

CHAPTER 8

Security Bureau Immigration Department

Procurement of goods and services by the Immigration Department

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PROCUREMENT OF GOODS AND SERVICES BY THE IMMIGRATION DEPARTMENT

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PROCUREMENT OF GOODS AND SERVICES BY THE IMMIGRATION DEPARTMENT

Executive Summary

1. The Immigration Department (ImmD) is responsible for two main areas of work, namely control of people moving into and out of Hong Kong by land, sea and air; and documentation of local residents (including the processing of applications relating to the Nationality Law of the People's Republic of China and claims to right of abode under the Basic Law, the issue of travel documents and identity cards, and the registration of births, deaths and marriages). For day-to-day immigration control operations, staff of ImmD administer 16 control points covering air, land and sea travel. As at 30 June 2019, ImmD had an establishment of 8,907 posts (comprising 7,233 (81%) service grade posts and 1,674 (19%) civilian grade posts).

2. ImmD's operation involves the procurement of information and communications technology (ICT) systems, vehicles, vessels, and other goods (such as uniform and accoutrement) and services (such as transport and security services). In 2018-19, ImmD incurred \$874 million under the General Revenue Account and \$340 million under the Capital Works Reserve Fund (CWRP) on the procurement of various goods and services. Similar to other government departments, ImmD's procurement of goods and services is governed by the Stores and Procurement Regulations (SPRs), relevant Financial Circulars, and Government Logistics Department (GLD) guidelines. The Audit Commission (Audit) has recently conducted a review to examine ImmD's work on the procurement of goods and services with a view to identifying areas for improvement.

Procurement of information and communications technology systems

Financial and administrative control of ICT projects

3. ImmD's ICT systems are instrumental to its vital operation for delivering services to the public. For each major ICT project, normally a project organisation

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with three-tier project governance structure, which includes a Project Steering Committee, a Project Working Group and a Project Team, is adopted. ICT projects funded under CWRP often involve substantial public money. Requirements on expenditure control are set out in the Financial and Accounting Regulations (F&ARs) and relevant Financial Circulars issued by the Financial Services and the Treasury Bureau (FSTB) (paras. 2.2, 2.5 and 2.6).

4. ***Project subheads not closed after project completion.*** As shown in the CWRP project expenditure report of the Government Financial Management Information System of June 2019, ImmD had a total of 14 ICT projects with unspent balance amounting to \$3,500.8 million. According to the annual reports on implementation of major ICT projects of May and December 2010, March 2016 and October 2018 (showing the positions as of March 2009, 2010, 2015 and 2018 respectively) submitted to the Finance Committee (FC) of the Legislative Council by the Office of the Government Chief Information Officer (OGCIO), 13 of the 14 projects were included in the annual reports, with eight reported as having been completed and five ongoing (para. 2.8). Audit examination has revealed the following areas for improvement:

- (a) ***Need to continue reporting project activities to OGCIO and FC until closure of project subheads.*** For the eight completed ICT projects included in the annual reports on ICT projects, they were reported as having been completed from March 2009 to March 2018 (i.e. for about 1 to 10 years, averaging 7.8 years). However, project expenditure totalling \$209.1 million relating to additional work was charged to seven completed projects (ranging from \$1.8 million to \$69.9 million) after reporting of project completion to OGCIO and FC. In Audit's view, while project activities are on-going, ImmD should continue to report such project activities to OGCIO for its preparation and submission of the annual reports to FC until the closure of the project subheads (paras. 2.9 to 2.11);
- (b) ***Need to timely close project subheads after settlement of project expenditures.*** Audit noted that up to June 2019, the subheads of the eight completed projects had not been closed, of which five had not incurred any expenditures for four to nine years. For good financial control of ICT projects in future, ImmD needs to initiate actions to close the subheads when all the project expenditures are settled after completion of the projects (paras. 2.12 and 2.13); and

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- (c) ***Need to inform FSTB to reserve surplus funds.*** According to F&AR 320, where Controlling Officers have reason to believe that funds surplus to requirements exist under a subhead, they shall immediately inform the Secretary for Financial Services and the Treasury so that the surplus may be reserved. Up to June 2019, no expenditure had been incurred for seven projects for one to nine years and the total unspent balance of the project subheads amounted to \$581.7 million. In future, for projects approved in October 2019 and thereafter, ImmD needs to comply with the requirement to inform FSTB of the excess funds in the project subheads (para. 2.14).
5. ***Financial control over the use of surplus project funds.*** Audit examination of 30 payment records of the eight completed projects revealed that five payments of \$2.3 million had been made in June to September 2013 relating to capital expenditures incurred in providing computer systems in a new control point at Kai Tak Cruise Terminal. They had been charged to project votes of Phases I and II of the updated Information Systems Strategy (ISS-2) after project closures as reported by ImmD to OGCIO in March 2010. In this connection, Audit noted that ImmD withdrew a new funding bid of \$68.58 million in September 2010 and decided to make use of the existing project votes under ISS-2 to fund the one-off cost of the computer equipment items. While the original scope of these projects had not covered the computer systems of the new control point at Kai Tak Cruise Terminal, the charging of expenditures on extension work (i.e. computer systems in the control point at Kai Tak Cruise Terminal) was within the wide ambit of the pertinent project votes (i.e. Phases I and II of ISS-2). In order to tighten the financial control on the use of surplus project funds, Audit considers that ImmD needs to clearly define the scope of ICT projects (e.g. including the number and location of control points to be covered) in the funding applications and state clearly in the funding papers if any surplus funds would be used for implementing new ICT systems of new control points in future (paras. 2.15 and 2.16).
6. ***Tenders with significant variances between pre-tender estimates (PTEs) and contract prices.*** Audit scrutinised ImmD's tender list from 2014-15 to 2018-19 and found that, in 14 of 16 contracts awarded, the contract prices were lower than the corresponding PTEs. In particular, five tenders recorded significant variances between PTEs (comprising mainly a one-off capital cost and/or maintenance cost) and the contract prices, ranging from 31% to 60%. The unrealistic PTEs could not form a good reference for considering whether the tender sums were fair and reasonable. Audit examination of two tender exercises in 2017 revealed that in working out PTE,

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for the tender of the Next Generation Smart Identity Card System, ImmD had only made reference to a market research in October 2014 and latest prices of major system components provided by certain vendors (not including the existing contractor which was a major vendor in the industry) in August 2016. For the tender of the Next Generation Electronic Passport System, ImmD had not followed up with the vendors to obtain the required price information on recurrent maintenance price in the 2017 market research exercise. In Audit's view, to work out realistic PTEs in future tender exercises, ImmD should take into account relevant factors including the market condition and economy of scale, and make efforts to follow up with vendors to obtain the required information as far as practicable (paras. 2.17 to 2.21).

Procurement issues identified in three ICT projects

7. Of the eight completed ICT projects from March 2009 to March 2018, Audit selected three projects with delays and/or significant unspent balance as compared with the approved project estimate for examination and noted areas for improvement as elaborated in paragraphs 8 and 9.

8. ***Phase III of ISS-2: Application and Investigation Easy System (APPLIES) and Electronic Records Programme.*** In May 2004, ImmD obtained funding approval of \$336.8 million for implementing Phase III of ISS-2 which would cover APPLIES to support processing of applications for visas, permits, and travel passes, and registration matters relating to births, deaths, and marriage as well as the Electronic Records Programme to enable transactions in ImmD to be conducted digitally. A tender was issued by GLD on behalf of ImmD in October 2004 for the project. In July 2005, the contract was awarded to a contractor at a total cost of \$308.5 million (paras. 2.24 and 2.25). Audit examination has revealed the following areas for improvement:

- (a) ***Delay in rolling-out the system and programme.*** The actual roll-out date of APPLIES and Electronic Records Programme was December 2008, a two-year delay as compared to the target roll-out date of December 2006. According to ImmD, the delay was caused by: (i) long tendering process and contract negotiation process; (ii) extension of system design and development stage to cope with changes in immigration policy; (iii) project complexity in the implementation process; and (iv) contractor's substandard performance. The two-year delay not only led to the slippage of two years in achieving the intended benefits of savings in staff costs, but

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also resulted in incurring additional expenditures to clear the backlog of file conversion (paras. 2.26, 2.29 and 2.30); and

- (b) ***Savings in staff costs not fully realised.*** According to the funding paper submitted to FC in May 2004, the implementation of APPLIES and Electronic Records Programme would bring about a saving of 159 posts (with annual recurrent savings in staff cost of \$49.8 million). In the Post Implementation Departmental Return submitted to OGCIO, ImmD reported that a saving of 33 posts (with an annual staff cost of \$9.6 million (19%)) could not be realised because of operational and technological constraints (para. 2.31).

Audit considers that in developing similar systems in future, ImmD needs to improve its market research to ascertain the latest developments in operational requirements and information technologies. ImmD also needs to be vigilant in estimating realisable savings to ensure that such savings quantified in FC papers are achievable (para. 2.32).

9. ***Computer systems at Shenzhen Bay Control Point and at Lok Ma Chau (LMC) Spur Line Control Point.*** ImmD obtained funding approval of \$176.6 million in April 2004 to install computer systems (including the Automated Passenger Clearance System (APCS) and Automated Vehicle Clearance System (AVCS)) at Shenzhen Bay Control Point. In May 2005, ImmD also obtained funding approval of \$93.3 million for installing computer systems at LMC Spur Line Control Point. A tender for the supply and installation of APCS and AVCS at the two control points was prepared and issued in November 2005. When the tender closed in January 2006, four offers from four tenderers were received (paras. 2.33 and 2.35). Audit examination has revealed the following areas for improvement:

- (a) ***Need to consider setting a price ceiling as a reserve price.*** For APCS, of the three offers received, two offers submitted by Tenderer D and Tenderer E were conforming. Although Tenderer D obtained a higher combined score than Tenderer E, its tender price was higher than PTE. After obtaining a reference price (which was lower than PTE) of supplying the service from an existing contractor (i.e. Contractor C) under existing contract terms, ImmD conducted tender negotiations with Tenderer D but the reduced tender price offered by Tenderer D was still higher than PTE. In view of the tight time frame to commission the LMC Spur Line Control Point, ImmD sought the approval of the Central Tender Board (CTB) in

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July 2006 to cancel the tender on the grounds of public interest. After obtaining the Board's approval on cancelling the tender, ImmD requested Contractor C to supply the required APCS under the existing Contract C. Given the financial and time constraints and the availability of an alternative to supply the service under Contract C, Audit considers that a better option could be setting a price ceiling equal to Contractor C's reference price as a reserve price for internal reference at the outset (i.e. the tender exercise would be cancelled if the price of the most advantageous tender was higher than the reserve price) (paras. 2.35 to 2.38, 2.40 and 2.41); and

- (b) *Need to critically review the need for including stringent tender requirements as mandatory requirements.* For AVCS, as only one offer was received in the tender exercise and it was non-conforming, the tender exercise had to be cancelled. In this connection, in August 2006, before issuing the new tender, GLD requested ImmD to review the tender requirements with a view to drawing up the revised requirements with pragmatic terms. In response, ImmD re-classified some mandatory tender requirements (which had not been implemented in the then existing control points) to optional tender requirements with a view to attracting more bidders. In the second tender exercise of September 2006, three offers were received and they were all conforming offers. According to SPR 109(c), over-specification and over-prescription in product requirements or mode of service delivery should be avoided. In future tender exercises, ImmD needs to include only essential requirements and avoid imposing stringent requirements in the tender documents which may deter suppliers to submit their bids (paras. 2.39, 2.42 and 2.43).

Procurement of other goods and services

10. *Procurement by tender.* From 2014-15 to 2018-19, ImmD conducted 58 service tenders with a total contract value of \$689.2 million. Audit examined two service contracts in relation to the provision of transport and catering services for the Castle Peak Bay Immigration Centre (CIC), and found the following areas for improvement in the tendering process (paras. 3.2 and 3.3):

- (a) *Provision of transport services to CIC.* In August 2017, a transport service contract mainly for escorting detainees outside CIC for different purposes was awarded to the lower conforming bidder at an estimated total amount of \$2.79 million for a period of 36 months commencing from

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September 2017. In approving the award of the contract, the Departmental Tender Committee noted that there was a significant over-estimation of PTE. It commented that the mark up of PTE by 15% per year with an additional 7.5% for contingency was not well justified. The Committee also suggested that apart from wage, other relevant factors (such as the recent market trend, the demand and supply of the transport services, the oil prices and the projected inflation rate) should also be taken into account as appropriate. Audit considers that ImmD needs to take measures to improve the accuracy of PTE (paras. 3.4, 3.5 and 3.9); and

- (b) ***Provision of catering services at CIC.*** In March 2019, a contract was awarded to the lowest conforming offer from Contractor F at an estimated contract price of \$43.1 million for the provision of catering services to detainees at CIC for 36 months (from 15 April 2019 to 14 April 2022). In approving the award of the contract to Contractor F, CTB commented that ImmD had substantially increased the value of contract for counting tenderer's experience in providing catering services with a contract period of not less than 12 months, from \$1.43 million in the previous tender exercise to \$10 million in the current exercise. Such a high threshold of annual contract value for the subject contract was over-stringent and uncommon in other government tenders involving catering services. CTB commented that ImmD would need to remove the experience essential requirements for future tender exercises in line with the new pro-innovation government procurement policy to be effective from 1 April 2019 (paras. 3.16 and 3.17(a)).

11. ***Procurement guidelines.*** ImmD has issued and updated departmental circulars to promulgate procedures for procurement (para. 3.25). Audit examination has revealed the following areas for improvement:

- (a) ***Need to consider including requirements of conducting a market research in departmental guidelines.*** One of the reasons for over-estimation of PTE was inadequate market research. Audit examination of 33 tender exercises found that ImmD had not approached potential tenderers for conducting market research work in 26 (79%) tender exercises. In this connection, Audit noted that according to SPR 350(e) and Financial Circular No. 2/2019, departments are encouraged to reach out to the market and conduct a market research to better understand the goods or services likely to be available in the market, technological trends, number of potential

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bidders, etc. To meet this requirement, ImmD needs to consider including the requirements of conducting a market research (where appropriate) in its guidelines with a view to improving the procurement process in future (para. 3.25(a)); and

- (b) ***Need to incorporate new requirements in procurement guidelines.*** In March 2019, FSTB issued Financial Circular No. 2/2019 to promulgate details of the new pro-innovation government procurement policy, revisions to SPRs and measures to facilitate the participation of market players in government procurement. In this connection, many new measures are related to procurement by tender, e.g. more extensive use of marking schemes and the concept of value for money in procurement. ImmD needs to incorporate the new requirements and formulate the relevant guidelines in its departmental circulars (para. 3.25(c)).

12. ***Procurement by quotation.*** There were 1,046 purchases of goods and services involving quotation exercises from 2016-17 to 2018-19 with values exceeding \$50,000 each and the total contract value involved was \$410.8 million (para. 3.29). Audit selected 200 purchases for examination and found the following areas for improvement:

- (a) ***Need to enhance competition in procurement by quotation.*** In 77 (38.5%) purchases, although bid invitations had been sent to 5 to 36 suppliers, only one bid was received. In 45 (22.5%) purchases, only two bids were received. In view of the limited competition in 61% (38.5% + 22.5%) of the 200 quotation exercises, ImmD needs to explore measures to enhance competition (paras. 3.29 and 3.30); and
- (b) ***Need to consolidate procurement requirements to achieve better economy of scale.*** According to SPR 205 requirements, Controlling Officers should consolidate requirements of stores and services of similar nature as far as possible to achieve better economy of scale. Audit examination found that seven items were purchased by quotation (3 quotation exercises for each item, totalling 21 quotation exercises) and the cumulative contract value for each item exceeded \$1.43 million within 24 months. Besides, 12 items were purchased by quotation (2 to 5 quotation exercises for each item, totalling 36 quotation exercises) within a short period. Audit considers that the requirements for the same or similar items could be bundled together to

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achieve better economy of scale and to save procurement efforts (para. 3.31).

Audit recommendations

13. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director of Immigration should:**

- (a) **after completion of main contracts of an ICT project, continue to report project activities to OGCIO until closure of the project subhead (para. 2.44(a));**
- (b) **initiate actions to close an ICT project subhead when all the project expenditures are settled after project completion and inform FSTB of funds surplus to requirements under an ICT project subhead (para. 2.44(b) and (c));**
- (c) **clearly define the scope of an ICT project in the funding application and state clearly in the funding paper if any surplus funds would be used for implementing new ICT systems at new control points in future (para. 2.44(e));**
- (d) **in future tender exercises of ICT projects:**
 - (i) **take into account relevant factors including market condition and economy of scale and follow up with major vendors to obtain the required information in determining PTEs (para. 2.44(f)(i) and (ii));**
 - (ii) **where there are financial and time constraints in project implementation and there is an alternative of requiring a contractor to provide the ICT systems under an existing contract, consider setting a price ceiling equal to the contractor's reference price as a reserve price for internal reference (para. 2.44(f)(iii)); and**

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- (iii) include only essential requirements in the tender documents and avoid imposing stringent requirements which may deter suppliers to submit their bids (para. 2.44(f)(iv));**

- (e) in developing ICT systems in future, improve market research to ascertain the latest developments in operational requirements and information technologies, and be vigilant in estimating realisable savings (para. 2.44(h) and (i));**

- (f) in future tender exercises, take into account CTB's comments on the removal of essential requirements on experience (para. 3.26(a)(iii));**

- (g) review and update ImmD's procurement guidelines where appropriate, including incorporating into the guidelines the new requirements on the new pro-innovation government procurement policy as laid down in Financial Circular No. 2/2019 (para. 3.26(c)); and**

- (h) explore measures to enhance competition in the procurement of goods and services by quotation and remind procuring staff to comply with SPR 205 requirements of consolidating requirements of stores and services of similar nature as far as possible to achieve better economy of scale (para. 3.33(a) and (c)).**

Response from the Government

14. The Government generally agrees with the audit recommendations.

PART 1: INTRODUCTION

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

Background

1.2 The Immigration Department (ImmD) is responsible for two main areas of work, namely control of people moving into and out of Hong Kong by land, sea and air; and documentation of local residents (including the processing of applications relating to the Nationality Law of the People's Republic of China and claims to right of abode under the Basic Law, the issue of travel documents and identity cards, and the registration of births, deaths and marriages). According to its Controlling Officer's Report, ImmD has the following five programmes contributing to the policy area of Immigration Control under the purview of the Security Bureau:

- (a) ***Pre-entry control.*** The aim is to control, through the visa system, legal immigration and the entry of foreign workers and to prevent the entry of undesirable persons;
- (b) ***Control upon entry.*** The aims are to exercise quantitative and qualitative control over legal immigration; prevent the entry of undesirable persons and the departure of persons wanted for criminal offences; facilitate the movement of bona-fide tourists, business visitors and local residents; and process cross-boundary vehicles;
- (c) ***Control after entry.*** The aim is to exercise immigration control by granting or refusing extension of stay; investigating and prosecuting offenders under relevant Ordinances (Note 1); removing or deporting illegal immigrants, overstayers and undesirable persons from Hong Kong; and implementing a unified screening mechanism, based on the procedures under the statutory torture claim screening mechanism, to assess non-refoulement claims made

Note 1: *The Ordinances include the Immigration Ordinance (Cap. 115), the Immigration Service Ordinance (Cap. 331), the Registration of Persons Ordinance (Cap. 177), the Marriage Ordinance (Cap. 181), the Births and Deaths Registration Ordinance (Cap. 174), and certain provisions under the Crimes Ordinance (Cap. 200).*

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on all applicable grounds and effect timely removal of those whose claim is rejected;

- (d) ***Personal documentation.*** The aims are to counteract illegal immigration and enhance the maintenance of law and order by providing all legal residents with a secure form of identity card and all consequential services related to identity cards; to register births, deaths and marriages and provide all consequential services related to such civil registration; to assess right of abode claims; and to facilitate international travel of Hong Kong residents by providing them with travel documents; and

- (e) ***Nationality and assistance to Hong Kong Special Administrative Region residents outside Hong Kong.*** ImmD is authorised by the Central People's Government to deal with Chinese nationality matters in respect of Hong Kong residents and accepts applications outside Hong Kong for declaration of change of nationality, naturalisation as a Chinese national, and renunciation and restoration of Chinese nationality through Chinese diplomatic and consular missions. It also provides assistance to Hong Kong residents in distress outside Hong Kong.

1.3 The work of ImmD is carried out through its Headquarters, branch offices and registries located in various districts. For day-to-day immigration control operations, staff of ImmD administer 16 control points covering air, land and sea travel (Note 2). Headed by the Director of Immigration, ImmD is mainly organised into seven branches. An extract of the organisation chart of ImmD is at Appendix A. As at 30 June 2019, ImmD had an establishment of 8,907 posts (comprising 7,233 (81%) service grade posts and 1,674 (19%) civilian grade posts).

Note 2: *The 16 control points comprise 14 control points for clearance of passengers at the Hong Kong International Airport, Lo Wu, Hung Hom, Lok Ma Chau Spur Line, the Express Rail Link West Kowloon, Lok Ma Chau, Man Kam To, Sha Tau Kok, Shenzhen Bay, Hong Kong-Zhuhai-Macao Bridge, China Ferry Terminal, Macau Ferry Terminal, Tuen Mun Ferry Terminal and Kai Tak Cruise Terminal, and 2 shipping control points for clearance of sea crew members at the Immigration Anchorages.*

Policy and principles of government procurement

1.4 Government procurement activities and management of goods are governed by the Stores and Procurement Regulations (SPRs — Note 3). According to SPRs, the policy of government procurement is to obtain stores and services at the best value for money in a publicly accountable manner to support Government's programmes and activities. This is to ensure that government procurement is conducted in an open and fair, transparent and impartial manner (see (a) to (c)). With a view to promoting innovation, the Chief Executive of Hong Kong Special Administrative Region announced in her 2018 Policy Address the new pro-innovation government procurement policy which aimed to promote the adoption of innovative suggestions and facilitate the participation of market players, including start-ups and small and medium-sized enterprises, in government procurement. As such, with effect from 1 April 2019, pro-innovation has become one of the guiding principles in government procurement and SPRs have been revised to that effect (see (a)(iv) and (d)). Taking into account pro-innovation, there are four guiding principles of government procurement, as follows:

(a) *Open and fair competition*

- (i) competition is a reliable safeguard against bidders overcharging and holding Government to ransom. By encouraging participation through open and fair competition, the Government will be better able to obtain responsive and competitive bids that ensure value for money;
- (ii) as a norm, open bidding should be adopted as far as practicable. Single/restricted tendering or direct engagement of suppliers/service providers/consultants should be the exception and must be properly justified to the satisfaction of the relevant approving authority;
- (iii) all bidders should be treated on an equal footing. There should be no discrimination on the basis of the country of origin of the goods or service providers. Requirements, tender specifications and marking schemes (where applicable) should be drawn up in an

Note 3: *SPRs are made by the Financial Secretary/Secretary for Financial Services and the Treasury under the Public Finance Ordinance (Cap. 2).*

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objective manner, providing a level playing field for all to compete on an equal footing; and

- (iv) for procurements with limited competition in past exercises, departments should explore measures to enhance competition and satisfy themselves that the tendering or consultants selection strategy to attract new bidders and innovative proposals is effective;
- (b) **Transparency.** To uphold public accountability and fairness of the procurement process, government procurement should be conducted in a transparent manner. In a procurement exercise, potential bidders should be given the same information. Departments should make available tender notices for all open tenders and invitations for admission to suppliers/service providers' lists on their webpages. Tender documents or consultancy briefs should be clear, concise and easy to understand to avoid complicating and adding to the cost of the bidding process;
- (c) **Integrity.** To uphold the integrity of government procurement, procurement decisions should be made in an impartial manner and public funds spent in an accountable way; and
- (d) **Pro-innovation (Note 4).** Innovation is conducive to securing value for money in the long run. Departments should encourage and be receptive to new ideas from suppliers/service providers, and allow room for assessing innovative proposals in the procurement process. Outcome-based requirements should be adopted as far as possible. Over-specification and over-prescription in product requirements or mode of service delivery should be avoided (Note 5).

Note 4: *This guiding principle aims to render the government procurement system more enabling for and receptive to innovative suggestions.*

Note 5: *With effect from 1 April 2019, SPRs have been revised to reflect specific changes to the procurement of stores, services (excluding works contracts and consultancies) and revenue contracts under the new policy, and general improvements to the procurement system for streamlining and to promote innovation. Such changes include: (a) unless absolutely necessary and with the prior approval from relevant approving authority as stipulated in SPRs, tenderers' experience should not be set as an essential requirement irrespective of the value of the procurement; and (b) wider use of marking schemes in the tender evaluation process. In this Audit Report, the requirements stipulated in previous versions of SPRs are referred to as the then SPRs.*

Regarding pro-innovation, in March 2019, the Financial Services and the Treasury Bureau (FSTB) issued Financial Circular No. 2/2019 setting out the requirements in promoting pro-innovative procurement. According to the Circular, there should be a wider use of marking schemes (either a Standard Marking Scheme Framework in accordance with the requirements as stipulated in the Circular or a pre-approved non-Standard Marking Scheme Framework) in the tender process. If departments consider that a marking scheme is not applicable, prior approval shall be sought.

Goods and services procured by ImmD

1.5 Goods procured by ImmD include major information and communications technology (ICT) systems (Note 6), capital equipment such as vehicles and vessels, and other goods such as uniform and electronic cabinet for storage of passports. Services procured by ImmD include catering services for its detention centre, and transportation services between various control points and the Immigration Headquarters at Wan Chai.

1.6 ***Guidelines and instructions.*** Similar to other government departments, ImmD's procurement activities and management of goods and services are governed by SPRs, relevant Financial Circulars, and Government Logistics Department (GLD — Note 7) guidelines. ImmD has also set out its procedures for procurement of goods and services in its departmental circulars and guidelines.

Note 6: *According to the Office of the Government Chief Information Officer, ICT systems are classified as either administrative or non-administrative. Broadly speaking, administrative computer systems are used for the collection, processing, utilisation, storage and distribution of information in order to provide decision support to management, and to assist in performing administrative and operational duties of departments. Non-administrative computer systems support the performance of tasks by the professional, technical and educational disciplines.*

Note 7: *GLD is the Government's central procurement agent for stores with a value beyond departmental limit (i.e. \$10 million or \$5 million prior to April 2019). It provides government bureaux/departments with procurement and supplies services including: (a) arranging issue of tenders for procurement of stores exceeding departmental limit and award of contracts on behalf of bureaux/departments; (b) providing advice on tendering and quotation procedures; and (c) providing advice on contract administration and monitoring.*

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1.7 ***Roles and responsibilities.*** The Supplies Sub-division (SSD — Note 8) under the Departmental Management Division in ImmD's Headquarters is responsible for the overall procurement and stores management in ImmD. Apart from some items supplied by GLD and the Correctional Services Department (e.g. some uniform items), SSD is responsible for procurement of goods (within the departmental direct purchase limit) and services from the open market for use by different sections. User sections are delegated the authority to procure urgent items not exceeding \$5,000 in a single purchase for immediate needs. As regards ICT systems, vehicles, vessels, other goods and services, the procurement/management responsibilities are distributed as follows:

- (a) ***ICT systems.*** The Information Systems Branch (ISB — Note 9) is responsible for the procurement (through SSD/GLD) and on-going maintenance of ICT systems and equipment. As of April 2019, ImmD maintained the following 15 major ICT systems:
 - (i) 7 mission-critical systems providing support services that could not be interrupted, e.g. the Immigration Control System (which supports e-Channels for self-service immigration clearance); and
 - (ii) 8 administrative computer systems providing administrative duties, e.g. the Electronic Records (Administrative) System (which supports the handling of administrative records through the use of advanced information technology) and the Electronic Services System (which provides electronic services to the public via the Internet and public telephone network for e-submission, e-booking and e-enquiry).

To upkeep its service quality and enhance its handling capacity to cope with growing service demands, from April 2010 to March 2019, ImmD obtained the Legislative Council (LegCo) Finance Committee (FC)'s funding

Note 8: *SSD is headed by a Senior Supplies Officer who is assisted by a number of Supplies Grade staff seconded from GLD.*

Note 9: *Headed by an Assistant Director, ISB comprises the Information Systems (Development) Division, the Information Systems (Production) Division, the Records and Data Management Division (each headed by a Principal Immigration Officer), and the Technology Services Division (headed by a Chief Systems Manager).*

approval of \$4,450 million to upgrade seven information technology infrastructure and applications (see items 8 to 14 in Appendix B);

- (b) **Vehicles.** The Transport Unit of the Accommodation and Transport Section under the Departmental Management Division co-ordinates with GLD on the procurement and replacement of ImmD's vehicles. As of April 2019, ImmD had a fleet of 36 general-purpose vehicles (such as medium saloon cars — Note 10). The Transport Unit is tasked to examine and evaluate ImmD's needs on transport with the users and co-ordinate with GLD on the procurement of all general-purpose vehicles (Note 11). Day-to-day management responsibility of ImmD's vehicles rests with respective user sections. The Transport Unit also co-ordinates with the Electrical and Mechanical Services Trading Fund (Note 12) on the repair and maintenance of ImmD's vehicles under a Service Level Agreement;
- (c) **Vessels.** As of April 2019, the Harbour Division of ImmD operated a fleet of 7 vessels, all of which were designed to help fulfil ImmD's responsibilities in a wide range of operational and geographical environments. According to SPRs, the Marine Department is the designated endorsement authority and agent for procurement of government vessels (Note 13); and

Note 10: *Under the General Regulations, GLD is responsible for the efficient and economical management and operation of the government vehicle fleet. The Director of Government Logistics is responsible for the procedures, administration and co-ordination of the procurement of all government vehicles with the exception of certain specialised vehicles as mutually agreed between the Director of Government Logistics, user departments and the Electrical and Mechanical Services Trading Fund.*

Note 11: *This Audit Report does not cover procurement of general-purpose vehicles by GLD.*

Note 12: *The Electrical and Mechanical Services Trading Fund is the trading arm of the Electrical and Mechanical Services Department which provides electrical and mechanical services to government bureaux/departments.*

Note 13: *This Audit Report does not cover procurement of ImmD's vessels by the Marine Department. In 2017, the Audit Commission completed an audit review of "Procurement and maintenance of government vessels" by the Marine Department, the results of which were reported in Chapter 2 of the Director of Audit's Report No. 69 of October 2017.*

Introduction

- (d) ***Other goods and services.*** SSD co-ordinates with user sections regarding the procurement of other goods and services such as uniform and accoutrement (e.g. helmet, footwear, and shield), and transport and security services.

1.8 ***Procurement process.*** ImmD's procurement of goods and services is governed by SPRs, relevant Financial Circulars, and GLD guidelines. As shown in Figure 1 below, the procurement process mainly involves various stages, i.e. planning, invitation to tender/quotation, evaluation and acceptance, and delivery of goods/services.

Figure 1

ImmD's procurement process of goods and services by tender/quotation

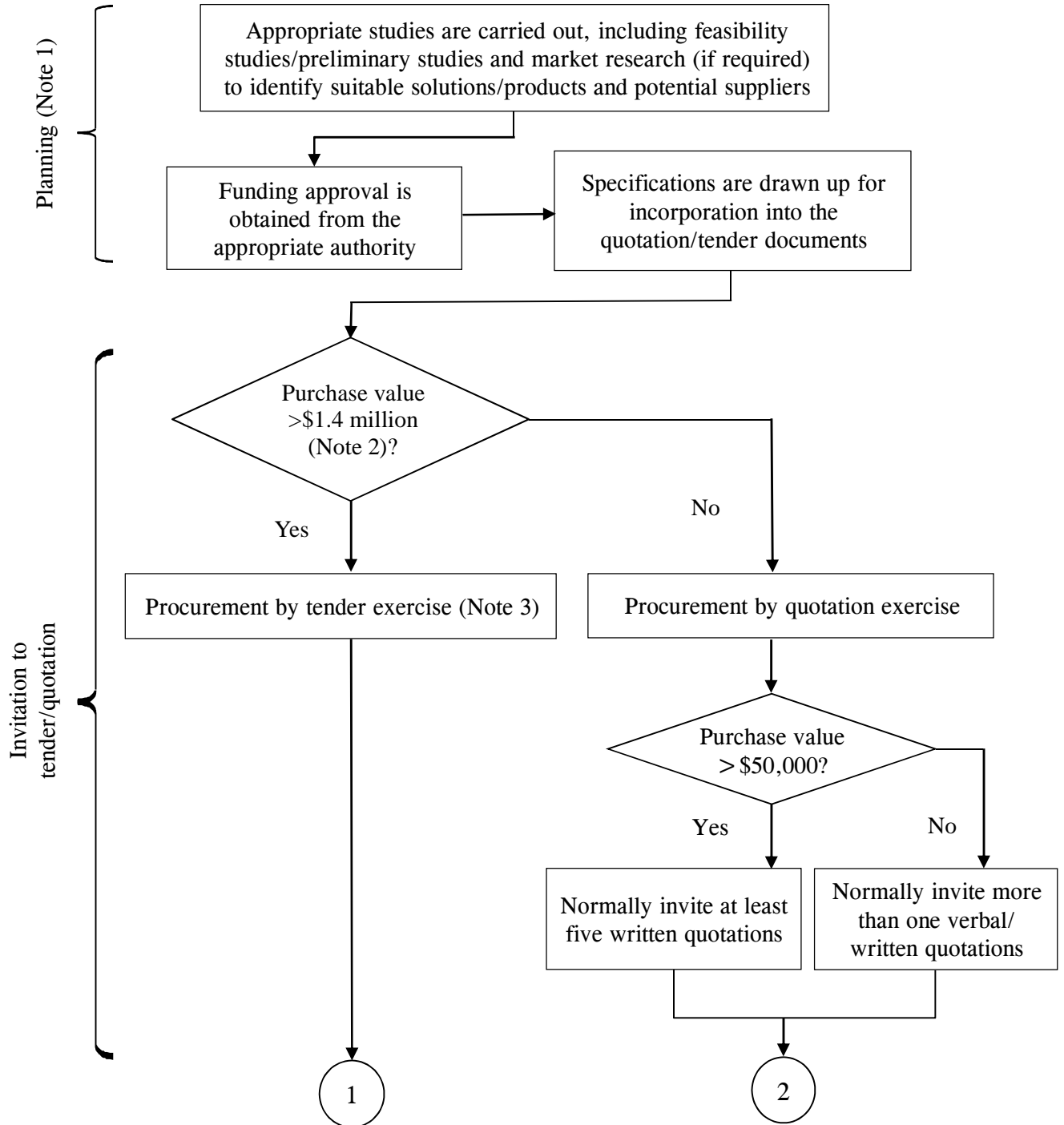
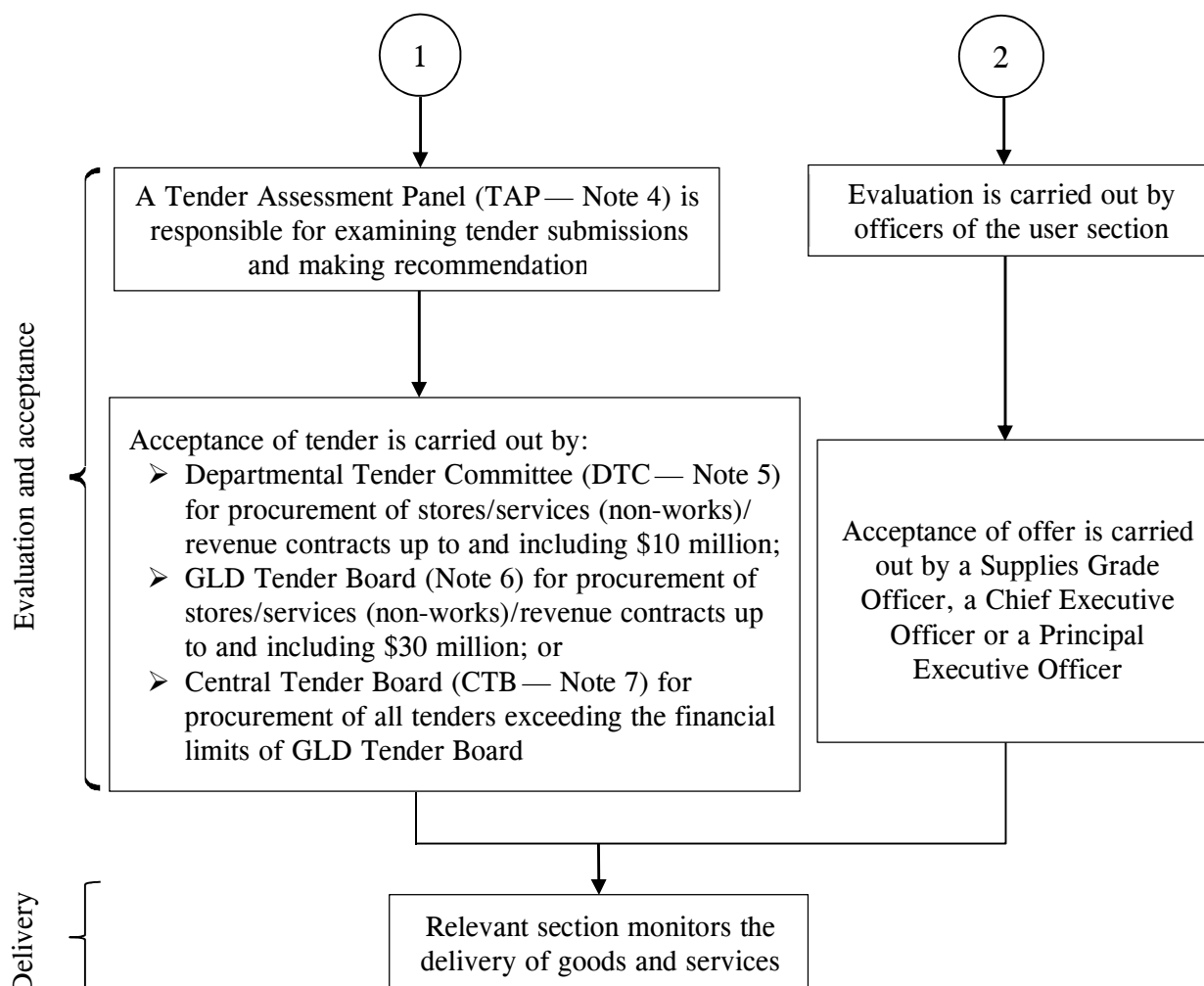


Figure 1 (Cont'd)



Source: *Audit analysis of ImmD records*

Note 1: *For implementation of new major ICT systems, feasibility studies will be conducted to explore available solutions to meet ImmD’s new departmental policies and business requirements. The recommendations of the studies provide viable proposals with estimated costs for funding applications. Prior to the preparation of tender documents, review on market provisions and other information through market research according to SPR 350(e) (see para. 3.25(a)) will be done. Other price information available in previous/prevaling contracts/agreements will also be referenced.*

Note 2: *The financial limit was \$1.43 million prior to January 2018.*

Note 3: *For procurement of stores by tender, ImmD is responsible for arranging tenders for procurements within the departmental limit of \$10 million (\$5 million prior to April 2019). GLD is the procurement agent for stores with a value beyond the departmental limit. ImmD is responsible for arranging all tenders for procurement of services (non-works)/revenue contracts.*

Figure 1 (Cont'd)

- Note 4: According to SPRs, TAP should consist of not less than two persons who should be government officials only. For ImmD, TAP mainly comprises representatives from user sections.*
- Note 5: The Committee is chaired by the Assistant Director (Management and Support). The members are the Chief Executive Officer (Finance and Supplies), the Senior Supplies Officer, and the Assistant Secretary (Finance and Supplies) as the secretary.*
- Note 6: GLD Tender Board, appointed by the Secretary for Financial Services and the Treasury under authority delegated by the Financial Secretary, is chaired by the Director of Government Logistics. The members are the Deputy Director of Government Logistics, Controller (Supplies Management), Senior Treasury Accountant of GLD, and the Departmental Secretary of GLD as the secretary.*
- Note 7: CTB, chaired by the Permanent Secretary for Financial Services and the Treasury (Treasury), is appointed by the Financial Secretary. Its members are the Director of Government Logistics, Permanent Secretary for Development (Works) or representative, a legal advisor at a rank not lower than Deputy Principal Government Counsel, Deputy Secretary for Financial Services and the Treasury (Treasury) 3, and the Principal Executive Officer (Tender) of the Financial Services and the Treasury Bureau (Treasury Branch) as the secretary. CTB, among others, makes recommendations to the Permanent Secretary for Financial Services and the Treasury (Treasury) on the acceptance of tenders, with the exception of those tenders dealt with by subsidiary tender boards/DTCs. The Board also considers matters concerning tenders.*

1.9 **Procurement expenditure.** In 2018-19, ImmD incurred \$874 million under the General Revenue Account and \$340 million under the Capital Works Reserve Fund (CWRF — Note 14) on the procurement of goods and services. Table 1 shows the procurement expenditure in the past three financial years from 2016-17 to 2018-19.

Note 14: *CWRF was set up for financing the public works programme, the acquisition of land, capital subventions, and major systems and equipment items.*

Introduction

Table 1

**ImmD's expenditure on procurement of goods and services
(2016-17 to 2018-19)**

Type	Expenditure		
	2016-17	2017-18	2018-19
	(\$ million)		
(A) General Revenue Account expenditure			
(i) Recurrent:			
Goods (Note 1) and services	767	709	840
(ii) Capital:			
Plant, vehicles and equipment (Note 2)	21	19	34
Subtotal ((i) + (ii))	788	728	874
(B) CWRP expenditure			
(i) ICT systems (Note 3)	345	360	340
(ii) Other equipment (Note 4)	19	1	0
Subtotal ((i) + (ii))	364	361	340
Total ((A) + (B))	1,152	1,089	1,214

Source: ImmD records

Note 1: The financial limit for the classification of the relevant expenditure was \leq \$200,000 each.

Note 2: The financial limit for the classification of the relevant expenditure was $>$ \$200,000 each.

Note 3: The expenditures of non-administrative computer systems costing $>$ \$10 million each and administrative computer systems costing $>$ \$200,000 each are charged to CWRP.

Note 4: Such equipment included closed circuit television systems, air-cooled chiller units and air-conditioning systems.

Remarks 1: The expenditures excluded those for the procurement of general-purpose vehicles funded by GLD (see para. 1.7(b)).

2: \$10.7 million was incurred for procurement of vessels from 2016-17 to 2018-19 under Capital Account — Plant, vehicles and equipment (see item (A)(ii) above and Note 13 to para. 1.7(c)).

Audit review

1.10 In April 2019, the Audit Commission (Audit) commenced a review to examine the procurement of goods and services by ImmD, focusing on:

- (a) procurement of information and communications technology systems (PART 2); and
- (b) procurement of other goods and services (PART 3).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Government

1.11 The Secretary for Security welcomes the audit recommendations. He has said that the Security Bureau will monitor the implementation of the audit recommendations in due course. The Director of Immigration generally agrees with the audit recommendations.

Acknowledgement

1.12 Audit would like to acknowledge with gratitude the full cooperation of the staff of ImmD during the course of the audit review.

PART 2: PROCUREMENT OF INFORMATION AND COMMUNICATIONS TECHNOLOGY SYSTEMS

2.1 This PART examines ImmD's procurement of major ICT systems funded under CWRP, focusing on:

- (a) financial and administrative control of ICT projects (paras. 2.5 to 2.22);
and
- (b) procurement issues identified in three ICT projects (paras. 2.23 to 2.43).

Information Systems Strategies

2.2 ImmD's ICT systems are instrumental to its vital operation for delivering services to the public. To cope with the ever-changing social and economic environment, ImmD has been proactively formulating its Information Systems Strategy (ISS) to keep pace with the digital era of the 21st Century and has been exploring various advanced technologies for delivering efficient and quality services to the public.

2.3 ImmD's first ISS was formulated in 1991 and implemented fully in 1995. To address the changing business environment and meet its long-term business needs, ImmD commissioned a consultancy study in 1999 to review its ISS. The consultant recommended an updated ISS (ISS-2) which embodied 30 separate but inter-related projects, including the First Generation Smart Identity Card System (SMARTICS — i.e. item 1 in Appendix C) and Phases I to III of ISS-2 (i.e. items 2, 3 and 6 in Appendix C — Note 15).

Note 15: *Phase I of ISS-2 comprised the Information Technology Infrastructure Upgrade Programme and Immigration Control Automation System Enhancement Programme. Phase II of ISS-2 comprised the Automated Passenger Clearance System and Automated Vehicle Clearance System. Phase III of ISS-2 comprised the Application and Investigation Easy System and Electronic Records Programme.*

2.4 Following completion of the projects under ISS-2, ImmD commissioned another consultancy study in March 2010 to formulate its third ISS with a view to better meeting the growing demands for public services and the long-term business needs of ImmD through the judicious use of information technology. The third ISS embodied eight separate but inter-related projects (including the Next Generation Smart Identity Card System (SMARTICS 2 — Note 16)) to be implemented by three phases in a structured programme from 2010 to 2018. ISB handles all matters concerning development and operation of ICT systems, records management and personal data privacy of ImmD.

Financial and administrative control of ICT projects

2.5 *ICT project governance.* ImmD has set up an Immigration Department Information Systems Coordination Committee (Note 17) to oversee the departmental information technology strategy and implementation. For project management of each ICT project, ImmD manages its projects with the formation of Project Steering Committee, Project Working Group and Project Team in accordance with the practice guides and project management framework promulgated by the Office of the Government Chief Information Officer (OGCIO). In the project management framework, the project management lifecycle consists of four phases (namely Initiate, Plan, Execute and Close) with project control across the whole lifecycle. The Immigration Department Information Systems Coordination Committee will take the lead for Initiate Phase before funding of relevant projects is approved. After funding approval, a project organisation will be formed. For each major ICT project, normally a project organisation with three-tier project governance structure is

Note 16: *The System supports the registration and production of Smart Hong Kong Identity Cards (including receiving applications, conducting record check and case assessment, personalisation and card issuance). It also supports the provision of other immigration-related services by ImmD and verification of personal data requested by other government bureaux/departments or public organisations.*

Note 17: *The Committee performs functions as ImmD's departmental Information Technology Steering Committee to formulate and review departmental policy and strategy concerning information systems, to monitor progress of the implementation of the department's information systems, and to report progress and make recommendations on important issues relating to the existing/under-development information systems. Meetings of the Committee are chaired by an Assistant Director, comprising members including Sub-division Heads and Senior Systems Managers or above in ISB.*

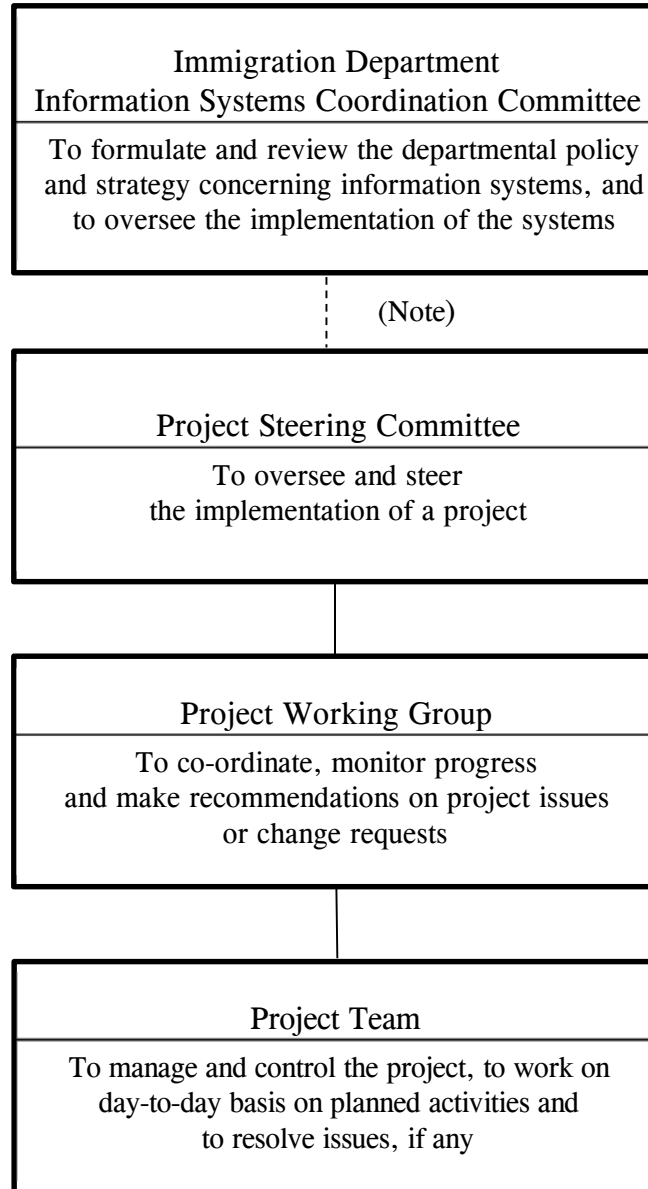
Procurement of information and communications technology systems

adopted, which includes a Project Steering Committee (Note 18), a Project Working Group and a Project Team. Before commencing a project, a project initiation document will be prepared for the Project Steering Committee's approval, covering the project monitoring and control mechanism, including checkpoint meetings, highlight reports and project issues for special attention. During project implementation, regular checkpoint meetings normally on a weekly/biweekly basis and/or ad-hoc project progress meetings will be held involving relevant contractors and the Project Team. Highlight reports will be submitted to the Project Steering Committee and Project Working Group for monitoring progress. Approval for issue resolution or change requests with significant impact will be sought from the Project Steering Committee or the Project Working Group as appropriate. End-stage reports will be submitted for Project Steering Committee's approval. ImmD's ICT project governance structure is summarised in Figure 2.

Note 18: *For major ICT projects, the Project Steering Committee is normally chaired by the Deputy Director or an Assistant Director, comprising members including a representative in each of the Security Bureau and OGCI, directorate officers of user branches and ISB, and a Chief Systems Manager. Its terms of reference are to oversee and steer the implementation of a project, to formulate, determine and steer project scopes, development progress and rollout.*

Figure 2

ImmD's ICT project governance structure



Source: ImmD records

Note: There is no subordinate relationship between the Immigration Department Information Systems Coordination Committee and the Project Steering Committee.

Procurement of information and communications technology systems

2.6 *Requirements of Financial and Accounting Regulations (F&ARs — Note 19) and relevant Financial Circular.* ICT projects funded under CWRP often involve substantial public money. Requirements on expenditure control are set out in F&ARs and relevant Financial Circulars issued by FSTB, including the following:

- (a) **F&AR 300.** Controlling Officers must ensure that expenditure is charged against subheads strictly in accordance with their ambits and that every charge against a subhead is for the purpose or purposes for which the subhead is intended;
- (b) **F&AR 315.** Expenditure charged to Operating Account non-recurrent subheads or Capital Account subheads must be reviewed periodically by Controlling Officers not only in relation to the approved provision, but also in relation to the progress of the work;
- (c) **F&AR 320.** Where Controlling Officers have reason to believe that funds surplus to requirements exist under a subhead, they shall immediately inform the Secretary for Financial Services and the Treasury so that the excess may be reserved; and
- (d) **Financial Circular No. 1/2004 “Responsibility of Controlling Officers”.** The Circular stipulates, among others, that:
 - (i) Controlling Officers must satisfy themselves that there are adequate procedures to monitor expenditure in order to ensure that it is only incurred within the limits and scope authorised;
 - (ii) where in doubt, Controlling Officers should consult the Treasury Branch of FSTB (Note 20); and

Note 19: *The Public Finance Ordinance (Cap. 2) requires every Controlling Officer to comply with all administrative regulations and directions/instructions made under the Ordinance, including F&ARs.*

Note 20: *Financial Circular No. 1/2004 also states that although some of the control requirements of the Public Finance Ordinance relate only to General Revenue Account, Controlling Officers should apply similar disciplines to control expenditure from Funds set up under the Ordinance.*

- (iii) Controlling Officers are ultimately responsible and accountable for the proper use of funds under their control and provision for each subhead, and they must satisfy themselves that there are adequate procedures to monitor expenditure in order to ensure that it is only incurred within the limits and scope authorised.

To strengthen management and control of approved funding for capital non-works items, FSTB has introduced a new measure with effect from April 2018 whereby for items which have been approved for ten years or more, expenditure estimates for the coming financial year will be withheld unless otherwise justified by Controlling Officers.

2.7 ***Monitoring of ICT projects by OGCIO.*** According to OGCIO Circular No. 3/2007, for administrative computer projects funded under CWRF Head 710, bureaux and departments (B/Ds) are required to submit Post Implementation Departmental Returns (PIDRs) to OGCIO six months after operation of the ICT projects. The purpose of PIDR is to evaluate the achievement of the projects to ensure that the Government's investment in the projects has attained the intended objectives in a timely and cost-effective way. After examining the PIDR results (such as whether there has been a substantial deviation from the planned achievements), OGCIO will determine whether to initiate Post Implementation Reviews (PIRs) to look into the causes of deviation and identify necessary improvement, taking into account the recommendations of the pertinent B/Ds. Every year, OGCIO submits to FC an annual report on implementation of major ICT projects funded under CWRF Head 708 (non-administrative computer systems) and Head 710 (administrative computer systems) (hereinafter referred to as annual report on ICT projects — Note 21).

Note 21: *According to OGCIO, the purpose of the annual report is to keep FC informed of the progress of approved computerised projects (including the actual expenditure and any revision to original scheduled implementation date) to facilitate FC monitoring of the progress of major ICT projects.*

Project subheads not closed after project completion

2.8 According to CWRP project expenditure report of the Government Financial Management Information System (GFMIS), ImmD had a total of 14 ICT projects with unspent balance as of June 2019 (see Appendix B). Based on annual reports on ICT projects (see para. 2.7) of May and December 2010, March 2016 and October 2018 (showing the positions as of March 2009, 2010, 2015 and 2018 respectively — Note 22) submitted to FC, 13 of the 14 projects were reported, with eight reported as having been completed and five ongoing (see Appendix B) (Note 23).

2.9 Up to June 2019, the eight completed ICT projects (see Appendix C for details) had been rolled out for some 2 to 16 years (see Table 2). According to OGCIO's annual reports on ICT projects submitted to FC, the eight projects (with PIDRs already completed) had been completed for about 1 to 10 years, averaging 7.8 years (Note 24).

Note 22: *As of June 2019, 2019 annual report on ICT projects showing the position as of March 2019 was not yet available.*

Note 23: *The remaining project, namely the Next Generation Application and Investigation Easy Systems (i.e. item 14 in Appendix B) was approved in May 2018 and in progress as of June 2019. The project had not been included in the 2018 annual report on ICT projects which only showed project status up to March 2018.*

Note 24: *As the completion dates in the annual reports on ICT projects (which were subsequently reported to FC (see Note 21 to para. 2.7)) were reported to OGCIO by ImmD, Audit's analyses were based on the project completion dates as shown in the annual reports on ICT projects.*

**Procurement of information and
communications technology systems**

Table 2

**Rolled-out projects with subheads not closed
(June 2019)**

Item	Project name	Approved project estimate (a) (\$ million)	Roll-out date	Date of final payment made		Project completion date per annual reports on ICT projects	Number of years from date of final payment made for whole project to June 2019 (Year)	Unspent balance up to June 2019	
				Main contract	Whole project			(b) (\$ million)	(c) = [(b) ÷ (a)] × 100% (%)
1	Hong Kong Special Administrative Region Identity Card (Note 1)	1,225.6	Aug 2003	Mar 2005	Mar 2015	Mar 2009	4	423.8	35%
2	Implementation of Phase I of ISS-2	362.1	Jun 2004	Feb 2008	Mar 2015	Mar 2010	4	24.9	7%
3	Implementation of Phase II of ISS-2	352.8	May 2006	Feb 2008	Nov 2015	Mar 2010	4	28.0	8%
4	Computer systems at the new control point for the Lok Ma Chau Terminus of the Sheung Shui to Lok Ma Chau Spur Line	93.3	Aug 2007	Feb 2008	Aug 2010	Mar 2010	9	26.0	28%
5	Introduction of Biometric Hong Kong Special Administrative Region Passport and Strategic Enhancement of the Travel Document Information System	152.8	Aug 2008	Aug 2009	Mar 2015	Mar 2010	4	13.8	9%
6	Implementation of Phase III of ISS-2 (Note 2)	336.8	Dec 2008	Dec 2010	Sep 2017	Mar 2010	2	3.5	1%

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Table 2 (Cont'd)

Item	Project name	Approved project estimate (a) (\$ million)	Roll-out date	Date of final payment made		Project completion date per annual reports on ICT projects	Number of years from date of final payment made for whole project to June 2019 (Year)	Unspent balance up to June 2019	
				Main contract	Whole project			(b) (\$ million)	(c) = [(b) ÷ (a)] × 100% (%)
7	Enhancement of computer systems to process electronic Exit-Entry Permit for Travelling to and from Hong Kong and Macao and extension of e-Channel service	247.5	May 2014	Nov 2014	Oct 2018	Mar 2015	0.7	51.9	21%
8	Computer systems at the new control point for the Hong Kong-Shenzhen Western Corridor	176.6	Aug 2017	Feb 2018	Mar 2018	Mar 2018	1	61.7	35%
Overall		2,947.5						633.6	21%

Source: Audit analysis of ImmD records and the annual reports on ICT projects

Note 1: According to ImmD, tender records and contract files of the project were disposed of in 2018 in accordance with the general administrative records disposal schedules.

Note 2: Phase III of ISS-2 comprised the Application and Investigation Easy System and the Electronic Records Programme. For this project, the final payment for main contracts was made after project completion date.

2.10 Project expenditure incurred after reported project completion dates.

Audit noted that based on the information on completion of the eight completed ICT projects provided by ImmD, the annual reports on ICT projects indicated that the eight projects were completed from March 2009 to March 2018. However, there were still project expenditures in seven of the eight projects after the reported project completion dates. As shown in Table 3, a total of \$209.1 million was charged to the seven completed projects (ranging from \$1.8 million to \$69.9 million) after the project completion dates.

**Procurement of information and
communications technology systems**

Table 3

**Amount spent on eight completed projects
after project completion date
(June 2019)**

Item	Project name	Date of final payment made for main contract	Project completion date (Note 1)	Unspent balance up to project completion date	Unspent balance up to June 2019	Amount spent after project completion date (Note 2)
				(a) (\$ million)	(b) (\$ million)	(c) = (a) - (b) (\$ million)
1	Hong Kong Special Administrative Region Identity Card	Mar 2005	Mar 2009	464.4	423.8	40.6
2	Implementation of Phase I of ISS-2	Feb 2008	Mar 2010	44.5	24.9	19.6
3	Implementation of Phase II of ISS-2	Feb 2008	Mar 2010	76.1	28.0	48.1
4	Computer systems at the new control point for the Lok Ma Chau Terminus of the Sheung Shui to Lok Ma Chau Spur Line	Feb 2008	Mar 2010	27.8	26.0	1.8
5	Introduction of Biometric Hong Kong Special Administrative Region Passport and Strategic Enhancement of the Travel Document Information System	Aug 2009	Mar 2010	22.2	13.8	8.4
6	Implementation of Phase III of ISS-2	Dec 2010 (Note 3)	Mar 2010	73.4	3.5	69.9

Procurement of information and communications technology systems

Table 3 (Cont'd)

Item	Project name	Date of final payment made for main contract	Project completion date (Note 1)	Unspent balance up to project completion date	Unspent balance up to June 2019	Amount spent after project completion date (Note 2)
				(a) (\$ million)	(b) (\$ million)	(c) = (a) - (b) (\$ million)
7	Enhancement of computer systems to process electronic Exit-Entry Permit for Travelling to and from Hong Kong and Macao and extension of e-Channel service	Nov 2014	Mar 2015	72.6	51.9	20.7
8	Computer systems at the new control point for the Hong Kong-Shenzhen Western Corridor	Feb 2018	Mar 2018	61.7	61.7	—
Total				842.7	633.6	209.1

Source: Audit analysis of ImmD records and the annual reports on ICT projects

Note 1: The project completion dates were based on the annual reports on ICT projects (see Note 24 to para. 2.9).

Note 2: According to ImmD, spending after the completion date in the annual report on ICT projects was arising from one-off implementation of new business requirements that fell within respective project ambit.

Note 3: For this project, the final payment for main contracts was made after project completion date.

2.11 *Need to continue reporting project activities to OGCIO and FC until closure of project subheads.* In response to Audit's enquiry about the continuing project activities after reporting of project completion to OGCIO and FC (see para. 2.10), in September 2019, ImmD said that:

- (a) although project completion was reported by ImmD in the annual reports on ICT projects, there would still be project expenditures for subsequent spending; and
- (b) the closure of project subhead should be the date after which no further expenditures would be incurred. OGCIO was informed of such when no further expenditures would be incurred.

In the event, the project expenditures after reporting of project completion were mainly related to additional work carried out after the reported completion dates. In Audit's view, ImmD should continue to report such project activities to OGCIO for its preparation and submission of the annual reports to FC until the closure of the project subheads, instead of reporting project completion and deleting the items from the annual reports on ICT projects while project activities are on-going.

2.12 ***Project subheads with no further expenditures not closed for a long time.*** According to the CWRP project expenditure reports, the expenditure subheads of the eight completed projects had not been closed, notwithstanding that up to June 2019:

- (a) one project (see item 4 in Table 2 of para. 2.9) had not incurred any expenditure after August 2010 for nine years;
- (b) four projects (see items 1 to 3 and 5) had not incurred any expenditure after March or November 2015 for four years;
- (c) one project (see item 6) had not incurred any expenditure after September 2017 for two years;
- (d) one project (see item 8) had not incurred any expenditure after March 2018 for one year; and
- (e) one project (see item 7) had not incurred any expenditure after October 2018 for 0.7 years.

2.13 ***Need to timely close project subheads after settlement of project expenditures.*** In response to Audit's enquiries regarding the closing of project subheads, in June and September 2019, ImmD said that:

Procurement of information and communications technology systems

- (a) in March 2017, in response to FSTB's request for information to facilitate the system enhancement of GFMIS, ImmD confirmed that items 1 to 5 in Table 2 of paragraph 2.9 had been completed. ImmD further confirmed to FSTB in July 2017 that item 6 had been completed, and in June 2019 that items 7 and 8 had been completed; and
- (b) notwithstanding that ImmD had confirmed to FSTB the completion of these projects, ImmD was required to initiate action to inform the Treasury to complete the closing of project subheads in GFMIS of the Treasury. Actions had been taken to close the eight project subheads in GFMIS.

For good financial control of ICT projects in future, ImmD needs to initiate actions to close the subheads when all the project expenditures are settled after completion of the projects.

2.14 *Need to inform FSTB to reserve surplus funds.* According to F&AR 320, where Controlling Officers have reason to believe that funds surplus to requirements exist under a subhead, they shall immediately inform the Secretary for Financial Services and the Treasury so that the surplus may be reserved. As shown in paragraph 2.12, up to June 2019, no expenditure had been incurred for the seven projects (see para. 2.12(a) to (d)) for one to nine years and the total unspent balance amounted to \$581.7 million. In future, ImmD needs to comply with the requirement to inform FSTB of the excess funds in the project subheads. In Chapter 3 of the Director of Audit's Report No. 71 of October 2018 entitled "Procurement of operational equipment by the Hong Kong Police Force", Audit recommended that FSTB should consider the need for applying administrative cap/reporting requirements adopted for works projects to non-works projects under CWRP for better monitoring of the surplus funds. In response, FSTB replied in October 2018 that for capital non-works projects (i.e. administrative computer systems funded under CWRP Head 710 and non-administrative computer systems and communication equipment funded under CWRP Head 708) approved by LegCo in the 2019-20 legislative session and thereafter, it would provide LegCo with quarterly reports on significant deviations between the accepted tender prices of the projects and the estimated provisions in the approved project estimates when the deviations equal or exceed \$15 million or 10% of the original estimated provision, whichever

was greater. The excess would be reserved administratively (Note 25). In this connection, ImmD needs to take measures to ensure compliance with this new requirement for projects approved in October 2019 and thereafter.

Financial control over the use of surplus project funds

2.15 ***Audit examination.*** The responsibility for expenditure control of ImmD's ICT projects rested mainly on ISB. According to the FC papers of the eight ICT projects, the commitment sought for each project was for the implementation of a new system project. Additional recurrent expenditures arising from the projects, such as funding requirements for further procurement of goods and services including hardware/software maintenance, software licence fees, and on-going support services of the systems, e.g. on-going support and maintenance services provided by external service providers, would be reflected in the Estimates of relevant years. From the payment records of the eight projects, Audit selected 30 payment records in three financial years prior to the first financial year in which no expenditure was incurred for examination (see Table 4).

Note 25: *As all ImmD's ICT projects mentioned in this Audit Report were approved by LegCo before the 2019-20 legislative session, FSTB's new procedure does not apply to the projects.*

Procurement of information and communications technology systems

Table 4

Nature and expenditures involved in 30 payment records

Nature	Number of payment record	Expenditure involved (\$ million)
Extension of SMARTICS service lifespan	8	5.4
Project payments	2	3.2
Computer systems in new control point at Kai Tak Cruise Terminal	5	2.3
Enhancement or upgrading of various systems	8	2.1
Additional hardware/specialist supplies	3	1.9
Employment of information technology staff	3	0.1
Business trip for SMARTICS project	1	0.1
Total	30	15.1

Source: Audit analysis of ImmD records

2.16 *Need to clearly define the scope of ICT projects in funding applications.* Audit examination revealed that five payments of \$2.3 million made in June to September 2013 relating to capital expenditures incurred in providing computer systems in a new control point at Kai Tak Cruise Terminal (Note 26) were charged to project votes of Phases I and II of ISS-2 (see items 2 and 3 in Table 3 of para. 2.10) after project closures as reported by ImmD to OGCIO in March 2010. In this

Note 26: *According to ImmD, the estimated cost for computer systems in the control point at Kai Tak Cruise Terminal was \$68.58 million. The actual expenditure of \$16.9 million had been funded under different project votes using the remaining surplus under the respective subheads (\$10.1 million and \$5.2 million charged to Phase I and Phase II of ISS-2 respectively and \$0.1 million charged to sundry subheads) and also under a new item of OGCIO's block vote under Head 710 (\$1.5 million). According to Financial Circular No. 4/2011, FC's approval is required for creation of new commitments exceeding \$10 million under CWRP Head 710.*

connection, Audit noted that ImmD withdrew a new funding bid of \$68.58 million in September 2010 after receiving FSTB's request for justification for the proposed new funding bid, as various computerisation projects had already been undertaken by ImmD and there was a difference between the estimated project balances and estimated cash flow requirements in the forthcoming years of existing major project votes. ImmD then decided to make use of the existing project votes under ISS-2 to fund the one-off cost of the computer equipment items for the control point at Kai Tak Cruise Terminal (see para. 2.6(d)(iii)). While the charging of expenditures on extension work (i.e. computer systems in the control point at Kai Tak Cruise Terminal) was within the wide ambit of the pertinent project votes (i.e. under Phases I and II of ISS-2), Audit found areas for improvement from the financial control point of view, as follows:

- (a) there were eight control points (Note 27) when the two projects were approved in January 2002 and January 2003, and the funding for providing computer systems in the control point at Kai Tak Cruise Terminal was only sought in August 2010. Therefore, the original scope of the two projects had not covered the computer systems in the control point at Kai Tak Cruise Terminal. In this connection, Audit noted that separate funding approvals had been sought from FC on implementation of new computer systems in two other new control points, namely Hong Kong-Zhuhai-Macao Bridge Hong Kong Boundary Crossing Facilities and Shenzhen Bay Control Point (previously also known as Control Point at Hong Kong-Shenzhen Western Corridor — see item 8 in Table 2 of para. 2.9);

- (b) to facilitate the financial control by FC and as a good project management practice, the scope of a project should be clearly defined in the funding application. This was formally set out in the user guide on preparation for FC/Public Works Sub-committee submission as specified in Financial Circular No. 4/2010. However, the scope of the two projects had not precisely defined the number and locations of control points to be covered in FC papers. In the circumstances, there was an incentive for ImmD to keep the subhead with surplus funds open as long as possible for meeting any future extension and improvement work, albeit that the final payment of main contracts had been made and project completion had been reported to OGCIO. Given that ImmD decided to implement further system work

Note 27: *The eight control points are located at the Hong Kong International Airport, Lo Wu, Hung Hom, Lok Ma Chau, Man Kam To, Sha Tau Kok, the China Ferry Terminal, and the Macau Ferry Terminal.*

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after completion of main contracts, the projects were still in progress and should not be taken as completed; and

- (c) further expenditures were incurred under the two projects after project completion (\$19.6 million and \$48.1 million respectively up to June 2019), notwithstanding that the two project items had been reported in the annual report on ICT projects submitted to FC in December 2010 showing the position as at 31 March 2010 that the projects would be closed and deleted from the annual reports thereafter. In this connection, Audit noted that ImmD had also not included in the annual reports on ICT projects further computer system work implemented after completion of main contracts for the other five reported completed projects (see items 1 and 4 to 7 in Table 2 of para. 2.9).

In order to tighten the financial control on the use of surplus project funds, Audit considers that ImmD needs to clearly define the scope of ICT projects (e.g. including the number and locations of control points to be covered) in the funding applications and state clearly in the funding papers if any surplus funds would be used for implementing new ICT systems of new control points in future. ImmD should also include all projects in the annual reports to be submitted to OGCIIO if further computer system work has been implemented after completion of main contracts (see also para. 2.11).

Tenders with significant variances between pre-tender estimates and contract prices

2.17 According to the standard tender report format in Appendix III(I) of SPRs, for a tender report submitted to relevant tender board or DTC, Controlling Officer is required to confirm with analysis (by comparing the recommended tender sum with pre-tender estimates (PTEs) and/or the awarded contract sum of the previous contract or those in similar contracts) that the recommended tender sum is fair and reasonable. If PTEs are not based on effective market research and deviate from market prices, they cannot form a good reference for considering whether the tender sums are fair and reasonable.

2.18 Audit scrutinised the tender list provided by ISB from 2014-15 to 2018-19 and found that, in 14 of 16 contracts awarded, the contract prices were lower than the corresponding PTEs. Five tenders recorded significant variances between PTEs

(comprising mainly a one-off capital cost and/or maintenance cost) and the contract prices, ranging from 31% to 60%. Audit identified areas for improvement in two tender exercises, namely SMARTICS 2 and the Next Generation Electronic Passport System.

2.19 In preparing the tender documents of SMARTICS 2, ImmD had strategically grouped the procurement requirements into five distinct categories (i.e. Category A: Core System; Category B: Smart Card and Card Personalisation and Management System; Category C: Multi-purpose Self-service Kiosk System and Cabinet System; Category D: Next Generation Tag System; and Category E: Next Generation Electronic Services System) to promote fair, open and competitive bidding. According to ImmD, the tender evaluation revealed that there was keen competition within each category as multiple proposals were received for all categories. Audit examination revealed that ImmD had conducted two market research exercises before tendering from October 2014 to August 2016 (Note 28). In the first market research exercise, ImmD had approached major vendors in the industry including the contractor of SMARTICS (Contractor A), which was a major vendor in the industry and key player in the SMARTICS project, to obtain price information of major components. In the second market research exercise, ImmD had not approached Contractor A. According to ImmD, approaching existing contractors when conducting market research could, as in some cases, lead to possible speculation of perceived advantages given to the existing contractors who had better knowledge of the service to be tendered if they were contacted. ImmD then prepared PTE based on the information available and other reference prices obtained from OGCIO. In the Tender Report submitted to CTB in March 2017:

- (a) PTE was worked out by ImmD according to the prices provided by various suppliers at the stage of feasibility study conducted in October 2014 and was further reviewed with reference to the latest prices of major system components provided by other vendors in August 2016; and
- (b) based on the tender prices of the offers received in this tender exercise, ImmD considered that PTE of the project was not realistic for reference.

Note 28: *In the second market research exercise, ImmD sent out enquiries to a total of 24 vendors (excluding Contractor A) in the market (3 vendors for Category A, 12 vendors for Category B, 6 vendors for Category C, 2 vendors for Category D and 1 vendor for Categories C and D) for price information but only 3 vendors (2 vendors for Category B and 1 vendor for Category D) responded to ImmD's enquiries.*

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As a result, the unrealistic PTE could not provide a good reference for assessing the reasonableness of the tender sum (see para. 2.17). There was also scope for improving the accuracy of PTE in tendering of other goods and services (see paras. 3.17(c) and 3.25(b)).

2.20 *Need to take into account relevant factors to work out realistic PTEs.* According to ImmD, there were difficulties in obtaining information from market players. Factors such as the willingness to compile/disclose realistic prices by potential tenderers in market research and the consideration of individual tenderers (e.g. goodwill and financial situation) might also have different degree of impact on the offer by different prospective tenderers. Those factors were beyond the knowledge of ImmD to assess and quantify. Moreover, there was no binding condition for a prospective tenderer who had submitted an estimate to offer the same price in the bidding stage. The uncertainty in derivation of PTE was further amplified for turnkey solution of high value and complexity as the spectrum and quantity of goods and services involved could be substantial and highly diversified. In Audit's view, in determining PTEs in future tendering, relevant factors including the market condition and economy of scale should be taken into account.

2.21 *Need to follow up with vendors to obtain the required information.* In the tender exercise of the Next Generation Electronic Passport System, ImmD divided the procurement requirements into three categories (Note 29) to enhance market competition. According to the tender report of October 2017, PTE was worked out by ImmD according to the findings of the feasibility study for the System conducted in October 2014 and was further reviewed in April 2017. In this connection, ImmD said that it had worked out PTE of each category based on the market research conducted in 2014 and 2017. In the 2017 market research exercise for all the three categories, ImmD sent out 17 enquiries to 16 vendors in the market for price information but only 3 vendors responded to ImmD's enquiries. For Category B, ImmD made enquiries on the one-off price and recurrent maintenance price. In the replies from two vendors of Category B, only quotations of the one-off price and recurrent cost of contactless chip and data page were obtained and no information on recurrent maintenance price was provided. ImmD did not follow up with the

Note 29: *The three categories were: (a) Category A — Core System; (b) Category B — Data Page, Contactless Chip, and Travel Document Personalisation and Management System; and (c) Category C — Self-service Submission Kiosk, Self-service Collection Kiosk, and Cabinet System.*

two vendors to obtain the required price information and mainly made reference to OGCIO's Standing Offer Agreements (Note 30) in estimating the recurrent maintenance price. In the event, one of the two vendors submitted its bid and was awarded the contract for Category B. Audit examination revealed that the one-off tender price for Category B was lower than PTE. The contract price for total recurrent maintenance price was significantly lower than PTE. In October 2019, ImmD informed Audit that in working out PTE:

- (a) the vendors were not obliged to provide all information in the process as such provision was not mandatory. Besides, such information was only one of the contributors for consideration during the compilation of PTE; and
- (b) getting information from the vendors was not the sole input to the PTE especially for complicated systems as only high level requirements were given to some market players. Some current price information was also obtained from other sources, such as feasibility studies and Standing Offer Agreement prices.

Audit considers that, in order to work out realistic PTEs in future tender exercises, ImmD needs to make efforts to follow up with vendors to obtain the required information as far as practicable.

***Control over the use of funds resulting from
lower-than-estimated tender prices in CWRP projects***

2.22 According to paragraph 2.18, PTE of the five contracts were significantly above the contract price. As mentioned in paragraph 2.14, in Chapter 3 of the Director of Audit's Report No. 71 of October 2018, Audit recommended that FSTB should introduce measures to strengthen the control over the use of funds resulting from lower-than-estimated tender prices in CWRP projects once surplus is identified. In response, FSTB replied that for capital non-works projects approved by LegCo in the 2019-20 legislative session and thereafter, it would provide LegCo with quarterly

Note 30: *OGCIO and GLD arranged and managed Standing Offer Agreements for the procurement of information technology products and services by B/Ds, e.g. supply of network products and server systems and provision of related services, and provision of information technology professional services.*

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reports on significant deviations between the accepted tender prices of the projects and the estimated provisions in the approved project estimates when the deviations equal or exceed \$15 million or 10% of the original estimated provision, whichever was greater. The excess would be reserved administratively. In this connection, while the five projects commenced before the 2019-20 legislative session, ImmD needs to remind its ICT project officers to ensure compliance with the requirements when there are significant deviations between the accepted tender prices of the projects and PTE after award of contracts in future.

Procurement issues identified in three ICT projects

2.23 Of the eight completed ICT projects from March 2009 to March 2018 (see Table 2 in para. 2.9), Audit selected three projects with delays and/or significant unspent balance as compared with the approved project estimate (see items 4, 6 and 8 in Table 2) for examination. Audit noted room for improvement in the procurement and implementation of the projects, as elaborated in paragraphs 2.24 to 2.43.

Phase III of ISS-2: Application and Investigation Easy System and Electronic Records Programme

2.24 In May 2004, ImmD obtained funding approval of \$336.8 million for implementing Phase III of ISS-2 (see item 6 in Table 2 of para. 2.9) which would cover: (a) the Application and Investigation Easy System (APPLIES) to support: (i) processing of applications for visas, permits, and travel passes; (ii) registration matters relating to births, deaths, and marriage; and (iii) investigation cases; and (b) the Electronic Records Programme to enable transactions in ImmD to be conducted digitally.

2.25 ***Tender exercise in 2004.*** Before the issue of the tender, ImmD took about three months to seek the advice of the Department of Justice and the Intellectual Property Department on refining the clauses of the tender documents. A tender was issued by GLD on behalf of ImmD in October 2004 for procuring APPLIES and Electronic Records Document Management System. By the close of tender in December 2004, four offers were received. After evaluation, two offers were found conforming. In July 2005, the contract was awarded to Contractor B with the higher combined score (i.e. combining price and quality scores) at a total cost of \$308.5 million. In the event, ImmD/GLD took some two months to conduct tender negotiations with the recommended tenderer.

2.26 *Delay in rolling-out APPLIES and Electronic Records Programme.* The actual roll-out date of APPLIES and Electronic Records Programme was December 2008, i.e. a two-year delay as compared to the target roll-out date of December 2006. According to ImmD, the delay was caused by:

- (a) long tendering process and contract negotiation process, resulting in a delay of seven months in the award of contract and consequential delays in subsequent stages, e.g. live-run date of the Immigration Imaging Centre had to be rescheduled;
- (b) extension of the system design and development stage in order to cope with a series of changes in immigration policy, including the introduction of the Civil Celebrants of Marriages Scheme, the Quality Migrant Admission Scheme and Immigration Arrangements for Non-local Graduates;
- (c) project complexity in the implementation process; and
- (d) the Contractor's substandard performance, viz. poor project and resource management, poor quality control, and sub-contractor management.

2.27 *Contractor B's response.* In view of Contractor B's substandard performance, ImmD issued an e-mail and two warning letters during the period from January 2007 to February 2008. In response to the warning letters, Contractor B said that:

- (a) the project progress had been hampered by the addition of a large number of out-of-scope items (i.e. not in the tender specifications);
- (b) many inputs during demonstrations could have been but were not provided earlier by ImmD;
- (c) the inputs from ImmD's end users differed from the earlier ones requested by ImmD's project team; and
- (d) continued changes were made to the functions and programs even at the late stage.

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2.28 *No claim made for liquidated damages.* In August 2008, in its response to GLD's enquiry on whether claim should be initiated against Contractor B in view of the delay, ImmD said that it did not initiate claim for liquidated damages according to the contract because:

- (a) there was an underestimation of the magnitude and complexity of the project by the Contractor leading to prolonged development and testing;
- (b) owing to the implementation of new policies/initiatives of ImmD, the design of the system needed to be adjusted accordingly which lengthened the development and implementation processes; and
- (c) owing to the need to provide infrastructure for implementation of another information technology system, namely the Electronic Passport System, which had an immovable rollout deadline in early 2007, some project tasks had been re-prioritised.

ImmD considered that it was imperative to roll out the system to replace the then aging and obsolescent system. Without the timely replacement of the system, ImmD's public services would be immensely and adversely affected. On balance, ImmD decided not to initiate any claim on the Contractor for the delay.

2.29 *Additional measures to clear the backlog of file conversion and to cope with new operational requirements.* To cope with the workload in file conversion when rolling out APPLIES, a contract of \$24.7 million for file conversion services was awarded in February 2005. In response to the requests for more file conversion services (which were not covered by the contract), the original contract completion date in July 2008 was extended for one year to July 2009 with the original contract sum of \$24.7 million remaining unchanged. In July 2008, ImmD procured additional file conversion services by quotation from another service provider at a contract sum of \$0.76 million (see also para. 2.30) (Note 31). In August 2009, ImmD varied the contract with Contractor B at a sum of \$13.3 million to procure additional computer equipment (including 304 scanners), and enhance the main system and six sub-systems to cope with operational requirements which mainly stemmed from the new government policy and introduction of new services to members of the public.

Note 31: *The contract sum was subsequently increased to \$1.1 million by means of contract variation to cater for the increased service demands.*

2.30 *Need to recommend conducting PIRs.* Audit examination revealed that there was a two-year delay in the implementation of APPLIES and Electronic Records Programme. The delay not only led to the slippage of two years in achieving the intended benefits of savings in staff costs, but also resulted in incurring additional expenditures to clear the backlog of file conversion (see para. 2.29). Furthermore, unrealised savings were subsequently reported in the PIDR (see para. 2.31). However, as stated in the PIDR, ImmD did not recommend the conduct of a PIR to look into the causes of deviation and identify necessary improvement measures because:

- (a) all sub-systems were implemented and the project was completed within budget;
- (b) part of the savings could not be realised because of changes in some work processes; and
- (c) the delay in completion of the project was due to, among others, project complexities, the Contractor's substandard performance and extension of the system design and development stage to cope with a series of changes in immigration policies.

While ImmD had given a brief account on the underlying reasons for the significant delays and unrealisable savings in PIDR, Audit considers that the conduct of a full PIR would be beneficial to future project planning. Audit also considers that, for future ICT projects, in making recommendations on conducting PIRs, ImmD needs to take due consideration of significant delays and non-achievement of savings as stated in FC papers, where appropriate.

2.31 *Savings in staff costs not fully realised.* According to OGCI0 Circular No. 3/2007, for administrative computer projects funded under CWRP Head 710, B/Ds are required to submit PIDRs to OGCI0 six months after operation of the ICT projects to evaluate the achievement of the projects to ensure that the Government's investment in the projects has attained the intended objectives in a timely and cost-effective way. After examining PIDR results (such as whether there has been a substantial deviation from the planned achievements), OGCI0 will determine whether to initiate a PIR to look into the causes of deviation and identify necessary improvement (see para. 2.7). According to the funding paper submitted to FC in May 2004, the implementation of APPLIES and Electronic Records Programme would bring about a saving of 159 posts (with annual recurrent savings in staff cost

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of \$49.8 million). In PIDR submitted to OGCI, ImmD said that a saving of 33 posts (with an annual staff cost of \$9.6 million (19%)) could not be realised because:

- (a) in light of massive amount of sensitive personal data in registration of persons records and increased public awareness of personal data privacy in recent years, the incorporation of registration of persons records into Electronic Records Programme to enable direct access by internal and external stakeholders, as originally planned in the feasibility study stage, had not been implemented. Instead, it was considered that such kind of requests for registration of persons records needed to be assessed on a case-by-case basis by the Registration of Persons (Records) Office. Therefore, the manpower required in handling registration of persons records enquiries from other government departments could not be saved as planned; and
- (b) the Intelligent Character Recognition technology, as recommended for adoption during the feasibility stage with a view to reducing the amount of manual data entry for the capture of inputted information from documents/records, was found not mature enough during the implementation stage in providing a reasonably high recognition rate to meet the operational needs. The document scanning and indexing processes were subsequently revised and thus part of the savings from the document scanning and indexing processes could not be realised.

2.32 ***Need to be vigilant in estimating realisable savings.*** The saving of 33 posts (with an annual staff cost of \$9.6 million (19%)) could not be realised because of the operational issues relating to personal data privacy protection requirements and information technologies, i.e. Intelligent Character Recognition technology (see para. 2.31(a) and (b)). Audit considers that in developing similar systems in future, ImmD needs to improve its market research to ascertain the latest developments in operational requirements and information technologies. ImmD also needs to be vigilant in estimating realisable savings to ensure that such savings quantified in FC papers are achievable.

***Computer systems at Shenzhen Bay Control Point
and at Lok Ma Chau Spur Line Control Point***

2.33 ImmD obtained funding approval of \$176.6 million in April 2004 to install computer systems (including the Automated Passenger Clearance System (APCS) and Automated Vehicle Clearance System (AVCS)) for 91 passenger immigration counters (consisting of traditional and automated ones) and 118 vehicle kiosks at the Shenzhen Bay Control Point (i.e. item 8 in Table 2 of para. 2.9). In May 2005, ImmD also obtained funding approval of \$93.3 million for installing computer systems to 66 traditional passenger immigration counters and 70 automated passenger clearance channels at the Lok Ma Chau (LMC) Spur Line Control Point (i.e. item 4 in Table 2).

2.34 In the meantime, the implementation of APCS and AVCS also started to roll out at other immigration control points in December 2004 and April 2005 respectively under a contract (Contract C) awarded to Contractor C as recommended by CTB in March 2004. As stipulated in Contract C, the Contractor undertook to supply additional items as and when required by the Government within a period of 48 months from the contract date in order to meet the requirements of new control points. However, taking into consideration CTB's advice on ensuring fairness to potential service providers when acquiring additional requirements for future control points, ImmD decided to procure APCS and AVCS for Shenzhen Bay Control Point and LMC Spur Line Control Point by means of open tender.

2.35 ***Tender exercise.*** A tender for the supply and installation of APCS for 101 passenger clearance channels (Category A in the tender document — Note 32) and AVCS for 80 vehicle kiosks (Category B in the tender document — Note 33) was prepared and issued in November 2005. A tenderer could submit its tender for either category or both. In the event, 316 suppliers from Hong Kong and 32 suppliers outside Hong Kong were invited (as the invitation to tender was subject to the Agreement on Government Procurement of the World Trade Organization —

Note 32: *Of the 101 automated passenger clearance channels, 29 would be provided for Shenzhen Bay Control Point, 70 for LMC Spur Line Control Point and 2 for system development and user acceptance test.*

Note 33: *Of the 80 vehicle kiosks, 78 would be provided for Shenzhen Bay Control Point and 2 for system development and user acceptance test.*

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Note 34). When the tender closed in January 2006, four offers from four tenderers were received. For APCS, two of three offers received were conforming. Tenderer D offered a total price higher than PTE and Tenderer E offered a total price lower than PTE. For AVCS, the only one offer received was non-conforming.

2.36 *Tender evaluation.* After evaluation, Tenderer D obtained a higher combined score than Tenderer E. However, Tenderer D's tender price was higher than PTE. In TAP's report submitted to GLD in March 2006, ImmD recommended that Tenderer D's offer should be accepted subject to the result of tender negotiations.

2.37 *Tender negotiations.* In April 2006, the Director of Government Logistics gave approval to conduct tender negotiations with Tenderer D in accordance with SPR 385 requirements (Note 35) in order to obtain a better price for the high-value purchase. After negotiations, Tenderer D agreed in June 2006 to reduce the tender price, which was still higher than PTE. In the event, ImmD also obtained a reference price of supplying the service from Contractor C, which was lower than PTE (see para. 2.34).

2.38 *Cancellation of tender.* ImmD considered that the negotiation result was not favourable to the Government in that the revised total price of Tenderer D's offer was still higher than PTE and the reference price of supplying the service from Contractor C. Moreover, the total price of Tenderer E's offer was also higher than Contractor C's reference price. After seeking the Department of Justice's advice, ImmD sought CTB's approval in July 2006 to cancel the tender on the grounds of public interest for APCS and having no conforming offer for AVCS. In July 2006, CTB approved the cancellation of the tender. In the event, ImmD requested Contractor C to supply APCS to LMC Spur Line Control Point and Shenzhen Bay Control Point in July 2006 and February 2007 respectively. In August 2007, ImmD

Note 34: *The Agreement applies to procurement contracts of goods and specified services of all government B/Ds with a value of not less than 130,000 Special Drawing Rights (equivalent to \$1.4 million for the period 1 January 2018 to 31 December 2019).*

Note 35: *SPR 385 stipulates, among others, that where it would be in the Government's best interest to negotiate with a tenderer or tenderers, such negotiations shall be conducted in a non-discriminatory manner among different tenderers.*

issued acceptance certificates for the roll-out of APCS at the two Control Points (Note 36).

2.39 *Re-tendering of AVCS.* In September 2006, AVCS (Category B) for 40 lanes at Shenzhen Bay Control Point was re-tendered. In the second tender exercise, some of the mandatory requirements in the original tender exercise became optional requirements (e.g. private car passenger clearance solution). At the close of tender, three offers from two tenderers were received. After evaluation, three offers were all conforming. In March 2007, the contract was awarded to the tenderer with highest combined score at a one-off cost of \$53.8 million and an annual recurrent cost of \$4.7 million for mandatory requirements and at a one-off cost of \$29.3 million and an annual recurrent cost of \$6.4 million for optional requirements for private car passenger clearance solution and set-up of AVCS Training Centre. In April 2008, ImmD informed the Contractor that AVCS at the Shenzhen Bay Control Point passed the system acceptance tests under the mandatory requirements (Note 37) in February 2008.

2.40 *Audit examination.* Audit appreciates the efforts made by ImmD/GLD to conduct tender negotiations with Tenderer D and cancel the tender on the grounds of public interest after the negotiations could not obtain the intended result with a view to protecting the Government's interest. Audit examination found that:

- (a) according to the Tender Report of March 2006 submitted to GLD, ImmD recommended tender negotiations with Tenderer D in order to obtain a better price (i.e. the reference price). However, ImmD also expressed that APCS was scheduled for roll-out at Shenzhen Bay Control Point and LMC Spur Line Control Point in October 2006. In view of the extremely tight project schedule, ImmD intended to go for Tenderer E in the event that the negotiation items could not be resolved with Tenderer D timely. If Tenderer E also failed to meet the target estimated project cost after tender negotiations, ImmD recommended to perform contract variation with Contractor C. In the event, three months (from April to June 2006) were spent on the tender negotiations; and

Note 36: *The actual commission dates for Shenzhen Bay Control Point and LMC Spur Line Control Point were July and August 2007 respectively.*

Note 37: *According to ImmD, the optional requirements of passenger clearance solution and set-up of AVCS Training Centre were not pursued.*

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- (b) before CTB gave approval to cancel the tender, FSTB asked why ImmD did not consider conducting tender negotiations with Tenderer E after the unsuccessful negotiations with Tenderer D. In response, ImmD said that Tenderer E would unlikely offer a great price concession and in view of the tight time frame (with target commission date of LMC Spur Line Control Point in November 2006). Besides, it could not afford to conduct another round of negotiations which might take months. However, Audit could not find any documentation supporting ImmD's comments that Tenderer E would unlikely offer a great price concession.

2.41 *Need to consider setting a price ceiling as a reserve price.* Both the prices offered by Tenderer D (with highest combined score) after tender negotiations and Tenderer E (with second highest combined score) were higher than the reference price offered by Contractor C. According to SPR 347(a), Government departments should not normally disclose the estimated contract value to the tenderers as it might become a main guiding factor in the preparation of their tender proposals, which might be reduced or expanded unnecessarily, thus undermining the principles of competition and value for money. In this case, the main purpose of the tender exercise was to obtain a better value-for-money offer from the market than that offered by Contractor C (i.e. to obtain an equivalent if not better offer). Given the financial and time constraints and the alternative of requiring Contractor C to supply the service under Contract C, a better option could be setting a price ceiling equal to Contractor C's reference price as a reserve price for internal reference at the outset (i.e. the tender exercise would be cancelled if the price of the most advantageous tender was higher than the reserve price). While noting that setting a price ceiling as a reserve price is not a norm, such arrangement would help ImmD identify the best value-for-money offer in future similar tender exercises.

2.42 *Need to critically review the need for including stringent tender requirements as mandatory requirements.* For AVCS (Category B), there was only one non-conforming offer received in the first tender exercise (see para. 2.35) and the tender exercise had to be cancelled. With the approval of CTB, a new tender was issued in September 2006. In August 2006, before issuing the new tender, GLD requested ImmD to review the tender requirements with a view to drawing up the revised requirements with pragmatic terms. In response, ImmD re-classified the tender requirements into mandatory and optional requirements with a view to attracting more bidders:

- (a) in the cancelled tender exercise, tenderers were mandatorily required to propose private car passenger clearance solution which had not been implemented in the then existing control points. In the re-tender exercise, it was included as an optional requirement (see para. 2.39); and
- (b) in the cancelled tender exercise, tenderers were required to use multi-biometrics verification solution (i.e. fingerprint and face recognition) which had not been implemented at other control points before. Such requirement became optional in the new tender document.

With the changes from mandatory requirements to optional ones, ImmD considered that there would be sufficient qualified suppliers for the second tender. In the second tender of September 2006, three offers were received and they were all conforming offers (see para. 2.39).

2.43 According to SPR 109(c), over-specification and over-prescription in product requirements or mode of service delivery should be avoided. In future tender exercises, ImmD needs to include only essential requirements and avoid imposing stringent requirements in the tender documents which may deter suppliers to submit their bids.

Audit recommendations

- 2.44 **Audit has *recommended* that the Director of Immigration should:**
- (a) **after completion of main contracts of an ICT project, continue to report project activities to OGCIO until closure of the project subhead;**
 - (b) **initiate actions to close an ICT project subhead when all the project expenditures are settled after project completion;**
 - (c) **strengthen control over the use of surplus project funds in ICT project subheads and inform FSTB of funds surplus to requirements under an ICT project subhead so that the surplus may be reserved in accordance with F&AR 320;**

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- (d) report to FSTB when identifying surplus funds arising from lower-than-estimated tender prices in an ICT project approved by LegCo in future;**
- (e) clearly define the scope of an ICT project in the funding application and state clearly in the funding paper if any surplus funds would be used for implementing new ICT systems at new control points in future;**
- (f) in future tender exercises of ICT projects:**
 - (i) take into account relevant factors including the market condition and economy of scale in determining PTEs;**
 - (ii) follow up with major vendors to obtain required information as far as practicable in order to work out realistic PTEs;**
 - (iii) where there are financial and time constraints in project implementation and there is an alternative of requiring a contractor to provide the ICT systems under an existing contract, consider setting a price ceiling equal to the contractor's reference price as a reserve price for internal reference; and**
 - (iv) include only essential requirements in the tender documents and avoid imposing stringent requirements which may deter suppliers to submit their bids;**
- (g) in making recommendations on conducting PIR when preparing PIDR for submission to OGCIO, take due consideration of significant delays and non-achievement of savings as stated in FC papers, where appropriate;**
- (h) in developing ICT systems in future, improve market research to ascertain the latest developments in operational requirements and information technologies; and**
- (i) be vigilant in estimating realisable savings from implementing ICT systems to ensure that such savings quantified in FC papers are achievable.**

Response from the Government

2.45 The Director of Immigration generally agrees with the audit recommendations.

PART 3: PROCUREMENT OF OTHER GOODS AND SERVICES

3.1 This PART examines ImmD's procurement of goods and services (other than ICT projects the procurement of which is covered in PART 2).

Procurement by tender

3.2 According to SPR 220, B/Ds shall follow tender procedures when making purchases of goods and services exceeding \$1.4 million. From 2014-15 to 2018-19, ImmD conducted seven tender exercises for goods such as hardware and software for ICT systems, government office automation system and electronic cabinets for the Electronic Passport System. Total contract value of goods procured through the seven tender exercises was \$26.4 million. In addition, during the same period, ImmD concluded 58 service tenders with a total contract value of \$689.2 million. Such services included: (a) security guard services; (b) information technology services; (c) transport services; (d) medical services; (e) catering services; and (f) provision of uniform services.

Areas for improvement

3.3 *Audit examination.* Audit examined 33 (51%) of the 65 (7 + 58) procurement exercises of goods and services by tender and found the following areas for improvement:

- (a) provision of transport services to the Castle Peak Bay Immigration Centre (paras. 3.4 to 3.13);
- (b) provision of catering services at the Castle Peak Bay Immigration Centre (paras. 3.14 to 3.17);
- (c) provision of uniform services (paras. 3.18 to 3.24); and
- (d) procurement guidelines (para. 3.25).

Provision of transport services to the Castle Peak Bay Immigration Centre

3.4 The Castle Peak Bay Immigration Centre (CIC) is an immigration detention facility for detaining immigration offenders (18 years old or above) who are awaiting repatriation/removal/deportation in accordance with the Immigration Ordinance. From time to time, officers of CIC need to escort detainees outside the Centre for different purposes such as medical appointment, court attendance, and bedside guard. Taking into account the cost-effectiveness and the flexibility in service deployment, ImmD has outsourced the transport services.

3.5 *Tender exercise in 2017.* From April 2016 to September 2017, transport services for CIC were procured by two separate quotations for a period of about 18 months at a total cost of some \$970,000 (Note 38). With a view to achieving better economy of scale and saving the administrative costs, ImmD decided to procure the transport services by tender (instead of quotation) and extend the contract period to 36 months from 15 September 2017 to 14 September 2020. The successful contractor is responsible for the provision of transport services, namely regular transport service (i.e. from 8 am to 5:30 pm, Monday to Friday, except public holidays) and additional transport services (e.g. extension of service hours). The contractor is required to provide a vehicle (with a minimum seating capacity of 16 passengers) with hydraulic platform for wheelchair with a driver in accordance with the service conditions specified in the tender document. A tender notice of the 36-month service was gazetted in March 2017. Tender notifications were sent out to 36 local service providers and the Trade Commissioners of overseas countries in Hong Kong (as the invitation to tender was subject to the Agreement on Government Procurement of the World Trade Organization — see Note 34 to para. 2.35). Upon the close of tender on 2 May 2017, two tenderers submitted their bids. The two offers received were both significantly lower than PTE. In August 2017, the contract was awarded to the lower conforming

Note 38: *A quotation exercise covering a 12-month period from 1 April 2016 to 31 March 2017 was conducted in early 2016 at a cost of some \$650,000. ImmD conducted another quotation exercise and the contract covered a six-month period from 1 April 2017 to 30 September 2017 at a cost of some \$320,000. However, the commitment of the 12-month contract would be used up before the contract end date (i.e. 31 March 2017). To ensure continuity of the transport services, it was agreed to commence the new 6-month contract on 15 March 2017. According to ImmD, the 6-month contract was a stop-gap measure to allow sufficient time for preparing the tender exercise covering the period from 15 September 2017 to 14 September 2020.*

Procurement of other goods and services

bidder at an estimated total amount of \$2.79 million for a period of 36 months commencing from 15 September 2017.

3.6 ***Basis of PTE.*** In January 2017, CIC raised a funding request for the procurement of the transport services. According to the funding request form, PTE was based on the estimated contract value of a cancelled quotation for provision of a vehicle with hydraulic platform with a 15% allowance for annual price increase (comprising 4% for annual inflation, 6.7% for annual salary adjustment and 4% for contingency) over the 36-month period.

3.7 ***Queries raised by SSD.*** In the course of preparing the tender document, SSD informed CIC in February 2017 that from the experience of four ImmD's renewed transport service contracts, the new contract prices, on average, were 25% lower than their preceding contracts. SSD also commented that the underlying inflation rate as indicated in the 2017-18 Budget was expected to be 2.5% per annum (i.e. lower than the 4% used by CIC). Besides, SSD reminded CIC that according to SPRs, a user section needed to explain why it considered realistic to accept a tender if the tendered sum was significantly higher or lower than PTE or the sum allowed for the contract in the approved project estimate. As such, SSD advised CIC to adjust PTE. In late February 2017, CIC informed SSD that after some internal discussions, PTE should remain unchanged with no justifications given. SSD further consulted the Transport Unit which had no further comment on PTE. The PTE was therefore accepted for the tender exercise.

3.8 ***Tender report.*** In July 2017, TAP submitted a tender report to DTC recommending acceptance of the lower conforming offer. According to the report, PTE was based on the estimated contract value of a cancelled quotation for provision of a vehicle with hydraulic platform with a 15% allowance for annual salary adjustment and a one-off 7.5% allowance for contingency (for possible upsurge of contract price). In explaining the significant difference between the estimated contract value (submitted in the lower conforming tender) and PTE, TAP said that:

- (a) the significant difference might attribute to the lower monthly investment cost of installation of a hydraulic platform over a longer span of 36 months; and

- (b) owing to greater competition in the market, the new competitor might have taken more aggressive approach to join the market and offered lower prices.

Audit examination of the tendering on the provision of transport services to CIC revealed scope for improvement as elaborated in paragraphs 3.9 to 3.13.

3.9 *Need to take measures to improve the accuracy of PTE.* In August 2017, in approving the award of the contract, DTC noted that there was a significant over-estimation of PTE and commented that:

- (a) the mark up of PTE by 15% per year with an additional 7.5% for contingency was not well justified;
- (b) wage had been the dominating consideration in drawing up PTE. DTC suggested that other relevant factors (such as the recent market trend, the demand and supply of the transport services, the oil prices and the projected inflation rate) should also be taken into account as appropriate; and
- (c) the subject section was recommended to consider conducting a pre-tender market research for a more realistic PTE in future.

Similar to the audit findings in paragraph 2.20, ImmD needs to take measures to improve the accuracy of PTEs (e.g. consider conducting more thorough market research and taking more factors into account when determining PTEs) (see also para. 3.25(a) and (b)).

3.10 *Need to properly document justifications for major decisions and changes.* As shown in paragraphs 3.6 and 3.8, the basis in estimating PTEs as stated in the funding request form (i.e. including a 15% allowance for annual price increase) and that in the tender report submitted to DTC by TAP (i.e. including a 15% allowance for annual salary adjustment and a one-off 7.5% allowance for contingency) was not consistent. However, there were no documented justifications for such change. Besides, there was also no documentation on the justifications for not adjusting PTE downwards by CIC despite SSD's advice (see para. 3.7). In Audit's view, to facilitate the evaluation of the tender by the approving authority, ImmD needs to properly document the justifications for major changes for management review and future reference.

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3.11 *Transport services using a vehicle equipped with a hydraulic platform.* Since April 2011, ImmD had requested contractors to provide a vehicle equipped with a hydraulic platform to facilitate transportation of wheelchair users and window bars (Note 39). However, ImmD noted that a vehicle equipped with a hydraulic platform was scarce in the market. Subsequently, CIC reviewed the need for a hydraulic platform as well as the cost-effectiveness of the equipment. In the event, such requirement was relaxed in the quotation exercise in 2016. In 2016, there were two non-urgent cases requiring the use of vehicle equipped with a hydraulic platform (the records for urgent cases were not complete). To meet the requirement, ImmD had either made arrangements in advance for procuring such service through a separate quotation or used the ambulance services for urgent cases (e.g. detainees requiring medical attention).

3.12 *2017 tender exercise.* When preparing the tender exercise for 2017, CIC further reviewed the need for transport services for a vehicle equipped with a hydraulic platform and considered that such requirement was essential to meet the operational needs because: (a) urgent escort of disabled, injured and/or emotionally unstable detainees did not allow CIC to arrange coaches with hydraulic platform seven days prior to the escort duties; and (b) staff and detainees were highly vulnerable to injury during escort duties without the assistance of a hydraulic platform. As a result, the requirement was included in the 2017 tender exercise. The additional costs on the regular services to be provided over the 36-month contract period would be \$414,000 (averaging some \$11,500 per month).

3.13 *Need to evaluate different options for procurement of transport services using a vehicle equipped with a hydraulic platform.* According to CIC, during the period from November 2015 to November 2016, requests for using a vehicle equipped with a hydraulic platform were only made in three booking orders in normal cases. In this connection, Audit reviewed all the 4,514 booking orders for escorting detainees at CIC from January 2017 to June 2019 and noted that the demand for using a vehicle equipped with a hydraulic platform remained low (only 6 cases (0.1%) over the 30 months, i.e. averaging 0.2 case per month). In light of the average monthly cost of \$11,500 (see para. 3.12) for the service, ImmD needs to consider conducting a cost and benefit analysis to evaluate all the options available (e.g. arranging a separate quotation for such service) before the next tender exercise, taking into account CIC's

Note 39: *According to ImmD, vehicles equipped with window bars were desirable from security and safety points of view.*

operational needs and the low demand for such service. This will help improve the cost-effectiveness in procuring the service.

Provision of catering services at the Castle Peak Bay Immigration Centre

3.14 The detainees in CIC are provided with meals daily including breakfast, lunch, dinner and night snack. Since April 2010, ImmD has contracted out the catering service and conducted five tender exercises for the provision of catering services at the Centre.

3.15 ***Tender exercise in 2015.*** In October 2015, ImmD invited suppliers to submit tenders for a 36-month service contract (i.e. from 15 April 2016 to 14 April 2019) for the provision of catering services at CIC. Tender notifications were sent to 35 potential local service providers (Note 40). By the close of tender on 13 November 2015, three offers were received. After completion of tender evaluation, the service contract was awarded to the lowest conforming offer from the incumbent contractor (Contractor F) since April 2013 at an estimated contract price of \$47.4 million, which was significantly lower than PTE. According to the analysis conducted by TAP and submitted to CTB in January 2016, the difference was attributable to the following factors:

- (a) Contractor F had been the service provider since April 2013, which might have gone through the learning curve in the past years, and could attain cost savings through higher working efficiency in the coming contract;
- (b) it was believed that the tenderers could enjoy significant benefit from economy of scale through bulk purchase of food (with larger quantities of meals in the contract) and the depreciation of Renminbi, which might enable the tenderers to attain a lower overall purchasing cost. These factors had not been taken into account in PTE. With hindsight, the three offers received were all significantly lower than PTE and it reflected that PTE was likely to be over-conservative; and

Note 40: *The tender was not covered by the Agreement on Government Procurement of the World Trade Organization.*

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- (c) it was revealed from the 2015-16 interim report of the holding company of Contractor F that the overall performance of catering business for the period had, to some extent, reflected a downturn in retail sentiments, driven by the weakening economy. Contractor F had made efforts to secure new projects and extend its existing contracts.

3.16 ***Tender exercise in 2018.*** In December 2018, ImmD invited suppliers to submit tenders for a 36-month service contract (i.e. from 15 April 2019 to 14 April 2022) for the provision of catering services to CIC. Tender notifications were sent to 39 potential local service providers. By the close of tender on 4 January 2019, three offers were received. The service contract was awarded to the lowest conforming offer from Contractor F in March 2019 at an estimated contract price of \$43.1 million, which was lower than PTE.

3.17 ***Areas for improvement.*** Audit noted that there were areas for improvement in ImmD's tender process, as follows:

- (a) ***CTB's observations.*** In March 2019, while approving the award of the contract to Contractor F, CTB made the following comments:
 - (i) ImmD had substantially increased the value of contract for counting tenderer's experience in providing catering services with a contract period of not less than 12 months, from \$1.43 million in the previous tender exercise to \$10 million in the current exercise. Such a high threshold of annual contract value for the subject contract was over-stringent and uncommon in other government tenders involving catering services;
 - (ii) ImmD would need to remove the experience essential requirements for future tender exercises in line with the new pro-innovation government procurement policy to be effective from 1 April 2019 (see para. 1.4(d)); and
 - (iii) the successful tenderer would have been the incumbent contractor for some nine years upon completion of the new contract. From a risk management angle, the Board urged ImmD to take action to map out a tendering strategy to enhance competition and avoid over-reliance on a single contractor.

According to Financial Circular No. 2/2019, to encourage competition in procurement and minimise entry barriers, as a general rule, tenderer's experience should not be set as essential requirement, irrespective of the value of procurement. However, the experience, qualification or certification may still be one of the assessment criteria and are capped at 15% of the total technical marks of Standard Marking Scheme Framework set out in the Financial Circular. Audit considers that ImmD needs to take into account CTB's comments in preparing for future tender exercises and incorporate the relevant principles in ImmD's procurement guidelines where appropriate;

- (b) ***Need to improve market research work.*** In February 2019, FSTB asked ImmD whether pre-tender market research had been conducted to ascertain the number of potential tenderers who could meet all the essential requirements and would be interested in participating the tender exercise with a view to ensuring sufficient competition. In response, ImmD said that as three tenderers had submitted their offers in the 2015 tender exercise, it was expected that there would be sufficient potential tenderers which were interested in the current tender. As such, no pre-tender market research work had been conducted; and

- (c) ***Significant difference between PTE and contract price.*** In explaining the difference between PTE and the contract price in the tender report for the tender exercise in 2015, CIC said that the economy of scale through bulk purchase of food, depreciation of Renminbi and competition in the catering industry were important factors that might affect the tender price of a bidder. However, PTE used by ImmD in the 2018 tender exercise was solely based on the contract price of the 2015 tender exercise plus an annual increase of about 3% to cater for increase in workers' salaries and general inflation in the coming three years. As far as Audit could ascertain, factors identified by CIC in the 2015 tender exercise were not included in determining PTE. Audit noted similar inadequacies in the tendering of ICT systems (see para. 2.20 and the recommendation for improvement in para. 2.44(f)(i)).

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Provision of uniform services

3.18 The provision of uniform services for service grade staff of ImmD includes taking measurements and making the uniform. From November 2014 to March 2019, ImmD conducted four tender exercises for the provision of uniform services.

3.19 *First tender exercise in November 2014.* In November 2014, ImmD invited tenderers to bid for the services for a period of 24 months from 2 April 2015 to 1 April 2017. Tender notifications were sent to seven potential local service providers. According to the tender documents, a tenderer:

- (a) should have at least 5 aggregate years of experience in the provision of uniform services for government disciplined services within the past 10 years immediately prior to the tender closing date;
- (b) should have completed one or more contracts with a contract period of at least 12 consecutive months and with an annual contract value of not less than \$1 million in the provision of uniform services; and
- (c) should employ, among others, at least 200 staff for production, 10 tailors, and 5 staff for quality assurance/control (Note 41).

By the close of tender in December 2014, only one conforming offer from the incumbent contractor (Contractor G) was received and the price offered was \$3.99 million. TAP noted that the overall average unit price had increased by 19.5% when compared with the last quotation exercise. TAP considered that the price increase was too high and recommended conducting price negotiations with the tenderer in accordance with SPR 385 (see Note 35 to para. 2.37). In the event, DTC's approval was obtained in accordance with SPR 385 for conducting the negotiations. After negotiations, the tenderer agreed to reduce the tender price by \$176,000 to \$3.81 million. While approving the acceptance of the recommended offer, DTC commented that the tender specifications as well as the essential requirements should

Note 41: *There was no change in the essential capacity requirements in all four tender exercises with tender documents issued during 2014 to 2018.*

be reviewed and refined with a view to encouraging competition in accordance with the then SPR 350(j) (Note 42) when conducting tender exercises in future.

3.20 ***Second tender exercise in July 2016.*** In July 2016, ImmD invited tenderers to bid for the services for a period of 24 months from 2 April 2017 to 1 April 2019. Tender notifications were sent to 18 potential local service providers. Taking into account DTC's advice and operational needs, the minimum tenderer's experience was changed from at least an aggregate of five years to two years in the provision of uniform services for government disciplined services within 10 years immediately prior to the original tender closing date. However, the annual contract value for completed contract of not less than \$1 million (see para. 3.19(b)) had been revised upwards to \$1.43 million. According to the Tender Report, the increase in the annual contract value was to tally with other service tenders of ImmD. By the close of tender in August 2016, two offers were received (including the higher offer from Contractor G).

3.21 ***Cancellation of the second tender exercise in November 2016.*** After tender assessment, TAP found that the two tenderers failed to comply with the essential requirements that they had completed one or more contracts with an annual contract value of not less than \$1.43 million in the provision of uniform services. The annual contract values for the two tenderers were \$1.06 million and \$1.42 million respectively. With the approval of DTC, the tender exercise was cancelled on 15 November 2016.

3.22 ***Third tender exercise in November 2016.*** After cancelling the unsuccessful tender exercise on 15 November 2016, ImmD relaxed the essential requirement on annual contract value from "not less than \$1.43 million" to "over \$1.3 million" (Note 43). On 25 November 2016, SSD arranged an open tender for the supply of the services. By close of tender on 10 January 2017, two offers were received

Note 42: *The then SPR 350(j) has been replaced by SPR 350(m) but the requirements are the same. According to SPR 350(m), in case of re-tender, departments should, in the light of the degree of market competition in the past procurement exercises, review and refine the tender specifications as well as essential requirements and marking scheme with a view to encouraging competition.*

Note 43: *ImmD considered that by reducing the financial limit, some tenderers should be able to pass the threshold.*

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(including the higher offer from Contractor G). After the tender assessment, the lower-offer tenderer failed to meet the essential requirement on the annual contract value for completed contract and was disqualified. On 23 February 2017, ImmD awarded a contract to the only conforming offer from Contractor G at a contract sum of \$4.8 million.

3.23 ***Fourth tender exercise in December 2018.*** In December 2018, ImmD invited tender for the services for a period of 24 months commencing from 2 April 2019 or from the tender acceptance date, whichever was the earlier. Tender notifications were sent to 59 potential local service providers. By close of tender on 24 January 2019, three offers were received. After tender assessment, the lowest bid failed to meet the essential requirements on experience and working capacity (see para. 3.19(c)), and was disqualified. On 6 March 2019, the contract was awarded to Contractor G. Its bid was the lowest conforming offer at a contract sum of \$2.96 million (Note 44).

3.24 ***Areas for improvement.*** Audit noted areas for improvement in the four tender exercises, as follows:

- (a) ***Need to consider reviewing tender requirements in accordance with SPRs.*** Audit noted that DTC made comments in the first tender exercise in November 2014 that tender specifications as well as the essential requirements should be reviewed and refined with a view to encouraging competition in accordance with the then SPR 350(j) (now SPR 350(m)) when conducting tender exercises in future. In the second tender exercise in July 2016, the essential experience requirement of a tenderer in terms of annual contract value for the completed contract was revised upwards by 43% from not less than \$1 million in the first tender exercise to \$1.43 million. According to ImmD, the revision was made to ensure that the bidders possessed adequate tender experience to be capable of performing the uniform services contract to the Department's satisfaction, and to tally with other service tenders of the Department. Audit considers that each service tender may have different requirements and needs to be

Note 44: *The original price schedule submitted by Contractor G was \$4.37 million. On 23 January 2019 (i.e. one day before tender closing date), Contractor G submitted a revised price schedule and the tender price was revised downwards to \$2.96 million. Contractor G stated that the revised tender price was worked out after re-estimation of the workmanship and logistics costs.*

considered on a case-by-case basis. ImmD needs to consider reviewing tender requirements in each tender exercise in accordance with SPRs in future;

- (b) ***Need to consider conducting more thorough market research.*** In the second tender exercise in July 2016, ImmD had not conducted market research to ascertain whether there were adequate suppliers which could fulfil the revised essential experience requirement. In the event, the tender exercise had to be cancelled because no tenderer (including the incumbent contractor) could fulfil the revised requirement;

- (c) ***Need to consider conducting price negotiations to obtain the most advantageous terms for the Government.*** In the second and third tender exercises in July and November 2016, the offer price from Contractor G (the incumbent contractor) was \$4.8 million in both cases which was significantly higher than the offers from the unsuccessful tenderers. While these bids were disqualified because of their failure to comply with the essential requirement (see paras. 3.21 and 3.22), they could give an indication on the market price and price negotiations with Contractor G might be warranted. Based on past experiences, Contractor G was willing to reduce its tender price (see para. 3.19 and Note 44 to para. 3.23); and

- (d) ***Need to monitor compliance with essential requirement in warranted cases and take follow-up actions.*** As mentioned in paragraph 3.19(c), the tender documents in the four tender exercises had specified the working capacity of a contractor (in terms of number of staff) (see Note 41 to para. 3.19). Audit noted that in August 2018, ImmD conducted a quotation exercise for the urgent provision of uniform services to new recruits of 14 induction courses, specifying the same essential working capacity in the quotation. The offer from Contractor G (incumbent contractor) was the preferred offer but according to the quotation document submitted, its working capacity fell short of the minimum requirements (e.g. only 100 staff for production instead of 200 as required). However, there was no evidence showing that ImmD had taken any follow-up actions. In response to Audit's enquiry in July 2019, ImmD said that:
 - (i) an honour system had been adopted in the quotation/tender exercises for provision of uniform services by requesting the suppliers to declare their working capacity;

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- (ii) in case the contractor failed to perform the services to ImmD's satisfaction, it had the right to reject the services and withhold payment until the defects had been rectified and to claim all losses, costs and expenses in accordance with the provisions of the contract;
- (iii) having regard to the stated working capacity of 200 staff in a re-quotation issued on 24 August 2018, which was the same as that provided in the third tender exercise in November 2016, ImmD considered it reasonable to believe that Contractor G might have made a typographical mistake (e.g. 100 staff in the previous quotation which was eventually cancelled on 20 August 2018); and
- (iv) since the re-quotation was issued on 24 August 2018, which closely followed the cancellation of the previous quotation on 20 August 2018, ImmD considered it not desirable to contact Contractor G at that time to avoid giving it any perceived interest/advantage over other bidders.

While noting ImmD's explanations, Audit considers that ImmD needs to take measures to ensure that all the essential requirements are always complied with during the contract period. In particular, when suspected non-compliance was revealed from other sources, ImmD needs to take follow-up actions where appropriate (e.g. request the contractor to provide evidence of working capacity to meet the relevant requirements).

Procurement guidelines

3.25 ImmD has issued and updated departmental circulars to promulgate procedures for procurement. The circular on Departmental Procurement of Stores, Services and Revenue Contracts was last updated in February 2018. Audit examination revealed the following areas for improvement:

- (a) ***Need to consider including requirements of conducting a market research in departmental guidelines.*** As pointed out by DTC in paragraph 3.9, one of the reasons for over-estimation of PTE was inadequate market research. Apart from the cases mentioned in paragraphs 3.9, 3.17(b) and 3.24(b), Audit examination of 33 tender exercises revealed that ImmD had not approached potential tenderers for conducting market research work for

26 (79%) tender exercises. In this connection, Audit noted that according to SPR 350(e) and Financial Circular No. 2/2019, departments are encouraged to reach out to the market and conduct a market research to better understand the goods or services likely to be available in the market, technological trends, number of potential bidders, etc. To meet this requirement, ImmD needs to consider including the requirements of conducting a market research (where appropriate) in its guidelines with a view to improving the procurement process in future;

- (b) *Need to work out realistic PTEs.* As mentioned in paragraphs 3.9 and 3.17(c), DTC and CIC commented that apart from salary increase and inflation, other factors were also useful in determining PTEs (e.g. oil price and foreign currency exchange rate). In this connection, Audit examination revealed that of the 33 procurement exercises examined, the discrepancy between PTEs and the contract prices had exceeded 20% in 19 (58%) exercises, and most of them mainly used the current contract prices adjusted by estimated inflation rates to determine PTEs. Audit noted similar inadequacies in the tendering of ICT systems (see para. 2.20 and the recommendation for improvement in para. 2.44(f)(i)); and
- (c) *Need to incorporate new requirements in procurement guidelines.* In March 2019, FSTB issued Financial Circular No. 2/2019 to promulgate details of the new pro-innovation government procurement policy, revisions to SPRs and measures to facilitate the participation of market players in government procurement. In this connection, many new measures are related to procurement by tender, e.g. more extensive use of marking schemes and the concept of value for money in procurement. In this regard, ImmD needs to incorporate the new requirements and formulate the relevant guidelines in its departmental circulars.

Audit recommendations

3.26 **Audit has recommended that the Director of Immigration should:**

- (a) **in future tender exercises:**
 - (i) **properly document the justifications for major decisions and changes for management review and future reference;**

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- (ii) **conduct a cost and benefit analysis to evaluate different options for procuring vehicle transport services with a hydraulic platform, taking into account the operational need and the low demand for such services;**
 - (iii) **take into account CTB's comments mentioned in paragraph 3.17 (e.g. removing essential requirements on experience) and incorporate the relevant principles into ImmD's procurement guidelines where appropriate;**
 - (iv) **review tender requirements where appropriate in accordance with SPRs; and**
 - (v) **conduct price negotiations in warranted cases;**
- (b) **when suspected non-compliance with the essential requirements in a contract is revealed from other sources, take follow-up actions where appropriate to ensure that all the essential requirements are always complied with during the contract period; and**
 - (c) **review and update the procurement guidelines where appropriate, taking into account the audit findings in paragraph 3.25, including incorporating into the guidelines the new requirements on the new pro-innovation government procurement policy as laid down in Financial Circular No. 2/2019.**

Response from the Government

3.27 The Director of Immigration generally agrees with the audit recommendations.

Procurement by quotation

3.28 For procurement of goods and services not exceeding \$1.4 million (or \$1.43 million prior to January 2018), procurement department may invite

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verbal/written quotations from prospective suppliers instead of conducting tender exercises (see Figure 1 in para. 1.8). According to ImmD's procedures:

- (a) procurement with a value not exceeding \$50,000 shall be approved by the Assistant Supplies Officer or above; and
- (b) procurement with a value exceeding \$50,000 but not exceeding \$1.4 million shall be approved by the Supplies Officer, Senior Supplies Officer, Chief Executive Officer or Principal Executive Officer.

Areas for improvement

Need to enhance competition in procurement by quotation

3.29 According to SSD's records, there were 1,046 purchases of goods and services involving quotation exercises from 2016-17 to 2018-19 with values exceeding \$50,000 each and the total contract value involved was \$410.8 million. Of the 1,046 purchases by quotation, Audit selected 200 for examination and found limited competition in 122 (61%) purchases, as follows:

- (a) in 77 (38.5%) purchases, although bid invitations had been sent to 5 to 36 suppliers, only one bid was received; and
- (b) in 45 (22.5%) purchases, although bid invitations had been sent to 5 to 41 suppliers, only two bids were received.

3.30 According to SPRs (Note 45), for procurement with limited competition in past exercises, departments should explore measures to enhance competition and satisfy themselves that the tendering or consultants selection strategy to attract new bidders is effective. In view of the limited competition in 61% (38.5% + 22.5%) of the 200 quotation exercises, ImmD needs to explore measures to enhance competition, including enhancing attractiveness to potential bidders by avoiding over-specifications (see para. 3.32) and extending contract period (see para. 3.31(a)).

Note 45: *SPR 109(a)(iv) (which took effect from April 2019) and the then SPR 126(a)(i) (for period prior to April 2019) are relevant.*

Need to consolidate procurement requirements to achieve better economy of scale

3.31 According to ImmD, it had complied with SPR 246 requirements of not making repeated purchases of the same items within 12 months with cumulative value of purchases exceeding the quotation limit of \$1.43 million. According to SPR 205, Controlling Officers should consolidate requirements of stores and services of similar nature as far as possible to achieve better economy of scale. This can be done by bundling requirements for longer period or larger quantity:

- (a) ***Procurement of items with cumulative values exceeding \$1.43 million (Note 46) within 24 months.*** As shown in Appendix D, seven items were purchased by quotation (3 quotation exercises for each item, totalling 21 quotation exercises) and the cumulative contract value for each item exceeded \$1.43 million within 24 months. Audit considers that the requirements for the same or similar items could be bundled to form a longer contract period for issuing an open tender to encourage competition with a view to achieving better economy of scale. In future procurement exercises by quotation, ImmD needs to arrange purchase in bulk as far as practicable to achieve better economy of scale; and

- (b) ***Procurement of items in bulk to obtain a lower unit price.*** As shown in Appendix E, 12 items were purchased by quotation (2 to 5 quotations exercises for each item, totalling 36 quotation exercises) within a short period. According to the User Guide to Contract Management issued by the then Efficiency Unit (now renamed as the Efficiency Office), contract size is an important factor that affects the interest of potential bidders and procuring departments should consider bundling logically related services into a single, sizeable contract to reduce the cost of contract administration and make it more attractive to potential bidders. Audit considers that the requirements for the same or similar items could be bundled together to save procurement efforts. This could also facilitate ImmD to bargain for a better price since bulk purchase could lead to a reduction of unit price (see items 1 to 9 and 11 in Appendix E). In this regard, ImmD needs to remind procuring staff to comply with SPR 205 requirements of consolidating

Note 46: *While the quotation limit was reduced from \$1.43 million to \$1.4 million with effect from January 2018, the higher quotation limit of \$1.43 million was used in Audit's analyses for simplicity.*

requirements of stores and services of similar nature as far as possible to achieve better economy of scale.

***Need to provide justifications
for not complying with SPR 350(b)***

3.32 According to the Supplies Survey and Stock Verification Exercises on ImmD conducted by GLD in August 2013 and December 2016, GLD noted that the brand products were purchased without justifications provided. GLD recommended that specifications of stores to be purchased by quotation exercises should, as far as practicable, be prepared in general terms, based on the functional and performance requirements of the products required for compliance with the basic government procurement principles of transparency, openness and fairness. ImmD accepted GLD's recommendation and said that all staff concerned had been reminded that procurement of stores on particular brand name or model without providing justifications was not allowed. In the circumstances, generic instead of proprietary goods and services should be used where appropriate (SPR 350(b) is relevant — Note 47). If there is no intelligible way of describing the product without mentioning the brand name, words such as "or equivalent" should be included in the quotation documents. Audit examination revealed that justifications for not complying with SPR 350(b) had not been documented in the following purchases:

- (a) ***Purchase of Equipment A.*** In three quotation exercises conducted in the period from September 2017 to January 2018, the quotation documents specified the model number of Equipment A to be supplied by a specific manufacturer and words such as "or equivalent" were not included in accordance with SPR 350(b). In the event, only one offer from the same supplier was received and eventually accepted in each of these three quotation exercises. There was no documentation on the justifications for specifying the single product and manufacturer; and

- (b) ***Purchase of Equipment B.*** In three quotation exercises conducted in the period from June 2016 to September 2017, the quotation documents

Note 47: *According to SPR 350(b), there shall be no requirement for or reference to a particular trademark or trade name, patent, copyright, design, type, specific origin, producer, supplier or service provider, unless there is no other sufficiently precise or intelligible way of describing the procurement requirements and words such as "or equivalent" are included in the tender documents.*

Procurement of other goods and services

specified the model number of Equipment B to be supplied by a specific manufacturer and words such as “or equivalent” were not included in accordance with SPR 350(b). Only one conforming offer from the same supplier was received in each of these three quotation exercises (Note 48). There was no documentation on the justifications for specifying the single product and manufacturer.

In Audit’s view, ImmD needs to remind procuring staff to document the justifications for adopting proprietary products which are at variance with SPR 350(b) and include words such as “or equivalent” in the quotation documents where appropriate.

Audit recommendations

3.33 **Audit has *recommended* that the Director of Immigration should:**

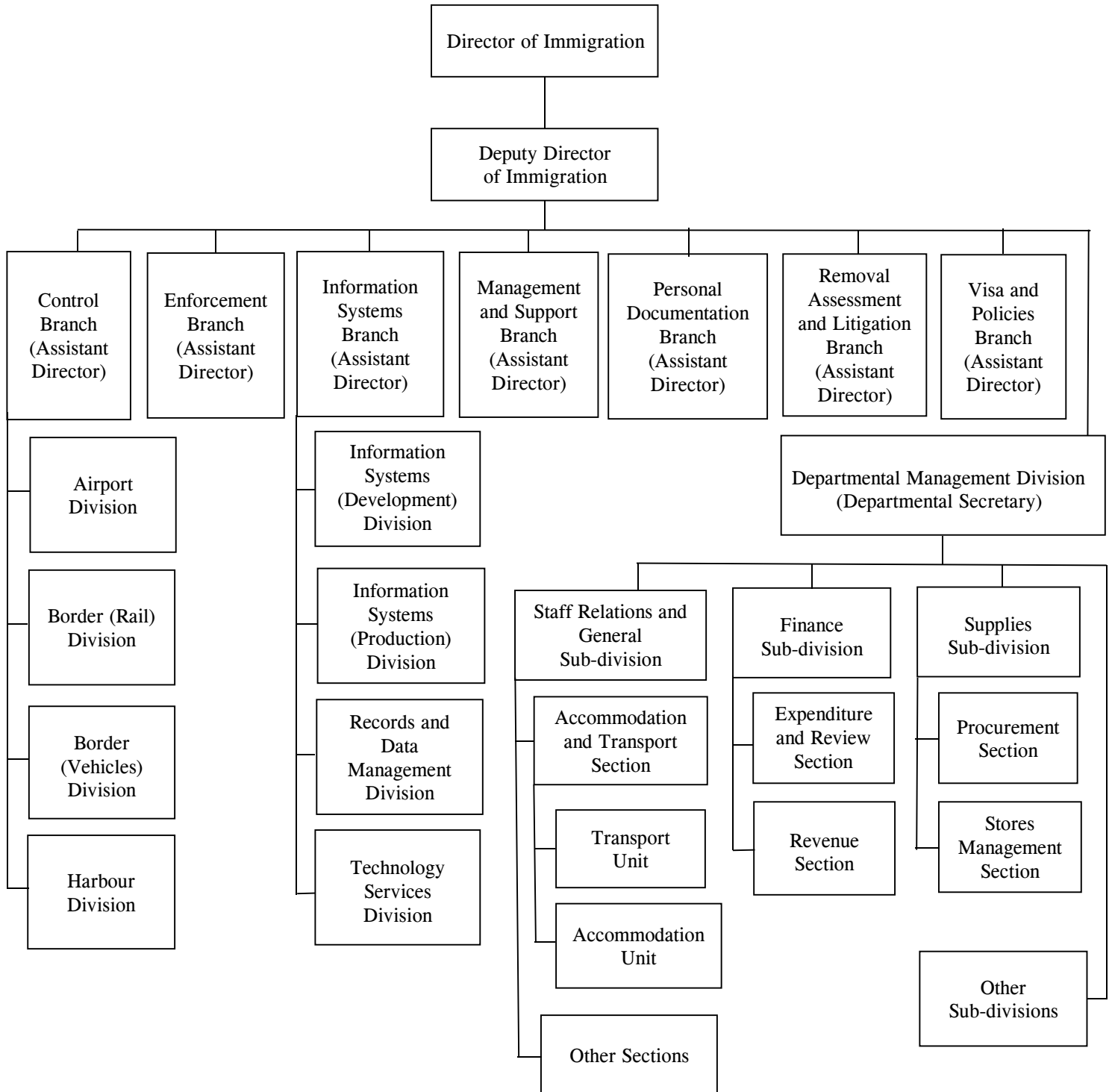
- (a) **explore measures to enhance competition in the procurement of goods and services by quotation, including enhancing attractiveness to potential bidders by avoiding over-specifications and extending contract period;**
- (b) **consider adopting bulk purchase of regular items as far as practicable to achieve better economy of scale;**
- (c) **remind procuring staff to comply with SPR 205 requirements of consolidating requirements of stores and services of similar nature as far as possible to achieve better economy of scale; and**
- (d) **remind procuring staff to document the justifications for adopting proprietary products and include words such as “or equivalent” if proprietary names are specified in the quotation documents in accordance with SPR 350(b).**

Note 48: *Although there was another offer received in the quotation exercise conducted in September 2016, the sizes of Equipment B offered in the bid were slightly different from the quotation specifications and the offer was considered non-conforming.*

Response from the Government

3.34 The Director of Immigration generally agrees with the audit recommendations.

**Immigration Department:
Organisation chart (extract)
(30 June 2019)**



Source: ImmD records

Appendix B
(paras. 1.7(a) and
2.8 refer)

**14 ImmD's ICT projects recorded in
the Capital Works Reserve Fund project expenditure report
(June 2019)**

Item	Project name	Approval date	Approved project estimate (\$ million)	Actual expenditure (\$ million)	Unspent balance (\$ million)
<i>Eight completed projects</i>					
1	Hong Kong Special Administrative Region Identity Card (Note 1)	Mar 2001	1,225.6	801.8	423.8
2	Implementation of Phase I of the updated Information Systems Strategy	Jan 2002	362.1	337.2	24.9
3	Implementation of Phase II of the updated Information Systems Strategy	Jan 2003	352.8	324.8	28.0
4	Computer systems at the new control point for the Hong Kong-Shenzhen Western Corridor	Apr 2004	176.6	114.9	61.7
5	Implementation of Phase III of the updated Information Systems Strategy (Note 2)	May 2004	336.8	333.3	3.5
6	Introduction of Biometric Hong Kong Special Administrative Region Passport and Strategic Enhancement of the Travel Document Information System	Mar 2005	152.8	139.0	13.8
7	Computer systems at the new control point for the Lok Ma Chau Terminus of the Sheung Shui to Lok Ma Chau Spur Line	May 2005	93.3	67.3	26.0
8	Enhancement of computer systems to process electronic Exit-Entry Permit for Travelling to and from Hong Kong and Macao and extension of e-Channel service	Jul 2010	247.5	195.6	51.9

Appendix B
(Cont'd)
(paras. 1.7(a) and
2.8 refer)

Item	Project name	Approval date	Approved project estimate (\$ million)	Actual expenditure (\$ million)	Unspent balance (\$ million)
<i>Six on-going projects</i>					
9	New Information Technology Infrastructure	Dec 2011	862.2	382.6	479.6
10	New Immigration Control System	Feb 2013	912.2	689.4	222.8
11	Next Generation Smart Identity Card System	May 2015	1,448.8	150.2	1,298.6
12	Next Generation Electronic Passport System	May 2016	357.8	28.5	329.3
13	Computer systems at Control Points	Jun 2016	168.5	83.7	84.8
14	Next Generation Application and Investigation Easy Systems	May 2018	453.0	0.9	452.1
Total			7,150.0	3,649.2	3,500.8

Source: ImmD records

Note 1: According to ImmD, tender records and contract files of the project were disposed of in 2018 in accordance with the general administrative records disposal schedules.

Note 2: It comprised the Application and Investigation Easy System and the Electronic Records Programme.

Appendix C
(paras. 2.3 and
2.9 refer)

Brief description of ImmD's eight completed ICT projects

Item	Project name	Project description
1	Hong Kong Special Administrative Region Identity Card	The project aimed to develop and implement the infrastructure and application system for issuing smart identity cards and to supply blank smart cards with biometric identification technology for the Automated Passenger Clearance System (APCS).
2	Implementation of Phase I of ISS-2	The project aimed to develop the Information Technology Infrastructure Upgrade Programme which was to cope with the increasing workload and to lay the foundation for implementing various application system projects under ISS-2 and the Immigration Control Automation System Enhancement Programme which was to enhance the existing system and to raise the technology platform to support and interface with other initiatives of ISS-2.
3	Implementation of Phase II of ISS-2	The project aimed to develop the APCS which was to enable the clearance of passengers securely using smart identity cards and biometrics technologies, and the Automated Vehicle Clearance System (AVCS) which was to automate vehicle clearance at land crossing points through the establishment of self-service kiosks using vehicle identification and biometrics technologies.
4	Computer systems at the new control point for the Lok Ma Chau Terminus of the Sheung Shui to Lok Ma Chau Spur Line	The project aimed to develop and install computer systems which comprised Entry/Exit Processing and Records System and APCS for supporting the operation of immigration counters/e-Channels, and eight systems for supporting the operation of back offices.
5	Introduction of Biometric Hong Kong Special Administrative Region Passport and Strategic Enhancement of the Travel Document Information System	The project aimed to develop a computer system for issuing the biometric passports and other travel documents and to incorporate biometric identifier into the passports.

Appendix C
(Cont'd)
(paras. 2.3 and
2.9 refer)

Item	Project name	Project description
6	Implementation of Phase III of ISS-2	The project aimed to develop the Application and Investigation Easy System which supported the processing of applications for visas, permits, travel passes, registration matters relating to births, deaths, marriage and investigation cases and the Electronic Records Programme which put in place the necessary technical architecture to provide for a paperless environment through the employment of imaging, workflow and document management technologies.
7	Enhancement of computer systems to process electronic Exit-Entry Permit for Travelling to and from Hong Kong and Macao and extension of e-Channel service	The project aimed to enhance ImmD's computer systems and install clearance facilities to process electronic Exit-Entry Permit for travelling to and from Hong Kong and Macao, and to enable eligible holders of the Permits to use the e-Channel.
8	Computer systems at the new control point for the Hong Kong-Shenzhen Western Corridor	The project aimed to install computer systems which comprised the enhanced Immigration Control Automation System, APCS and AVCS for supporting the operation of immigration counters/passenger and vehicle e-Channels, and five systems for supporting the operation of back offices.

Source: ImmD records

Appendix D
(para. 3.31(a) refers)

**Quotation exercises for items with cumulative values
exceeding \$1.43 million within 24 months
(2016-17 to 2018-19)**

Item	Description	Quotation issue date	Contract period	Contract value (\$)	Time lapse between quotation exercises (month)	Cumulative value (\$)
1	Provision of services for handling and transportation of departmental stores, furniture and equipment	20/5/2016	1/7/2016 – 30/6/2017	922,600	11.9	1,845,200
		18/5/2017	1/7/2017 – 30/6/2018	922,600		
		31/5/2018	1/7/2018 – 30/6/2019	959,450	12.4	1,882,050
2	Provision of transport and dispatch service to Accommodation and Transport Section	1/3/2016	18/4/2016 – 17/4/2017	1,289,340	10.8	2,578,680
		24/1/2017	18/4/2017 – 17/4/2018	1,289,340		
		31/1/2018	18/4/2018 – 17/4/2019	1,343,340	12.2	2,632,680
3	Provision of transport service to Kai Tak Cruise Terminal Section	4/3/2016	1/5/2016 – 30/4/2017	971,700	10.7	1,772,100
		23/1/2017	1/5/2017 – 30/4/2018	800,400		
		5/2/2018	1/5/2018 – 30/4/2019	847,700	12.4	1,648,100
4	Provision of transport service to Lo Wu Section	2/9/2016	9/1/2017 – 8/1/2018	846,000	14.5	1,770,250
		16/11/2017	9/1/2018 – 8/1/2019	924,250		
		22/11/2018	9/1/2019 – 8/1/2020	959,000	12.2	1,883,250
5	Provision of transport service to LMC Spur Line Section	3/5/2016	1/7/2016 – 30/6/2017	788,800	10.5	1,559,600
		17/3/2017	1/7/2017 – 30/6/2018	770,800		
		6/4/2018	1/7/2018 – 30/6/2019	815,200	12.7	1,586,000
6	Provision of transport service to Removal Section and Clearance Section	7/10/2016	21/11/2016 – 20/11/2017	876,600	12.0	2,150,630
		6/10/2017	21/11/2017 – 20/11/2018	1,274,030		
		16/10/2018	21/11/2018 – 20/11/2019	1,339,360	12.3	2,613,390
7	Provision of labour services for handling stores, furniture and equipment	22/6/2016	1/9/2016 – 31/8/2017	958,800	11.1	2,040,300
		25/5/2017	1/9/2017 – 31/8/2018	1,081,500		
		6/7/2018	1/9/2018 – 31/8/2019	1,200,570	13.4	2,282,070

Source: Audit analysis of ImmD records

Appendix E
(para. 3.31(b) refers)

**Repeated quotation exercises within a short period
(2016-17 to 2018-19)**

Item	Description	Quotation issue date	Quantity	Unit price (\$)	Contract value (\$)	Time lapse between quotation exercises (month)
1	Supply and installation of metal detectors	16/2/2017	1	66,000.00	66,000	8.3
		27/10/2017	5	50,000.00	250,000	
2	Supply of anti-riot helmets	2/5/2017	160	2,585.00	413,600	4.9
		28/9/2017	100	2,619.00	261,900	
		27/6/2018	150	2,585.00	387,750	8.9
3	Supply of archway metal detectors	16/1/2018	5	39,600.00	198,000	0.5
		30/1/2018	8	36,875.00	295,000	
4	Provision of winter shirts for male Immigration Officers	28/2/2017	5,000	35.40	177,000	9.5
		15/12/2017	1,000	68.00	68,000	5.2
		23/5/2018	8,000	39.90	319,200	7.9
		17/1/2019	4,000	34.90	139,600	
5	Supply of blue drill shirts long sleeve and trousers for Immigration Officers (suits)	17/3/2016	600	180.00	108,000	7.1
		20/10/2016	403	225.00	90,675	6.9
		19/5/2017	400	243.00	97,200	6.1
		20/11/2017	400	243.00	97,200	4.6
		10/4/2018	1,200	198.00	237,600	
6	Supply of long service medals	3/6/2016	200	427.00	85,400	7.8
		27/1/2017	500	402.00	201,000	
7	Supply of stamp barrels	27/6/2018	2,000	92.00	184,000	6.5
		11/1/2019	10,000	90.00	900,000	

Appendix E
(Cont'd)
(para. 3.31(b) refers)

Item	Description	Quotation issue date	Quantity	Unit price (\$)	Contract value (\$)	Time lapse between quotation exercises (month)
8	Supply of steel kit lockers	9/8/2017	50	1,198.00	59,900	2.3
		19/10/2017	68	1,228.00	83,504	
		3/11/2017 (Note)	500	1,110.00	555,000	0.5
		23/4/2018	100	1,199.00	119,900	
9	Supply of steel security lockers	3/11/2017 (Note)	42	1,980.00	83,160	2.0
		3/1/2018	52	1,885.00	98,020	4.0
		4/5/2018	34	2,085.00	70,890	
		24/7/2018	34	2,239.00	76,126	2.7
10	Supply of jungle boots	1/8/2017	200	390.00	78,000	3.4
		13/11/2017	200	420.00	84,000	
		13/7/2018	200	420.00	84,000	8.0
11	Supply of summer shirts for male Immigration Officers	17/8/2017	1,200	73.00	87,600	6.0
		14/2/2018	9,200	61.50	565,800	
		11/5/2018	4,000	66.50	266,000	2.8
		9/10/2018	5,840	66.50	388,360	
12	Supply, delivery and installation of Treasury Grade 4 safes with stand	8/12/2017	4	34,230.00	136,920	1.3
		16/1/2018	2	23,010.00	46,020	

Source: *Audit analysis of ImmD records*

Note: *The two purchases were under the same quotation exercise.*

Acronyms and abbreviations

APCS	Automated Passenger Clearance System
APPLIES	Application and Investigation Easy System
Audit	Audit Commission
AVCS	Automated Vehicle Clearance System
B/Ds	Bureaux and departments
CIC	Castle Peak Bay Immigration Centre
CTB	Central Tender Board
CWRF	Capital Works Reserve Fund
DTC	Departmental Tender Committee
F&ARs	Financial and Accounting Regulations
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
GFMS	Government Financial Management Information System
GLD	Government Logistics Department
ICT	Information and communications technology
ImmD	Immigration Department
ISB	Information Systems Branch
ISS	Information Systems Strategy
ISS-2	Updated Information Systems Strategy
LegCo	Legislative Council
LMC	Lok Ma Chau
OGCIO	Office of the Government Chief Information Officer
PIDRs	Post Implementation Departmental Returns
PIRs	Post Implementation Reviews
PTEs	Pre-tender estimates
SMARTICS	First Generation Smart Identity Card System
SMARTICS 2	Next Generation Smart Identity Card System
SPRs	Stores and Procurement Regulations
SSD	Supplies Sub-division
TAP	Tender Assessment Panel