



FOLKETINGET
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RIGSREVISIONEN

December 2019
– 8/2019

Extract from Rigsrevisionen's report
submitted to the Public Accounts Committee

Procurement of maintenance and repair services by the Ministry of Defence Estate Agency

1. Introduction and conclusion

1.1. Purpose and conclusion

1. The report concerns procurement of maintenance and repair services by the Danish Ministry of Defence Estate Agency (MDEA).

The MDEA is based in Hjørring, but the staff works on the implementation of maintenance and repair projects all over the country. In 2018, the MDEA spent approx. DKK 590 million on maintaining property and installations owned by the Danish Defence in Denmark. Most of the money went to projects that were not planned at the beginning of the year, but addressed maintenance and repair needs that arose in the course of the year. These include emergency repairs that the Ministry of Defence assessed could not be postponed to the following year.

The Ministry of Defence has the overall responsibility for organising accounting in its remit and for checking that the accounting rules are being observed. The MDEA determines the allocation of responsibility and authority to ensure adequate internal controls and an appropriate organisation of business procedures.

2. Rigsrevisionen also commented on the MDEA's administration in connection with the audit of the agency's financial statements for 2018, which disclosed a risk of error and fraud due to inadequate segregation of duties. The audit also disclosed that the delegation of authority to commit the enterprise in the procurement process had not been updated, and that offers received and contracts entered, etc. had not been recorded in the agency's financial system DeMars.

3. The purpose of the study is to assess whether the Ministry of Defence has ensured that procurement of maintenance and repair services is administered in a satisfactory manner. The report answers the following questions:

- Has the Ministry of Defence ensured the availability of adequate guidelines on procurement of maintenance and repair services at the MDEA?
- Has the Ministry of Defence ensured that the MDEA's procurement of maintenance and repair services takes place in accordance with the controls and documentation requirements prescribed in the executive order on the preparation of financial statements?

Annual spend on maintenance and repair services:

- DKK 486.3 million in 2016
- DKK 486.5 million in 2017
- DKK 588.8 million in 2018.



Conclusion

It is Rigsrevisionen's assessment that the Ministry of Defence's failure to ensure satisfactory administration of procurement of maintenance and repair services can be criticised, because segregation of duties has been inadequate and the documentation of procurement is either insufficient, misleading or non-existent. Thus, the ministry has failed to meet basic administrative requirements of procurement. To this should be added that it is seriously questionable whether the documentation provided to Rigsrevisionen by the MDEA is complete and correct. Lastly, the MDEA has provided Rigsrevisionen with incorrect information on several occasions.

The consequence of the practice at the MDEA, is a high risk of error and fraud in procurement of maintenance and repair services, which the Ministry of Defence subsequently will not be able to detect.

The study shows that the Ministry of Defence has failed to ensure the availability of clear written business procedures for the MDEA that outline a segregation of duties where a minimum of two persons are required to complete a purchase. Nor is the segregation of duties supported by the agency's IT system, which allows the same member of staff to order maintenance and repair services and subsequently register the order as delivered in the IT- system.

The study also found that the MDEA's actual procurement of maintenance and repair services does not observe the requirements concerning segregation of duties, controls and documentation. Rigsrevisionen's review of a test sample of 64 specific maintenance and repair projects shows basic errors or shortcomings in 54 of the projects such as missing segregation of duties and lack of records to demonstrate agreement between what was delivered and what was agreed in terms of price, quality and volume.

The test sample included procurement of electrical work on 14 lifeboat stations in December 2018. The MDEA has provided Rigsrevisionen with documentation of the work in the form of handover protocols signed by the contractor. However, according to information from the contractor, he has not signed the documents in questions. Furthermore, the contractor has informed Rigsrevisionen that the work was not carried out at the time indicated by the MDEA, which has subsequently been confirmed by the Ministry of Defence. In the same case, the MDEA has paid an invoice for DKK 100,000, exclusive of VAT, for work that was never carried out. The MDEA only detected the error, when Rigsrevisionen asked to see the credit note.

Rigsrevisionen's review of the test sample also disclosed an order for refurbishment of bicycle sheds that was apparently converted into a purchase and mounting of kitchenettes, at a higher cost. Since the registration of delivery refers to refurbishment of bicycle sheds, while the invoice refers to payment for kitchenettes, and no further records are available, it is unclear what the MDEA has ordered and what has been delivered and paid for.

Rigsrevisionen finds that the Ministry of Defence must scrutinise procurement of maintenance and repair services to determine the scope of the inadequate controls, lack of records, etc. The ministry's review should include the maintenance work on the 14 lifeboat stations, referred to above, to ensure that what was delivered is in accordance with what was ordered, and that the purchases have been properly recorded.

Overall, the Ministry of Defence recognises the description of the state of affairs at the MDEA presented in the report and agrees with Rigsrevisionen that several practices need to be rectified. The Ministry acknowledges a lack of management focus on maintenance and repair tasks at the MDEA and inadequate segregation of duties. In 2020, procurement at the MDEA will be centralised in order to improve controls, among other things. The ministry will also specifically focus on the documentation requirements.