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LIST OF ACRONYMS

| | |
|------|--|
| AT | Assurance Team |
| CoST | Construction Sector Transparency Initiative |
| DFID | Department for International Development |
| MDF | Malawi Defence Forces |
| MHC | Malawi Housing Corporation |
| MMSG | Malawi Multi Stakeholder Group |
| MPI | Material Project Information |
| NCIC | National Construction Industry Council |
| NRWB | Northern Region Water Board |
| ODPP | Office of the Director of Public Procurement |
| OFID | Opec Fund for International Development |
| PEs | Procurement Entities |
| RA | Roads Authority |

Template for collecting Material Project Information from procuring entities

This template has been developed to assist Multi-stakeholder Groups in collecting Material Project Information from procuring entities on projects that are included in the on-going disclosure process. The template could be available on line and the procuring entity be asked to update it on a regular basis.

| Stage of project cycle | List of MPI to be disclosed | Project Name: CONSTRUCTION OF 25 HOUSES AT CHILUMBA GARRISON IN KARONGA DISTRICT LOT 1 Contract No. MHC/01/2009 LOT 1 Procuring Entity: Malawi Housing Corporation Client: N/A | Key Findings by The Assurance Team |
|---|-----------------------------|--|--|
| Project identification | Project purpose | To provide suitable housing to Malawi Defence Forces | |
| | Location | Chilumba, Karonga, Malawi | |
| | Intended Beneficiaries | Malawi Defence Forces Staff | |
| | Specification | Included within Contract Document | This was not disclosed. MHC stated that this was with the Department of Buildings (DOB) but the DOB referred the AT back to the MHC. |
| | Feasibility study | N/A | |
| Funding | Financing agreement | Own Funds | |
| | Budget | N/A | |
| | Engineer's estimate | MK235,000,000 | |
| Tender process (contract for project supervision) | Tender procedure | Selection of Government Building Department to provide Consulting Services | |
| | Number expressing interest | N/A | |
| | Number shortlisted | N/A | |
| | Number submitting tender | N/A | |

| | | | |
|---|--|--|---|
| Tender process (main contract for works) | Tender procedure | Local Competitive Bidding | |
| | Number expressing interest | 4 | |
| | Number shortlisted | N/A | |
| | Number submitting tender | 4 | |
| | List of tenderers | Western Construction N3 Construction Dziko B. Contractors Plem Construction | |
| | Tender evaluation report | Disclosed | |
| Contract award (project supervision) | Name of main consultant | Government Building Department was selected to provide Consulting Services for the project. | |
| | Contract price | Reimbursement of Invoices for actual travel, subsistence and other costs | |
| | Contract scope of work | Supervision for construction of 25 Houses | |
| | Contract programme | Tied to Contractor's programme | |
| Contract award (main contract for works) | Name of main contractor | Western Construction | |
| | Contract price | MK215,915,367.68 | |
| | Contract scope of work | Construction of staff houses for Malawi Defence Forces | |
| | Contract programme | Start: 27 July 2009; Completion: 12 February 2010 | |
| Contract Execution (project supervision) | Significant changes to contract price, programme, scope with reasons | Payment details and terms for engaging the DOB were not disclosed. | |
| Contract Execution (Main contract for works) | Individual significant changes to the | Architect's Instructions have been issued amounting to MK47,457,711.09 or 22% of | <ul style="list-style-type: none"> • Architect's Instructions were given primarily to upgrade the quality of the buildings. The |

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| | <p>contract which affect the price with reasons</p> | <p>the contract sum</p> | <p>major items are:</p> <ul style="list-style-type: none"> ✓ Revised specification of roofing sheets from 24 gauge IBR sheets to 26 Gauge Chromadek sheets. (MK16,753,824) ✓ Adjustment of error in Bills of quantities for blockwork (MK7,902,090) ✓ Revised specification for ceilings from celotex to nulite boards (MK6,345,000) ✓ Addition of staff quarters for one residence (MK2,100,000) ✓ Water connection fee (MK3,906,733) <ul style="list-style-type: none"> • Increased cost of inputs caused contract to be increased by a further MK2,257,324.63. Actual breakdown of increase was disclosed. • The AT noted that a provisional sum of Mk1,000,000 was provided in the contract for Architect's equipment. However, actual costs were MK1,833,020.65. The DOB has a fully equipped architect's studio previously funded by others. |
| | <p>Individual significant changes to the contract which affect the programme, with reasons</p> | <p>The project has been delayed.</p> | <ul style="list-style-type: none"> • Decision to extend the contract was unilaterally done by client without the DOB. Reasons: irregular payments, increased scope of works. The DOB had a copy of letter by MHC from contractor requesting extension of time. DOB verified that contractor has been given an Extension of time but without their input. Copy of letter from contractor copied to AT. |

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| | Details of any re-award of main contract | N/A | |
| Post contract completion details (main contract for works) | Actual contract price | Not yet completed | |
| | Total payments made | As at 28 May 2010: MK 184,584,397.49 or 85% of the Contract Sum. | |
| | Actual contract scope of work | Construction of 25 No Staff Houses for Malawi defence Forces. | |
| | Actual contract programme | Delayed. | |
| | Project evaluation reports (on completion and on-going) | <ul style="list-style-type: none"> • Completion Report not yet done; contract on-going • No formal site meetings conducted on this project | <ul style="list-style-type: none"> • Certificate No. 5 included MK55,871,636.85 in Materials Stored off-site. This was done without proper indemnification of the client. Items paid included window and door frames; kiln dried timber; nu-lite ceilings; roof sheets, and fascia boards. Certificate No. 6 had materials stored off site worth MK18,035,539. However, this was revised to zero value before MHC internal auditors could verify the materials. The practice has since been stopped by the auditors through advice to MHC management. • Site meeting minutes: Not available; meetings are not formalised on this project • On 30 March 2010, Department of Buildings (DOB) wrote to MHC recommending that contractor be paid for materials against pro-forma invoices as an ex-gratia payment aimed at mitigating delays to the project. The DOB further stated that the payment would be secured by performance bond and advance payment bond. This advice has no legal basis as these payments if made, are not covered by any contract condition. Secondly, the performance bond which the AT |

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| | | | <p>found on file had expired on 31 March 2010. There is no evidence on file that the bond was renewed and if this is the case, client is not covered on this project. Thirdly, the contractor had fully repaid the Advance and therefore the client has no business withholding the contractor's bond.</p> <ul style="list-style-type: none"> • Insurance for the works not found on file |
|--|--|--|--|

| Documents disclosed | Disclosure status |
|----------------------------|---|
| Feasibility study | NA |
| Financing agreement | N/A |
| Specification | Included with contract document; but not disclosed. |
| Tender evaluation report | Disclosed; copy submitted to AT. |
| Project evaluation reports | Final Report not yet completed |

EXECUTIVE SUMMARY

This report summarises the initial findings by EMC Jatula Associates; who were selected as the Assurance Team (AT) to collect data from participating procurement entities (PEs) in the CoST Initiative. Specifically, the subject of this report is the Construction of Staff Houses at Chilumba Garrison for Malawi Defence Forces by Malawi Housing Corporation. This project is one of nine selected from three institutions namely Malawi Housing Corporation, Northern Region Water Board and the Roads Authority who participated in the study as procurement Entities (PEs). The aim of this study is to increase transparency and accountability in the Malawi construction sector.

Procurement Entity: Malawi Housing Corporation

Contract No: MHC/01/09 – Chilumba Garrison Housing Project

The consultant had difficulty collecting data from Malawi Housing Corporation (MHC) due to the fact that files were initially not ready for examination. Following this, the AT was given access but the available data was mostly incomplete for this project. There were no site meetings so no records were available at MHC.

For this project, the information was found at MHC and at the office of the Directorate of Buildings (DOB). The DOB being a Government Department, were selected as the consultants for the project on cost reimbursable basis to provide services to MHC which is a parastatal entity. This project is being built by Western Construction.

The AT collected adequate data on this project, apart from that compiled on the MPI, which is supported by detailed source documents. In this respect, Addenda, variation Orders, Bills of Quantities, payment records, specifications, and other pertinent documentation were collected and verified through the MHC, Department of Buildings (DOB) and the contractor. The information thus collected on this project is therefore complete and accurate.

The AT made the following observations on the administration of this project:

- The DOB provided professional advice to the MHC which in the opinion of the AT has no legal foundation. The DOB advised the MHC, stating that to expedite the construction programme, the contractor be given payment on an ex-gratia basis for materials on proforma invoices with performance and Advance payment bonds securing the payment. The performance bond had expired at the time of the study. Further, the contractor had re-paid the advance in full and therefore the Advance Payment Bond had automatically elapsed. Consequently, it could not be used as security. This arrangement is unorthodox in the sense that the advice was done purely to expedite the works and it is not normal practice to make this kind of payment.
- The MHC internal auditors were correct in recommending the discontinuity of payment for materials stored off site. It was noted by the auditors that value of off-site materials in certificate No. 7 was changed to zero just before the auditors were about to physically verify the materials.
- Architects instructions as paid at the time of the study were valued at MK47,457,711.09. This additional cost was to upgrade the specifications of the buildings. The details for these

instructions were provided by the DOB. The AT notes that the budget for Architect's Equipment was Mk1,000,000. However actual costs are Mk1,833,020.65. The DOB has a fully equipped studio previously funded by others.

- The AT did not find Contractor's All Risks insurance on file at MHC.

Despite being requested to provide additional information, the MHC did not respond by the given deadline. The AT has therefore submitted this report without some disclosures by the MHC. The AT is satisfied that the information collected is accurate as it was corroborated from multiple sources including the DOB and the MHC.

1.0 INTRODUCTION AND STUDY BACKGROUND

This report covers the work carried out by EMC Jatula associates as the selected Assurance Team to collect Material Project Information (MPI) from selected Procurement Entities (PEs). It highlights all the activities carried out by the Assurance Team during the period under review and includes both achievements and constraints.

The Construction Sector Transparency (CoST) Initiative is an international multi-stakeholder programme which is designed to increase transparency and accountability in the construction sector. The programme is supported by the UK Department for International Development (DFID) and the World Bank.

Malawi was selected to undertake a pilot for this programme as one of seven countries in the world. The programme is being administered by the National Construction Industry Council (NCIC) on behalf of the Construction Sector Transparency Initiative (CoST) Malawi Multi Stakeholder Group (MMSG).

The programme aims at enhancing the accountability of Procuring Entities (PEs) and construction companies for the cost and quality of public sector construction projects. Each PE selected to provide data will do this by disclosing to the public 'Material Project Information' (MPI) at all stages of the construction project cycle, from the initial identification of the project to the final completion.

The main aim for CoST is about increasing transparency through the release of project information into the public domain. It is however recognised that the disclosure of this information may not be sufficient on its own to achieve greater accountability as some of the information is most likely to be complex and not easily understandable to the general public.

EMC Jatula Associates Consulting Engineers were therefore selected to undertake this study to ensure that the information that is released is both accurate and available in a form that can easily be understood by stakeholders. Part of our brief is to ensure that the disclosed information must be verified, analysed and interpreted by experts as an 'Assurance Team' appointed specifically for this purpose. The major role to be played by EMC Jatula Associates as the consultant on this pilot project is to act as an interpreter at all the assurance processes to help make raw data disclosures more understandable to all stakeholders.

Hence the objectives of the pilot programme to be achieved by EMC Jatula Associates are as follows: -

- To assist the MMSG to liaise with the Procuring Entities (PEs) of projects involved in the CoST initiative to ensure the publication of the relevant Material Project Information (MPI);
- To verify the accuracy and completeness of MPI disclosures on all or a subset of projects involved in the CoST initiative, as required by the MMSG;

- To analyse the disclosed and verified data on all or a subset of projects involved in the CoST initiative in order to make informed judgements about the cost and quality of the built infrastructure;
- To produce reports that are clearly understandable to the non-specialist, outlining the extent and accuracy of information released on projects involved in the CoST initiative and highlighting any causes for concern that the analysed information reveals.

2.0 METHODOLOGY

2.1 Selection of Projects

The Malawi MSG selected 3 (three) institutions which are participating as PEs to provide MPI under the CoST Initiative. The following are the institutions together with a list of the respective projects for which information has been released:

Malawi Housing Corporation (MHC):

1. MHC/01/09 - Chilumba
2. MHC/2008/03/Lilongwe

Northern Region Waterboard (NRWB)

1. NRW/W/01
2. NRW/W/01B

Malawi Roads Authority (RA):

1. 4T/PP/NR/RU/KA/09
2. 3T/RM/CR/KU/DA/MC/NS/09
3. 4T/PP/SR/BLK,MH,MHG,ZA/09
4. 102U/REHAB/SR/BTC/08 LOT 2
5. 121U/REH/CR/LLC/08 LOT 3

2.2 Data Collection

Malawi Housing Corporation

The consultant had difficulty collecting data from Malawi Housing Corporation (MHC) due to the fact that files were initially not ready for examination during the week of 20th to 26th June 2010. Hence this caused the consultant to work out of sequence by visiting Blantyre three times to collect data when the plan was to capture data from both the Roads Authority and Malawi Housing Corporation during one visit.

It took a lot of time to get the MHC to provide the data. The AT had to request the CoST Secretariat to impress upon the MHC the importance of providing the data as they had indicated at the outset their willingness to participate in the study.

It was only during the week of July 11th 2010, that the Malawi Housing Corporation indicated that the project MHC/2008/03/Lilongwe had many sub-projects and needed clarification as to which projects should be audited. The matter was referred to the client for guidance. The AT was advised by the CoST Secretariat that only the buildings sub-project for the above project was to be examined.

Following this clarification, the consultant made an appointment for 26th July 2010 with MHC with the aim of collecting data for both the above Lilongwe Project and Project No. MHC/01/09 – Chilumba. The data was deemed to be available at Head Office in Blantyre.

The consultant spent two days at MHC but was only able to collect minimal data on this project.

MHC advised the AT that the information requested would be released by 30th July 2010. However, partial information was only ready on 3rd August 2010. The contact person at the PE indicated that additional information was available at the Ministry of Works and Transport, Department of Buildings (DOB). The DOB being a Government Department, were selected as the consultants for the project on cost reimbursable basis to provide services to MHC which is a parastatal entity.

On 3rd August 2010, the AT requested the CoST coordinator to facilitate data collection for the Chilumba Garrison housing project at the Department of Buildings by providing the name of the contact person and sensitising them that the AT would be contacting them for data collection. The CoST Coordinator provided the name of the contact person at DOB and EMC Jatula Associates contacted him on 4th August 2010 and he advised the AT that he would arrange for the desk officers in charge of the project to provide the data. As of 28th August 2010, the information was still outstanding. A decision was therefore made by the AT to report its findings based on the available data.

2.3 Data Verification

EMC Jatula Associates were given the responsibility to collect data and verify that the MPI is both complete and accurate. The AT therefore collected as much information as possible from the three participating institutions:

Malawi Housing Corporation (MHC)

Construction of 25 Houses at Chilumba Garrison in Karonga – Lot No. 1

Contractor: Western Construction

The data collected for this project is not sufficient to complete the Material project Information Template. Two sources of information were identified; namely MHC and the DOB. However, the information on MHC files was incomplete. Key information was submitted by the DOB. However, this was not sufficient to analyse the project fully.

2.4 Data Analysis

Malawi Housing Corporation (MHC)

Construction of 25 Houses at Chilumba Garrison in Karonga – Lot No. 1

Contractor: Western Construction

Data Collection

Project Identification

Malawi Housing Corporation is currently constructing 25 houses for MDF staff at Chilumba Garrison, in Karonga District. The project is being constructed by M/s Western Construction at a cost of MK215,915,367.68. The MHC is using its own funds to finance the project. The consultants are the Malawi Government Building Department who were selected to provide these services. There is no contract price for these services as the agreement with the consultant is to reimburse invoices for actual travel and subsistence and other incidental costs met during the supervision of these works. The programme for the consultant is tied to the Works programme.

The purpose of the project is to provide suitable housing to MDF staff at the garrison.

The project commenced on 27 July 2009 and completion was scheduled for 12 February 2010. However, progress of the works has been delayed and the reasons for the delays have not been disclosed as this information was not available on file. The MHC directed the AT to check with DOB for the significant changes which affect the completion programme and reasons thereof. The AT was able to collect this data from the DOB.

Contract Execution for Works Contract

As at 28 May 2010, the contractor had been paid MK184,584,377.49 or 85% of the Contract Sum. Time elapsed on the contract was 10 months for a duration originally planned for 7 months. This means that 143% of the contract duration has elapsed or that the contract was delayed for 3 months by May 2010 based on available records at the time of the study in July 2010.

The breakdown of the payments is as follows:

Table No. MHC 2 – Schedule of Payments

| Item | Description | Total (MK) |
|------|---|----------------|
| 1 | Value of Works by Main Contractor | 165,077,594.09 |
| 2 | Value of Works by Nominated Sub-contractor | 5,367,000.00 |
| 3 | Materials on Site (for Main Contractor) | 17,985,619.45 |
| 4 | Materials on Site (for nominated subcontractor) | 3,050,000.00 |
| 5 | Fluctuations | 2,257,324.63 |

| | | |
|---|-----------------|-----------------------|
| 6 | Less: Retention | (9,153,160.68) |
| | | 184,584,377.49 |

The value of works at MK165,077,594.09 includes MK47,457,711.09 in Architect’s Instructions. The details for these instructions were submitted by the DOB. The AT noted that the increase in the contract value was due to revised specifications for roof sheet, ceilings and adjustments for error in Bills of Quantities in measurement of block work. Further, the DOB charged for computer equipment worth MK1,833,020.65 against a provisional sum of Mk1,000,000. The DOB has a fully equipped studio previously funded by others.

The increased cost of resources at MK2,257,324.63 was disclosed and there is enough justification for the increase.

The contract has been delayed. The contractor cited irregular payments and increase scope of works as the reasons for the delays. The AT notes that the MHC unilaterally granted the extension of time without the input of the consultants (DOB). This correspondence was verified from the MHC and the DOB.

Of concern is the fact that the contact person at MHC stated that this contract has no formal site meetings hence the reason why there is no records on file.

Professional Advice by Consultants

On 30 March 2010, Department of Buildings wrote to MHC recommending that contractor be paid for materials against pro-forma invoices as an ex-gratia payment aimed at mitigating delays to the project. The DOB further stated that the payment would be secured by performance bond and advance payment bond. This advice has no legal basis as these payments are not covered by any contract condition. Secondly, the performance bond which the AT found on file had expired on 31 March 2010. There is no evidence on file that the bond was renewed and if this is the case, client is not covered on this project. Thirdly, the contractor had fully repaid the Advance and therefore the client has no business withholding the contractor’s bond. This is a cause for concern if the client proceeds to make these payments as there is potential for the client to be exposed financially.

Internal Audit

Certificate No. 5 included MK55,871,636.85 in Materials Stored off-site. This was done without proper indemnification (protection of the client against possible risk) in case of loss. Items paid included window and door frames; kiln dried timber; nulite ceilings; roof sheets, and fascia boards. Certificate No. 6 had materials stored off site worth MK18,035,539. However, this was revised to zero value before MHC internal auditors verified the materials. The practice has since been stopped by the auditors through advice to MHC management. The AT finds these payments to be not procedural and concur with the recommendations of the internal auditors. Of concern is the reason why, prior to the internal auditors checking the physical balance in the contractor’s yard, the payment certificate was revised to zero value for the materials off site.

Post Contract Completion Details for Works Contract

The final contract sum is yet to be determined as this is an on-going project. The consultants did not find Contractor's All Risk Insurance on file with MHC. This will be checked at DOB to see if insurances were put into place and are still valid.

Site Visit

The AT visited the site on 5th August 2010. The quality of the structures is generally good. The contractor is constructing the buildings in accordance with the specifications. The client will get an excellent product for the money spent. Photo below shows a typical house at Chilumba MDF garrison.



3.0 CONCLUSIONS

Data collection from this institution was a challenge. Although the AT made concerted efforts to obtain all the required data including sending a summary of the findings for the PE to fill in the gaps, the institution was unable to respond. However, the AT was able to obtain partial data from the DOB.