. Additionally, this Office perceives as a shortcoming the fact that in the 2012 EoI the Authority also accepted two other contractors who did not satisfy the clear requirements set in the application document. NAO opines that such leniency is inequitable towards other contractors who would have complied with the set requirements, and this can potentially serve as a possible source of justified contestations from the latter to the detriment of the smooth running of HA's operations.
- 3.5.6. NAO draws the Authority's attention to the observed inconsistency in the duration of the allowed bidding periods in the reviewed call for quotations. Given that such works can largely be considered as similar in terms of monetary value as well as complexity,

NAO is concerned by the somewhat poor image the Authority might be projecting in not standardising such a basic process.

- 3.5.7. This Office is also concerned on the one reviewed call for quotations in which no schedule of submitted rates could be forwarded to NAO. As said earlier in the report, if such a document was not adequately produced, it cannot be ascertained that the Authority adhered to the deadline stipulated in the respective call. Furthermore, given that no notification emails are sent to unsuccessful bidders and HA relies on such a document to indirectly inform unsuccessful contractors that they have not been awarded the works in question, failure to produce such a schedule can cause miscommunication between the Authority and bidding parties, with axiomatic negative repercussions.
- 3.5.8. In view of the instance in which a particular contractor was disqualified from the contractors' list (detailing those eligible to participate in call for quotations) and then reinstated after a period of time, NAO is significantly concerned about the lack of documentation kept by the Authority, specifying the details of the case and the merits unto which HA acted. Such vacuum in any audit trail, even more so in such a sensitive circumstance, can leave HA in a considerably weak position should contestations arise. Should the contractor concerned opt to contest that he was unfairly treated, the Authority would find itself in an undesirable position of not being able to produce the necessary documentation to prove that it acted in a licit manner.
- 3.5.9. NAO also perceives as a shortcoming the fact that HA does not have a set threshold which determines whether a received bid is too high when compared to the original estimate designed by the Authority. Lack of such documentation may present risks of the Authority being seen as acting in a subjective rather than an objective manner by aggrieved parties who may then contend that they have been unfairly treated by HA.
- 3.5.10. This Office draws HA's attention to the variances between its estimates and the cheapest submitted prices featuring in the reviewed call for quotations. As presented earlier in the report, these variances were sometimes substantial, both in cases in which the estimates were higher than the lowest submitted bid and vice versa. To this end, NAO is concerned on the manner by which these estimates are prepared, as such significant discrepancies may indicate that HA is not fully grasping the exigencies of the required interventions. As a consequence, this may lead to avoidable complications insofar as the Authority's budgetary allocations to the various projects it intends to undertake are concerned.
- 3.5.11. NAO is concerned by the lack of documented acceptance of works (in both the reviewed call for quotations and direct contracts issued through HA's FA) by assigned contractors. This Office opines that, in not having such a confirmation, the Authority runs the risk of putting itself in a weak position if particular contestations arise between the respective contractors and itself. For example, NAO perceives risks of HA not being able to easily enforce penalties should the contractor default in carrying out the assigned works altogether. If such an instance were to materialise, the contractor in question could cite the fact that he never accepted to carry out the respective works and the Authority would not have any documentation at hand to prove otherwise. This could obviously transpire in otherwise avoidable complications which would only hinder the smooth progression of the Authority's operations.
- 3.5.12. This Office also draws the Authority's attention to the practice of not notifying directly unsuccessful bidders after a call for quotations has been evaluated. Although the published schedule of submitted rates may serve as a method of notification, NAO perceives highly avoidable risks of miscommunication (with evident negative

repercussions) in not contacting directly each bidding contractor of the evaluation result.

- 3.5.13. NAO fully appreciates the difficulties faced by HA's Officers during site visits when assessing the quantity and type of works required to address defects, mainly due to other potential hidden damages which would not be immediately detectable. This Office however, is still somewhat concerned on certain repercussions such a challenging circumstance can impose on the Authority's planning processes. Under or over committing funds to a particular project will invariably leave the Authority with a distorted view of its financial situation, leaving it with inaccurate information with which to budget for and approve other work projects.
- 3.5.14. Referring to the two reviewed direct orders (which were not commissioned through the FA), NAO perceives risks of not having all related documentation being adequately filed for audit trail purposes. While fully understanding the urgency and sensitive nature of one of the reviewed projects (more specifically the works required due to fire damage in Hamrun), NAO is still somewhat concerned about potential complications HA would face should any contestations arise on how these two contracts were managed.
- 3.5.15. With respect to the EoI for participation in the FA, NAO has two separate concerns with the manner by which HA designed the respective application and with the approach it adopted during the consequent evaluation process. The first, and more obvious of these concerns, relates to what can be considered as shifting of goalposts during the evaluation process. Given that the application permitted the possibility for contractors who were not turnkey to apply, NAO opines that the omission of such bidders on this same basis at evaluation stage, created risks of the Authority being perceived as treating bids in an inequitable manner. Secondly, by omitting such bidders from the FA and instead offering them the option to render their services through calls for quotations, HA forewent the certainty of these suppliers being paid what the Authority considered to be fair and reasonable rates for work carried out. In so doing HA is running the risk of receiving quotes (and consequently procuring works) at higher prices than the ones set by the Authority itself.
- 3.5.16. While NAO agrees that the Authority should have comprehensive knowledge on what the rates for work items it procures should be and set them as fixed or maximum rates, NAO is concerned on the methodology HA employed in determining these prices. In analysing past bidding rates (submitted by contractors over the years) as a basis of such an exercise, HA essentially took into account the suppliers' asking price which, potentially, may be inflated from what can be considered as a fair and reasonable rate. This, obviously, presents considerable risks insofar as value-for-money is concerned.
- 3.5.17. In referring to other, separate but related documents in any agreement, special care must always be taken so that such reference is accurately made, thereby avoiding risks of misunderstandings or potential room for abuse. To this end, NAO is concerned by the way in which the Declaration of Agreement (between HA and contractors selected to participate in the FA) refers to the document entitled 'Preambles'. The incorrect reference to this latter document as 'schedule of fixed rates' in the Agreement itself, puts the Authority in a weak position should any of the participating contractors contest work item prices after works are carried out. In such an eventuality, third parties could contend that the agreement they signed made no reference to the document intended by the Authority and, therefore, rates stipulated in this compilation are not binding.

- 3.5.18. NAO also draws HA's attention to the fact that good practice dictates that any agreement should be signed by all parties involved. This Office is of the opinion that having the respective participating contractor being the only signatory in a Declaration of Agreement, with no similar endorsement from the Authority's part, somewhat signals administrative slack, and does not help the Authority to uphold its professional image.
- 3.5.19. While acknowledging HA's intention to attempt to address the accumulated backlog of over seven hundred requests in the shortest possible time, NAO is somewhat ill at ease by the fact that approval was granted for all of these interventions to be procured by direct orders through an FA. Although HA's request to the PS clearly stated that applicable thresholds were to be respected, the fact remains that, by the time this backlog is addressed, the Authority would have spent a sizable amount without introducing any element of competitive bidding in making use of this method of procurement. This concern is somewhat further compounded by the Authority endeavouring, and securing, a Delegation of Authority so that it may continue to procure works and services in this manner. To this end, NAO is concerned by the possibility of HA not benefitting from full potential savings unless a competitive element is introduced in the FA.
- 3.5.20. This Office also perceives risks in the manner by which the Authority opted to draft the first FA, go through the administrative task of processing an EoI and, finally entering into agreements with the selected contractors, all prior to having requested and secured the required authorisation from the PS. Apart from the fact that such a chronology of events directly contradicts conventional good practices, the Authority also ran the risk of carrying out such an onerous task in vain, thereby wasting valuable time and resources, as the possibility of such a request being declined existed.
- 3.5.21. The unsigned and undated handwritten change made to the monetary value of works in the OTSW in one of the reviewed direct orders issued through the FA, presents, in NAO's opinion, avoidable risks to the Authority, especially insofar as accountability and the proper upkeep of an audit trail are concerned. In addition, the fact that HA communicates its OTSWs by email to the respective engaged contractors, further compounds this Office's concerns, as a handwritten correction will not be automatically transmitted to the other party unless a scanned copy is purposely forwarded. Such a situation creates obvious risks of unnecessary misunderstandings and miscommunications and might impinge on the smooth-running of HA's operations.
- 3.5.22. NAO positively notes, that in all of the seven reviewed works which were procured through the FA, the Authority respected the €6,000 (excl. VAT) threshold as stipulated by the PS approval as well as the eventual Delegation of Authority handed down by the Minister.
- 3.5.23. NAO is also concerned by the discrepancy between the description and rate of work item 2.12 in one of the direct orders awarded through the FA reviewed as part of its sample. Errors in the manner in which cost items are presented in the 'Measured Works', result in a distorted view of what that particular cost amount relates to, and consequently heavily dilutes the integrity of the bill in question.
- 3.5.24. NAO commends HA in reviewing and updating its original FA, to what NAO augurs will be an even more robust and reliable method of procurement.

## 3.6. Recommendations

- 3.6.1. NAO strongly recommends to HA that it amends the documented procedure regulating the manner by which it procures works through a call for quotations, so that it directs the Authority to contact all listed contractors and not just five. In so doing, it would be ascertaining that maximum competition is preserved while not giving room to any speculation of unfair treatment.
- 3.6.2. In view of the identified cases (both in the reviewed call for quotations and FA call-offs) in which BOQs were found to be unsigned and/or undated, NAO urges the Authority to rectify this practice at the earliest so that it puts itself in a position of strength should any contestations about the integrity of such documents arise.
- 3.6.3. NAO urges HA to ascertain that adequate approvals for call for quotations are consistently documented. In so doing, the Authority would ascertain that Officials tasked with such endorsements are always adequately informed about ongoing procurement for which they are ultimately responsible.
- 3.6.4. This Office also recommends that the Authority expeditiously includes a clause in the new terms and conditions governing procurement by call for quotations, which clearly defines the process by which variances to agreed upon works are accepted or otherwise. In so doing, HA would be safeguarding itself against possible contestations which might arise in such instances.
- 3.6.5. Changing requirements while any procurement process is already underway is always considered to be unreflecting of good practice. To this end, NAO urges HA to issue requirements (even if in the case of an EoI) with care so that otherwise evitable contestations by the industry are avoided. Accepting late applications and being lenient on set specifications or thresholds (as in some cases in the 2012 EoI for calls for quotations) as well as omitting bidders on non disqualifiable bases (as in the case of the reviewed FA EoI) are all unjustifiable practices which may lead to unwarranted complications.
- 3.6.6. NAO also recommends that HA standardises its bidding duration period across all calls for quotations, with the possible exception in the case of very urgent works. In so doing, it would be projecting an image of consistency and taking advantage of potential reputational gains.
- 3.6.7. In view of the missing schedule of bids submitted in one of the reviewed call for quotations, NAO strongly urges HA to ascertain that such documentation is consistently produced and adequately filed for audit trail purposes.
- 3.6.8. This Office strongly urges the Authority to take care in keeping proper documentation in all its processes, especially in sensitive instances such as the one in which a particular contractor was disqualified from the call for quotations contractors list. In keeping proper documentation about such issues, the Authority ascertains that it holds a position of strength should the contractor in question contest HA's actions.
- 3.6.9. In view of the risks presented by the lack of documented thresholds insofar as permissible variances between HA's estimates and submitted bids are concerned, NAO recommends that the Authority rectifies this position at the earliest so that it reduces the possibility of contestation from supplying contractors who may feel aggrieved by such a practice.
- 3.6.10. NAO urges HA to take more care in drafting its estimates prior to issuing a call for quotations so that these may reflect more closely the required works. In so doing, the Authority would also be mitigating possible budgetary complications as allocated

funding for each project would be more precise, thereby giving HA a clearer picture of its financial situation.

- 3.6.11. NAO suggests to the Authority that upon assigning works to contractors, it solicits documented confirmation that the latter is accepting the respective project and that these works are to be completed by the assigned deadline. In so doing, HA would be mitigating potential risks of not being able to easily impose applicable penalties in the eventuality of a defaulting contractor, as the latter could contend that he never formally agreed to carry out the works in question.
- 3.6.12. This Office recommends that HA endeavours in communicating directly with unsuccessful bidders following an evaluation of a call for quotations to mitigate risks of miscommunication between all involved parties.
- 3.6.13. While once again acknowledging the difficulties HA Officers face when quantifying and determining what type of works need to be carried out prior to awarding works (primarily due to hidden defects), this Office suggests that the Authority explores the possibility of acquiring aid (such as dedicated tools and other relevant equipment) to better assess residents' claims prior to compiling the relevant BOQ. This Office opines that the initial investment in such tools would be redeemed through increased operational efficiency.
- 3.6.14. In view of the somewhat incomplete documentation being kept in the two reviewed direct orders which were not commissioned through the FA, NAO strongly suggests to the Authority to ascertain that such information is adequately filed for audit trail purposes. While once again acknowledging the urgency and sensitivity of one of these two contracts, NAO nonetheless still opines that such documentation should have been filed, even if following the completion of the required interventions.
- 3.6.15. In order for the Authority to determine what can be considered as fair and reasonable rates for work items it procures, a costing exercise could be carried out in which costs to be incurred by the contractor in providing particular work items (such as raw materials, man-hours, fuel, etc.) are calculated. A reasonable profit margin can then be added and this would result in a fair and reasonable price for the work item in question. In carrying out such an exercise and base its schedules on its outcome, HA would greatly mitigate the risk of possibly quoting inflated prices during its procurement process.
- 3.6.16. NAO strongly suggests that HA takes special care in making correct references to other documents within its agreements, thereby reducing risks associated with misunderstandings and possible abuse.
- 3.6.17. This Office also encourages HA to consistently uphold its professional image by adhering to conventional good practices. More specifically, NAO urges the Authority to make sure that all agreements entered into are adequately endorsed by all parties involved. In so doing it would be mitigating the possibility of any reputational loss with third parties.
- 3.6.18. While acknowledging that a competitive bidding process, as a method of procurement, may be somewhat more time consuming than processing a direct order, NAO opines that the former is preferable due to potential savings it might generate to the Authority's benefit. To this end, this Office recommends that in the case of the over seven hundred complaints in backlog as well as in the case of future urgent required works which the Authority will opt to commission through the FA, HA could group these requests in a manner in which it sees fit (for example by location or by nature of

works required), and then proceed to issue competitive FA call-offs for each grouping. The estimate rates calculated internally by HA could be considered as maximum prices for each respective work item rather than a set price, and bidders could be invited to submit their bids at an equal or lower value than these set rates, thereby introducing a competitive element. In adopting these two suggestions, the Authority would be reducing the instances in which it would have to carry out evaluation of bids received, thereby preserving timeliness, as well as putting itself in a position in which it could more likely benefit from any savings (due to competitive bidding) if the market so permits.

3.6.19. With respect to the issue of having entered into agreements with third parties prior to obtaining the required approval from the PS, NAO once again urges HA to observe conventional good practices in every aspect of its operation. In having all necessary authorisation in hand before embarking on any project, HA would ascertain the smooth running of the initiative in question while mitigating the possibility of time and resource waste in carrying out administrative work in vain.

3.6.20. NAO recommends to HA to take special care when affecting corrections to important documentation. This Office recommends that any corrections should be made through the re-printing in the case of hard-copy internal documents, and re-sending in the case of any correspondence, be it electronic or otherwise (such as in the case of OTSWs). NAO also suggests that, if a hand-written correction is inevitable, such amendments should always be accompanied by the signature of the individual affecting the change and the date the respective change was effected. In so doing, the integrity of the all-important audit trail is preserved.

3.6.21. In view of the discrepancies noted between the work item description and the applicable rates in the 'Measured Works' of one of the reviewed FA direct contracts in NAO's sample, this Office urges HA to take special care when drafting these bills to avoid such shortcomings, which might potentially present risks insofar as the overall integrity of the billable amount is concerned.

3.6.22. NAO urges the Authority to take on board the recommendations highlighted in this report when implementing new FAs as one of its method of procurement, to ascertain increased efficiency and effectiveness in its processes.





Appendix A: Application form to partake in HA's FA

<b>EXPRESSION OF INTEREST</b>	
<b>Works by Quotation</b>	
APPLICANT DETAILS (ALL fields MUST be filled in)	
Name & Surname or Company Name:	
Date of Birth of Applicant:	I.D. Card Number:
Address:	
E-Mail:	VAT number:
CONTACT NUMBERS	
Telephone Number:	Mobile Number:
WORK EXPERIENCE	
<input type="checkbox"/> Turnkey Contractor (If you are a turnkey contractor you do not have to tick the other trades) <span style="float: right;"><b>€100.00</b></span>	
<p><b>Construction Works:</b></p> <input type="checkbox"/> Masonry <input type="checkbox"/> Reinforced Concrete/Slab/Beams <input type="checkbox"/> Steel Beam Construction <input type="checkbox"/> Inspection/Testing of steel/timber beams	
<p><b>Services:</b></p> <input type="checkbox"/> Electricity <input type="checkbox"/> Plumbing <input type="checkbox"/> Drainage	
<p><b>Tiling Works (includes ceramic, cement and marble flooring):</b></p> <input type="checkbox"/> Floor <input type="checkbox"/> Wall <input type="checkbox"/> Staircase	
<p><b>Apertures (includes new and restoration of doors and windows):</b></p> <input type="checkbox"/> Timber <input type="checkbox"/> Aluminium <input type="checkbox"/> Steel/Galvanised Iron	
<p><b>Metal Works (includes new and restoration of all wrought iron works):</b></p> <input type="checkbox"/>	
<p><b>Bathroom Works:</b></p> <input type="checkbox"/>	
<p><b>Decoration Works:</b></p> <input type="checkbox"/> Internal Plastering/Pointing <input type="checkbox"/> External Rendering/Pointing <input type="checkbox"/> Painting Works	
<p><b>Roofing Works:</b></p> <input type="checkbox"/> Roof Screed <input type="checkbox"/> Maintenance Works <input type="checkbox"/> Concrete spalling repair <input type="checkbox"/> Demolition & reconstruction of roof	
<p><b>Waterproofing Works:</b></p> <input type="checkbox"/> Welded Type <input type="checkbox"/> Liquid Membrane <input type="checkbox"/> Sealing <input type="checkbox"/> Dampness Prevention	
<p><b>General Cleaning:</b></p> <input type="checkbox"/> Cleaning <input type="checkbox"/> Carting away	
<b>€5.00 each</b>	

## Appendix A: Application form to partake in HA's FA

<u>Terms &amp; Conditions</u>					
<p>1) If the Contractor fails to complete the works by the deadline(s) specified in the Order to Start Works, the Housing Authority shall, without formal notice and without prejudice to any other remedies, be entitled to liquidate damages for every day or part thereof which elapses between the end of the period of performance or extended period of performance and the actual date of completion, at the rate of <b>€10</b> per calendar day of delay, including Sundays and holidays. The amounts due as penalty shall be computed for each day between the target completion date and the actual date of completion.</p>					
<p>2) The contractor is bound to conform to LN 281 of 2004 (Occupational Health and Safety Authority Act (Cap. 424) Work Place (Minimum Health and Safety Requirements for Work at Construction Sites) Regulations, 2004) and is to nominate a Project Supervisor who shall, during the execution of the work ensure Health and Safety on site.</p>					
<p>3) On his own responsibility and at his expense, the Contractor shall take all the precautions required by good construction practice and by the prevailing circumstances to safeguard adjacent properties and avoid causing any abnormal disturbance therein.</p>					
<p>4) The Housing Authority reserves the right:</p> <ul style="list-style-type: none"><li>a) to refuse any offer submitted, even the most advantageous.</li><li>b) not to request a quotation from any particular contractor for any or all of the works should the contractor not perform satisfactorily in previous works awarded to him.</li><li>c) to eliminate any contractor from its list if there is repeated reluctance to respond to the calls for quotations.</li></ul>					
<p>5) Contractors must provide evidence of relevant experience in execution of works of a similar nature in the past year (2012), with total value not less than €25,000. Form 'Experience of Contractor' is to be completed and submitted with this application.</p>					
<p>6) Total value of works for each quotation is not to exceed €6,000 excluding VAT.</p>					
<p>7) Applications together with the copy of the administrative fee receipt are to be submitted in a sealed envelope in the Housing Authority's tender box at 22, Pietro Floriani Street, Floriana by Friday 27th September 2013 at 10.00am.</p>					
<p>8) Application fees are as follows:</p> <table><tbody><tr><td>Turnkey</td><td>€100.00</td></tr><tr><td>Individual trades</td><td>€5.00 each</td></tr></tbody></table>		Turnkey	€100.00	Individual trades	€5.00 each
Turnkey	€100.00				
Individual trades	€5.00 each				
<p>9) The list of contractors under this Expression of Interest will be retained for 6 months, with the possibility for a further extension.</p>					
<p>10) <b>No offers will be accepted after the closing date of this Expression of Interest.</b></p>					
<p>I declare that all information submitted in this application is correct and that I am willing to abide by the above terms and conditions.</p>					
<p>Name _____</p>					
Signature _____	Date _____				



## Appendix B: FA Declaration of Agreement

### Declaration of Agreement with Housing Authority's Terms and Conditions

I/We, the undersigned declare that I/We have read the schedule of fixed rates prepared by the Housing Authority and agree to carry out assigned works with these same rates.

If I/We fail to complete the works by the deadline(s) specified in the Order to Start Works, the Housing Authority shall, without formal notice and without prejudice to any other remedies, be entitled to liquidate damages for every day or part thereof which elapses between the end of the period of performance or extended period of performance and the actual date of completion, at the rate of **€10** per calendar day of delay, including Sundays and holidays. The amounts due as penalty shall be computed for each day between the target completion date and the actual date of completion.

I/We is/are bound to conform to LN 281 of 2004 (Occupational Health and Safety Authority Act (Cap. 424) Work Place (Minimum Health and Safety Requirements for Work at Construction Sites) Regulations, 2004 and any other related legal notices issued thereafter.

On my/our own responsibility and at my/our expense, I/We shall take all the precautions required by good construction practice and by the prevailing circumstances to safeguard adjacent properties and avoid causing any abnormal disturbance therein.

### Statement on Conditions of Employment

1. It is hereby declared that all employees engaged on this contract shall enjoy working conditions including wages, salaries, vacation and sick leave, maternity and parental leave as provided for in the relative Employment Legislation. Furthermore, we shall comply with Chapter 424 of the Laws of Malta (Occupational Health and Safety Authority Act) as well as any other national legislation, regulations, standards and/or codes of practice or any amendment thereto in effect during the execution of the contract.
2. It is hereby declared that no part of the services to be provided under this contract shall be sub-contracted to an economic operator who has in his employment employees, who are already in employment with the bidding entity and are carrying out, with the sub-contractor, the same or very similar duties as those in their contract of employment with the bidding entity.
3. The sub-contractor/s agree to all the conditions listed in this statement.
4. It is hereby declared that the service being provided under this contract will be carried out solely by the bidding entity employees, or bona fide self-employed individuals. No work will be carried out by persons designated as self-employed where their actual employment status in terms of the Employment Status National Standard Order LN 44/2012 is that of an employee.
5. It is hereby declared that all the employees of the bidding entity, whether providing services to the contracting authority or not, have a written contract of service and are registered with the competent authority of my country, which in the case of Malta is the Employment and Training Corporation. If this tender is awarded to us, we shall furnish a list of employees who will be providing the services. Copies of the written contracts of service of the employees will be available at any time for inspection.
6. It is hereby declared that the bidding entity's employees shall be given a detailed payslip containing all relevant details including the amount paid, normal hours worked, overtime hours, hours worked on Sundays and Public Holidays, hours availed of as leave or sick leave, a breakdown of bonuses/allowances as well as deductions made (such as social security contributions and income tax).

## Appendix B: FA Declaration of Agreement

7. It is hereby declared that all the wages/salaries of the bidding entity's employees are paid only by direct payment in the employee's bank account.
8. It is hereby declared that the relevant bank statements of wage/salaries' deposit and copies of the detailed payslips will be made available as and when required by the Director of Industrial and Employment Relations.
9. It is hereby declared that if the bidding entity is found in breach of any of the above declarations it is accepted that this contract will be terminated and that we will have no right to be compensated for any damage we may have suffered or will suffer in the future in respect to this termination.
10. A list of the minimum hourly workers' costs involving the provision of the employees' services in this tender is being attached.
11. In the event that it is proved otherwise during the execution of the contract it is hereby being consented that the contract is terminated with immediate effect and that no claim for damages or compensation be raised by us.

**Note:**

The Housing Authority reserves the right not to award anymore works to contractors if:

1. Works are not carried out to its satisfaction as confirmed by the Project Leader.
2. A difficult and uncooperative attitude is shown towards Housing Authority's clients.
3. Works are not carried out within the agreed timeframes.

Signature: .....

Name of Signatory: .....

I.D. No. ....

Name of contractor: .....

Date: .....

---

This declaration is to be submitted in a sealed envelope in the Housing Authority's tender box at 22, Pietro Floriani Street, Floriana by Wednesday 23rd October 2013 at 11.00am.

## Recent NAO Publications

### NAO Audit Reports

January 2014	Performance Audit: Addressing Social Benefit Fraud
February 2014	Information Technology Audit: Armed Forces Malta
March 2014	An Analysis of the Sourcing of Legal Services with respect to the Granting of Concessions to Operate Two Casinos
April 2014	An Analysis of WasteServ Malta Limited's Procurement: A Case Study Perspective
April 2014	An Assessment of the Macroeconomic Forecasts for the Maltese Economy Performed by the Ministry of Finance in April 2014
May 2014	An Assessment of the Main Fiscal Forecasts Prepared by the Ministry of Finance and Presented in the Update of the Stability Programme for Malta 2014-2017
June 2014	An Investigation into the Procurement of Legal Services by the Privatisation Unit between 2008 and 2013
July 2014	Performance Audit: Malta's Level of Preparedness to Deal with Oil Pollution at Sea
July 2014	Information Technology Audit: Employment & Training Corporation
October 2014	Foundation for Tomorrow's Schools: Regularity Audit on Procurement
October 2014	An assessment of the macroeconomic forecasts for the Maltese economy prepared by the Ministry for Finance in September 2014

### NAO Work and Activities Report

January 2014	Work and Activities of the National Audit Office 2013
--------------	---