

CHAPTER 8

Home Affairs Department Leisure and Cultural Services Department

<h3>Minor works programmes of the Home Affairs Department</h3>

**Audit Commission
Hong Kong
25 October 2011**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 57 of the Director of Audit contains 12 Chapters which are available on our website at <http://www.aud.gov.hk>.

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MINOR WORKS PROGRAMMES OF THE HOME AFFAIRS DEPARTMENT

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PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines its objectives and scope.

Background

1.2 The **Home Affairs Department (HAD)** is responsible for implementing two minor works programmes, namely:

- (a) ***Rural Public Works (RPW) Programme.*** Following the completion of the 10-year Rural Planning and Improvement Strategy Minor Works Programme for the nine districts in the New Territories (NT), the Government introduced the RPW Programme in April 1999. The aim of the Programme is to implement small-scale works projects to upgrade the infrastructure and improve the living environment of rural areas in the NT; and
- (b) ***District Minor Works (DMW) Programme.*** The 2006 review on the role and functions of the District Councils (DCs) recommended, among other things, that the DCs should have greater involvement and more resources to initiate and implement minor works in the districts. Following the review, the Government introduced the DMW Programme (Note 1), firstly for four pilot DCs in January 2007, and then for all the 18 DCs in January 2008. The aim of the Programme is to implement district-based works projects to improve local facilities, living environment and hygienic conditions in the territory.

1.3 Both programmes are funded by dedicated block votes under the Capital Works Reserve Fund (CWRF). The cost of a project is limited to \$21 million. Since 2008-09, the annual provisions have been set at \$120 million for the RPW Programme, and \$300 million for the DMW Programme (see Note 2 and para. 1.18). **The Director of Home Affairs is the Controlling Officer of the block votes for the two minor works programmes.**

Note 1: *The Programme replaced previous district-based minor works programmes funded by:*

- (a) *the former Urban Minor Works block vote of the HAD;*
- (b) *the DC Fund for implementing minor environmental improvement projects; and*
- (c) *the Minor Building Works block vote of the Architectural Services Department.*

Note 2: *The annual funding provided for the previous district-based minor works programmes (see Note 1 to para. 1.2(b)) was \$195 million.*

1.4 ***RPW projects.*** Local residents, village representatives or DC members may propose RPW projects to the District Offices. The District Offices prepare annual works programmes, and submit them to the District Working Groups (Note 3) and then the RPW Steering Committee (Note 4) for endorsement. The District Working Groups and the RPW Steering Committee are also responsible for overseeing the HAD's implementation of RPW projects.

1.5 ***DMW projects.*** DC members or the Government may propose DMW projects to the DCs. The DCs are responsible for endorsing projects and overseeing their implementation. DMW projects are implemented by the lead departments working with the DCs. **The HAD is the lead department for projects relating to community halls/centres and improvement of the living environment, while the Leisure and Cultural Services Department (LCSD) is the lead department for projects relating to recreational, sports, cultural and soft landscaping facilities.**

1.6 ***HAD in-house staff.*** The HAD has established a Headquarters Works Section (HQWS) with some 70 staff headed by a Chief Engineer, as well as a works team at each of the nine District Offices in the NT. They act as works agents for HAD-led projects, particularly those with little design elements. The HQWS is responsible for projects in urban areas, and the nine works teams of the NT District Offices are responsible for projects in the NT. An organisation chart showing the HQWS and the works teams of the NT District Offices is at Appendix A.

1.7 ***Term consultants (TCs).*** In order to enhance its capability in implementing DMW projects, the HAD has employed TCs to act as works agents mainly for complex or larger-scale projects (see para. 3.2 for details). The HAD has set up a project management team under the HQWS to assist TCs and monitor their performance.

1.8 ***Projects completed under minor works programmes.*** Table 1 shows the numbers and the total project costs of various categories of projects completed under the two minor works programmes in the past three years 2008-09 to 2010-11.

Note 3: *The District Working Group of a district is chaired by a DC member and consists of local leaders, the District Officer and representatives of relevant government departments.*

Note 4: *The RPW Steering Committee is chaired by the Director of Home Affairs and consists of the chairmen of the nine District Working Groups and representatives of relevant government departments.*

Table 1
Projects completed under the two minor works programmes
(2008-09 to 2010-11)

Category	DMW Programme		RPW Programme	
	Number of projects	Total project cost (\$ million)	Number of projects	Total project cost (\$ million)
(a) Improvements to leisure and cultural venues	863	313.5	—	—
(b) Parks / sitting-out areas (SOAs) / rain shelters / pavilions (see Photographs 1 and 2)	325	171.1	41	37.5
(c) Beautification and greening works	276	105.9	12	14.7
(d) Improvements to community halls / centres	100	73.9	—	—
(e) Footpaths / access roads	86	32.2	144	140.0
(f) Drainage facilities	19	4.6	50	42.1
(g) Others (e.g. notice boards and sculptures)	366	120.5	50	97.8
Total	2,035	821.7	297	332.1

Source: HAD records

Photograph 1

A rain shelter (covering a walkway) constructed under the DMW Programme



Source: HAD records

Photograph 2

A pavilion constructed under the RPW Programme



Source: HAD records

1.9 *2006 audit on implementation of minor works projects.* In 2006, the Audit Commission (Audit) conducted a review of the HAD's implementation of minor works projects. It was completed in October 2006, before the introduction of the DMW Programme. The audit review found that there was room for improvement in the administration of projects under the Rural Planning and Improvement Strategy Minor Works Programme, the RPW Programme, and the Urban Minor Works Programme (see para. 1.2). Audit made a number of recommendations for improvement, which were accepted by the Administration. The results of the review were reported in Chapter 7 of the Director of Audit's Report No. 47.

1.10 *HAD's review of the DMW Programme.* In 2010, the HAD conducted a review of the DMW Programme with a view to improving its operation and sustainability. In the process, the HAD obtained feedback from the DCs and works agents in the light of operational experience. Measures were proposed to improve the operation of the DMW Programme (see para. 2.4 for details). In May 2011, the Panel on Home Affairs of the Legislative Council (LegCo) was also informed of the progress of implementation of the DMW Programme and the key measures to improve its operation.

Audit review

1.11 Against the above background, Audit has recently conducted a review of the DMW Programme and the RPW Programme, with focus on the former, which was not covered in the 2006 audit and involved increased annual funding, greater DC involvement and the use of TCs as works agents.

1.12 In conducting the review, Audit examined the systems and procedures of the DMW/RPW Programmes, based on a sample of four districts (Districts 1 to 4) selected from different regions in the territory. Audit also selected from these districts, for more detailed examination:

- (a) five DMW projects (Projects 1 to 5) assigned to TCs; and
- (b) 30 DMW/RPW projects assigned to HAD in-house staff.

1.13 The review has found that there are areas where improvements can be made, and has made a number of recommendations to address the following issues:

- (a) operation of the DMW Programme (PART 2);
- (b) use of TCs as works agents (PART 3);
- (c) monitoring of projects assigned to TCs (PART 4);
- (d) monitoring of projects assigned to in-house staff (PART 5);
- (e) management and maintenance of facilities (PART 6); and
- (f) performance management (PART 7).

General audit observations and recommendation

HAD's review of the DMW Programme

1.14 The HAD's review in 2010 proposed various measures to improve the DMW Programme (see para. 2.4). The HAD has already started implementing some of these measures. However, a number of issues raised in the 2010 review may have significant and far-reaching implications on the operation and sustainability of the DMW Programme. Audit understands that the HAD will further consult the DCs and other stakeholders (including the Financial Services and the Treasury Bureau (FSTB)) before implementing them. **In this connection, the observations and recommendations of this audit could provide timely input for reference by the Administration and the DCs in improving the DMW Programme in the new DC term starting from January 2012.**

Audit recommendation

1.15 **Audit has recommended that the Director of Home Affairs should take into account the observations and recommendations of this audit in taking forward the HAD's proposed measures to improve the DMW Programme, in consultation with the DCs, the FSTB and other stakeholders.**

General response from the Administration

1.16 The **Director of Home Affairs** agrees with the audit recommendation in paragraph 1.15.

1.17 The **Secretary for Financial Services and the Treasury** agrees with Audit's recommendations in this report, which aim to enhance the operation and financial planning of the DMW Programme. He has said that the FSTB:

- (a) has been exploring with the HAD possible ways to take forward the improvement measures as proposed in the HAD's 2010 review of the DMW Programme; and
- (b) will take into account Audit's observations and recommendations when continuing its discussion with the HAD in this regard.

Latest development

1.18 In October 2011, the Chief Executive of the Hong Kong Special Administrative Region in his Policy Address announced that:

- (a) to enable the DCs to improve district facilities continuously and manage and maintain the completed facilities, the Administration will increase the annual provision under the DMW Programme progressively to \$400 million within the next two DC terms; and
- (b) the additional funding will cover project costs and the recurrent expenditure of the completed facilities.

Acknowledgement

1.19 Audit would like to acknowledge with gratitude the full cooperation of the staff of the HAD and the LCSD during the course of the audit review.

PART 2: OPERATION OF THE DISTRICT MINOR WORKS PROGRAMME

2.1 This PART examines the operation of the DMW Programme, focusing on the following issues:

- (a) allocation of the DMW provision to districts (paras. 2.5 to 2.8);
- (b) capital funding under a block vote (paras. 2.9 to 2.11);
- (c) need for timely commencement of works (paras. 2.12 to 2.14);
- (d) need for better cash flow planning (para. 2.15); and
- (e) need for a project evaluation and performance reporting mechanism (paras. 2.16 to 2.18).

Design of the District Minor Works Programme

2.2 *Parties involved.* The design of the DMW Programme is laid down in the Guidelines for Implementing DMW Projects issued by the HAD (HAD Guidelines). According to the HAD Guidelines, the major parties involved in implementing DMW projects are the DCs, the lead departments and the works agents, as follows:

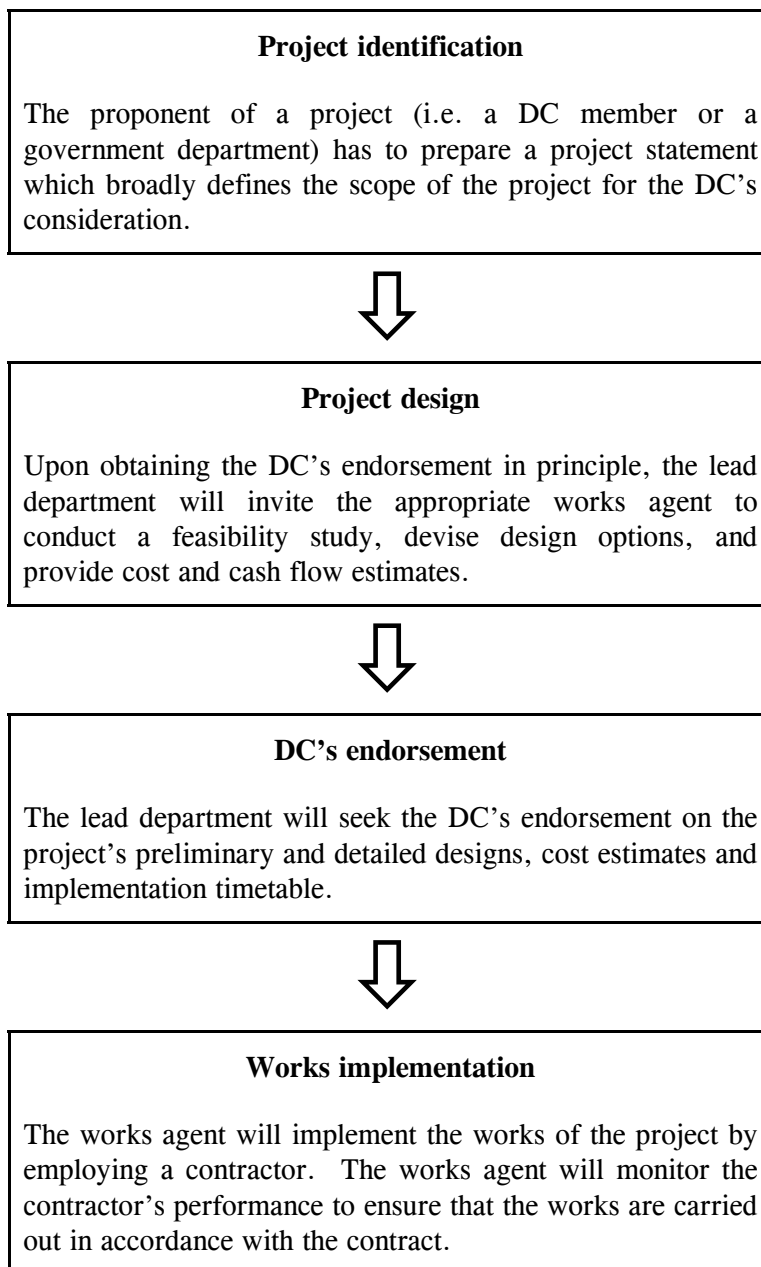
- (a) *DCs.* The DCs (and their District Facilities Management Committees — DFMCs) play a pivotal role in implementing DMW projects. They are responsible for:
 - (i) initiating projects and endorsing projects initiated by government departments;
 - (ii) deciding on the scope and scale of projects and prioritising projects; and
 - (iii) determining the implementation timetable of projects and monitoring the implementation progress;
- (b) *Lead departments.* The HAD and the LCSD are the lead departments of DMW projects (see para. 1.5). They determine the works agents which are responsible for providing the designs and implementing the construction works of DMW projects; and

- (c) **Works agents.** The following parties are normally the works agents of DMW projects:
- (i) **HAD in-house staff.** They act as works agents for HAD-led projects with little design elements. The nine works teams of the NT District Offices are responsible for projects in the NT, while the HQWS is responsible for projects in urban areas (see para. 1.6);
 - (ii) **TCs employed by the HAD.** They act as works agents for complex or larger-scale HAD-led projects, and LCSD-led projects at new sites; and
 - (iii) **Architectural Services Department (ArchSD).** It normally acts as works agents for projects relating to existing HAD community halls/centres and LCSD venues.

2.3 **Implementation stages.** Figure 1 shows the main stages of implementation of a DMW project.

Figure 1

Main stages of implementation of a DMW project



Source: Audit analysis of HAD records

Home Affairs Department's review in 2010

2.4 In 2010, the HAD conducted a review of the DMW Programme, taking into account feedback from the DCs and works agents (see para. 1.10). The review examined the following major issues:

- (a) *Allocation of the DMW provision to districts* (see also paras. 2.5 to 2.8). In allocating the annual provision of \$300 million of the DMW Programme to individual districts, the HAD mainly took into account three criteria: (i) the population size; (ii) the socio-economic factors (e.g. the median household income); and (iii) the land area. Greater weightings were accorded to the first two criteria. The HAD found that urban districts began to experience constraints in finding sites for larger-scale DMW projects. **The HAD planned to review the allocation criteria;**
- (b) *Capital funding under a block vote* (see also paras. 2.9 to 2.11). The HAD found that it was difficult to control the pattern of capital expenditure within a financial year to match the fixed annual provision of \$300 million. **The HAD planned to explore with the FSTB as to whether improvements could be made to the existing funding mechanism;**
- (c) *Performance of TCs* (see also PART 3). The project management team of the HQWS acted as project managers for DMW projects with TCs as works agents. It vetted the designs and specifications produced by TCs and monitored their performance. The HAD noted, among other things, that TCs were faced with difficulties in familiarising with government regulations and practices, and in communicating effectively with the DCs regarding the progress, designs and costs of projects. **The HAD considered it necessary to enhance the HQWS's project management and advisory role;**
- (d) *Planning and monitoring* (see also PARTS 4 and 5). The HAD found that there was a need to establish a DMW Programme Steering Committee (to be chaired by the Director of Home Affairs with members comprising senior officers of the LCSD, the ArchSD and other relevant government departments) to keep an overview of the DMW Programme and discuss any major issues. **Subsequently, the Steering Committee was set up with the first meeting held in November 2010;**

- (e) ***Recurrent resources for management and maintenance of facilities*** (see also PART 6). At present, a fixed annual recurrent provision of \$30 million is provided to the HAD to meet the recurrent costs for the management and maintenance of facilities of DMW projects. **The HAD planned to explore whether improvements could be made to better meet the recurrent needs of an expanding portfolio of new and upgraded facilities of DMW projects; and**

- (f) ***Cooperation with the DCs.*** The HAD found that it was beneficial to organise periodic experience-sharing sessions for the DCs. **Subsequently, the first experience-sharing session was held in March 2011.**

Audit observations and recommendations

Allocation of the DMW provision to districts

2.5 Annual provisions are allocated to districts to meet their capital expenditure under the DMW Programme. Individual districts are expected to plan and monitor their works projects accordingly. However, some districts may spend more than their annual allocations and some may spend less. The HQWS plays a coordination role in ensuring that the total spending of all districts in a year will not exceed, but close to, the total provision of \$300 million. Audit made a comparison between the DMW allocation and the actual expenditure for each district for 2008-09 to 2010-11 (see Table 2).

Table 2

**Comparison between DMW allocations and actual expenditure
(2008-09 to 2010-11)**

District	DMW allocation (a) (\$ million)	Actual expenditure (b) (\$ million)	Variance (Note) $(c) = \frac{(b) - (a)}{(a)} \times 100\%$
<i>Urban districts</i>			
Southern	39.5	54.2	37%
Sham Shui Po	50.8	63.9	26%
Kwun Tong	55.1	63.3	15%
Yau Tsim Mong	44.0	49.9	13%
Central and Western	31.4	32.8	4%
Kowloon City	40.0	37.6	-6%
Wong Tai Sin	60.2	56.2	-7%
Eastern	47.8	38.0	-21%
Wan Chai	37.4	24.9	-33%
<i>NT districts</i>			
Tsuen Wan	39.7	42.1	6%
North	51.2	53.8	5%
Kwai Tsing	52.0	53.3	3%
Tuen Mun	58.4	58.5	0%
Yuen Long	65.5	64.8	-1%
Sai Kung	56.4	50.3	-11%
Tai Po	50.0	44.3	-11%
Islands	48.4	42.9	-11%
Sha Tin	52.7	46.3	-12%
<i>Headquarters</i>	19.5	12.7	-35%
Overall	900.0	889.8	-1%

Source: HAD records

Note: Positive variances represent overspending and negative variances represent underspending.

2.6 It can be seen from Table 2 that the total actual expenditure (\$889.8 million) was very close to the total DMW allocation (\$900 million) for the three-year period for all districts. However, individual districts had variances between the allocation and the actual expenditure, ranging from an underspending of 33% for Wan Chai to an overspending of 37% for the Southern District. For urban districts, there were four districts with a variance of over 20%. For NT districts, in general, the actual expenditure was closer to the allocation, with Sha Tin having the largest variance of 12% underspending.

2.7 The HAD's review in 2010 noted that urban districts began to experience constraints in finding sites for larger-scale DMW projects (see para. 2.4(a)). Such constraints might have hindered some urban districts in implementing DMW projects. For example, in the past three years (2008-09 to 2010-11), Wan Chai and the Eastern District considerably underspent their DMW allocations by 33% and 21% respectively.

2.8 Audit noted that the HAD planned to review the allocation criteria (see para. 2.4(a)). **Audit considers that, before consulting the DCs and other stakeholders on any proposal to revise the allocation criteria, the HAD needs to:**

- (a) **ascertain the reasons why some urban districts have difficulties in spending their annual allocations for the implementation of DMW projects, and take measures to help them tackle the difficulties; and**
- (b) **explore ways and means to help all districts (particularly urban districts) identify suitable sites for DMW projects and speed up the process of application for land allocations.**

Capital funding under a block vote

2.9 Similar to other block votes under the CWRF, the capital provision for funding projects under the DMW Programme is subject to the annual approval of the LegCo Finance Committee (Note 5). As such, the DMW block vote funding can only be spent within the relevant financial year. Any unspent portion of the funding as at the end of a financial year cannot be carried forward to the following financial year.

2.10 Audit notes that:

- (a) DMW projects are subject to the endorsement by the DCs, and are implemented by multiple implementation agents. Besides, the deliberation by the DCs on project priorities can take a long time. Therefore, it is difficult for the HAD (as the vote controlling department) to control the pattern of capital expenditure within a financial year to match the fixed annual capital provision; and
- (b) there is a risk that both the HAD and the DCs might be under pressure to fully spend the annual DMW provision in order to meet the yearly spending target under the current mode of block vote funding.

Note 5: *As a general rule for CWRF block votes, the level of over-commitment (for capital expenditure of approved projects) is limited to 200% of the annual capital provision.*

2.11 In this connection, Audit examination of the DMW Programme revealed the following deficiencies which might reflect such undue pressure on the HAD and the DCs to fully spend the annual DMW provision:

- (a) ***Making project payments earlier than required.*** In 2008-09, some \$123 million was spent on DMW projects with the Electrical and Mechanical Services Department (EMSD) acting as the works agent. These projects mainly involved the procurement and installation of electrical/electronic/mechanical systems and devices in HAD/LCSD venues. These projects amounted to 41% of the DMW expenditure in 2008-09. Operating as a trading fund, the EMSD made an accounting arrangement in 2008-09 whereby it accepted full payments earlier than normally required. For example, expenditure of some projects was fully charged to the DMW Programme as soon as the EMSD commenced the tendering process. After the FSTB expressed concerns, such arrangement was discontinued (Note 6). Audit shares the FSTB's concerns. While noting that such a practice might have been adopted, mainly as a matter of expediency (for the purpose of spending the annual provision as far as possible) in 2008-09 when the DMW Programme was in its first year of full implementation with many projects still being planned or constructed, Audit considers it necessary for the HAD to adhere to the principle that payments should not be made before receiving goods/services; and

- (b) ***Use of funding outside the ambit of the DMW block vote.*** According to the ambit of the DMW block vote, the vote covers minor building works, fitting out works and minor alterations, additions and improvement works **including furniture and equipment replacement incidental to such works** in respect of all the district facilities under the purview of the DCs. However, Audit noted one project in District 3 (see Case 1 for details) in which **furniture not incidental to any works** was procured. This might constitute a use of funding outside the ambit of the DMW block vote.

Note 6: *In 2009-10 and 2010-11, the expenditure incurred by the EMSD under the DMW Programme amounted to only 12% and 15% respectively of the total expenditure.*

Case 1

Procurement of furniture not incidental to any works

1. At the February 2010 meeting of the DFMC District Works Working Group of District 3, the District Office proposed a project to replace the fixed and movable chairs (1,300 items in total) in one of its community halls. At the DFMC meeting of March 2010, the proposal was endorsed.

2. The replacement was completed in November 2010 at a cost of \$380,000.

3. At the DFMC meeting of November 2010, the District Office proposed to also replace movable chairs (2,000 items in total) in four other community halls. The proposal was endorsed.

4. The replacement was completed in March 2011 at a cost of \$525,600.

Audit comments

5. In Audit's view, the first replacement of chairs (in one community hall) was within the ambit of the DMW block vote since works were involved in replacing the fixed chairs. However, the subsequent replacement of movable chairs (in four other community halls) was outside the ambit since it was a procurement of **furniture not incidental to any works in the community halls concerned**. The HAD needs to remind project proponents and other relevant parties of the ambit of the DMW block vote.

Source: Audit analysis of HAD records

Need for timely commencement of works

2.12 The Financial Circular (FC) on delegated authorities in respect of block allocations under the CWRP (i.e. FC No. 8/2001 up to August 2011 and subsequently FC No. 3/2011) provides guidelines to assist Permanent Secretaries and Controlling Officers to exercise their delegated authorities to approve minor items under CWRP block allocations (including the DMW/RPW block votes). The FC provides, among other things, that:

- (a) **to avoid underspending, works on each approved item should start within six months of the date of approval;**

- (b) beyond that, the approval will automatically lapse unless special dispensation is obtained from the Permanent Secretary overseeing the block allocation to extend the validity period for up to six more months; and
- (c) the Secretary for Financial Services and the Treasury should be consulted on any further requests for extending the validity period beyond 12 months from the approval date.

Similar requirements have also been incorporated in the HAD Guidelines.

2.13 For the 35 DMW/RPW projects selected for review (see para. 1.12), Audit examined whether the requirement that works should commence within six months of funding approval (the six-month requirement) had been complied with. **Audit found that for all the 5 DMW projects assigned to TCs, and 4 out of the 30 DMW/RPW projects assigned to HAD in-house staff, construction works commenced more than six months after funding approval, but special dispensation from the appropriate authority had not been obtained.** Table 3 shows the details.

Table 3

Suspected cases of non-compliance with the six-month requirement

Block vote	Project	Date of funding approval	Date of construction works commencement	Time between funding approval and construction works commencement (No. of months)	
DMW	Project 1	9.4.2009	20.4.2010	12.4	(Note 2)
	Project 2	20.2.2009	17.12.2009	9.9	
	Project 3	6.3.2009	— (Note 1)	28.8 (up to 31.7.2011)	
	Project 4	2.2.2009	18.8.2009	6.5	
	Project 5	24.3.2009	25.11.2009	8.0	
	Signages in District 1	5.6.2009	1.2.2010	7.9	(Note 3)
	Rain shelter in District 4	18.3.2009	3.11.2009	7.5	
RPW	Access road in District 3	16.6.2008	18.2.2009	8.1	(Note 3)
	Van track in District 3	28.7.2009	16.2.2010	6.6	

Source: Audit analysis of HAD records

Note 1: As at July 2011, the construction of Project 3 had not yet commenced (see para. 1 of Appendix D).

Note 2: In response to Audit's enquiry, the HAD sought clarifications from the FSTB as to whether, for the purpose of FC No. 3/2011, "works" were considered to have commenced when the necessary pre-construction works funded under the same project vote (e.g. site investigation and design by TCs) had started. The FSTB advised that there could be cases where both pre-construction works and main works were covered under a single minor works item. In such cases, the FSTB considered it appropriate to refer to the commencement of the pre-construction works, rather than the main works, as the start date of the item. Based on the FSTB's view, Projects 1 to 5 (where TCs had performed pre-construction works) could be regarded as in compliance with the six-month requirement.

Note 3: These projects (which were assigned to HAD in-house staff) did not comply with the six-month requirement.

2.14 The six-month requirement was not complied with for the 4 projects assigned to HAD in-house staff (see Note 3 to Table 3). **In this connection, Audit noted that the HAD did not have a system in place to ensure compliance with the six-month requirement for projects under both the DMW Programme and the RPW Programme.**

Need for better cash flow planning

2.15 In order to better utilise the annual provision of the DMW Programme, individual districts need to plan the cash flow requirements of their projects effectively. Good cash flow planning obviates the need to unnecessarily delay some endorsed projects or fast-track some other projects towards the end of a financial year. Fast-tracking of projects might however impose a risk of making payments earlier than normally required or incurring expenditure outside the ambit of the block vote solely for the purpose of meeting the spending target (see para. 2.11). A study of the project management in District 4 (see Appendix B for details) highlights the need for better cash flow planning.

Need for a project evaluation and performance reporting mechanism

2.16 Projects under the DMW Programme are aimed at improving local facilities, living environment and hygienic conditions. Mechanisms are in place for conducting consultations with the local communities before implementing DMW projects, which are mainly initiated by DC members to meet the aspirations and needs of the local communities. These projects are thoroughly discussed and endorsed by the DCs. Besides, Area Committees (for urban areas), Rural Committees (for rural areas), and residents organisations such as Mutual Aid Committees/Owners Corporations are also consulted on a need basis.

2.17 Given the wide consultations with the community, public attention and comments on DMW projects are inevitable. The public generally has high expectations on the benefits brought about by these projects. From time to time, there have been negative comments from the media and the public on some DMW projects. For example, in early 2011, concerns over the usage of a soccer pitch (Project 5 — see Table 7 in para. 4.4) was prominently reported by a newspaper. Case 2 shows the details.

Case 2

Usage of a soccer pitch constructed under the DMW Programme

1. Project 5 involved the construction of a soccer pitch in a rural area in District 4 under the DMW Programme at a project cost of \$9.74 million and a recurrent cost of \$0.5 million per year. The project proponents (DC members) claimed that the soccer pitch would benefit 28,000 people. The LCSD, in its funding submission, said that the soccer pitch was justified according to the Hong Kong Planning Standards and Guidelines, and there was also strong support from the DFMC of District 4. It was opened to the public in November 2010.

2. In early 2011, a newspaper reported that there were public concerns over the usage of the soccer pitch due to its remote location. However, information on the actual usage of the pitch was not available (because it was unmanned and open to the public for use free of charge).

Audit comments

3. Audit's findings below indicated that the usage of the soccer pitch seemed to be low, mainly because of its poor accessibility:

- (a) according to Audit's observation during a site visit on 12 July 2011, Tuesday (at 11:30 a.m.), the pitch was situated at a hillside, surrounded by container storage sites, and was remote from any residential developments. Audit noted that no one was using the pitch at that time. Upon Audit's enquiry, a person working in a godown just opposite to the pitch said that, according to his observation, the pitch was only used about once or twice a week. Audit visited the pitch again on 28 August 2011, Sunday (at 9:30 a.m.) and found that no one was using it (see Photograph 3);
- (b) there were only six bookings (Note) in eight months since the pitch's opening in November 2010;
- (c) the closing time had been brought forward by two hours from 11 p.m. to 9 p.m., in order to reduce expenditure on lighting because of low usage of the pitch after 9 p.m.;
- (d) residents of the nearest village had requested a footpath to the pitch. However, the request was turned down. The District Office was liaising with the DC member concerned regarding an alternative access to the pitch; and
- (e) owing to its remoteness, DFMC members had requested that the accessibility of the pitch be improved.

Source: HAD/LCSD records and Audit inspections

Note: A person who makes a booking with the LCSD has the first priority for using the pitch. Any persons can freely use the pitch if it is not booked in advance by others.

Photograph 3

A soccer pitch constructed under the DMW Programme



Source: Photograph taken by Audit on 28 August 2011, Sunday (at 9:30 a.m.)

2.18 At present, a systematic project evaluation and performance reporting mechanism is not in place and, therefore, necessary management information to measure the effectiveness of the DMW Programme (including utilisation of the facilities of completed projects, and user satisfaction with these facilities) is not available. **There is a need for the HAD to establish such a mechanism and conduct, in due course, a comprehensive review of the effectiveness of the DMW Programme.**

Audit recommendations

2.19 **Audit has recommended that the Director of Home Affairs should:**

Allocation of the DMW provision to districts

- (a) **ascertain the reasons why some urban districts have difficulties in spending their annual allocations for the implementation of DMW projects, and take measures to help them tackle the difficulties;**
- (b) **explore ways and means to help all districts (particularly urban districts) identify suitable sites for DMW projects and speed up the process of application for land allocations;**

- (c) **provide full information on (a) and (b) above, as well as detailed justifications for any proposal to revise the allocation criteria, when consulting the DCs and other stakeholders;**

Capital funding under a block vote

- (d) **ensure that project payments will not be made before receiving goods/services under the DMW Programme;**
- (e) **remind project proponents and other relevant parties that procurement of furniture not incidental to any works should not be made under the DMW Programme;**

Need for timely commencement of works

- (f) **put in place systems to ensure that, in accordance with FC No. 3/2011:**
 - (i) **the works of DMW/RPW projects commence within six months of funding approval as far as possible; and**
 - (ii) **for those DMW/RPW projects the works of which cannot commence within six months of funding approval, approval is sought from the appropriate authority for an extension of the approval validity period;**

Need for better cash flow planning

- (g) **remind District Offices of the need to plan effectively the cash flow requirements of DMW projects under their purview;**

Need for a project evaluation and performance reporting mechanism

- (h) **establish a project evaluation and performance reporting mechanism to provide necessary management information for evaluating the effectiveness of DMW projects; and**
- (i) **after the mechanism in (h) above is in place, conduct a comprehensive review of the effectiveness of the DMW Programme.**

Response from the Administration

2.20 The **Director of Home Affairs** agrees with the audit recommendations. She has said that:

- (a) regarding paragraph 2.19(d), it should be noted that the previous arrangement with the EMSD was on the basis that it is a government department. Besides, the practice has stopped; and
- (b) regarding paragraph 2.19(h), the HAD will consider devising a mechanism for post-completion evaluation of DMW projects.

2.21 The **Director of Leisure and Cultural Services** has said that the LCSD will, with a view to boosting the usage rate of the soccer pitch (see Case 2 in para. 2.17):

- (a) encourage those applicants who are not able to book hard-surface pitches in District 4 to use this venue;
- (b) encourage rural committees to organise soccer friendly matches at this venue on a regular basis; and
- (c) subject to consultation with the DFMC of District 4, explore with a model plane flying association the possibility of arranging model plane training or fun-day programmes at this venue.

2.22 The **Secretary for Financial Services and the Treasury** has said that he agrees with the audit recommendation in paragraph 2.19(f).

PART 3: USE OF TERM CONSULTANTS AS WORKS AGENTS

3.1 This PART examines the following issues relating to the use of TCs as work agents to implement DMW projects:

- (a) selection of architectural TCs (paras. 3.4 to 3.12); and
- (b) progress of projects assigned to TCs (paras. 3.14 to 3.21).

Term consultancy arrangement

3.2 The HAD adopts a term consultancy approach in implementing DMW projects mainly because:

- (a) the annual provision of \$300 million for the DMW block vote is considerably more than that previously provided for implementing district-based minor works projects (see Note 2 to para. 1.3). The HAD does not have sufficient in-house staff to cope with the increased workload arising from the greater magnitude of works projects; and
- (b) TCs have the professional expertise to implement projects which are larger in scale and involve more design elements.

3.3 The key features of the term consultancy arrangement are as follows:

- (a) the arrangement is on a regional basis, i.e. the HAD employs one architectural TC to provide services for each of four regions (Hong Kong, Kowloon, NT East and NT West). An architectural TC has to team up with other sub-consultants (e.g. a structural engineering consultant) to provide the necessary services. As specified in the consultancy agreement, in implementing a project, an architectural TC has to complete six project stages, namely: (i) feasibility study; (ii) preliminary design and consultation; (iii) detailed design; (iv) contract documentation and tendering; (v) construction; and (vi) post-construction services;
- (b) there is one quantity surveying TC for all regions. It has to work with the architectural TCs and provide independent quantity surveying services;
- (c) the consultancy fee payable to a TC in carrying out a project is arrived at by applying the fee percentage (per the consultancy agreement) to the construction cost of the project; and

- (d) the HAD has set up a project management team at its HQWS to direct the TCs and monitor their performance.

Selection of architectural term consultants

3.4 The HAD selected TCs according to the procedures laid down in the Handbook of the Government's Architectural and Associated Consultants Selection Board (AACSB). The AACSB maintains two lists of architectural consultants (i.e. Band 1 List and Band 2 List — Note 7). The HAD decided that four architectural TCs would be selected from the Band 2 List, each serving one region. In the event, the HAD selected four TCs (Consultants A, B, C and D) serving the four regions (Regions 1 to 4) of the territory. The term consultancy agreements covered the two-year period 30 April 2008 to 29 April 2010 (the 2008-2010 agreements). A total of 213 projects had been assigned to them during the agreement period. Up to 31 March 2011, they had completed 68 projects and continued to implement the remaining 145 projects.

3.5 In April 2009, one year before the expiry of the 2008-2010 agreements, the HAD started the selection exercise for TCs to provide services for another two-year period. However, it turned out that the selection exercise was not a smooth one, taking more than one year to complete. **In the event, three new term consultancy agreements (for Regions 1, 3 and 4) were awarded in January 2011 (8 months after the expiry of the 2008-2010 agreements). The other one (for Region 2) was awarded in March 2011 (10 months after the expiry of the 2008-2010 agreement).** Appendix C shows the chronology of key events of the selection exercise.

Audit observations and recommendations

Long time taken to award new agreements

3.6 The new term consultancy agreements were planned to be effective immediately following the 2008-2010 agreements. It however turned out that there was an 8-month gap for Regions 1, 3 and 4, and a 10-month gap for Region 2, during which there were no TCs to take up new projects. In appealing to the AACSB in September 2010 (see item (f) of Appendix C), the HAD mentioned that the DCs had expressed dissatisfaction and the DMW Programme had lost part of its momentum because of the delay in appointing TCs.

Note 7: *Band 1 consultants can undertake consultancies with estimated project value exceeding a prescribed limit (currently \$185 million), whereas Band 2 consultants can undertake those not exceeding the limit.*

3.7 Audit considers that there was room for improvement in conducting the new TC selection exercise. According to the HAD Guidelines, it usually takes six to nine months to complete such TC selection exercises. The new TC selection exercise however took 24 months (from April 2009 to March 2011) to complete. The HAD needs to closely monitor the progress of future TC selection exercises.

Small number of interested consultants

3.8 In the new TC selection exercise, of the then 22 consultants on the Band 2 List, only 7 submitted Expressions of Interest (EOIs). Subsequently 5 consultants submitted technical and fee proposals and, according to the design of the exercise, 4 of them would be awarded the term consultancy agreements. Given the small number of consultants interested in the term consultancy contracts, there was a lack of competition. **Audit considers that the HAD needs to take effective measures to enhance competition in future TC selection exercises.** For example, one way to enhance the attractiveness of a term consultancy contract is to increase the project value of the contract agreement. This can be achieved by grouping Regions 1 and 2 to be covered by one agreement. The project value of the agreement for these two regions combined will still be within the limit of \$185 million for Band 2 consultants as allowed by the AACSB Handbook.

One consultant serving two regions

3.9 For Regions 1, 3 and 4, their existing TCs (under the 2008-2010 agreements) were awarded the new agreements in the selection exercise. For Region 2, the TC for Region 3 (i.e. Consultant C) was selected. In other words, Consultant C is currently responsible for:

- (a) completing Region 3 projects brought forward from the 2008-2010 agreement. As at March 2011, there were 73 such projects with an estimated value of works of \$115 million;
- (b) implementing Region 3 projects assigned to it under a new agreement with an estimated value of works amounting to \$100 million; and
- (c) implementing Region 2 projects assigned to it under another new agreement with an estimated value of works amounting to \$90 million.

Therefore, since March 2011, Consultant C has been responsible for a large number of DMW projects, with a total value of works amounting to \$305 million (i.e. the sum of (a) to (c) above — Note 8).

3.10 Audit reviewed the progress as at 31 March 2011 of the projects assigned to TCs under the 2008-2010 agreements (see Table 4).

Table 4
Progress of projects assigned to TCs under the 2008-2010 agreements
(31 March 2011)

Region	TC	No. of projects assigned (a)	Total estimated project cost (b) (\$ million)	No. of projects completed (c)	Total project expenditure incurred (d) (\$ million)	Extent of completion	
						In terms of no. of projects (e) = (c) ÷ (a) × 100%	In terms of project expenditure (f) = (d) ÷ (b) × 100%
1	Consultant A	16	54.6	7	16.6	44%	30%
2	Consultant B	30	52.8	19	31.3	63%	59%
3	Consultant C	90	163.2	17	41.1	19%	25%
4	Consultant D	77	215.2	25	52.2	32%	24%
Overall		213	485.8	68	141.2	32%	29%

Source: Audit analysis of HAD records

Note 8: Although the total value of works (\$305 million) has exceeded the limit of \$185 million allowed for architectural consultants on the Band 2 List, this is not in breach of the AACSB Handbook condition because items (a), (b) and (c) relate to three different agreements, each of which has a project value below \$185 million.

3.11 As can be seen from Table 4, the progress of projects assigned to Consultant C was comparatively slow. One of the reasons was that Consultant C had the largest number of projects. With two new agreements awarded in January and March 2011, Consultant C would have greater workload. There is a risk that Consultant C might be overloaded with too many projects, thereby aggravating the progress of project implementation. **The HAD needs to closely monitor the situation to ensure satisfactory progress of projects assigned to Consultant C.**

Audit recommendations

3.12 **Audit has recommended that the Director of Home Affairs should:**

- (a) **in conducting TC selection exercises in future:**
 - (i) **closely monitor their progress to ensure that term consultancies are awarded in a timely manner; and**
 - (ii) **take effective measures to enhance competition (e.g. increasing the project values of term consultancy agreements by reducing the number of agreements to be awarded, with a view to enhancing their attractiveness to potential TCs); and**
- (b) **closely monitor the progress of projects assigned to TCs, particularly those with heavy workloads (e.g. Consultant C which serves two regions).**

Response from the Administration

3.13 The **Director of Home Affairs** agrees with the audit recommendations. She has said that, regarding paragraph 3.12(a)(ii), the HAD will explore ways to enhance the attractiveness of the term consultancies while bearing in mind that the DCs wish to have a greater number of TCs taking part in the DMW Programme.

Progress of projects assigned to term consultants

3.14 For the DMW projects assigned during the period covered by the 2008-2010 agreements, Audit compared the progress as at 31 March 2011 of the TC projects with that of the non-TC projects. Table 5 shows results of the comparison.

Table 5

**Progress of projects assigned during the period April 2008 to April 2010
(31 March 2011)**

Project	No. of projects assigned (a)	Total estimated project cost (b) (\$ million)	No. of projects completed (c)	Total project expenditure incurred (d) (\$ million)	Extent of completion	
					In terms of no. of projects (e) = (c) ÷ (a) × 100%	In terms of project expenditure (f) = (d) ÷ (b) × 100%
TC projects	213	485.8	68	141.2	32%	29%
Non-TC projects	1,709	681.6	1,572	606.2	92%	89%
Overall	1,922	1,167.4	1,640	747.4	85%	64%

Source: Audit analysis of HAD records

Audit observations and recommendations

Slow progress of projects assigned to TCs

3.15 As can be seen from Table 5, the progress of the TC projects was much slower than that of the non-TC projects. It is understood that TC projects were generally larger in scale (with an average project cost of \$2.28 million) than non-TC projects (with an average project cost of \$0.4 million) and therefore required longer implementation time. Nonetheless, the slow progress of the TC projects is a cause for concern. Audit noted that, as at 31 March 2011, about one to three years after the assignment of the 213 TC projects, 97 (45%) of them were still under the planning or tendering stages (not yet reaching the construction stage).

3.16 The HAD's database maintains, for each project, the tentative works commencement and completion dates originally planned and subsequently revised. According to the HAD's database as at 31 March 2011, for the TC projects assigned under the 2008-2010 agreements:

- (a) the revised works commencement date was on average 234 days (about 8 months) after the originally planned works commencement date. In other words, on average, 8 months of deferment had occurred (or would occur) in the planning and tendering stages before commencement of works; and
- (b) the revised works completion date was on average 278 days (about 9 months) after the originally planned works completion date. In other words, on average, 9 months of deferment had occurred (or would occur) in the overall implementation of a project.

3.17 The estimated 8 months of deferment in the planning and tendering stages accounted for a large part of the estimated 9 months of deferment in the overall implementation of a project. **In view of the foregoing as well as the long time taken by TCs to prepare the detailed design and contract documentation (see paras. 4.7 and 4.8), Audit considers it necessary for the HAD to closely monitor TCs' progress in the planning and tendering stages of implementing DMW projects and, where necessary, provide assistance to them in tackling difficulties encountered.**

Scale of projects assigned to TCs

3.18 According to the HAD Guidelines, TCs are used as works agents for complex or larger-scale HAD-led projects, and LCSD-led projects at new sites (see para. 2.2(c)(ii)). In general, projects assigned to TCs should have higher project costs than those assigned to other works agents. Audit conducted an analysis of the scale of the projects assigned to TCs under the 2008-2010 agreements (see Table 6).

Table 6

Scale of projects assigned to TCs under the 2008-2010 agreements

Project cost	Number of projects	
≤ \$1 million	107	(50%)
> \$1 million to ≤ \$4 million	72	(34%)
> \$4 million	34	(16%)
Total	213	(100%)

Source: HAD records

3.19 Although the TC projects had an average project cost of \$2.28 million (see para. 3.15), Table 6 shows that of these projects:

- (a) 50% were small-scale projects each costing \$1 million or less, which can be awarded to contractors on the HAD District List of Contractors (see para. 5.2); and
- (b) 34% were medium-scale projects each costing over \$1 million and up to \$4 million, which can be awarded to contractors on the HAD Headquarters (HQ) List of Contractors (see para. 5.2).

That is, for 84% (50% + 34%) of projects assigned to TCs, the project costs did not exceed \$4 million. It appears that the majority of projects assigned to TCs were not “complex or larger-scale” projects.

3.20 Audit noted that:

- (a) TCs might be overloaded with a large number of small-scale projects. This would adversely affect the overall implementation progress of TC projects;
- (b) using TCs for implementing small-scale projects with little design elements might not be in line with the original intention as stated in the HAD Guidelines (see para. 3.18); and
- (c) according to the HAD Guidelines, larger-scale projects with more design elements are encouraged in order to create impact and bring about more significant benefits to the local communities.

The HAD needs to review the situation and take effective measures to make the best use of the services and expertise of TCs.

Audit recommendations

3.21 **Audit has recommended that the Director of Home Affairs should:**

- (a) **closely monitor TCs’ progress in the implementation of DMW projects, particularly in the planning and tendering stages, and where necessary, provide assistance to them in tackling difficulties encountered; and**
- (b) **review the situation to identify measures to promote the implementation of larger-scale DMW projects with more design elements, which can bring about more significant benefits to the local communities.**

Response from the Administration

3.22 The **Director of Home Affairs** agrees with the audit recommendations. Regarding the audit recommendation in paragraph 3.21(b), she has said that as DMW projects need to be endorsed by the DCs concerned and many are proposed by DC members, the HAD will continue to encourage the DCs to undertake larger-scale DMW projects.

PART 4: MONITORING OF PROJECTS ASSIGNED TO TERM CONSULTANTS

4.1 This PART examines the HAD's monitoring of DMW projects assigned to TCs. Audit examination has found the following areas where improvements can be made:

- (a) regular working-level meetings (paras. 4.5 and 4.6);
- (b) time taken by TCs in the planning and tendering stages (paras. 4.7 and 4.8);
- (c) monitoring of works that require excavation on government land (para. 4.9);
- (d) technical audit by the HQWS (paras. 4.10 and 4.11); and
- (e) TC reports on contractors' performance (paras. 4.12 to 4.14).

Home Affairs Department's monitoring system

4.2 The HAD's HQWS is responsible for monitoring projects assigned to TCs. It has set up a project management team, comprising professional architects, specifically for this purpose. The responsibilities of the HQWS include:

- (a) instructing TCs to complete the various project stages (see para. 3.3(a));
- (b) monitoring TCs' performance;
- (c) providing comments on preliminary and detailed designs prepared by TCs;
- (d) providing comments on contract documentation (including drawings and specifications) prepared by TCs; and
- (e) monitoring the progress of works.

4.3 The HQWS has adopted a three-tier system to monitor projects assigned to TCs. Under this system, the following regular meetings are held:

- (a) ***First tier.*** Meetings at the working level are held for each region regularly. They are held between the HQWS, the architectural TC and the quantity surveying TC to review project progress and the TCs' performance;

- (b) *Second tier.* Meetings at the management level are held for each region quarterly. They are held between the HQWS, the TCs concerned and the lead department district offices to review project progress and the TCs' performance, and coordinate various parties for project implementation; and
- (c) *Third tier.* Meetings at the administration level are held quarterly. They are held between the HQWS and all TCs to review project progress and the TCs' performance, and discuss issues relating to project implementation.

Audit observations and recommendations

4.4 Audit reviewed the monitoring systems and procedures by examining Projects 1 to 5 (see para. 1.12) assigned to TCs under the 2008-2010 agreements (see Table 7).

Table 7
Projects selected for audit examination
(July 2011)

Project	Project scope	Lead department	Final/latest estimated project cost (\$ million)
1	To construct a cover over a minibus stop in District 1	HAD	2.56
2	To construct a sitting-out area at a former landfill site in District 2	LCSD	4.74
3	To construct a temporary community garden in District 3	LCSD	4.00
4	To construct a cover over a pedestrian walkway in District 3	HAD	3.64
5	To construct a soccer pitch in District 4	LCSD	9.74

Source: HAD records

Regular working-level meetings

4.5 Audit reviewed the number of first-tier working-level meetings held between the HQWS and the TCs concerned. Table 8 shows the results.

Table 8
Number of working-level meetings held
(April 2008 to March 2011)

Region	Number of meetings held			
	2008-09	2009-10	2010-11	Total
1	0	3	0	3
2	5	5	2	12
3	4	4	2	10
4	5	5	2	12

Source: HAD records

4.6 Table 8 shows that, for Region 1, only 3 working-level meetings were held during the 3-year period April 2008 to March 2011. In particular, no working-level meetings were held in 2008-09 and 2010-11. The HAD needs to ensure that regular working-level meetings are held in all regions under the 3-tier monitoring system.

Time taken by TCs in the planning and tendering stages

4.7 In the planning and tendering stages of a project, the TC has to prepare the preliminary and detailed designs and contract documentation (for conducting the tender/quotation exercise), taking into account the DC's input. Audit noted that the TC generally took a long time to prepare the detailed design and contract documentation of a project. Table 9 shows, for the five projects under examination, the time taken by the TCs in performing these tasks.

Table 9

Time spent in preparing the detailed design and contract documentation

Project	Start date of detailed design (Note 1)	Completion date of contract documentation (Note 2)	Time spent
1	April 2009	January 2010	9 months
2	September 2008	September 2009	12 months
3	January 2009	December 2009	11 months (Note 3)
4	October 2008	May 2009	7 months
5	July 2008	August 2009	13 months

Source: HAD records

Note 1: This was the date when the preliminary design was endorsed.

Note 2: This was the date when the invitation for tenders/quotations was issued.

Note 3: The time spent related to the first quotation exercise (see para. 3 of Appendix D). As at July 2011, the construction of Project 3 had not yet commenced (see para. 1 of Appendix D).

4.8 Audit examined Project 3 to ascertain the reasons for the long time taken by the TC to prepare the detailed design and contract documentation (see Appendix D for details). Audit has identified the following areas for improvement:

- (a) the HQWS needs to provide more assistance to the TC and strengthen the monitoring of its progress in preparing the detailed design and contract documentation;
- (b) the lead department (i.e. the LCSD in this case) needs to put forward necessary changes to project requirements promptly and avoid proposing late changes as far as possible;

- (c) if it is decided to invite quotations (instead of tenders — Note 9), the lead department needs to ensure that the estimated contract value is sufficiently lower than the threshold value of \$4 million (e.g. by designating some contract items as optional), in order to avoid abortive work due to an unsuccessful quotation exercise (see para. 3 of Appendix D); and
- (d) the HAD needs to review, in consultation with the DCs, the guideline for reporting an increase in estimated project cost to the DC concerned (e.g. whether the criterion of 50% increase should be lowered — see para. 4 of Appendix D).

Monitoring of works that require excavation on government land

4.9 Project 4 was a project that required excavation on government land maintained by the Highways Department. From an examination of Project 4 (see Appendix E for details), Audit has identified the following areas for improvement in monitoring works that required an excavation permit (XP):

- (a) the HQWS needs to provide more assistance to the TC and strengthen the monitoring of its progress in applying for an XP; and
- (b) the HQWS needs to strengthen the monitoring of the TC's performance in supervising a contractor to ensure that the contractor carries out the works according to contract requirements and in compliance with applicable regulations (e.g. those relating to an XP).

Technical audit by the HQWS

4.10 According to the term consultancy agreement, a TC has to submit a Quality Site Supervision Plan (QSSP) for each project. A QSSP has to identify critical construction activities and structural elements, and formulate special site supervision requirements. The execution of a QSSP enables the TC to supervise the contractor in order to ensure that critical construction activities and structural elements are in accordance with contract requirements. According to the term consultancy agreement, a QSSP and its execution by the TC shall be subject to the HQWS's technical audit.

Note 9: *According to the Government's Stores and Procurement Regulations, if the value of a works contract does not exceed \$4 million, the procuring department can invite quotations for the contract. If the value exceeds \$4 million, the procuring department needs to follow the tender procedures laid down in the Regulations.*

4.11 However, Audit noted that the HQWS did not have a system in place for conducting technical audits on QSSPs and their execution by TCs. No such technical audits were conducted for the five projects (Projects 1 to 5) under examination.

TC reports on contractors' performance

4.12 For a TC project, the contractor is to be selected from the HAD's list of approved contractors if the contract value does not exceed \$4 million, or from the Development Bureau (DevB)'s list if the contract value exceeds \$4 million. The TC has to prepare reports on the contractor's performance.

4.13 If the contractor is an HAD-approved contractor, one report is required every six months until the completion of the works, according to the HAD Manual on Minor Works Projects (HAD Works Manual). If the contractor is a DevB-approved contractor, one report is required every three months until the end of the maintenance period, according to the DevB Contractor Management Handbook. Poor performance reports will lead to regulatory actions (e.g. issue of a warning letter and removal from the list).

4.14 Audit examined the TCs' compliance with these reporting requirements for the five projects under examination. It can be seen from Table 10 that the reporting requirement in respect of HAD-approved contractors was not complied with by the TCs in Projects 1, 2 and 4.

Table 10

Reports on contractors' performance

Project (Note)	HAD/ DevB-approved contractor	Construction period	End of maintenance period	Reporting interval	No. of reports required	No. of reports prepared
1	HAD	Apr to Dec 2010	Dec 2011	6 months	2	0
2	HAD	Dec 2009 to Nov 2010	Nov 2011	6 months	2	1 (the final report upon works completion)
4	HAD	Aug 2009 to Mar 2011	Mar 2012	6 months	3	0
5	DevB	Nov 2009 to Nov 2010	Nov 2011	3 months	6 (as at July 2011)	6

Source: HAD records

Note: As at July 2011, the construction of Project 3 had not yet commenced (see para. 1 of Appendix D). Therefore, there was no TC's reporting of the contractor's performance.

Audit recommendations

4.15 **Audit has recommended that the Director of Home Affairs should:**

- (a) **ensure that regular working-level meetings are held in all regions under the 3-tier monitoring system;**
- (b) **provide more assistance to TCs and strengthen the monitoring of their progress in preparing the detailed design and contract documentation, and in applying for an XP;**
- (c) **review, in consultation with the DCs, the guideline for reporting an increase in estimated project cost to the DC concerned (e.g. whether the criterion of 50% increase should be lowered);**

- (d) **strengthen the monitoring of TCs' performance in supervising contractors to ensure that the latter carry out the works of a project according to contract requirements and in compliance with applicable regulations (e.g. those relating to an XP);**
- (e) **put in place a system for conducting technical audits on QSSPs and their execution by TCs; and**
- (f) **ensure that TCs prepare reports on contractors' performance in accordance with the laid-down requirements.**

4.16 **Audit has also recommended that the Director of Home Affairs and the Director of Leisure and Cultural Services should:**

- (a) **put forward necessary changes to project requirements promptly and, as far as possible, avoid proposing late changes which may cause undue delays to the preparation of detailed design and contract documentation by TCs; and**
- (b) **if it is decided to invite quotations (instead of tenders), ensure that the estimated contract value is sufficiently lower than the threshold value of \$4 million (e.g. by designating some contract items as optional), in order to avoid abortive work due to an unsuccessful quotation exercise.**

Response from the Administration

4.17 The **Director of Home Affairs** agrees with the audit recommendations in paragraphs 4.15 and 4.16.

4.18 The **Director of Leisure and Cultural Services** agrees with the audit recommendations in paragraph 4.16. She has said that:

- (a) the LCSD will continue to put forward necessary changes to project requirements promptly and avoid proposing late changes as far as possible; and
- (b) if it is decided to invite quotations instead of tenders for a project, the LCSD will work closely with the HQWS of the HAD and TCs in estimating the contract value, in order to ensure that the estimated value is sufficiently lower than the threshold value of \$4 million.

PART 5: MONITORING OF PROJECTS ASSIGNED TO IN-HOUSE STAFF

5.1 This PART examines the monitoring of projects assigned to HAD in-house staff. Audit examination has found the following areas where improvements can be made:

- (a) maintenance of contractor lists (paras. 5.2 to 5.7);
- (b) administration of works contracts (paras. 5.9 to 5.20); and
- (c) checks conducted by the technical audit team (paras. 5.22 to 5.28).

Maintenance of contractor lists

5.2 The HAD maintains two contractor lists, namely the District List (Note 10) and the HQ List. Contractors on the District List are permitted to carry out projects (of the districts they have been registered for) costing up to \$1 million. Contractors on the HQ List are permitted to carry out projects (of any districts) costing over \$1 million and up to \$3 million (for Group II) or \$4 million (for Group I). For projects costing over \$4 million, the HAD makes use of the contractor list maintained by the DevB. As at 30 April 2011, there were 90 contractors on the HAD contractor lists, of which 28 were on the HQ List (Note 11). Of the 90 contractors, 48 (53%) were incorporated contractors and 42 (47%) were sole proprietors/partnerships (unincorporated contractors).

5.3 The contractor lists are maintained by the HQWS. According to the HAD Works Manual, contractors are required to meet a number of requirements on financial capability, as follows:

- (a) ***Employed capital.*** For admission to and retention on the lists, the minimum employed capital (Note 12) is \$200,000 for the District List, \$600,000 for the HQ Group II List and \$800,000 for the HQ Group I List;

Note 10: *The District List is sub-divided into 10 lists, one for each of the 9 NT districts and the remaining one for the 9 urban districts.*

Note 11: *For inclusion in the HQ List, a contractor should already have been included in the District List.*

Note 12: *According to the Financial Vetting Guidelines issued by the Treasury, the employed capital is defined as the shareholders' funds in the case of a body corporate, and the partners' or proprietor's funds in the case of a partnership or proprietorship business.*

- (b) **Working capital.** For admission to and retention on the lists, the minimum working capital (Note 13) is \$200,000 for the District List, \$600,000 for the HQ Group II List and \$800,000 for the HQ Group I List, or 20% of the total value of aggregated outstanding works, whichever is the higher; and
- (c) **Financial performance.** For retention on the lists, the average loss rate (Note 14) could not be greater than 30% in the past two years.

Assessment of contractors' financial capability

5.4 Audit reviewed the HAD's process of assessing the financial capability of contractors by examining a sample of "admitted" and "retained" contractors:

- (a) 10 contractors (comprising 8 incorporated and 2 unincorporated contractors) admitted in recent admission exercises conducted in 2009 and 2010 ("admitted" contractors — Note 15); and
- (b) 20 "retained" contractors (comprising 5 incorporated and 15 unincorporated contractors).

Audit observations and recommendations

Admission to contractor lists

5.5 For admission to the contractor lists, the HAD requires applicants to submit statements and evidence showing the employed capital and the working capital. Incorporated contractors usually submit audited accounts, while unincorporated contractors usually submit self-certified statements and supporting documents. Audit examination revealed the following areas for improvement:

Note 13: *According to the Financial Vetting Guidelines, the working capital is defined as the net current assets (i.e. current assets minus current liabilities) of a business for financing the day-to-day operation.*

Note 14: *According to the Contractor Management Handbook issued by the DevB, the average loss rate is the weighted average of the net loss as a percentage of the shareholders' funds over the past three years.*

Note 15: *Admission exercises are conducted on a half-yearly basis (in January and June, if there are applications) for the District List and the HQ Group II List, and on a case-by-case basis for the HQ Group I List.*

- (a) ***Incorporated contractors.*** For 6 (75%) of the 8 incorporated contractors selected for examination, the date of the submitted audited accounts was earlier than the date of submission by 7 to 20 months. The financial information was not up-to-date. In this regard, the DevB requires applicants to submit management accounts covering the period from the date of the audited accounts to a date not more than 3 months earlier than the date of submission. The HAD needs to consider imposing the same requirement on applicants to ensure that they submit up-to-date financial information; and
- (b) ***Unincorporated contractors.*** For the 2 unincorporated contractors selected for examination, they submitted self-certified income and expenditure statements and other documents indicating ownership of certain assets (such as vehicles, machinery and cash). The information might not be sufficient for the assessment of their employed capital and working capital. To assist unincorporated contractors in providing sufficient information for assessment purposes, the HAD needs to consider providing them with a proforma statement of accounts (setting out the required financial information) and a list of supporting documents required to be submitted.

Retention on contractor lists

5.6 For retention on the contractor lists, the HAD requires contractors to submit, within six months after the end of an accounting period, audited accounts or self-certified accounts (if audited accounts are not available). Audit examination revealed the following areas for improvement:

- (a) ***Annual accounts not submitted.*** For 7 (47%) of the 15 unincorporated contractors selected for examination, they only submitted documents indicating ownership of certain assets (such as cash), but did not submit the required annual accounts. To assist unincorporated contractors in applying for retention on the lists, the HAD needs to consider providing them with a proforma statement of accounts and a list of supporting documents required to be submitted; and
- (b) ***Financial performance not assessed.*** For the 20 contractors selected for examination, the HAD did not assess their financial performance in terms of the average loss rate, contrary to the requirement set out in the HAD Works Manual (see para. 5.3(c)). Of the 13 contractors which submitted annual accounts, 2 in fact incurred losses in their last accounting periods. Audit noted that the HAD's database did not keep the necessary information for such assessment.

Audit recommendations

- 5.7 **Audit has recommended that the Director of Home Affairs should:**
- (a) **require incorporated contractors to submit up-to-date management accounts in applying for admission to the contractor lists (similar to the DevB's practice — see para. 5.5(a));**
 - (b) **provide unincorporated contractors with a proforma statement of accounts (setting out the required financial information) and a list of supporting documents required to be submitted in applying for admission to and retention on the contractor lists; and**
 - (c) **in assessing contractors' eligibility for retention on the contractor lists, take into account their financial performance in terms of the average loss rate, as required by the HAD Works Manual, and maintain such information in the HAD's database.**

Response from the Administration

- 5.8 The **Director of Home Affairs** agrees with the audit recommendations.

Administration of works contracts

5.9 HAD in-house works staff act as works agents for HAD-led projects with little design elements. Nine works teams of the NT District Offices are responsible for the projects in their respective districts. Two works teams of the HQWS are responsible for the projects in urban areas (i.e. one for Hong Kong and the other for Kowloon). The HQWS also provides technical assistance to the works teams in the NT.

Audit observations and recommendations

5.10 Audit reviewed the HAD's administration of works contracts by examining 30 projects selected from Districts 1 to 4 (see para. 1.12), comprising 22 DMW projects and 8 RPW projects. Audit's findings are set out in paragraphs 5.11 to 5.19.

Site inspections

5.11 According to the HAD Works Manual, works staff should conduct regular site inspections to ensure that all works are executed and completed according to contract requirements. The details of a site inspection (e.g. date and time, details of on-site

activities, and instructions given to the contractor) should be recorded in a Works Project Inspection Report. In examining the selected projects, Audit found that Works Supervisors (WSs) and Assistant Inspectors of Works (AIOWs) conducted regular site inspections and recorded their inspections in the Inspection Reports.

5.12 According to the HAD Works Manual, Inspectors of Works (IOWs) and Senior Inspectors of Works (SIOWs) should conduct regular spot checks on WSs and AIOWs, and supplementary site inspections for important site activities. However, Audit could not find records of the site inspections conducted by IOWs and SIOWs, except for six projects in which the IOWs signed on the Inspection Reports. **The HAD needs to remind IOWs and SIOWs to conduct regular site inspections and properly record their inspections.**

5.13 According to surprise checks conducted by the HQWS's technical audit team (see para. 5.22), there were common deficiencies on the part of contractors (e.g. those relating to site safety, site cleanliness and XP requirements — see para. 5.25). In examining the selected projects, Audit found that these common deficiencies were rarely documented in the Inspection Reports. **The HAD may consider developing a checklist, based on these common deficiencies, to assist frontline works staff in conducting and documenting site inspections.**

Examination of works

5.14 HAD works contracts provide that no works shall be covered up or put out of view without the HAD's approval. For such works (including foundation works), the contractor has to submit a Request for Checking Form to the responsible works team at least one day in advance. This enables HAD works staff to visit the site (if necessary) to examine and measure such works. Audit found that, in 221 cases (58% of 383 cases), the contractors submitted Request for Checking Forms less than one day in advance, contrary to the contract requirement. **The HAD needs to remind contractors to submit Request for Checking Forms in a timely manner.**

5.15 According to the HAD Works Manual, on receiving a Request for Checking Form, if it is relating to a critical concrete structure, the works team has to immediately submit the Form to the technical audit team for it to decide whether a surprise check is required (see para. 5.22(b)). Audit found that there was no documentation indicating whether works teams had acted according to this requirement. **The HAD needs to require works teams to document the actions taken on receiving Request for Checking Forms (e.g. assessing whether they are relating to critical concrete structures and submitting them to the technical audit team).**

Issue of variation orders (VOs)

5.16 According to the HAD Works Manual, variations of works (including additions and omissions) have to be ordered by issuing a VO before the commencement of such works (Note 16). Of the 30 projects examined by Audit, 19 VOs were issued for 15 projects. However, of the 19 VOs issued, 11 (58%) were issued late, i.e. after the completion of the works concerned, instead of before the commencement of the works.

5.17 The late issue of a VO imposes a risk of disputes over the scope and value of the additional works. Besides, without a VO, the contractor may not have sufficient information (e.g. additional works value) for the procurement of insurance to cover the extra time or the extra works value (see also para. 5.19). **The HAD needs to remind works teams to issue VOs in a timely manner, i.e. before the commencement of the works concerned, as required by the HAD Works Manual.**

Checking of insurance policies

5.18 HAD works contracts require a contractor to procure three kinds of insurance to cover the value of the works, third party liability, and workman injury respectively. The insured period has to be from the works commencement date up to the end of the maintenance period. A contractor has to lodge with the HAD copies of the insurance policies and the receipts of premium payments.

5.19 According to the HAD Works Manual, a works team has to check the insurance policies lodged by a contractor. In case an extension of time is granted or a VO is issued, the works team has to ensure that the contractor will procure additional insurance to cover the extra time or the extra works value. In examining the 30 selected projects, Audit found that:

- (a) for two projects, the insured periods started 4 days and 20 days after the works commencement dates respectively;
- (b) for six projects, the contractors procured insurance to cover the extra time or the extra works value (arising from an extension of time or a VO) after the works had been certified complete; and
- (c) for one project, the contractor did not procure insurance to cover the extra works value arising from a VO.

Note 16: *In an emergency situation, a verbal site instruction can be given. The verbal instruction needs to be subsequently confirmed by a VO.*

The HAD needs to remind works teams to request contractors to procure the required insurance in a timely manner. The works teams also need to check the insurance policies to ensure that there is adequate insurance coverage.

Audit recommendations

5.20 **Audit has recommended that the Director of Home Affairs should:**

- (a) **remind IOWs and SIOWs to conduct regular site inspections and properly record their inspections;**
- (b) **consider developing a checklist, based on the common deficiencies identified in surprise checks conducted by the HQWS's technical audit team, in order to assist frontline works staff in conducting and documenting site inspections;**
- (c) **remind contractors to submit Request for Checking Forms in a timely manner;**
- (d) **require the HAD's works teams to document the actions taken on receiving Request for Checking Forms, such as assessing whether they are relating to critical concrete structures and submitting them to the technical audit team; and**
- (e) **remind the HAD's works teams to:**
 - (i) **issue VOs before the commencement of the works concerned, as required by the HAD Works Manual;**
 - (ii) **request contractors to procure the required insurance in a timely manner; and**
 - (iii) **check the insurance policies lodged by contractors to ensure that there is adequate insurance coverage, particularly for the extra time or the extra works value arising from an extension of time or a VO.**

Response from the Administration

5.21 **The Director of Home Affairs agrees with the audit recommendations.**

Checks conducted by the technical audit team

5.22 Under the HQWS, there is a technical audit team headed by a Chief Technical Officer. The team is responsible for conducting the following checks:

- (a) *Audit checks.* They are conducted on works teams in respect of completed contracts. The purpose is to ensure that works teams implement contracts in accordance with the HAD's systems and procedures; and
- (b) *Surprise checks.* They are conducted on contractors in respect of contracts in progress. The purpose is to ensure that contractors implement works in accordance with contract requirements.

Audit observations and recommendations

Audit checks

5.23 After conducting an audit check, the technical audit team will document the findings in a report and forward it to the works team concerned for taking follow-up actions. Audit reviewed the audit check reports completed in 2010-11 and noted some common findings including, for example:

- (a) actions were not taken on contractors which did not submit Request for Checking Forms or submitted them late;
- (b) approvals for particular detection equipment were given only after contractors had completed detection of underground facilities using the equipment; and
- (c) records of the delivery and testing of construction materials were not properly maintained in the project files.

5.24 According to the HAD Works Manual, the technical audit team has to conduct audit checks on not less than 10% of contracts completed by works teams whenever possible. In the three years 2008-09 to 2010-11, the technical audit team conducted 34, 41 and 34 audit checks respectively. The percentages of checks (of contracts completed) were 7%, 8% and 6% respectively, i.e. less than the required 10%. **The HAD needs to conduct adequate audit checks to meet the required percentage of checks specified in the HAD Works Manual.**

Surprise checks

5.25 After conducting a surprise check, the technical audit team will inform the contractor concerned of the findings for their immediate rectification. The technical audit team will document the findings in a report and forward the report to the works team concerned for taking follow-up actions. Audit reviewed the surprise check reports completed in 2010-11 and noted some common findings including, for example:

- (a) the construction site was not properly fenced off with temporary barriers mounted with flashing lanterns;
- (b) minimum clear footway width was not provided for pedestrians;
- (c) construction materials were not stored in an orderly manner;
- (d) site cleanliness was not satisfactory, such as the presence of stagnant water; and
- (e) timber with projecting nails was dumped at the site.

5.26 In the three years 2008-09 to 2010-11, the technical audit team conducted 255, 260 and 216 surprise checks respectively. There were 70 contractors which were included in the HAD's contractor lists throughout the three years. Taking out one contractor which was not awarded any contracts during the period, Audit analysed the extent of surprise checks conducted on the 69 contractors. Table 11 shows the results.

Table 11
Extent of surprise checks conducted on contractors
(2008-09 to 2010-11)

Extent of checks (Note)	Number of contractors
0%	4 (6%)
1% to 20%	25 (36%)
21% to 40%	28 (41%)
41% to 60%	4 (6%)
61% to 80%	5 (7%)
81% to 100%	3 (4%)
Total	69 (100%)

Source: Audit analysis of HAD records

Note: The extent of surprise checks conducted on a contractor in the period 2008-09 to 2010-11 was calculated as follows:

$$\frac{\text{Number of the contractor's contracts which had surprise checks in the period}}{\text{Number of the contractor's contracts in the period}} \times 100\%$$

5.27 As can be seen from Table 11, the extent of surprise checks (in terms of the percentage of contracts which had surprise checks) varied considerably among the 69 contractors. **In particular, there were 4 contractors which did not have any surprise checks during the three-year period.** For these 4 contractors, the number of contracts awarded to them during the period ranged from 1 to 15. In addition, Audit noted that, in selecting contracts for conducting surprise checks, the technical audit team did not take into account contractors' performance in a systematic manner. **Audit considers it important that all contractors are covered by surprise checks within a specified period, and that more checks are conducted on contractors with less satisfactory performance.**

Audit recommendations

- 5.28 **Audit has recommended that the Director of Home Affairs should:**
- (a) **ensure that adequate audit checks are conducted by the HQWS's technical audit team to meet the required percentage of checks specified in the HAD Works Manual; and**
 - (b) **develop a mechanism for selecting contracts for conducting surprise checks to ensure that:**
 - (i) **all contractors are covered by surprise checks within a specified period; and**
 - (ii) **more checks are conducted on contractors with less satisfactory performance.**

Response from the Administration

- 5.29 The **Director of Home Affairs** generally agrees with the audit recommendations. She has said that:
- (a) regarding paragraph 5.28(a), the HAD will also review the percentage specified in the HAD Works Manual having regard to the availability of resources and the change in workload in recent years; and
 - (b) regarding paragraph 5.28(b), the HAD will explore ways to improve the current system, whereby contractors are selected for surprise checks on a random basis, with a view to ensuring that all contractors will be covered by at least one surprise check within a specified period. In addition, the HAD would devise a new requirement whereby a contractor will be checked within a specified period upon receiving an adverse report.

PART 6: MANAGEMENT AND MAINTENANCE OF FACILITIES

6.1 This PART examines the management and maintenance of facilities constructed under minor works programmes. Audit has found room for improvement in the following areas:

- (a) management and maintenance arrangements (paras. 6.2 to 6.11); and
- (b) transfer of facilities to the LCSD (paras. 6.13 to 6.20).

Management and maintenance arrangements

6.2 *LCSD's arrangements.* Under the DMW Programme, the LCSD has constructed new venues/facilities or improved existing ones. The LCSD has systems in place to deal with the management and maintenance of its venues/facilities, which are either manned by staff or subject to regular inspections.

6.3 *HAD's arrangements.* Under various minor works programmes, including the RPW, the Urban Minor Works (see Note 1(a) to para. 1.2(b)) and the DMW Programmes, the HAD has constructed various facilities, e.g. footpaths, footbridges, drainage channels, SOAs, pavilions and rain shelters. Many of these facilities do not require day-to-day management and regular maintenance. The HAD does not have a rigorous system in place to deal with the management and maintenance of such facilities. Maintenance is initiated mainly upon receipt of complaints.

Audit observations and recommendations

Cleansing of the HAD's facilities

6.4 In general, in implementing a minor works project, the HAD is allocated with the project site through a Temporary Land Allocation by the Lands Department (LandsD). After completing the project, the HAD will return the site to the LandsD. As in the case of other unleased and unallocated government land, the cleansing service of the site (before and after implementation of the project) is provided by the Food and Environmental Hygiene Department (FEHD).

6.5 Among the four District Offices (in Districts 1 to 4 — see para. 1.12) visited by Audit, there are different practices in making the cleansing arrangements with the FEHD. For District Office 1, upon completing a project, it will give a written advice (together with a location plan) to the FEHD, if applicable, to specifically request the provision of cleansing service to the facility. However, there is no such practice for District Offices 2, 3 and 4.

6.6 In the period June to August 2011, Audit inspected selected facilities in District 1 and District 3 for comparing the cleanliness of the facilities (see Table 12). Audit noted that the facilities in District 3 compared less favourably with those in District 1 in terms of their cleanliness.

Table 12
Comparison of cleanliness of selected facilities
(June to August 2011)

District	Facility	Year of completion and funding source	Audit inspection results
1	SOA 1	2009 under DMW	Cleanliness was satisfactory.
	Rain Shelter 1	2010 under DMW	
	SOA 2	2011 under DMW	
3	Village Square 1	2004 under RPW	Sweeping service was apparently not performed for a long period.
	Village Square 2	2006 under RPW	Sweeping service was apparently not performed for a long period (see Photograph 4).
	SOA 3	2009 under DMW	Sweeping service was apparently not performed for a long period (see Photograph 5).
	Rain Shelters 2 to 5	2009 under DMW	Cleanliness was satisfactory. Litter bins (maintained by the FEHD) were provided nearby the sites.
	Pavilion 1	2010 under DMW	Cleanliness was satisfactory. A litter bin (maintained by the FEHD) was provided at the site.

Source: HAD records and Audit inspections

Photograph 4
Village Square 2 in District 3



Source: Photograph taken by Audit in July 2011

Photograph 5
Sitting-out Area 3 in District 3



Source: Photograph taken by Audit in July 2011

6.7 In order to ensure the cleanliness of facilities (such as SOAs, pavilions and rain shelters), it is necessary for the FEHD to be informed of the need to provide cleansing service to these facilities. Audit considers that the practice of District Office 1 (i.e. informing the FEHD of the completion of a project and requesting the provision of cleansing service to the facility) is a good practice. The HAD may consider disseminating this good practice to other District Offices.

Maintenance of the HAD's facilities

6.8 For the four District Offices visited by Audit, they do not keep a register of the facilities constructed under various minor works programmes, recording such information as the type, location, age and condition of the facilities. The lack of such a register has the following drawbacks:

- (a) a District Office cannot readily identify those facilities in need of maintenance. Timely maintenance is essential to prevent dilapidation of facilities. In addition, it is not a good practice to initiate maintenance only on receiving a complaint. This is because a damaged facility may have already created a risk to the public before a complaint is received; and
- (b) a District Office cannot readily ascertain whether it is the responsible party on receiving a complaint. This can be illustrated by Case 3.

Case 3

Public complaint about a damaged facility

1. On 28 December 2009, a public complaint about a damaged staircase leading to a road in District 1 was received by the Government's Integrated Call Centre. The complaint was referred to the Highways Department (on the same day), which spent some time in clarifying with the complainant about the location of the staircase. The complaint was subsequently referred to the LCSD (on 5 January 2010), and the HAD (on 8 January 2010) for follow-up actions.

2. On 12 January 2010, two weeks after receiving the complaint, the department responsible for the maintenance of the damaged staircase was not yet identified. The Integrated Call Centre escalated the case to the departmental coordinators of the three departments. On 13 January 2010, the LCSD informed the HAD that, based on LCSD records, the HAD previously carried out improvement works to the staircase in 2004 (under the Urban Minor Works Programme — see Note 1(a) to para. 1.2(b)) and should be the responsible department.

3. On 14 January 2010, the HAD informed the Integrated Call Centre that it was the responsible department. The HAD subsequently repaired the staircase.

Audit comments

4. Audit considers that the maintenance of a register at a District Office in respect of the HAD's facilities constructed under the various minor works programmes will help in more readily ascertaining whether it is the responsible party on receiving a complaint about facilities in the district concerned.

Source: HAD records

6.9 In this connection, the HAD Standing Circular No. 10/85 "Maintenance of Local Public Works Projects" (still in force) requires that District Offices should draw up a schedule of all existing facilities of local public works projects. Facilities which require regular maintenance for reasons of public safety (e.g. footbridges and playground equipment) should be included in Group I, and others in Group II. The schedule should include details of the facilities (e.g. date of construction and date of repairing). Both Group I and Group II facilities have to be inspected at least once a year. In addition, Group I facilities have to be inspected following a typhoon, heavy rain or flooding.

6.10 For the four District Offices under examination, Audit notes that the above requirements have not been complied with, except for District Office 2 which has established an inspection system on district facilities. One full time and three part-time staff members (mainly responsible for organising community activities) in District Office 2 are deployed to provide support to the management of district facilities. Among their duties, they are required to conduct regular inspections on district facilities, such as notice boards, rain shelters and SOAs. After completing an inspection, the staff will take photographs and report any defects for follow-up actions.

Audit recommendations

6.11 Audit has recommended that the Director of Home Affairs should:

- (a) disseminate to all District Offices the good practice of informing the FEHD of the completion of a project and requesting the provision of cleansing service to the project facility; and
- (b) require District Offices to follow the requirements of the HAD Standing Circular “Maintenance of Local Public Works Projects” regarding:
 - (i) drawing up a schedule/register of project facilities completed under various minor works programmes; and
 - (ii) conducting regular inspections on these facilities to ensure that they are properly maintained.

Response from the Administration

6.12 The Director of Home Affairs agrees with the audit recommendations. Regarding paragraph 6.11(b), she has said that:

- (a) the HQWS already has a database containing information from District Offices of all DMW and RPW projects undertaken since 2000;
- (b) the HAD will devise a better way for District Offices to keep track of facilities arising from projects undertaken; and
- (c) the HAD will review the arrangement for inspecting facilities having regard to resource implications.

Transfer of facilities to the Leisure and Cultural Services Department

6.13 The LCSD is empowered by the Public Health and Municipal Services Ordinance (Cap. 132) to designate places as public pleasure grounds, and to enforce the Pleasure Grounds Regulation (Cap. 132BC) for managing such places. This statutory power, coupled with the LCSD's expertise, makes it well suited for managing facilities such as SOAs and playgrounds.

6.14 In 2006, the Government decided to transfer around 170 facilities (mainly SOAs) from the HAD to the LCSD for better management and maintenance. By the end of 2006, the two departments reached an agreement that a total of 174 facilities would be transferred with effect from 1 January 2007. All District Offices were required to:

- (a) assist the LandsD in allocating the land of the facilities to the LCSD for designating them as public pleasure grounds; and
- (b) assist the LCSD in repairing or improving the facilities prior to handing over the facilities.

Audit observations and recommendations

Slow progress of designating the facilities as public pleasure grounds

6.15 For the four districts under examination, Audit reviewed the progress of designating the 64 facilities concerned as public pleasure grounds by the LCSD. Audit found that, as at 30 June 2011 (over 4 years after the planned transfer date), the progress was still not entirely satisfactory (see Table 13).

Table 13

**Progress of designating 64 facilities as public pleasure grounds
(30 June 2011)**

District	Original number of facilities (a)	Number of facilities deleted (Note) (b)	Adjusted number of facilities (c) = (a) – (b)	Status of facilities mentioned in (c)		
				Pending land allocation (d)	Land allocated and pending designation (e)	Designated (f)
1	4	0	4	0	0	4
2	18	3	15	7	5	3
3	3	0	3	1	2	0
4	39	6	33	25	1	7
Total	64	9	55 (100%)	33 (60%)	8 (15%)	14 (25%)

Source: LCSD records

Note: Transfer of these facilities was no longer required (e.g. because the land was resumed by the Government for development).

6.16 It can be seen from Table 13 that the progress was the slowest for District 4, with 25 facilities still pending land allocation. Audit noted that the slow progress of designating the facilities as public pleasure grounds was mainly attributable to the following:

- (a) **Land of the facilities.** For some facilities, the land encroached on private lots or there were unauthorised structures on the land, rendering land allocation to the LCSD not possible; and
- (b) **Condition of the facilities.** For some facilities, the condition was not satisfactory (e.g. the presence of substandard play equipment). Although the HAD had performed some repairing and improvement works, the LCSD was not satisfied with the condition of the facilities.

Some facilities not properly managed and maintained

6.17 In May 2011, the District Leisure Services Office of District 4 reviewed the position of taking over the 39 facilities under their purview. Results of the review are shown in Table 14.

Table 14
Position of taking over 39 facilities of District 4 by LCSD
(May 2011)

Status	No. of facilities
Facility designated as public pleasure ground or land allocated to LCSD	8 (21%)
Outstanding issues (mostly land issues) resolved	12 (31%)
Facility boundary to be clarified with LandsD	4 (10%)
Outstanding issues not yet resolved	9 (23%)
Takeover no longer required (e.g. land resumed by Government for development)	6 (15%)
Total	39 (100%)

} 25 (64%)

Source: LCSD records

6.18 In May 2011, of the 39 facilities of District 4, Audit conducted inspections on 10 facilities pending designation as public pleasure grounds. Table 15 shows the irregularities noted by Audit in 5 of the 10 facilities.

Table 15

**Irregularities found during Audit inspections conducted in District 4
(May 2011)**

Facility	Status	Irregularities
Playground 1	Outstanding issues resolved	Defective children play equipment was found (see Photograph 6).
SOA 4	Facility boundary to be clarified	Stacks of wood were dumped near the children play area (see Photograph 7).
SOA 5	Outstanding issues not yet resolved	The SOA was used for drying clothes and parking bicycles, and a defective bench was found (see Photographs 8 and 9).
Basketball Court 1		The basketball court, with an unauthorised structure (a metal cover), was used for parking cars (see Photograph 10).
SOA 6		The SOA was used for parking cars (see Photograph 11).

Source: Audit inspections in May 2011

Photograph 6

**Defective children play equipment
at Playground 1**



Photograph 7

**Dumping of wood
near the children play area of
Sitting-out Area 4**



Photograph 8

**Sitting-out Area 5 used for
drying clothes and parking bicycles**



Photograph 9

A defective bench at Sitting-out Area 5



Part of the bench
was detached

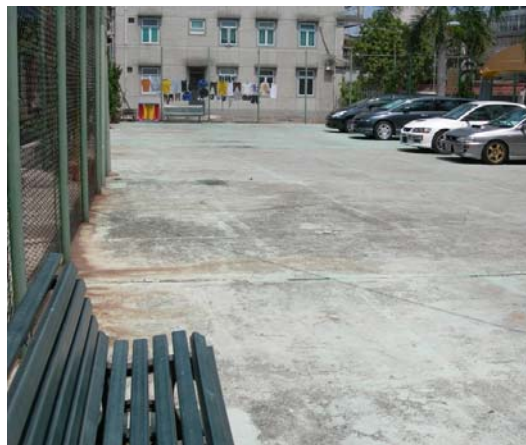
Photograph 10

Basketball Court 1 with an unauthorised metal cover used for parking cars



Photograph 11

Sitting-out Area 6 used for parking cars



Source: Photographs taken by Audit in May 2011

6.19 Audit inspections revealed problems with the management and maintenance of some of the facilities transferred from the HAD but pending designation as public pleasure grounds by the LCSD (see Table 15). Audit considers that there is an urgent need for the LCSD to:

- (a) in collaboration with the LandsD and the HAD, speed up the process of designating the facilities as public pleasure grounds to enable it to better manage and maintain the facilities;
- (b) inspect the facilities to identify defective items (e.g. defective children play equipment and sitting benches), and take measures to arrange for its works agents to carry out repair and improvement works in order to ensure that the facilities are safe and serviceable; and
- (c) for those facilities with more serious problems (e.g. involving suspected unauthorised structures or illegal occupation), take necessary follow-up actions in collaboration with the LandsD and the HAD.

Audit recommendations

6.20 **Audit has recommended that, in respect of the facilities transferred from the HAD but pending designation as public pleasure grounds by the LCSD, the Director of Leisure and Cultural Services should:**

- (a) **in collaboration with the LandsD and the HAD, speed up the designation process to enable the LCSD to better manage and maintain the facilities;**
- (b) **inspect the facilities to identify defective items, and take measures to arrange for the LCSD's works agents to carry out repair and improvement works in order to ensure that the facilities are safe and serviceable; and**
- (c) **for those facilities involving suspected unauthorised structures or illegal occupation, take necessary follow-up actions to deal with the problems in collaboration with the LandsD and the HAD.**

Response from the Administration

6.21 **The Director of Leisure and Cultural Services agrees with the audit recommendations. She has said that the LCSD will continue to:**

- (a) **work closely with the HAD and the LandsD to speed up the land allocation process; and**
- (b) **inspect the facilities and take measures to arrange for its works agents to carry out repair and improvement works of the facilities where necessary.**

PART 7: PERFORMANCE MANAGEMENT

7.1 This PART examines the HAD's performance management relating to the DMW and RPW Programmes.

Performance measures

7.2 Performance management, including developing and reporting performance measures, helps enhance government performance, transparency and accountability. According to the FSTB's guidelines, Controlling Officers should, among other things:

- (a) focus on targets measured preferably in terms of intended outcome when developing their performance measures; and
- (b) indicate the extent to which the department's operational objectives are being achieved.

7.3 The HAD included in its Controlling Officer's Report (COR) for 2011-12 the following performance indicators for the DMW and RPW Programmes:

- (a) expenditure on RPW projects;
- (b) number of RPW projects completed; and
- (c) expenditure on DMW projects.

Audit observations and recommendation

7.4 Audit notes that the three performance indicators for the DMW/RPW Programmes are input or output indicators. They do not adequately assess the outcomes of the DMW/RPW projects and their effectiveness in achieving the programme objectives. In view of public concerns over the effectiveness of some minor works projects (see para. 2.17), the HAD needs to consider providing more performance measures relating to the DMW/RPW Programmes in its COR. The following are examples of performance measures that the HAD may adopt:

- (a) ***Number of projects completed.*** The HAD has reported in its COR the number of projects completed for the RPW Programme (see para. 7.3(b)), but not for the DMW Programme. There is merit in also reporting the number of DMW projects completed in the COR;

- (b) **Completed projects by categories.** An analysis of completed projects by categories (see Table 1 in para. 1.8) can enhance the users' understanding of the various types of facilities that are provided to meet the programme objectives. In this connection, Audit notes that the LCSD has provided in its COR performance indicators for its various types of recreation and sports facilities;
- (c) **Projects in progress by categories (Note 17).** This information can provide a picture of the various types of facilities to be provided under the DMW/RPW Programmes. Audit noted that a large number of DMW projects took more than one year (and some took several years) to complete. As at 31 March 2011, over 600 DMW projects at an estimated project cost of \$677 million were still in progress; and
- (d) **User satisfaction level (Note 18).** User satisfaction level is a commonly-used performance indicator that helps measure service quality and effectiveness. It not only indicates how well public demands and needs are met, but also provides useful information for reference (e.g. by the DCs) in deciding whether similar facilities should be provided in future.

Audit recommendation

7.5 **Audit has recommended that the Director of Home Affairs should consider publishing in the COR additional performance measures for the DMW and RPW Programmes (e.g. number of DMW projects completed, completed projects and projects in progress by categories, and user satisfaction level), with a view to enhancing transparency and accountability.**

Note 17: *Examples of adopting work in progress as a performance indicator in the COR include:*

- (a) *ArchSD: Value of projects under design and construction; and*
- (b) *Highways Department: Structural designs completed/in progress.*

Note 18: *Examples of adopting user satisfaction level as a performance indicator in the COR include:*

- (a) *ArchSD: Achieving satisfactory performance in the client satisfaction survey for minor repairs (with a target of 98%);*
- (b) *Hong Kong Observatory: Forecasts perceived as accurate by the public (with a target of 78%); and*
- (c) *Radio Television Hong Kong: Usefulness of the School Educational Television Service (reported by teachers along a scale from 0 to 100).*

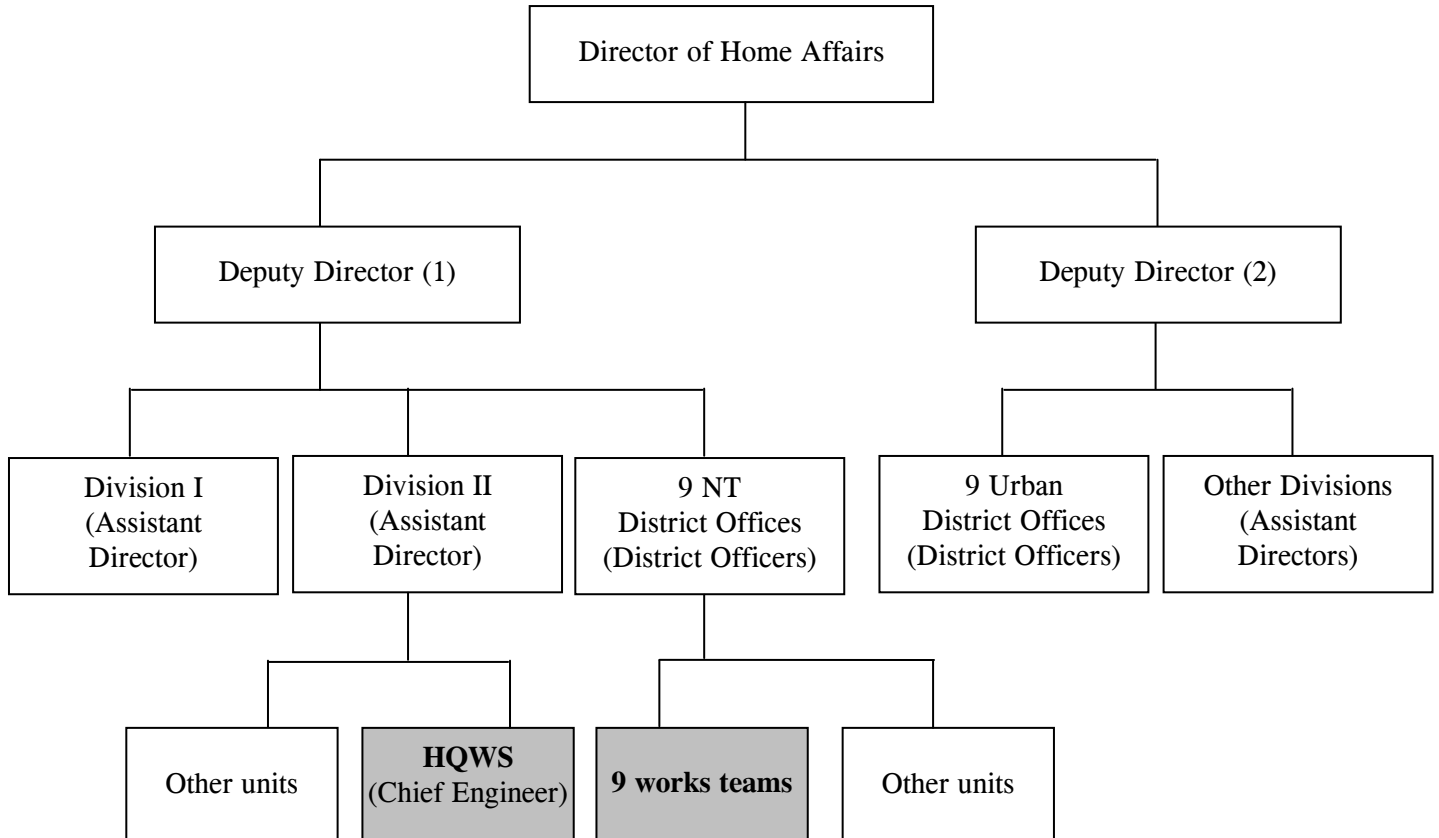
Response from the Administration

7.6 The **Director of Home Affairs** agrees with the audit recommendation. She has said that the HAD will consider incorporating additional performance indicators in the COR.

7.7 The **Secretary for Financial Services and the Treasury** has said that:

- (a) the FSTB notes the audit recommendation for performance management; and
- (b) while the Director of Home Affairs, as the Controlling Officer, is responsible for including in the COR performance targets and indicators as appropriate having regard to the audit recommendation, the FSTB will keep in view follow-up actions, if any, taken by the Director of Home Affairs in preparing the draft Estimates in future.

Home Affairs Department
Organisation chart (extract)
(August 2011)



Source: HAD records

Need for better cash flow planning in District 4

1. In November 2008, the DFMC of District 4 endorsed the implementation schedule of 7 projects, i.e. works to be started in 2009 for 3 projects, in 2010 for another 3 projects, and in 2011 for the remaining project. The implementation schedule was based on the anticipated cash flow requirements of the projects and the anticipated DMW allocations of District 4.

2. For 2009-10, the DMW allocation of District 4 was \$23.07 million, of which \$13.19 million (57%) was allocated for the 3 projects with works commencement scheduled in 2009. The 3 projects, led by the LCSD, were to construct an SOA by mid-2009, a soccer pitch by mid-2010 (Project 5 — see para. 4.4 of the Report), and a garden by mid-2010.

3. The LCSD applied to the Lands Department for permanent land allocations for the 3 projects in August 2008. In the December 2008 quarterly progress meeting (see para. 4.3(b) of the Report), the LCSD mentioned that land allocation could be a lengthy process. In the March 2009 quarterly progress meeting, the architectural TC mentioned that, after the land allocation of a project was confirmed, 5 months were required for preparing the tender documentation and conducting the tender exercise before works could be started. The land allocations were confirmed in May 2009 (9 months after the application) for the SOA project, and in June 2009 (10 months after the applications) for the soccer pitch project and the garden project.

4. **It was clear by June 2009 that the works of the 3 projects could only be started at the earliest in late 2009 (5 months after the land allocations were confirmed), and their expenditure in 2009-10 would be much less than that originally planned.** To avoid underspending, the District Office had to fast-track other endorsed DMW projects. In the event, one project (to construct an SOA) was advanced, with the planned start date of its works advanced from early 2011 to late 2009. Other than this, there was generally no fast-tracking of endorsed projects.

5. **In November 2009, the District Office proposed to fast-track some other projects (mainly to improve LCSD venues) with a total project cost of \$10.5 million in order to better utilise the 2009-10 DMW allocation.** The DFMC endorsed the proposal. In 2009-10, a total of \$19.67 million (85% of the allocation of \$23.07 million) was spent, of which only \$1.81 million (14% of the planned expenditure of \$13.19 million) was spent on the 3 projects originally planned to have the main part of their works completed in 2009-10.

Audit comments

6. There was room for improvement in the cash flow planning for the block allocation under the DMW Programme. For good cash flow planning, it is necessary to:

- (a) make adequate provision for critical factors affecting project implementation (e.g. providing adequate time for the land allocation process) in planning the cash flow requirements;
- (b) plan for contingencies (e.g. identifying other endorsed projects that could be fast-tracked in case there were any project delays); and
- (c) closely monitor developments in project planning and implementation, and take timely actions to adjust the cash flow requirements accordingly (e.g. fast-tracking other endorsed projects to better utilise the DMW allocation).

Source: Audit analysis of HAD records

**Chronology of key events:
New architectural term consultant selection exercise
(April 2009 to March 2011)**

Date	Event	Remarks
(a) April to August 2009	<p>In April 2009, the HAD started the preparatory work (e.g. drafting of documents and formation of the Assessment Panel).</p> <p>On 25.8.2009, the HAD invited Expressions of Interest (EOIs) from all the then 22 consultants on the AACSB Band 2 List.</p>	5 months spent on preparatory work
(b) September to November 2009	<p>By the submission deadline of 8.9.2009, the HAD received EOIs from 7 consultants.</p> <p>After assessing the EOIs, on 6.11.2009 the HAD sought the AACSB's approval for inviting all the 7 consultants to submit technical and fee proposals.</p>	2 months spent on assessing the EOIs
(c) November 2009 to February 2010	<p>On 17.11.2009, the AACSB queried the eligibility of one consultant.</p> <p>After obtaining legal advice, on 3.2.2010 the HAD sought the AACSB's approval for the amended list (with the consultant in question removed).</p> <p>After obtaining the AACSB's approval, on 26.2.2010 the HAD invited the 6 consultants to submit technical and fee proposals.</p>	2 months spent on amending the list for inviting technical and fee proposals
(d) March to June 2010	<p>By the submission deadline of 19.3.2010, the HAD received proposals from 5 consultants.</p> <p>After assessing the technical proposals, the HAD submitted the assessment results to the AACSB on 13.5.2010, and made clarifications on 9.6.2010.</p>	2 months spent on assessing the technical proposals
(e) June and July 2010	<p>On 14.6.2010, the AACSB released the fee proposals to the HAD for assessment.</p> <p>After assessing the fee proposals, on 13.7.2010 the HAD submitted its recommendations. For Regions 1, 3 and 4, the recommended consultants were the consultants of the 2008-2010 agreements (i.e. Consultants A, C and D respectively).</p>	1 month spent on assessing the fee proposals

Appendix C
(Cont'd)
(paras. 3.5 and 3.6 refer)

Date	Event	Remarks
(f) August to October 2010	<p>On 26.8.2010, the AACSB turned down the HAD's recommendations. It commented that the fee bid of the new consultant recommended for Region 2 was not acceptable. On 28.9.2010, the HAD made an appeal, which was turned down on 21.10.2010.</p> <p>On 22.10.2010, the HAD recommended awarding the agreements for Regions 1, 3 and 4, and carrying out a re-selection exercise for Region 2. On 5.11.2010, the AACSB approved the recommendation.</p>	2 months spent on addressing the issue of the competitiveness of the fee bids
(g) November and December 2010	<p>In November 2010, the HAD started the re-selection exercise for Region 2, and adopted the "Modified Formula Approach" which did not involve inviting EOIs.</p> <p>In December 2010, the HAD invited technical and fee proposals from all the consultants on the AACSB Band 2 List. Four consultants submitted proposals (including Consultants C and D providing services for Regions 3 and 4 respectively).</p>	2 months spent on the re-selection exercise
(h) January 2011	In January 2011, the three agreements for Regions 1, 3 and 4 were awarded. They cover the two-year period commencing on 17.1.2011.	Three agreements awarded 8 months after the expiry of the 2008-2010 agreements
(i) February and March 2011	<p>In February 2011, the AACSB approved the HAD's recommendation of awarding the agreement for Region 2 to Consultant C.</p> <p>In March 2011, the agreement was awarded. It covers the 22-month period commencing on 28.3.2011.</p>	One agreement awarded 10 months after the expiry of the 2008-2010 agreement

Source: HAD records

Project 3

Construction of a temporary community garden

1. In January 2009, the DFMC of District 3 endorsed the design and estimated project cost of a project (Project 3) to construct a temporary community garden (for organising gardening activities). **As at July 2011, more than two years after the endorsement, the construction had not yet commenced.**

2. *Long time taken in preparing the detailed design.* The architectural TC (Consultant C) took 11 months (from January to December 2009) to prepare the detailed design and the quotation documentation. Audit considers that the primary causes for the long time taken were as follows:

- (a) Consultant C was not familiar with the design and documentation requirements. The HQWS requested many rounds of amendments to the design and the quotation documentation; and
- (b) Consultant C had to revise the design and the quotation documentation to cater for late changes. For example, in view of the Transport Department's proposal in June 2009 to widen the pavements adjacent to the community garden, the LCSD (the lead department) and the HAD had to instruct Consultant C to revise the design to reserve space for the proposed pavement widening. Furthermore, in November 2009, the LCSD and the HAD instructed Consultant C to designate some contract items as optional so as to contain the contract value within \$4 million. The late revisions resulted in delays.

3. *Unsuccessful quotation exercise.* In August and November 2009, the quantity surveying TC advised that the estimated contract value exceeded \$4 million. Hence, according to the Government's procurement regulations, instead of inviting quotations from the HAD's list of contractors, Consultant C should invite tenders from the Development Bureau's list of contractors. In view of the urgency, in November 2009, it was decided that some contract items (e.g. provision of furniture) would be designated as optional to contain the contract value (see para. 2(b) above). The estimated contract value (excluding the optional items) was reduced to \$3.8 million, which however was still close to \$4 million. **In January 2010, 3 quotations were received. All the prices were over \$4 million (with the lowest being \$4.35 million), rendering the quotation exercise unsuccessful.**

4. *Unsuccessful tender exercise.* In March 2010, the DFMC agreed to carry out a tender exercise. **The project cost was subsequently estimated to be \$5.85 million (150% of the endorsed project cost of \$3.9 million) which was not reported to the DFMC.** According to the HAD Guidelines, an increase was required to be reported if it was over 50%. In June 2010, 10 tenders were received. Based on the selected tender, the project cost was estimated to be \$6.15 million (158% of the endorsed project cost) and was reported to the DFMC in September 2010. The DFMC was not satisfied with the high project cost, in view of the temporary use of the community garden, and decided to abort the tender exercise. It also set a limit of \$4 million for the project cost. Consultant C then proceeded with revising the design and conducting another quotation exercise. **As at July 2011, the invitation for quotations was not yet issued.**

Source: Audit analysis of HAD records

Project 4

Construction of a cover over a pedestrian walkway

1. In August 2007, the DFMC of District 3 endorsed a project (Project 4) to construct a cover over a pedestrian walkway. **According to the contract, the construction should commence in August 2009 and be completed in 6 months by February 2010. It turned out, however, that the construction took 19 months and was completed in March 2011.**

2. ***Applying for an excavation permit (XP).*** For works which require excavation on government land maintained by the Highways Department, an XP has to be obtained from the Highways Department. If the works affect pedestrian or road traffic, an XP will be granted only after the temporary traffic arrangement is agreed by the Hong Kong Police Force and the Transport Department. In the case of Project 4, the architectural TC (Consultant C) appeared to be unfamiliar with the process of applying for an XP. **It spent 9 months (from May 2009 to February 2010) to apply for the XP for Project 4. When the XP was granted in February 2010, it was already 6 months after the construction commencement date (August 2009) according to the contract.**

3. ***Modifying part of the cover.*** The construction of the cover was divided into four phases. In April 2010, based on DC members' proposal and Consultant C's subsequent assessment, the DFMC decided to enlarge the part of the cover at a pedestrian crossing. This part of the cover was included in Phase 3. The construction schedule was then amended such that Phase 3 would come after Phases 1, 2 and 4, since time was required to prepare the design details of the enlarged part of the cover. The enlargement would be effected by issuing a variation order (VO) to the contractor.

4. ***Preparing the design details.*** In September 2010, the contractor completed Phases 1, 2 and 4 and commenced Phase 3. Excavation was carried out near the pedestrian crossing for placing the footings of cover columns. Underground facilities were however found in the planned locations for placing the footings, requiring revision to the design details. **Consultant C took a long time to revise the design details and prepare the VO. The construction was stopped for 4 months (from September 2010 to January 2011) until the VO was issued in January 2011.**

5. ***Supervising the contractor.*** The contractor's performance in complying with the requirements attached to the XP was not satisfactory. Cases of non-compliance (e.g. the site was not properly fenced off, and the minimum pedestrian footway width was not provided) were repeatedly noted during site inspections conducted by the Highways Department. Public complaints were also received. **Consultant C's performance in supervising the contractor was not satisfactory.**

Source: Audit analysis of HAD records

Acronyms and abbreviations

AACSB	Architectural and Associated Consultants Selection Board
AIOW	Assistant Inspector of Works
ArchSD	Architectural Services Department
Audit	Audit Commission
COR	Controlling Officer's Report
CWRF	Capital Works Reserve Fund
DC	District Council
DevB	Development Bureau
DFMC	District Facilities Management Committee
DMW	District Minor Works
EMSD	Electrical and Mechanical Services Department
EOI	Expression of Interest
FC	Financial Circular
FEHD	Food and Environmental Hygiene Department
FSTB	Financial Services and the Treasury Bureau
HAD	Home Affairs Department
HQ	Headquarters
HQWS	Headquarters Works Section
IOW	Inspector of Works
LandsD	Lands Department

Appendix F
(Cont'd)

LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
NT	New Territories
QSSP	Quality Site Supervision Plan
RPW	Rural Public Works
SIOW	Senior Inspector of Works
SOA	Sitting-out area
TC	Term consultant
VO	Variation order
WS	Works Supervisor
XP	Excavation permit