

Report No. 52 of the Director of Audit — Chapter 1

ADMINISTRATION OF BUILDING WORKS UNDER TERM CONTRACTS

Summary

1. The Architectural Services Department (ArchSD) provides project management services for maintenance, refurbishment and minor building works, which are mainly carried out by its term contractors. In 2007-08, these works cost \$2,579 million. The Audit Commission (Audit) has recently conducted a review to examine the ArchSD's administration of building works under term contracts.

Use of Schedule of Rates for awarding term contracts

2. The Schedule of Rates, published by the ArchSD every three years, includes a set of regulations governing the execution of work, and payment for work performed. It also lists out the ArchSD's estimated rates (i.e. schedule rates) for work items under different trade sections. In compiling a schedule rate, the ArchSD estimates a basic rate based on quotations obtained from contractors, manufacturers and suppliers. The ArchSD then adds a percentage to the basic rate to take into account a contractor's need to: (a) comply with government regulations and special conditions; (b) handle difficult and complicated work; and (c) cover site oncost, overhead cost and profits.

3. *Need to issue guidelines on compiling the Schedule of Rates.* Audit examination revealed that the schedule rates listed in the Schedule of Rates published in 2006 were 17% to 100% above the estimated basic rates for builder's work items, and 15% to 33% for building services work items. As far as Audit could ascertain, no guidelines had been issued on making adjustments to the estimated basic rates. Audit also could not find records showing the rationale and justifications for the adjustments. *Audit has recommended that the Director of Architectural Services should consider: (a) issuing guidelines specifying the circumstances under which adjustments should be made to the estimated basic rates; and (b) requiring ArchSD staff to document justifications for making the adjustments.*

4. ***Need to disclose more information to tenderers.*** Tenderers of term contracts are requested to indicate in tender documents “plus” or “minus” percentages for different trade sections of the Schedule of Rates to arrive at the tender prices. However, Audit notes that the ArchSD does not provide tenderers with information on the adjustments made to the estimated basic rates (see para. 2). *Audit has recommended that the Director of Architectural Services should consider providing tenderers with information on the basis of the adjustments made to the estimated basic rates for arriving at the schedule rates.*

5. ***Need to introduce a discount factor for large-scale works.*** In 2000, the ArchSD examined the introduction of a discount factor for adjusting the schedule rates for large-scale works. Up to January 2009, the discount factor had not been introduced. *Audit has recommended that the Director of Architectural Services should consider introducing a discount factor for adjusting the schedule rates for large-scale works.*

Management of non-schedule items

6. Under a term contract, work items not included in the Schedule of Rates are processed as non-schedule items. Applications for using non-schedule items require the approval of an Assistant Director of the ArchSD.

7. ***Need to seek prior approval for using non-schedule items.*** According to ArchSD guidelines, a contractor should be instructed not to incorporate a non-schedule item into a works order until approval has been given. However, Audit examination of applications for 1,327 non-scheduled items revealed that: (a) the scheduled commencement dates of works were not stated in the application forms; (b) no explanations/justifications were given for late applications; and (c) applications for 623 items (47%) were submitted for approval after the completion of works. *Audit has recommended that the Director of Architectural Services should issue guidelines asking ArchSD staff to: (a) state the commencement dates of works in applications for using non-schedule items; and (b) provide explanations and justifications for late applications.*

8. ***Need to process applications in a timely manner.*** Audit examination of 1,327 non-schedule items (see para. 7) revealed that the processing time of 297 items (22%) exceeded the nine-week requirement stated in ArchSD guidelines. *Audit has recommended that the Director of Architectural Services should ask ArchSD staff to comply with the requirement.*

9. ***Need to adopt a consistent approach in applying a fixed percentage to market prices.*** In agreeing a non-schedule rate with a contractor, a percentage is added to the market price of the item to cover the contractor’s overhead cost and profits. Audit

examination revealed that, for maintenance term contracts, a fixed percentage of 15% was added to the market price. For minor works and fitting-out works term contracts, the percentage was obtained through tendering, ranging from 0% to 12%. *Audit has recommended that the Director of Architectural Services should consider adopting the competitive tendering approach in determining the non-schedule rates for maintenance term contracts.*

Monitoring of works

10. ***Need to tighten control over submission of authentication documents.*** The ArchSD has the right to ask contractors to provide authentication documents for building materials and products used under term contracts. Audit examination of 60 works orders revealed that, in 19 (32%) orders, the project officers needed to follow up with the contractors for providing the authentication documents after completion of works. *Audit has recommended that the Director of Architectural Services should: (a) consider specifying in a works order the authentication documents to be provided by the contractor; and (b) issue guidelines asking ArchSD staff to promptly follow up with the contractor on the submission of authentication documents.*

11. ***Room for improvement in conducting client satisfaction surveys.*** With a view to enhancing customer services, the ArchSD conducts client satisfaction surveys on works orders issued under maintenance contracts. Audit examination of such surveys on 334 works orders revealed that only 51 (15%) were conducted within three months after the completion of the works. Furthermore, such surveys were not conducted on works orders for minor works and fitting-out works. *Audit has recommended that the Director of Architectural Services should conduct client satisfaction surveys as soon as possible after the completion of works, and on works orders issued under minor works and fitting-out works term contracts.*

12. ***Need to take action on contractors with persistent unsatisfactory performance.*** Audit examination of client satisfaction surveys on 1,981 works orders revealed that 307 (15%) received a “Dissatisfied” grade or below in aspects relating to the contractor’s service. Audit noted that clients’ feedback on the contractors’ services was not reflected in the contractors’ quarterly performance reports. *Audit has recommended that the Director of Architectural Services should take necessary action to improve the performance of contractors whose work is persistently below client expectations.*

Management of fitting-out works

13. ***Room for improvement in providing and finalising fitting-out requirements.*** Audit examination of two fitting-out projects (Projects A and B) revealed that: (a) the time taken for user departments to provide layout plans and fitting out requirements to the

ArchSD after acceptance of accommodation was four months for Project A and three months for Project B, exceeding the three-week requirement stated in an ArchSD circular; and (b) the time taken for the ArchSD to agree the layout plans and fitting-out requirements with the user departments was 11 months for Project A and 8 months for Project B, exceeding the two-week requirement stated in the circular. *Audit has recommended that the Director of Architectural Services should: (a) remind user departments of the need to provide layout plans and fitting-out requirements to the ArchSD within three weeks after acceptance of accommodation; and (b) in consultation with user departments, take measures to finalise layout plans and fitting-out requirements as soon as practicable.*

Implementation of two minor works projects

Annex building to Tai Lung Veterinary Laboratory

14. In June 2005, approval was given for constructing a new annex building to the Tai Lung Veterinary Laboratory as a Category D project to be funded under a block vote of the Capital Works Reserve Fund. The works were substantially completed in December 2008, 26 months later than the scheduled completion date in October 2006.

15. ***Need to promptly complete works projects.*** Audit examination of the reasons for the long time taken for completing the works revealed that the project took: (a) seven months for funding approval; (b) eight months for revising the works design to meet the approved estimate; and (c) three months for inviting tenders, assessing tenders received and cancelling the tender exercise. Audit noted that there were circulars and manuals in place providing guidance on expeditious delivery of public works projects. *Audit has recommended that the Secretary for Development should remind works departments of the need to comply with existing circulars and manuals on project delivery, particularly of the need to complete projects on time.*

16. ***Need to critically examine cost estimates for projects.*** In January 2006, the ArchSD prepared a design for the project with an estimate of \$16.64 million, exceeding the approved estimate of \$14.05 million and the then financial ceiling of a Category D project of \$15 million. In May 2007, the ArchSD issued a works order at a cost of \$13.7 million to a minor works term contractor to carry out the works, with some facilities deleted from the design to reduce cost. In May 2008, after the revision of the financial ceiling of a Category D project to \$21 million, the project estimate was revised to \$16.5 million to cover additional facilities, including a built-in cold room originally specified in the design of January 2006. *Audit has recommended that the Secretary for Development should, in consultation with client bureaux and departments, remind works departments of the need to critically examine the cost estimates of Category D projects, especially those approaching the financial limit.*

Inscription of Heart Sutra on wood columns at Ngong Ping

17. ***Need to conduct a thorough study for projects with no past experience.*** In June 2002, a scholar donated a piece of calligraphy featuring the Heart Sutra to the Government. After deciding that the calligraphy should be displayed on wood columns at Ngong Ping, Lantau Island, between March 2004 and March 2005, the ArchSD's contractors supplied, carved and installed the wood columns. However, it was later found that the bark of some wood columns was deteriorating and the protective coating was not effective in combating fungal and insect growth. According to a consultancy study commissioned by the ArchSD, there were some deficiencies in the preservation methodology adopted for the wood columns. *Audit has recommended that the Director of Architectural Services should conduct a thorough study before adopting a methodology on which the ArchSD does not have past experience.*

18. ***Need to resolve the wood preservation problems.*** In January 2007, in view of the urgency and expertise required, the ArchSD commissioned the wood preservation consultancy study. The study contract was awarded in April 2007 and a study report was submitted in September 2008. As at February 2009, the ArchSD was considering the recommendations of the study report. *Audit has recommended that the Director of Architectural Services should take prompt action to resolve the wood preservation problems.*

Response from the Administration

19. The Administration agrees with the audit recommendations.

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