

Report No. 47 of the Director of Audit — Chapter 1

ADMINISTRATION OF CONSULTANCIES FOR SCHOOL IMPROVEMENT WORKS

Summary

1. In 1994, the then Education Department (hereinafter referred to as the Education and Manpower Bureau (EMB), because they were merged in 2003) launched the School Improvement Programme (SIP) to upgrade progressively the learning and teaching environment of all government and aided schools to the prevailing standards. The EMB appointed the Architectural Services Department (ArchSD) as the works agent for the SIP projects. To supplement its resources, the ArchSD engaged consultants for administering the projects. Up to 30 June 2006, of the 692 schools in the five phases of the SIP under the project administration of the ArchSD, the works for 679 schools (98%) had been substantially completed. The Audit Commission (Audit) selected the SIP Final Phase for review, which comprised 188 schools at an estimated cost of \$5,198 million. In the review, Audit examined the ArchSD's administration of the consultancies.

Selection of consultants

2. In early 2001, as there were many schools involved in the SIP Final Phase, the ArchSD decided to engage 23 consultants (14 lead consultants, 8 quantity surveying (QS) consultants and 1 project management consultant).

Need to consider consultants' past performance in selection process

3. The 2001 Architectural and Associated Consultants Selection Board (AACSB) Handbook laid down that, in the shortlisting stage, the selection of consultants should be based on their past performance and current company profile. Due to the need to employ 23 consultants, the AACSB gave approval for the ArchSD to invite all the pertinent and qualified consultants to submit technical and fee proposals for the consultancies (i.e. shortlisting of the consultants was not required). Between May and July 2001, the AACSB approved the award of the consultancies to 23 consultants.

4. Audit noted that, when seeking the AACSB's approval for appointing the consultants, the ArchSD had not provided it with information about the consultants' previous performance. Audit examination revealed that, of the 23 consultants appointed, 6 consultants had received adverse reports in the three years before the selection exercise. In the course of the consultancies, it transpired that 4 of these 6 consultants were found to have performed unsatisfactorily. They were each suspended from bidding for consultancy assignments for a period of time.

5. As laid down in Environment, Transport and Works Bureau (ETWB) Technical Circular (Works) No. 19/2004 of June 2004 (which is currently in force), an assessment panel shall take into account a consultant's past performance in both the shortlisting stage and the final selection stage. *Audit has recommended that the Director of Architectural Services should remind ArchSD staff that, in accordance with ETWB Technical Circular (Works) No. 19/2004, in recommending consultants for selection, they should provide the AACSB with information incorporating the consultants' past performance.*

Remuneration of consultants

6. In the consultancy agreements for the lead consultants and QS consultants, it was stated that they should be remunerated based on the percentage-of-value-of-works remuneration method. In March 2001, when inviting the prospective lead consultants to submit technical and fee proposals, the ArchSD informed them that the total estimated value of works was \$8,787 million (based on 290 schools). In May 2001, the ArchSD informed the prospective QS consultants that the total estimated value of works was \$8,340 million (based on 278 schools). However, as at 30 June 2006, the total estimated SIP Final Phase construction cost was \$4,344 million, which was only about 50% of the original estimates. The ArchSD has said that the main reasons for the significant reduction in the value of works were due to the subsequent removal of one-third of the schools from the programme and the fall of the related tender price index during the period.

7. Between 2001 and 2003, the lead consultants and QS consultants notified the ArchSD of their intention to claim for adjustment of fees due to the substantial reduction in the value of works, claiming that they would have stated higher fee percentages in their tender submissions if the lower value of works had been known. In late 2003, the ArchSD offered the consultants a set of adjustment factors to be applied to the consultants' contract fee percentages for the settlement of their claims. By the end of 2005, all the consultants had accepted the ArchSD's fee-adjustment offers.

Need to provide better estimation of value of works to tenderers

8. Audit found that the total estimated value of works could have been more accurately assessed if the ArchSD had taken into account the three factors in paragraphs 9 to 11, before tendering of the consultancies.

9. ***Updated information on number of participating schools.*** In February 2001, the EMB informed the ArchSD that at most 278 schools would be under the management of the ArchSD. However, in March 2001, the ArchSD issued the tender invitation for the lead consultancies on the basis of 290 participating schools. In mid-April 2001, the EMB confirmed to the ArchSD that only 278 schools would be managed by the ArchSD's consultants.

10. ***Lower cost of SIP works for rural schools.*** In July 2000, the EMB informed the ArchSD that there were around 40 small-scale primary schools (mostly rural schools), each with nine or fewer classrooms, and the budget ceiling on each of these schools was \$15 million. However, in the tender documents issued in March 2001 for the lead consultancies and in May 2001 for the QS consultancies, the ArchSD estimated that the average budget ceiling on each participating school was \$36.7 million, without taking into account the lower SIP cost of rural schools.

11. ***About 85% of schools would proceed to construction stage.*** In a Public Works Subcommittee paper of January 2001, based on the experience in the earlier SIP phases, the Administration estimated that about 85% of the schools would proceed to the construction stage after the feasibility studies. However, Audit noted that the ArchSD had not taken into account this factor in estimating the value of works for the consultancies.

12. *Audit has recommended that, in estimating the value of works in consultancy tender documents, the Director of Architectural Services should take measures to ensure that the estimates are prepared as accurately as possible by taking into account all major factors, including the latest information provided by client departments regarding the number of participating project units, the size of different project units, and the number of project units that would proceed to the construction stage after the feasibility study.*

Fee-adjustment mechanism for change in value of works

13. The 2001 AACSB Handbook laid down that, under the percentage-of-value-of-works remuneration method, if different fee percentages for different ranges of works value were used for remunerating consultants, the ArchSD should adopt a mechanism allowing for an adjustment of the consultancy-fee percentages which reduced inversely in proportion to the cost of works.

Need to adopt fee-adjustment mechanism

14. Audit noted that the ArchSD had not incorporated the fee-adjustment mechanism into the tender documents for the SIP Final Phase consultancies. Audit considers that, in the event of a significant change in the value of works, such as in the present case, the fee-adjustment mechanism would provide a basis for assessing a reasonable remuneration for the consultants without having to go through the claim process. In late 2003, a detailed consultancy-fee adjustment mechanism (which is currently in force) was promulgated in the AACSB Handbook. *Audit has recommended that the Director of Architectural Services should remind ArchSD staff to comply with the requirement promulgated in 2003 in the AACSB Handbook that a fee-adjustment mechanism should be incorporated into the tender documents for consultancies remunerated on the percentage-of-value-of-works basis.*

Monitoring of consultancy services

15. In early 2004, a QS consultant informed the ArchSD that he had made measurement errors in the contract documents of two SIP works contracts. In these two cases, the QS consultant had significantly understated the quantity of some works items in the contract documents. As a result, the contractors concerned had stated higher rates for such items in the works contracts. As a regulating action, the ArchSD suspended the QS consultant from bidding for new consultancies for a period of time. In June 2004, the Performance Management Committee of the ArchSD endorsed the implementation of two improvement measures, namely: (a) requiring QS consultants to carry out the bulk-checking procedure as a mandatory practice; and (b) updating the AACSB Handbook to require QS consultants to immediately report Bills of Quantities errors.

Need to implement improvement measures on a timely basis

16. Audit noted that the bulk-checking procedure was only made mandatory in January 2006, 18 months after the Performance Management Committee's endorsement. Audit also noted that the ArchSD had not implemented the improvement measure of requiring consultants to immediately report Bills of Quantities errors. *Audit has recommended that the Director of Architectural Services should implement improvement measures on a timely basis.*

Response from the Administration

17. The Administration has accepted the audit recommendations.

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