



M E M O

FROM: INTERNAL AUDIT

TO: Ag MD/CE

DATE: 19/08/2016

**RE: SUMMARY REPORT ON THE PROPOSED
RENOVATION/REHABILITATION WORKS ON THE 15 STOREY MAMMAN
KONTAGORA HOUSE (MKH) SITUATED AT NO. 23 MARINA LAGOS**

1. Introduction

We refer to your verbal directives to review Support Services Group’s request for the release of the global sum of **N180,668,525.85** monthly in respect of various contracts that were awarded by the Bank for the renovation works at MKH building Marina, Lagos. The request was hinged on management’s decision directing all works to be carried out day and night in order to achieve the 6 months set target of completion of project.

In order to meet up with cash backings, Support Service Group proposed a “global approval” for the sum of **N180,668,525.85** to be set aside monthly by management in anticipation of a fortnight valuation/payment to contractors in order to avoid time lag in the execution of the project.

2. Preamble/Brief History

At its 180th meeting dated 19th & 20th November 2013, the erstwhile Board of FMBN took the decision to renovate MKH building. The table below is the summary of all the contracts awarded at that decision by the Board;

S/N	Contractor	Contract Details	Contract Price/Value
1	M/S Paul B. Nig Ltd	Internal Rehabilitation	714,999,190.50
2	M/S MD Construction	External Builders Work	739,120,928.35
3	M/S Yobe	Air Conditioning, Condensate & Vent.	346,368,047.34
4	M/S Streetscope	Electromechanical Services	247,750,335.00
5	M/S Heavywind Integ Services	Mechanical Plumbing & Fire Alarm	117,423,172.55
6	M/S EM Plan Integ. Ltd	Communication & Security System	64,600,332.30
Total			2,230,262,006.04

In addition to the 6 Lots above, two other additional contracts were awarded subsequently and is also tabulated hereunder;

S/N	Contractor	Contracts Details	Date of Approval	Approving Authority	Amount
1	M/S Sageto	Supply & Installation of 5 no of Lifts	2-Jul-13	Minister	425,544,308.72
2	M/S Sageto	Replacement of 2 Burnt Lift due to Fire Incidence	15-Oct-15	Ministerial Tenders Board	92,194,834.93
Total					517,739,143.65

Furthermore, due to the disengagement of the MKH Building Facility Manager that was hitherto responsible for powering the Bank's 500KVA generator by the erstwhile Board, the Bank through the Lagos Zonal Office assumed the responsibility of fuelling the generator for its operations. Support Services Group averred that as at the time of signing the contract, the power source was envisaged to be provided by the Bank during the execution of the contracts.

Thus, the Bank met with all contractors handling the project at the site and agreed that it shall be responsible for fuelling the 500KVA generator located at the site to enable their work resume day and night.

To this end, Support Services Group commenced due process which culminated in the selection of **DSD Global Resource Ltd** for the supply of 11,205 litres of diesel at the rate of N200/litre;

S/N	Contractor	Contracts Details	Amount
1	DSD Global Resource Ltd (Proposal Stage)	Supply of 11,205litres of Diesel	2,465,100.00

The table below is the summary of the current position of all the contracts as at date;

S/N	Contractor	Contract Details	Contract Amount	Payment or Disbursement to Date	Outstanding Balance	%tage***
1	M/S Paul B. Nig Ltd	Internal Rehabilitation	714,999,190.50	463,677,788.93	251,321,401.57	64.85%
2	M/S MD Construction	External Builders Work	739,120,928.35	346,174,969.25	392,945,959.10	46.84%
3	M/S Yobe	Air Conditioning, Condensate & Ventilation	346,368,047.34	90,862,027.21	255,506,020.13	26.23%
4	M/S Streetscope	Electromechanical Services	247,750,335.00	86,043,060.60	161,707,274.40	34.73%
5	M/S Heavywind Integ Services	Mechanical Plumbing & Fire Alarm	117,423,172.55	24,276,483.73	93,146,688.82	20.67%
6	M/S EM Plan Integ. Ltd	Communication & Security System	64,600,332.30	13,858,518.67	50,741,813.63	21.45%
Sub-Total Approved by Board			2,230,262,006.04	1,024,892,848.39	1,205,369,157.65	45.95%
7	M/S Sageto Ltd	Supply & Installation of 5 no of Lifts	425,544,308.72	383,874,831.66	41,669,477.06	90.21%
8	M/S Sageto Ltd	Repairs/Replacement of 2Nos Burnt Lifts Component	92,194,834.93	92,194,834.93	-	100.00%
9	DSD Global Resource	Supply of 11,205 litres of Diesel	2,465,100.00	-	2,465,100.00	0.00%
Grand-Total (Board & Ministry)			2,750,466,249.69	1,500,962,514.98	1,249,503,734.71	54.57%

***tage denotes the proportion of payments disbursed for each class of contract as at date.

3. Internal Audit Professional Opinion

The following are our professional opinion on the entire project;

- i. Due process was not followed at the inception of some of these contracts. Moreover, Public Procurement approval thresholds in the award of some contracts were not adhered to. Though there was an attempt to correct some anomalies especially on contracts that exceeded the Board's approval thresholds of the sum of N250million (*i.e. by obtaining Minister's ratification on the contracts above the N250million threshold earlier approved by the erstwhile FMBN Board*), but that still did not suffice as the then Minister categorically stated in the letter addressed by the Bank to the Minister on ratification of the approvals;

MD (FMBN): Ratified but please proceed in line with all extant procurement laws and financial regulations - dated 13/12/2013.

The table hereunder is a summary of all the contracts and their level of compliance with due process at the initial award stage;

S/N	Contractor	Contract	Contract Value	Compliance With Due Process	Remarks
1	M/S Paul B. Nig Ltd	Internal Rehabilitation	714,999,190.50	No	Board's approval Threshold exceeded. The request should have gone to Ministerial Tenders Board
2	M/S MD Construction	External Builders Work	739,120,928.35	No	Board's approval Threshold exceeded. The request should have gone to Ministerial Tenders Board
3	M/S Yobe	Air Conditioning, Condensate & Ventilation	346,368,047.34	No	Board's approval Threshold exceeded. The request should have gone to Ministerial Tenders Board
4	M/S Streetscope	Electromechanical Services	247,750,335.00	Yes	-
5	M/S Heavywind Integ Services	Mechanical Plumbing & Fire Alarm	117,423,172.55	Yes	-
6	M/S EM Plan Integ. Ltd	Communication & Security System	64,600,332.30	Yes	-
7	M/S Sageto Ltd	Supply & Installation of 5 no of Lifts	425,544,308.72	No	Board's approval Threshold exceeded. The request should have gone to Ministerial Tenders Board
8	M/S Sageto Ltd	Repairs/Replacement of 2Nos Burnt Lifts Component	92,194,834.93	Yes	-
9	DSD Global Resource	Supply of 11,205 litres of Diesel	2,465,100.00	N.A	-
Grand-Total			2,750,466,249.69	-	

- ii. Internal Audit Group observed contract splitting in the award of the job as the entire job of renovating the MKH building could have been assigned to a single contractor with requisite experience and capacity to carry out the job. That would have resulted to lower cost savings and efficiency in the execution of the contract.
- iii. There was no cash-flow projection to support the sources of funding for the project which is considered a long term infrastructural spending. The projected was expected at the commencement to engulf more than **N2billion**. We expected that since FMBN was undercapitalized with negative equity arising from the burden of Non-Performing Loans (NPLs), the then Board/Management ought to have analyzed the funding options for the project even if it was to be financed from the NHF pool.
- iv. There is need for project's consultant in conjunction with the contractors and Support Services Group to come up with up-to-date detailed valuation report of the work done for each of the lots. This is to enable Internal Audit certify the level of work done (*as indicated in the memo to Hon Minister for milestone payment*) by visiting the site.

4. Recommendations

In view of the above, and in line with management resolve to ensure judicious utilization of NHF forthwith and the desire to recoup the Bank's lost funds, Internal Audit hereby recommend the following for management's consideration and approval;

- i. Management should direct **GH (SS)** to immediately collate the recent valuation reports (detailed) for each of the lots and forward same to Internal Audit for certification in line with due process and Ministerial approval dated 10th December 2013.
- ii. All milestone payments/disbursements to contractors should be in line with their terms of engagement as specified in the offer letters.
- iii. Provision of power (*i.e. fueling the Bank's 500KVA Generator*) should be handled in line with due process and procurement laws by

by the National Coordinator's Office in Lagos. (This in our opinion amounts to variation in the original terms of the contract).

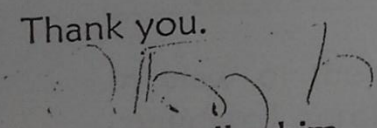
- iv. The Bank should refer all observed corrupt practices & breaches in the Public Procurement laws and other extant financial regulations to EFCC/ICPC for immediate investigation so as to serve as deterrent to others.
- v. Management should seek Legal Group's opinion on the liability of the Bank on some of the projects that were awarded without due observance of the Public Procurement Act (2007) provisions.

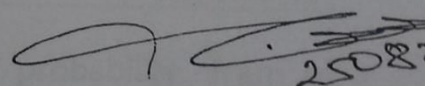
It is however the view of the Internal Audit Group that since there is an existing contract with these contractors, the Bank should ensure that all terms agreed upon by both parties are adhered to. In the event that the Bank is not satisfied with the performance of certain contractor(s) as per the terms of reference, the relevant section of the offer letter on the termination of the contract should immediately apply.

- vi. Management may wish to write to Bureau of Public Procurement on the observed breaches of due process in the award of some of the contracts with a view to addressing them.
- vii. Support Services Group should come up with a cash flow analysis that should support the project financing. Since it is evident that the Bank is funding the project from NHF pool, all necessary cost of funding (i.e. the discounted interest rate @ 4%) and future discounted inflows should be evaluated to arrive at the repayment period for the project.

Sir, for your information and further directive please.

Thank you.


Murtala A. Ibrahim
UH (IP & SI)


Anibaba Taslim
GH (IAG)

cc: GH (Support Services) – Find enclosed your 5 files IRO above while we await management's further directive.