

CHAPTER 3

**Development Bureau
Civil Engineering and Development Department**

Lantau Conservation Fund

**Audit Commission
Hong Kong
31 March 2025**

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

Report No. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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LANTAU CONSERVATION FUND

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LANTAU CONSERVATION FUND

Executive Summary

1. To promote and implement conservation of rural Lantau, and to pursue livelihood improvement works in remote villages and communities, the Chief Executive of the Hong Kong Special Administrative Region announced in the Chief Executive's 2018 Policy Address that a \$1 billion Lantau Conservation Fund (LCF) would be set up. LCF was set up in October 2020. It consists of two parts, as follows:

- (a) ***Conservation and related projects.*** In May 2020, the Legislative Council approved a funding of \$500 million for the conservation and related projects under LCF. This part of LCF is dedicated to providing financial support to non-profit-making organisations to carry out three streams of conservation and related projects in Lantau (i.e. Conservation Management Agreement Projects (MA projects), Research Projects (RE projects) and Education and Engagement Projects (EE projects)). From December 2020 to October 2024, there were 4 rounds of application for conservation and related projects and 207 applications had been received, of which 48 applications had been approved. As at 31 October 2024, of the total approved grants of \$141.8 million, \$70.1 million (49%) had been disbursed to the grantees; and
- (b) ***Minor local improvement works (MLIW).*** Another \$500 million is earmarked as a cap to carry out MLIW by the Government on government land in Lantau for conservation initiatives and improvements to the environment. MLIW projects are generally small in scale with a ceiling of \$50 million for each project. As at 31 October 2024, there were 11 approved MLIW projects (7 substantially completed and 4 under construction) with a total approved project estimate of \$75.3 million and an actual project expenditure of \$39.4 million.

2. The Development Bureau is responsible for overseeing the implementation of LCF and the Sustainable Lantau Office (SLO) of the Civil Engineering and Development Department is responsible for the day-to-day administration of LCF and

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secretariat support. The Lantau Conservation Fund Advisory Committee (LCFAC) was established to advise on the overall administration and operation related to LCF, vet applications under LCF, monitor the progress of funded projects and advise on the priority of MLIW project proposals. The Audit Commission (Audit) has recently conducted a review of SLO's work in the administration of LCF.

Conservation and related projects

3. *Scope for improvement in the assessment of applications.* Two Subcommittees were formed to assist LCFAC in assessing the applications for RE and EE projects under LCF. Audit examined the 4 rounds of application from December 2020 to October 2024 and noted that (paras. 1.9 and 2.13):

- (a) *SLO guidelines not timely updated.* According to SLO guidelines, LCFAC should rate the application according to the assessment criteria and weightings, and work out a total mark. According to SLO, in practice, applications not assessed by the Subcommittees were not rated with marks, i.e. RE and EE projects with budgets less than \$500,000 (where SLO would make recommendations on approval/rejection to LCFAC for endorsement) and all MA projects (where they were considered by LCFAC directly). While the assessment procedures had been agreed by LCFAC and adopted since the first round of application (i.e. 2020-2021), SLO had not updated its guidelines to reflect the practice (paras. 2.12 and 2.13(a)); and
- (b) *No documented justifications of not recommending some applications with higher marks for approval.* For RE and EE projects with budgets equal to or greater than \$500,000, each application was assigned to two members of the Subcommittees for giving marks and an average mark was compiled by SLO. Audit noted that some applications for RE and EE projects with higher marks (i.e. the average marks compiled by SLO) were not recommended by the Subcommittees for approval. According to SLO, at the meetings of the Subcommittees, members would holistically review the preliminary assessments of the two Subcommittee members before coming up with final recommendations on the applications. However, Audit noted that there was no documentation showing the justifications of not recommending the applications with higher marks for approval (paras. 2.13 and 2.14).

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4. ***Need to ensure timely submission of project deliverables by grantees.***

From December 2020 to October 2024, there were 164 project deliverables due for submission by the grantees. Audit noted that: (a) there were delays in some of the submissions. For example, of the 107 progress reports due for submission, 27 (25%) were submitted 1 to 106 days (averaging 18 days) after the due dates; (b) some reminders were not issued in accordance with SLO guidelines. For example, as at 31 October 2024, for the 164 project deliverables, first reminders were not issued to the grantees for submission of 49 (30%) project deliverables; and (c) of the 40 grantees with project deliverables due for submission from December 2020 to October 2024, 9 (23%) had delays in submission for three times or more and SLO did not report any of the 9 cases to LCFAC, contrary to SLO guidelines (paras. 2.27 to 2.30).

5. ***Scope for strengthening the role of LCFAC in monitoring the project variations and progress.***

According to SLO guidelines, major variations (e.g. change of project leader) should be approved by LCFAC or the delegated authority, and regular reporting items (e.g. variation requests) should be provided to LCFAC. Audit noted that, from December 2020 to October 2024: (a) there were seven requests for major variations from the grantees to change project leaders and all were approved by SLO instead of LCFAC. There was no documentation showing that SLO had been delegated the authority to approve the major variations; and (b) there was also no documentation showing that regular reporting items (including the seven requests for major variations) had been provided to LCFAC (paras. 2.38 and 2.39).

6. ***Need to expedite the processing of project deliverables for releasing interim and final disbursements.***

According to the “Guide to Application”, the grantees are required to submit necessary project deliverables to SLO for interim and final disbursements. Audit noted that SLO did not set any time target for completing the processing of project deliverables and long time was taken by SLO in some cases (paras. 2.47 and 2.50), as follows:

- (a) ***Interim disbursements.*** From December 2020 to October 2024, the grantees of 40 projects submitted 103 progress reports for releasing interim disbursements. As at 31 October 2024: (i) the processing of 89 (86%) progress reports was completed 6 to 438 days (averaging 68 days) after the submission by the grantees; and (ii) 14 (14%) progress reports, which were submitted by the grantees 8 to 486 days (averaging 135 days) ago, were under checking by SLO (para. 2.50(a)); and

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- (b) ***Final disbursements.*** For 4 completed projects with final accounts accepted by SLO as at 31 October 2024, final disbursements would be released upon acceptance of the completion reports and project summaries by SLO. While the grantees of 3 of the 4 projects had already submitted the completion reports and project summaries for 45 to 132 days (averaging 101 days) and with completion reports accepted by SLO, all the project summaries were still under checking by SLO and hence no final disbursements were released (para. 2.50(b)).

7. ***Scope for improvement in handling unspent grants.*** According to the project agreements and SLO guidelines, upon completion of projects, any unspent grants paid to the grantees should be returned to the Government. Audit noted that SLO did not set any time target to request the grantees for returning the unspent grants upon completion of projects. As at 31 October 2024, 3 completed projects had unspent grants ranging from about \$86,000 to about \$390,000 (totalling about \$570,000). While the final accounts of the 3 completed projects had been accepted by SLO 2 to 10 months (averaging 7 months) ago as at 31 October 2024, the demand notes for the return of unspent grants were only issued in December 2024 and settled by the grantees in January 2025 (paras. 2.52 and 2.53).

Minor local improvement works projects

8. ***Scope for enhancing the scope of MLIW projects.*** The Minor Works Steering Committee (MWSC) was established to vet and prioritise MLIW project proposals, monitor and oversee fund performance related to MLIW and report to LCFAC on the latest fund performance. Since the establishment of LCF in October 2020 and up to October 2024, SLO received 15 MLIW project proposals. As at 31 October 2024, of the 15 project proposals, 11 had been approved, 3 had been withdrawn and 1 was pending approval (paras. 1.10 and 3.4). Audit noted the following issues:

- (a) ***Participation of government departments and utilisation of funds on the low side.*** From October 2020 to October 2024, only 5 (50%) of the 10 relevant government departments identified to have potential MLIW projects had submitted MLIW project proposals to SLO. As at 31 October 2024, the 11 approved MLIW projects had a total approved project estimate of \$75.3 million (i.e. 15% of the \$500 million earmarked funding) (para. 3.5(a)); and

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- (b) ***Number of MLIW projects and amount of funds approved on a decreasing trend.*** Of the 11 approved MLIW projects, 8 were approved between 2020 and 2021, and only 3 were approved between 2022 and 2023. Besides, the yearly approved project estimate decreased significantly by 89% from \$55.4 million in 2020 to \$6 million in 2023 (para. 3.5(b)).
9. ***Need to ensure that sufficient information is provided in MLIW project proposals.*** Audit examined the 15 MLIW project proposals received from October 2020 to October 2024 and noted that:
- (a) ***Some necessary information not provided in MLIW project proposals.*** Some necessary information was not provided in project proposals, as follows: (i) 1 (7%) project proposal did not contain clear objectives and targets, nor sufficient information for justifying the project costs and was subsequently withdrawn; (ii) all the 15 project proposals did not contain any preliminary cash flow information, contrary to SLO guidelines; and (iii) 6 (40%) project proposals did not contain any views from relevant statutory and advisory bodies and 2 of these proposals were subsequently withdrawn due to the concerns and diverse views received from local stakeholders (paras. 3.7 and 3.8(a)); and
- (b) ***Performance targets for MLIW project proposals not required.*** SLO did not specify the requirements to set and include performance targets in MLIW project proposals. Of the 15 project proposals, only 2 (13%) contained the post-completion effectiveness monitoring measures (para. 3.8(b)).
10. ***Need to ensure that returns on progress and expenditure of MLIW projects are received.*** According to SLO guidelines, the responsible government departments should provide quarterly returns on the progress and expenditure of MLIW projects to SLO for monitoring purpose. According to SLO, in practice, it will issue requests to the responsible government departments calling for the returns. Audit found that, from December 2020 to October 2024: (a) requests for return were not issued for the periods from December 2020 to April 2022 and from May to October 2024. In the event, no return was provided by the responsible government departments during these periods; (b) from May 2022 to April 2024, the time lapse between each request for return issued ranged from 63 to 184 days (averaging 119 days) (i.e. not issuing on a quarterly basis); and (c) of the 41 returns submitted

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by the responsible government departments, 10 (24%) were submitted 1 to 42 days (averaging 9 days) after the respective deadlines set by SLO and 7 (17%) could not be located by SLO (paras. 3.12 and 3.13).

11. ***Scope for enhancing the monitoring of the progress and expenditure of MLIW projects.*** Audit noted the following issues:

- (a) ***Progress of MLIW projects.*** As at 31 October 2024: (i) 4 (57%) of the 7 completed projects had delays in substantial completion of works by 1 to 18 months (averaging 9 months); and (ii) 2 (50%) of the 4 projects under construction had deferred their target completion dates by 20 and 30 months respectively (para. 3.16);
- (b) ***Expenditure of MLIW projects.*** As at 31 October 2024: (i) the total actual project expenditure incurred for the 7 completed projects was \$30.9 million, which was \$21.2 million (41%) less than the approved project estimate of \$52.1 million. SLO had not taken follow-up actions with all the responsible government departments concerned in ascertaining the reasons for the variances; and (ii) while the 7 projects had been substantially completed between January 2022 and September 2024 (i.e. a lapse of 1 to 33 months), SLO had no information on whether the project accounts of the 7 completed projects had been finalised (para. 3.17); and
- (c) ***Reporting to LCFAC.*** From October 2020 to October 2024, SLO did not report the reasons for the delays in completion of works and variances between the actual project expenditure and the approved project estimate of individual MLIW projects at LCFAC meetings (para. 3.18).

Governance and other issues

12. ***Scope for improving the attendance of LCFAC meetings.*** LCFAC comprises both official and non-official members from relevant fields appointed by the Secretary for Development for a term of two years. Audit noted that: (a) the average attendance rate of LCFAC meetings decreased from 84% in Term 1 (from 1 October 2020 to 30 September 2022) to 74% in Term 2 (from 1 October 2022 to 30 September 2024); and (b) from October 2020 to October 2024, there were some non-official members of LCFAC with low attendance (i.e. less than or equal to 50%) at LCFAC meetings but some of them were re-appointed (paras. 4.2 and 4.4).

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13. ***Scope for improvement in preparing and issuing meeting materials for committee meetings.*** According to SLO guidelines, SLO should prepare and issue the project digests for the eligible applications for the conservation and related projects to members of LCFAC and/or its Subcommittees at least five working days before the meetings of LCFAC and/or its Subcommittees. However, no similar time target had been set by SLO for preparing and issuing other meeting materials (such as meeting agenda and meeting minutes) to members for the meetings of LCFAC, LCFAC Subcommittees and MWSC. Audit noted that in some cases the meeting agendas were sent to the members shortly before the meetings or the meeting minutes were sent to the members long after the meetings (para. 4.6(a)).

14. ***Scope for improvement in making declaration of interests.*** LCFAC and its Subcommittees adopt a two-tier reporting system for managing conflict of interests by their members. Regarding the vetting exercise for the conservation and related projects, all members of LCFAC (including its Subcommittees) should declare their interests with the applications received prior to the issuance of relevant project digests by SLO to them (para. 4.8). Audit noted that:

- (a) ***Need to maintain proper records of declaration of interests.*** SLO did not properly maintain some of the records of the declarations of interests made by the members of LCFAC (including its Subcommittees). For example:
 - (i) 9 (50%) of the 18 annual declarations in 2021 made by the members of LCFAC were not found; and
 - (ii) from October 2020 to October 2024, there were no records showing whether the second-tier declarations had been made by any members at LCFAC Subcommittee meetings held during the period (para. 4.9(a));
- (b) ***Delay in making declaration of interests.*** The initial and annual declarations were not made by some members of LCFAC (including its Subcommittees) before the stipulated deadlines in SLO guidelines. For example, of the 14 annual declarations in 2022 with records maintained, 4 (29%) were made by the members 3 to 113 days (averaging 33 days) after the stipulated deadline (para. 4.9(b)); and
- (c) ***Declarations of interests with applications not received from members prior to the issuance of project digests.*** In the vetting exercise for EE projects in the 2020-2021 round of application, notwithstanding that declarations had not been received from 2 members of an LCFAC Subcommittee, the project digests of the relevant applications were issued

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to the members of the LCFAC Subcommittee concerned (i.e. including the 2 members) (para. 4.9(c)).

15. ***Scope for enhancing performance measures of LCF.*** Audit noted that, as at 31 October 2024, SLO did not provide any performance measures in respect of LCF on its website. According to SLO, it did not set any performance measures for monitoring the performance of LCF (para. 4.21).

16. ***Need to conduct review on LCF.*** Audit noted that since the establishment of LCF in October 2020, SLO had not conducted any formal review on the operation of LCF and SLO only conducted two rounds of surveys on the applicant organisations of the conservation and related projects in 2021 and 2022 to collect feedback related to its application process. In Audit's view, it is an opportune time for the Civil Engineering and Development Department to conduct a review on the implementation of LCF (para. 4.24).

Audit recommendations

17. **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 Civil Engineering and Development should:**

Conservation and related projects

- (a) **update SLO guidelines to ensure that they properly reflect the assessment procedures for applications for conservation and related projects (para. 2.23(c));**
- (b) **ensure that justifications of not recommending the applications for RE and EE projects with higher marks for approval are properly documented (para. 2.23(d));**
- (c) **strengthen measures to ensure that:**
 - (i) **the grantees of conservation and related projects submit project deliverables in a timely manner (para. 2.45(a)(i)); and**

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- (ii) follow-up actions are taken on repeated late submissions of project deliverables by the grantees of conservation and related projects and these cases are reported to LCFAC in accordance with SLO guidelines (para. 2.45(a)(ii));
- (d) ensure that variations of conservation and related projects are approved in accordance with the framework of delegated authorities and maintain proper documentation on the regular reporting items provided to LCFAC (para. 2.45(c));
- (e) consider setting a time target for completing the processing of project deliverables submitted by the grantees of conservation and related projects and complete the processing in a timely manner (para. 2.56(b));
- (f) set a time target to request the grantees of conservation and related projects for returning the unspent grants upon completion of projects and ensure timely issuance of requests (para. 2.56(c));

MLIW projects

- (g) ascertain the reasons for the decrease in the number of MLIW projects and amount of funds approved and take measures to address the matter (para. 3.10(a));
- (h) remind the responsible government departments to provide sufficient information in their MLIW project proposals and consider requiring them to include performance targets as far as practicable in their MLIW project proposals (para. 3.10(c) and (d));
- (i) ensure that the returns on MLIW projects are submitted by the responsible government departments in a timely manner and the submitted returns are properly maintained (para. 3.20(b));
- (j) keep under review the progress of MLIW projects, and enhance the monitoring of expenditure of MLIW projects, including ascertaining the reasons for the variance between the actual project expenditure and the approved project estimate for each project and ascertaining

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whether the project accounts of the 7 completed MLIW projects had been finalised (para. 3.20(c) and (d));

- (k) ensure that all required information related to the update on the progress and expenditure of MLIW projects is reported at LCFAC meetings (para. 3.20(e));

Governance and other issues

- (l) improve the attendance of the non-official members of LCFAC (para. 4.11(a));
- (m) properly document the justifications for recommending non-official members of LCFAC with low attendance records to the approving authority for re-appointments (para. 4.11(b));
- (n) consider setting a time target for preparing and issuing meeting materials to the relevant members for the meetings of LCFAC, LCFAC Subcommittees and MWSC (para. 4.11(c));
- (o) ensure that the declarations of interests:
 - (i) made by the members of LCFAC are properly maintained and submitted in a timely manner (para. 4.11(e) and (f)); and
 - (ii) with applications are received from the members of LCFAC prior to the issuance of project digests (para. 4.11(g));
- (p) consider setting performance measures in relation to LCF and providing them on LCF website (para. 4.25(c)); and
- (q) conduct a review on the implementation of LCF (para. 4.25(d)).

Response from the Government

18. The Director of Civil Engineering and Development 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 Being the largest island of Hong Kong, Lantau is endowed with splendid mountains and natural shoreline, and is rich in natural and cultural assets. To promote and implement conservation of rural Lantau, and to pursue livelihood improvement works in remote villages and communities, the Chief Executive of the Hong Kong Special Administrative Region announced in the Chief Executive's 2018 Policy Address that a \$1 billion Lantau Conservation Fund (LCF) would be set up. LCF would be used to support projects that would contribute to the overall conservation of rural Lantau, raise community awareness on the conservation of rural Lantau, and mobilise the community to put conservation into practice, with a view to fostering a quality living environment for the current generation and beyond.

1.3 LCF was set up in October 2020. It consists of two parts, as follows:

- (a) ***Conservation and related projects.*** In May 2020, the Legislative Council approved a funding of \$500 million in the context of the Appropriation Bill 2020 for the conservation and related projects under LCF. This part of LCF is dedicated to providing financial support to non-profit-making organisations (NPOs), which comprise local tax-exempt charities, local registered and non-profit-making companies and local post-secondary education institutions, to collaborate with local communities and landowners and carry out three streams of conservation and related projects in Lantau. The conservation efforts covered by the conservation and related projects include natural environment, ecology, culture, history, rural character, landscape, geomorphology and other relevant elements; and

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- (b) *Minor local improvement works (MLIW).* Another \$500 million is earmarked as a cap to carry out MLIW by the Government under LCF. This part of LCF is dedicated to supporting MLIW to be carried out by the Government on government land in Lantau for conservation initiatives and improvements to the environment in Lantau.

1.4 The Development Bureau oversees the implementation of LCF. The Sustainable Lantau Office (SLO) of the Civil Engineering and Development Department (CEDD) is responsible for the day-to-day administration of LCF and secretariat support (Note 1). As at 31 October 2024, 8 staff were dedicated to the work of the LCF Secretariat, and 22 staff, among other duties, were involved in the assessment of applications and monitoring of projects on a need basis. According to SLO, it could not provide a breakdown of staff expenditure incurred by SLO solely for the administration of LCF. An extract of CEDD's organisation chart as at 31 October 2024 is at Appendix A.

Conservation and related projects

1.5 *Project streams.* Proposed conservation and related projects must be non-profit-making in nature, and their benefits must accrue to the community as a whole and not just to individuals, a single private organisation or a consortium of private companies. There are three streams of conservation and related projects, as follows:

Note 1: *On 25 March 2025, CEDD proposed to the Panel on Development of the Legislative Council that SLO would be merged with the South Development Office of CEDD to form the South Development and Sustainable Lantau Office, and the duties and responsibilities of the directorate posts of the two original offices would be revised and redistributed. According to SLO, the proposal is subject to the approval of the Establishment Subcommittee and the Finance Committee of the Legislative Council.*

- (a) ***Conservation Management Agreement Projects (hereinafter referred to as MA projects).*** MA projects are conservation projects (i.e. nature conservation, cultural conservation and/or village revitalisation) and they involve management and conservation of privately-owned land and/or buildings of conservation value by engaging land/building owners to contribute, enhance and revitalise the ecological, nature, cultural or historical significance of the site. Proposed projects involving government land, adjacent waters and/or islands of Lantau would also be considered if they would bring benefits for the conservation of Lantau as a whole (see Photograph 1 for an example of an activity under an MA project);

Photograph 1

**MA project:
Rice harvesting at rehabilitated agricultural land**



Source: SLO records

- (b) ***Research Projects (hereinafter referred to as RE projects).*** RE projects are conservation-related scientific research or culture and local history research (see Photograph 2 for an example of an activity under an RE project); and

Photograph 2

RE project:
Collection of water samples for laboratory tests



Source: SLO records

- (c) ***Education and Engagement Projects (hereinafter referred to as EE projects).*** EE projects are initiatives or activities for community involvement, public education and promotion in relation to conservation and related purposes (see Photograph 3 for an example of an activity under an EE project).

Photograph 3

EE project:
Traditional Hakka food preparation workshop



Source: SLO records

1.6 ***Approval of applications and disbursement of approved grants.*** According to SLO, in general, conservation and related projects are open for applications in December each year. Each of the three streams of conservation and related projects has its funding and duration limits. From December 2020 to October 2024, there were 4 rounds of application (i.e. 2020-2021, 2021-2022, 2022-2023 and 2023-2024) for conservation and related projects under LCF and 207 applications had been received, of which 48 applications had been approved with total approved grants of \$141.8 million (see Table 1). As at 31 October 2024, of the total approved grants of \$141.8 million, \$70.1 million (49%) had been disbursed to the grantees (i.e. the successful applicants).

Table 1

**Conservation and related projects under LCF
(December 2020 to October 2024)**

Project stream	Funding limit per project (Note) (\$ million)	Duration limit per project	Number of approved projects	Amount of approved grants (\$ million)
MA project	13.0	3 years	5 (10%)	63.0 (44%)
RE project	2.5	3 years	26 (54%)	49.6 (35%)
EE project	2.0	2 years	17 (36%)	29.2 (21%)
Total			48 (100%)	141.8 (100%)

Source: SLO records

Note: According to SLO, a lower threshold limit of \$250,000 is set for each project in order to be more effective and reach more beneficiaries.

1.7 ***Monitoring of approved projects.*** According to SLO, the grantees are obliged to adhere to a high standard of integrity and spend the funds in an open, fair and accountable manner. For monitoring of approved projects, the following mechanism is adopted:

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- (a) upon approval for funding support of the proposed projects and subject to any conditions imposed by the Government, the successful applicants should sign legally binding agreements with the Government;
- (b) the agreements set out the terms and conditions to be observed by the grantees during project implementation, including submission of progress reports, completion reports, final accounts and project summaries. The grantees should obtain written approval from the Government for major changes to the approved projects and/or budgets;
- (c) the agreements also set out the qualitative and quantitative performance indicators (as provided by the grantees during application) to gauge the effectiveness of the approved projects;
- (d) scheduled or surprise inspections are carried out by SLO to examine the progress and achievements of the approved projects; and
- (e) disbursements of approved grants are subject to the completion of key milestones of the approved projects and submission of the necessary deliverables. The final disbursements will normally be released to the grantees only after the completion of the approved projects, subject to submission of the necessary deliverables (e.g. completion reports together with the final accounts) to the satisfaction of SLO.

MLIW

1.8 MLIW projects aim to enhance the accessibility of remote villages in Lantau or improve the livelihood of the local residents whilst conserving or enhancing the rural environment in Lantau, and are generally small in scale with a ceiling of \$50 million for each project. SLO would liaise with various government departments to identify suitable MLIW projects to be taken forward under LCF. Funding for the approved MLIW projects would be sought according to the established government procedures for block allocations under the Capital Works Reserve Fund. According to SLO, as at 31 October 2024, there were 11 approved MLIW projects (7 substantially completed and 4 under construction) with a total approved project estimate of \$75.3 million and an actual project expenditure of \$39.4 million (i.e. 52% of the approved project estimate).

Committees and Subcommittees

1.9 ***Lantau Conservation Fund Advisory Committee (LCFAC) and Subcommittees.*** LCFAC was established to advise on the overall administration and operation related to LCF, vet applications under LCF, monitor the progress of funded projects and advise on the priority of MLIW project proposals. LCFAC has been set up to include both official and non-official members from relevant fields (e.g. nature conservation and environmental education) appointed by the Secretary for Development for a term of two years. The current term is from 1 October 2024 to 30 September 2026. As at 31 October 2024, LCFAC comprised 21 non-official members (including the chairperson) and 4 official members. Two Subcommittees were formed to assist LCFAC in assessing the applications for RE and EE projects under LCF. Each Subcommittee comprises non-official members of LCFAC with the same term of service as LCFAC. As at 31 October 2024, the two Subcommittees comprised 10 and 11 non-official members respectively (including the chairperson).

1.10 ***Minor Works Steering Committee (MWSC).*** MWSC was established to vet and prioritise MLIW project proposals, monitor and oversee fund performance related to MLIW and report to LCFAC on the latest fund performance. As at 31 October 2024, MWSC comprised a chairperson (i.e. Head of SLO) and 6 members from 5 government departments.

Audit review

1.11 In November 2024, the Audit Commission (Audit) commenced a review of SLO's work in the administration of LCF. The audit review has focused on the following areas:

- (a) conservation and related projects (PART 2);
- (b) MLIW projects (PART 3); and
- (c) governance and other issues (PART 4).

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

1.12 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that CEDD welcomes the review on LCF conducted by Audit and will take appropriate follow-up actions and improvement measures according to the audit recommendations.

Acknowledgement

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

PART 2: CONSERVATION AND RELATED PROJECTS

2.1 This PART examines SLO's work in the administration of conservation and related projects under LCF, focusing on:

- (a) processing of applications (paras. 2.2 to 2.24);
- (b) monitoring of approved projects (paras. 2.25 to 2.46); and
- (c) disbursement of approved grants (paras. 2.47 to 2.57).

Processing of applications

2.2 The "Guide to Application" published by SLO sets out the application and vetting procedures for conservation and related projects. For the administration of conservation and related projects, SLO follows its internal guidelines (Note 2).

2.3 According to SLO guidelines, the general procedures for processing applications for conservation and related projects are as follows:

- (a) upon receipt of applications, SLO will issue acknowledgement letters to the applicants, and conduct initial checking to ascertain whether the applications are eligible and the applicants have submitted the necessary supporting documents;
- (b) for each eligible application, SLO will prepare a project digest comprising information extracted from the application, comments received from relevant government bureaux/departments and issues that need to be highlighted to LCFAC and/or its Subcommittees;

Note 2: *According to SLO, the internal guidelines have stated that since it is not possible to set out all the circumstances in the document, there is a need for all officers involved in processing LCF applications to exercise flexibility with a reasonable, open and fair operation of LCF.*

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- (c) eligible applications will be assessed by LCFAC with reference to the project digests prepared by SLO, recommendations of the Subcommittees and SLO (for applications for RE and EE projects) and the established assessment criteria;
- (d) applications recommended by LCFAC will be submitted to the Director of Civil Engineering and Development (i.e. the vote controller) for endorsement; and
- (e) SLO will inform the applicants of their application results (i.e. approved or rejected). For each approved project, the successful applicant has to sign a legally binding agreement with the Government.

2.4 Since the first round of application launched in December 2020 and up to October 2024, SLO had received a total of 207 applications for conservation and related projects under 4 rounds of application (see Table 2). As at 31 October 2024, of the 207 applications received:

- (a) 48 (23%) were approved;
- (b) 136 (66%) were rejected;
- (c) 1 (1%) was withdrawn by the applicant (prior to the assessment of LCFAC); and
- (d) 22 (10%) were being processed.

Table 2

**Number of applications for conservation and related projects
(December 2020 to October 2024)**

Project stream	Number of applications				
	2020-2021	2021-2022	2022-2023	2023-2024	Overall
MA project	4 (6%)	4 (10%)	6 (13%)	9 (17%)	23 (11%)
RE project	40 (57%)	23 (58%)	21 (48%)	28 (53%)	112 (54%)
EE project	26 (37%)	13 (32%)	17 (39%)	16 (30%)	72 (35%)
Total	70 (100%)	40 (100%)	44 (100%)	53 (100%)	207 (100%)

Source: SLO records

Remarks: According to SLO, the 2024-2025 round of application was open in December 2024 and the closing dates were in March 2025 for RE projects and April 2025 for MA and EE projects.

Timeframe for notifying applicants of application results not met

2.5 According to the “Guide to Application”, applicants will normally receive notifications from SLO about the application results in 4 to 6 months after the closing dates of application period. In November 2023, SLO revised the “Guide to Application” such that the applicants will normally receive notifications in 4 to 7 months instead of 4 to 6 months (i.e. effective from the 2023-2024 round of application).

2.6 Audit examined the 4 rounds of application from December 2020 to October 2024 and noted that the timeframe for notifying applicants of the application results was not met in 3 rounds of application, as follows:

- (a) ***2020-2021 round of application.*** The closing dates were in February 2021 for RE and EE projects and March 2021 for MA projects. While the applicants of MA projects were notified of the application results within 6 months after the closing date of application period, the applicants of RE and EE projects were notified of the application results in September 2021 (i.e. 7 months after the closing dates of application period);

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- (b) **2022-2023 round of application.** The closing dates were in February 2023 for RE and EE projects and March 2023 for MA projects. While the applicants of RE projects were notified of the application results within 6 months after the closing date of application period, the applicants of EE and MA projects were notified of the application results in November 2023 (i.e. 8 and 7 months after the closing dates of application period respectively); and
- (c) **2023-2024 round of application.** While the closing dates were in February 2024 for RE and EE projects and March 2024 for MA projects, the applicants of RE projects were notified of the application results in October 2024 and the results for MA and EE projects were not yet announced as at 31 January 2025 (i.e. more than 7 months after the closing dates of application period).

2.7 According to SLO, the delays were mainly due to special circumstances (Note 3) encountered in the assessment and approval processes. In Audit's view, CEDD needs to take measures to ensure that the applicants of conservation and related projects are notified of the application results in accordance with the stipulated timeframe.

Scope for better facilitating applicants in making successful applications

2.8 From December 2020 to October 2024, 136 applications for conservation and related projects were rejected, representing 74% of the 184 applications processed (i.e. 48 approved and 136 rejected applications) by SLO. Audit noted that the rejection rates of applications under the three project streams (i.e. MA, RE and EE projects) with processing completed in each round of application varied from 50% to 96%.

Note 3: *According to SLO, examples of special circumstances included coronavirus disease (COVID-19) epidemic and other special administrative considerations, such as the intention to achieve a better promotional effect by announcing the results of the first round of application (i.e. 2020-2021) that covered the three project streams in one go.*

2.9 According to SLO guidelines, SLO will prepare notification letters to the applicants of rejected applications stating the reasons for rejection. Audit examined the 136 rejected applications in the 4 rounds of application from December 2020 to October 2024 and noted that:

- (a) in the first 3 rounds of application (i.e. 2020-2021, 2021-2022 and 2022-2023) involving 107 rejected applications, the reasons for rejection were stated in all the notification letters; and
- (b) in the 2023-2024 round of application involving 29 rejected applications, while the reasons for rejection were stated in the notification letters to the applicants of 24 rejected applications, the reasons were not stated to the applicants of the remaining 5 (4% of 136) rejected applications.

2.10 According to SLO:

- (a) there is no quota for number of projects that should be approved and only quality applications are considered for approval;
- (b) in addition to including the reasons for rejection based on the assessment criteria in the notification letters, in case the applicants made further enquiries, SLO would assist to explain to the applicants by making reference to the gist of discussions of the meetings of LCFAC. In the 2023-2024 round of application, the applicants of rejected applications had also been informed of the comments of LCFAC upon enquiries; and
- (c) SLO had a reaching-out team to assist the potential applicants in understanding the objectives of LCF and application requirements during their preparation of application submissions. With more experiences gained from the previous rounds of application, SLO had included in the briefing sessions to potential applicants since 2023 the major considerations of LCFAC and its Subcommittees in assessing applications. The presentation files of the briefing sessions had been uploaded onto LCF website for public reference.

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2.11 In Audit's view, CEDD needs to take measures to ensure that the reasons for rejection are stated in the notification letters to the unsuccessful applicants of conservation and related projects as stipulated in SLO guidelines. Moreover, there is merit for CEDD to consider providing more assistance to the applicants to furnish their applications with a view to better facilitating applicants in making successful applications in the future.

Scope for improvement in the assessment of applications

2.12 According to SLO guidelines:

- (a) for each eligible application, SLO would provide comments in accordance with the assessment criteria (i.e. overall benefits to achieve conservation purpose, quality of proposal, applicant organisation/project team's capability and quality of budget) and an overall rating in the project digest. The applications are then assessed by LCFAC as follows:
 - (i) all MA projects would be considered by LCFAC without deliberation in the Subcommittees;
 - (ii) for RE and EE projects with budgets equal to or greater than \$500,000, the Subcommittees would make recommendations on approval/rejection to LCFAC for endorsement; and
 - (iii) for RE and EE projects with budgets less than \$500,000, SLO would make recommendations on approval/rejection to LCFAC for endorsement; and
- (b) if an application is considered suitable to be funded by LCF, LCFAC should rate the application according to the assessment criteria and weightings, and work out a total mark.

2.13 Audit examined the 4 rounds of application from December 2020 to October 2024 and noted that there was scope for improvement in the assessment of applications, as follows:

- (a) ***SLO guidelines not timely updated.*** According to SLO, after discussion with LCFAC, with a view to balancing members' workload and efficiency of the vetting process, in practice, not all the applications were rated with marks, as follows:
- (i) for RE and EE projects with budgets equal to or greater than \$500,000, each application was assigned to two members of the Subcommittees for giving marks and an average mark was compiled by SLO in order to facilitate the discussion and consideration of applications at the Subcommittee meetings. The Subcommittees then made recommendations on approval/rejection to LCFAC for endorsement;
 - (ii) for RE and EE projects with budgets less than \$500,000, upon consultations with relevant government bureaux/departments, SLO made recommendations on approval/rejection to LCFAC for endorsement in order to streamline the assessment process. SLO was not required to give marks to rate the applications; and
 - (iii) in view of the amounts of funding sought and complexity of MA projects, all applicants of MA projects were required to make presentations of their applications at LCFAC meetings and answer members' enquiries. Members were not required to give marks to rate the applications.

While the above assessment procedures had been agreed by LCFAC and adopted since the first round of application (i.e. 2020-2021), SLO had not updated its guidelines to reflect the practice; and

- (b) ***No documented justifications of not recommending some applications with higher marks for approval.*** Audit noted that some applications for RE and EE projects with higher marks (i.e. the average marks compiled by SLO based on the marks given by two Subcommittee members — see (a)(i) above) were not recommended by the Subcommittees for approval, as follows:

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- (i) ***RE projects in the 2020-2021 round of application.*** Of the 40 applications assessed by the Subcommittees, 11 (27%) were approved and 29 (73%) were rejected. While the marks of 6 rejected applications were higher than that of an approved application, the 6 applications were not recommended by the Subcommittees for approval;
- (ii) ***RE projects in the 2021-2022 round of application.*** Of the 19 applications assessed by the Subcommittees, 8 (42%) were approved and 11 (58%) were rejected. While the marks of 7 rejected applications were higher than that of an approved application, the 7 applications were not recommended by the Subcommittees for approval; and
- (iii) ***EE projects in the 2021-2022 round of application.*** Of the 12 applications assessed by the Subcommittees, 3 (25%) were approved and 9 (75%) were rejected. While the mark of a rejected application was higher than that of an approved application, the application with a higher mark was not recommended by the Subcommittee for approval.

As a result, some applications for RE and EE projects with lower marks in the assessment were approved.

2.14 In February 2025, SLO informed Audit that:

- (a) the average marks compiled by SLO were preliminary assessments of the applications by the two assigned Subcommittee members. At the meetings of the Subcommittees, members would holistically review the preliminary assessments, having regard to views provided by the members from different angles, and comments from SLO and other relevant government bureaux/departments. After thorough deliberation and moderation by the members, the Subcommittee meetings then came up with final recommendations on the applications; and
- (b) a gist of discussions recording the comments and decisions of the Subcommittees on each application was prepared after the meetings.

However, Audit noted that there was no documentation showing the justifications of not recommending the applications with higher marks for approval.

2.15 In Audit's view, CEDD needs to:

- (a) update SLO guidelines in a timely manner to ensure that they properly reflect the assessment procedures for applications for conservation and related projects as agreed by LCFAC; and
- (b) take measures to ensure that justifications of not recommending the applications for RE and EE projects with higher marks for approval are properly documented.

Need to take into account income or sponsorships from other sources when assessing applications

2.16 According to the "Guide to Application":

- (a) applicants are encouraged to generate income and/or seek sponsorships from other sources to fund part of the projects. The amounts of income and sponsorships stated in the budgets would be deducted from the estimated expenditures of the projects before calculating the amounts of approved grants; and
- (b) the applicants' commitment to generate income and secure sponsorships will be taken into account in the assessment.

2.17 Audit noted that, of the 207 applications received from December 2020 to October 2024, only 27 (13%) included income or sponsorships in the budgets (ranging from 0.1% to 34% (averaging 7%) of the respective estimated expenditures of the projects). In addition, the applicants' commitment to generate income and secure sponsorships was not stated in the assessment criteria for the applications.

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2.18 In March 2025, SLO informed Audit that the amounts of income and sponsorships, if any, were included in the budgets of the applications for members' assessment although the applicants' commitment was not explicitly stated in the assessment criteria. In Audit's view, CEDD needs to:

- (a) step up efforts in encouraging applicants to submit applications for conservation and related projects with income and/or sponsorships from other sources to fund part of the projects; and
- (b) state in the assessment criteria that the applicants' commitment to generate income from the conservation and related projects and secure sponsorships would be taken into account when assessing applications.

Scope for improvement in checking the budgets of applications

2.19 According to the "Guide to Application":

- (a) applications should be accompanied by detailed budgets of each income and expenditure item. In particular, the fees for auditors to prepare the accounts as required will be considered during the assessment of applications; and
- (b) post-secondary education institutions are exempted from submitting accounts audited by certified public accountants (practising) during the project periods, provided that the accounts are certified by their respective finance offices.

2.20 Of the 48 applications approved from December 2020 to October 2024, 7 (15%) were submitted by post-secondary education institutions with audit fees included in the budgets. Audit noted that, while the audit fees in 4 (57%) of the 7 applications were excluded from the approved budgets by SLO because the applicants were exempted from submitting accounts audited by certified public accountants (practising), the audit fees in the remaining 3 (43%) applications (ranging from \$27,000 to \$32,000 (averaging \$29,000)) were included in the approved budgets. There was no documentation showing the justifications for approving the budgets for audit fees in these 3 applications.

2.21 According to SLO, regarding the 3 applications with audit fees included in the approved budgets:

- (a) it had informed the applicants of 2 applications in November 2021 (before project commencement) that they were exempted from submitting accounts audited by certified public accountants (practising). In the event, the issues were rectified by SLO in a timely manner and the 2 projects did not incur any audit fees. The cases happened at the early stage of LCF and there was no re-occurrence of similar cases after 2021; and
- (b) for the remaining application, the applicant was a newly established self-financing post-secondary education institution and it was considered prudent to require the accounts to be audited by certified public accountants (practising). The applicant had submitted audited accounts as required during the project period.

2.22 In Audit's view, CEDD needs to strengthen measures to ensure that applications for conservation and related projects are approved with budgets only including necessary expenditure in accordance with the related guidelines and justifications are properly documented when expenditure for exemptible items is considered necessary.

Audit recommendations

2.23 Audit has *recommended* that, in processing applications for conservation and related projects, the Director of Civil Engineering and Development should:

- (a) take measures to ensure that the applicants are notified of the application results in accordance with the stipulated timeframe;
- (b) take measures to ensure that the reasons for rejection are stated in the notification letters to the unsuccessful applicants as stipulated in SLO guidelines and consider providing more assistance to the applicants to furnish their applications;

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- (c) **update SLO guidelines in a timely manner to ensure that they properly reflect the assessment procedures for applications as agreed by LCFAC;**
- (d) **take measures to ensure that justifications of not recommending the applications for RE and EE projects with higher marks for approval are properly documented;**
- (e) **step up efforts in encouraging applicants to submit applications with income and/or sponsorships from other sources to fund part of the projects, and state in the assessment criteria that such commitment would be taken into account when assessing applications; and**
- (f) **strengthen measures to ensure that applications are approved with budgets only including necessary expenditure in accordance with the related guidelines and justifications are properly documented when expenditure for exemptible items is considered necessary.**

Response from the Government

2.24 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that the guidelines on conservation and related projects are being updated to reflect the practice in place, and CEDD will further amend the guidelines having regard to the audit recommendations.

Monitoring of approved projects

2.25 From December 2020 to October 2024, a total of 48 applications for conservation and related projects were approved. As at 31 October 2024, of the 48 approved projects:

- (a) 34 (71 %) were in progress;
- (b) 10 (21 %) had been completed;
- (c) 2 (4 %) had not yet commenced; and

- (d) 2 (4%) had been discontinued by the grantees.

Need to ensure timely submission of project deliverables by grantees

2.26 According to the “Guide to Application” and project agreements, the grantees are required to submit the following deliverables to SLO by the scheduled deadlines:

- (a) ***During implementation of projects.*** Within two months from the date of completion of each milestone as set out in the agreement, the grantee should submit a progress report to SLO. The grantee should also submit a set of annual accounts (i.e. accounts audited by certified public accountants (practising) or accounts certified by the finance offices of the post-secondary education institutions) within two months from the anniversary date of the commencement of the project; and
- (b) ***Upon completion of projects.*** Within four months from the completion of project, the grantee should submit a completion report (together with a set of final accounts) and a project summary (showing the findings, outcome and achievement of the project) to SLO.

2.27 ***Delays in submission of project deliverables by grantees.*** From December 2020 to October 2024, there were 164 project deliverables due for submission by the grantees, comprising 107 progress reports, 39 annual accounts, 9 completion reports (together with final accounts) and 9 project summaries. Audit noted that there were delays in some of the submissions. As at 31 October 2024:

- (a) ***Progress reports.*** Of the 107 progress reports due for submission, 27 (25%) were submitted 1 to 106 days (averaging 18 days) after the due dates;
- (b) ***Annual accounts.*** Of the 39 annual accounts due for submission, 14 (36%) were submitted 1 to 109 days (averaging 40 days) after the due dates;
- (c) ***Completion reports (together with final accounts).*** Of the 9 completion reports (together with final accounts) due for submission:

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- (i) 1 (11%) had not been submitted, which had been overdue for 184 days; and
- (ii) 5 (56%) were submitted 4 to 50 days (averaging 34 days) after the due dates; and
- (d) ***Project summaries.*** Of the 9 project summaries due for submission:
 - (i) 4 (44%) had not been submitted, which had been overdue for 61 to 184 days (averaging 123 days); and
 - (ii) 5 (56%) were submitted 142 to 321 days (averaging 275 days) after the due dates (Note 4).

2.28 ***Scope for improvement in issuing reminders.*** To ensure timely submission of project deliverables by the grantees, SLO guidelines have set out the procedures of issuing reminders to the grantees, as follows:

- (a) SLO checks on a weekly basis for approved projects for which deliverables would be due in three weeks and issues first reminders to the grantees; and
- (b) if the deliverables are not submitted two weeks after the due dates without acceptable reasons, SLO will issue second reminders and/or request for an explanation for the delay.

2.29 Audit noted that some reminders were not issued in accordance with SLO guidelines, as follows:

Note 4: *According to SLO: (a) for the longest overdue case in submitting the completion report and project summary, which had been overdue for 184 days (see para. 2.27(c)(i) and (d)(i)), it was due to the health issue of the project leader; and (b) the delay in submission of project summaries was longer than the other types of project deliverables because the project summaries would only be prepared by the grantees after the completion reports and final accounts were accepted by SLO.*

- (a) ***First reminders.*** As at 31 October 2024, for the 164 project deliverables due for submission by the grantees from December 2020 to October 2024:
 - (i) there were delays in issuing the first reminders to the grantees for submission of 15 (9%) project deliverables (ranging from 3 to 19 days (averaging 12 days)); and
 - (ii) first reminders were not issued to the grantees for submission of 49 (30%) project deliverables; and
- (b) ***Second reminders.*** As at 31 October 2024, of the 164 project deliverables due for submission by the grantees from December 2020 to October 2024, 31 (19%) had not been submitted to SLO within two weeks after the due dates. For the 31 project deliverables:
 - (i) there were delays in issuing the second reminders to the grantees for submission of 12 (39%) project deliverables (ranging from 1 to 286 days (averaging 70 days)); and
 - (ii) second reminders were not issued to the grantees for submission of 17 (55%) project deliverables. There was also no documentation showing that SLO had requested for explanations for the delays. As at 31 October 2024, 3 (10% of 31) project deliverables still had not been submitted, which had been overdue for 61 to 153 days (averaging 102 days).

In February 2025, SLO informed Audit that its staff had repeatedly made phone calls to remind the grantees for submission of project deliverables and request explanations for the delays from the grantees, but the phone call reminders were not recorded.

2.30 ***Scope for improvement in following up repeated late submissions of project deliverables.*** According to SLO guidelines, if a grantee has delays in submission of project deliverables for three times, SLO will report the case to LCFAC and take follow-up actions against the grantee as appropriate (e.g. issuing warning letters and interviewing the grantees). Audit noted that, of the 40 grantees with project deliverables due for submission from December 2020 to October 2024, 9 (23%) had delays in submission for three times or more and SLO did not report any of the 9 cases to LCFAC.

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2.31 In Audit's view, CEDD needs to strengthen measures to ensure that:

- (a) the grantees of conservation and related projects submit project deliverables in a timely manner;
- (b) reminders for submission of project deliverables are timely issued to the grantees of conservation and related projects; and
- (c) follow-up actions are taken on repeated late submissions of project deliverables by the grantees of conservation and related projects as appropriate and these cases are reported to LCFAC in accordance with SLO guidelines.

Scope for improvement in conducting inspections

2.32 According to SLO guidelines:

- (a) for monitoring purposes, at least one inspection should be conducted in the course of each approved project every year; and
- (b) an inspection report should be prepared by the inspecting officer within one week after the inspection.

2.33 As at 31 October 2024, of the 44 (i.e. 34 + 10) approved projects that were either in progress or completed, 8 had commenced for less than one year. For the remaining 36 (i.e. 44 less 8) approved projects, a total of 69 inspections would be required from December 2020 to October 2024 in accordance with SLO guidelines. Audit noted that:

- (a) ***Inspections not meeting required interval for some approved projects.*** While SLO had conducted 81 inspections on the approved projects during the period, it conducted inspections on some approved projects more frequent than required and did not conduct at least one inspection for 13 (36%) of the 36 approved projects in some years (i.e. 17 (25% of 69) required inspections were not conducted). In particular, as at 31 October 2024, 2 (6%) approved projects were commenced in December 2021 and January 2022 respectively but SLO had not conducted

any inspections on them. In February 2025, SLO informed Audit that some projects, mainly RE projects of which their work in the first year focused on desktop research and study, might warrant inspections conducted at the later stages according to their progress, and the inspections on the 2 projects had been conducted before the end of 2024; and

- (b) ***Delays in preparation of some inspection reports.*** The inspection reports for 47 (58%) of the 81 inspections were not prepared within one week after the inspections, with delays ranging from 1 day to about 8 months (averaging 1 month).

2.34 In Audit's view, CEDD needs to strengthen measures to ensure that:

- (a) the required interval of inspections on approved conservation and related projects is met and justifications are properly documented if the inspections are not conducted according to the required interval; and
- (b) inspection reports for approved conservation and related projects are timely prepared in accordance with SLO guidelines.

Need to determine the treatment of project assets after project completion as soon as practicable

2.35 According to the project agreements, all project assets (i.e. items procured by the grantees using the grants for the purpose of the projects) are the property of the Government. After completion of projects, the grantees should dispose of the project assets in such manner as the Government may require.

2.36 Audit noted that, as at 31 October 2024:

- (a) there were project assets in 7 (70%) of the 10 completed projects. The 7 projects had been completed for 7 to 18 months (averaging 14 months) and there were project assets (e.g. computers and cameras) with a total cost of about \$272,000; and
- (b) SLO had not yet determined the treatment of these project assets.

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2.37 In Audit's view, CEDD needs to determine the treatment of project assets in completed conservation and related projects and require the grantees to dispose of them accordingly (including the project assets of the 7 completed projects identified by Audit in paragraph 2.36) as soon as practicable.

Scope for strengthening the role of LCFAC in monitoring the project variations and progress

2.38 One of the terms of reference of LCFAC is to monitor the progress of funded projects. According to SLO guidelines:

- (a) during the project period, the grantee may request for project variations. Major variations (e.g. change of project leader) should be approved by LCFAC or the delegated authority; and
- (b) regular reporting items should be provided to LCFAC, including the status of on-going projects, monitoring work carried out by SLO, variation requests submitted for LCFAC's approval and variations approved by SLO.

2.39 Audit noted that, from December 2020 to October 2024:

- (a) there were seven requests for major variations from the grantees to change project leaders and all were approved by SLO instead of LCFAC. There was no documentation showing that SLO had been delegated the authority to approve the major variations; and
- (b) there was also no documentation showing that regular reporting items (see para. 2.38(b)) (including the seven requests for major variations mentioned in (a) above) had been provided to LCFAC.

2.40 In February 2025, SLO informed Audit that:

- (a) in December 2024, the documentation on the framework of delegated authorities for approving different types of project variations had been made for proper record; and

- (b) SLO had reported the regular reporting items (e.g. status of on-going projects and monitoring work) to LCFAC verbally at the meetings of LCFAC.

2.41 In Audit's view, CEDD needs to take measures to ensure that variations of conservation and related projects are approved in accordance with the framework of delegated authorities and maintain proper documentation on the regular reporting items provided to LCFAC, with a view to strengthening the role of LCFAC in monitoring the project variations and progress.

Scope for improvement in evaluating the effectiveness of completed projects

2.42 According to SLO guidelines, upon completion of projects, SLO will prepare a summary showing the overall effectiveness of the completed projects and performance of the grantees (with reference to the completion reports, previous inspection records, the original proposals, etc.) for circulation to members of LCFAC and/or deliberation at meetings of LCFAC. According to SLO, the summary will be prepared by its staff after the completion reports and final accounts submitted by the grantees are accepted by SLO.

2.43 As at 31 October 2024, the grantees of 6 projects had both the completion reports and final accounts accepted by SLO. Audit noted that:

- (a) SLO did not set any time target for the preparation of summaries by its staff for completed projects; and
- (b) of the 6 projects, the summaries showing the overall effectiveness of the projects and the performance of the grantees of 5 projects were circulated to the members of LCFAC 35 to 128 days (averaging 70 days) after the completion reports and final accounts had been accepted by SLO. For the remaining project, the completion report and final accounts were accepted by SLO on 31 October 2024.

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2.44 In Audit's view, CEDD needs to:

- (a) set a time target for the preparation of summaries for completed conservation and related projects by SLO staff; and
- (b) take measures to ensure that the summaries for completed conservation and related projects are timely circulated for deliberation by LCFAC with a view to better evaluating the overall effectiveness of completed projects and performance of grantees.

Audit recommendations

2.45 **Audit has *recommended* that, in monitoring of approved conservation and related projects, the Director of Civil Engineering and Development should:**

- (a) **strengthen measures to ensure that:**
 - (i) **the grantees submit project deliverables in a timely manner and reminders are timely issued to the grantees;**
 - (ii) **follow-up actions are taken on repeated late submissions of project deliverables by the grantees as appropriate and these cases are reported to LCFAC in accordance with SLO guidelines; and**
 - (iii) **the required interval of inspections on approved projects is met and justifications are properly documented if the inspections are not conducted according to the required interval, and inspection reports are timely prepared in accordance with SLO guidelines;**
- (b) **determine the treatment of project assets in completed projects and require the grantees to dispose of them accordingly as soon as practicable;**

- (c) take measures to ensure that project variations are approved in accordance with the framework of delegated authorities and maintain proper documentation on the regular reporting items provided to LCFAC; and
- (d) set a time target for the preparation of summaries for completed projects by SLO staff and take measures to ensure that the summaries are timely circulated for deliberation by LCFAC.

Response from the Government

2.46 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) SLO has been arranging the grantees of completed projects to return their project assets to the Government for reuse in other LCF projects as far as practicable or disposal in accordance with relevant government rules and regulations. Some grantees already returned the project assets to the Government and the final disbursements are underway; and
- (b) there has been an understanding with LCFAC that the LCF Secretariat would exercise flexibility with a reasonable, open and fair operation of LCF in processing the grantees' requests for variations.

Disbursement of approved grants

2.47 According to the "Guide to Application", the approved grants to grantees are in general disbursed as follows:

- (a) ***First disbursement.*** Upon signing of the agreement with the Government and, where applicable, meeting any conditions as imposed by LCFAC, an initial payment which is between 20% and 25% of the approved grant will be effected to the grantee as the first disbursement;

Conservation and related projects

- (b) ***Interim disbursements.*** Interim disbursements (i.e. disbursements other than the first and final disbursements) will be released in accordance with the disbursement schedule in the agreement (Note 5). For each interim disbursement, the grantee should submit a progress report and a statement of income and expenditure to the satisfaction of SLO. The total amount of the first and interim disbursements will be 90% of the approved grant; and
- (c) ***Final disbursement.*** After completion of the project and subject to the submission of necessary deliverables (e.g. the completion report together with the final accounts and project summary) to the satisfaction of SLO, the remaining 10% of the approved grant will be released to the grantee.

As at 31 October 2024, the total approved grants for the 48 approved projects were \$141.8 million and \$70.1 million (49%) of grants were disbursed (see Table 3).

Note 5: *According to SLO, the applicant should state the expected date of milestones (e.g. completion of specific key activities or achievement of specific key stages) for each proposed instalment of disbursement. A disbursement schedule will be included in the agreement to be signed with the Government upon approval of application.*

Table 3

**Disbursement of approved grants for conservation and related projects
(31 October 2024)**

Status	Approved project		Grant amount	
	Total (No.)	With disbursement (No.)	Approved (\$ million)	Disbursed (\$ million)
In progress	34	34 (100%)	108.1	56.0 (52%)
Completed	10	10 (100%)	15.6	14.1 (90%)
Not yet commenced	2 (Note)	0 (0%)	15.3	0 (0%)
Discontinued	2	0 (0%)	2.8	0 (0%)
Overall	48	44 (92%)	141.8	70.1 (49%)

Source: SLO records

Note: According to SLO, the two projects were approved in November 2023 and September 2024 respectively. Regarding the project approved in November 2023, after several rounds of communication, the grantee had yet to submit a satisfactory implementation schedule, which was an approval condition of the project. In the event, the grantee decided to discontinue the project in November 2024 and no grant was released to the grantee.

Scope for improvement in releasing first disbursements

2.48 First disbursements will be made upon signing of agreements between the grantees and the Government. As at 31 October 2024, first disbursements were released to the grantees of 44 projects (i.e. 34 projects in progress and 10 completed projects). Audit noted that long time was taken in the process of signing agreements and releasing first disbursements for these 44 projects, as follows:

- (a) the agreements were signed 20 to 238 days (averaging 68 days) after the notification of results to applicants that their projects had been approved; and
- (b) the first disbursements were released to the grantees 19 to 179 days (averaging 71 days) after the signing of agreements.

Conservation and related projects

2.49 According to SLO, the grantees took time to prepare for commencement of the projects (e.g. opening of designated bank accounts as required and fulfilling of approval conditions (if any)) before getting ready to sign the agreements. In Audit's view, there is merit for CEDD to consider providing more assistance to the grantees of conservation and related projects in preparing for project commencement with a view to enabling release of first disbursements as soon as practicable.

Need to expedite the processing of project deliverables for releasing interim and final disbursements

2.50 The grantees are required to submit necessary project deliverables to SLO for interim and final disbursements (see para. 2.47(b) and (c)). Upon receiving the project deliverables, SLO will conduct checking and prepare payments. Audit noted that SLO did not set any time target for completing the processing of project deliverables and long time was taken by SLO in some cases, as follows:

- (a) ***Interim disbursements.*** As at 31 October 2024, of the 44 (i.e. 34 + 10) approved projects that were either in progress or completed, 4 did not have progress reports due for submission. From December 2020 to October 2024, the grantees of the remaining 40 projects submitted 103 progress reports for releasing interim disbursements. As at 31 October 2024:
 - (i) the processing of 89 (86%) progress reports was completed 6 to 438 days (averaging 68 days) after the submission by the grantees (Note 6). Interim disbursements related to 86 progress reports were released 2 to 14 days (averaging 7 days) after the processing of progress reports was completed; and

Note 6: *According to SLO, for the progress report which took 438 days to complete the processing, the submissions made by the grantee were incomplete and inconsistent. There were also significant delays by the grantee in clarifying unresolved issues and responding to various comments, which resulted in rounds of amendments.*

- (ii) 14 (14%) progress reports were under checking by SLO. The progress reports were submitted by the grantees 8 to 486 days (averaging 135 days) ago (Note 7); and
- (b) ***Final disbursements.*** Of the 8 completed projects with final accounts submitted as at 31 October 2024, the final accounts of 7 projects had been accepted by SLO, of which final disbursements would be released to 4 projects upon acceptance of the completion reports and project summaries by SLO (Note 8). While the grantees of 3 of the 4 projects had already submitted the completion reports and project summaries for 45 to 132 days (averaging 101 days) and with completion reports accepted by SLO, all the project summaries were still under checking by SLO and hence no final disbursements were released.

2.51 In Audit's view, CEDD needs to consider setting a time target for completing the processing of project deliverables submitted by the grantees of conservation and related projects and take measures to complete the processing in a timely manner.

Scope for improvement in handling unspent grants

2.52 According to the project agreements and SLO guidelines:

- (a) upon completion of projects, any unspent grants paid to the grantees should be returned to the Government; and

Note 7: *According to SLO, for the progress report which was under checking for 486 days, the extended processing time was due to rounds of clarifications with the grantee on the Conservation Management Plan and consultancy services for refurbishing an aged building under the project. The processing of the progress report had been completed in January 2025 and the interim disbursement had been released in February 2025.*

Note 8: *Release of final disbursements was not required for the remaining 3 projects as they had unspent grants.*

Conservation and related projects

- (b) before releasing an interim disbursement, SLO will check whether the disbursement should be adjusted to an appropriate amount according to the actual progress of the project (having taken into account any substantial underspending observed).

2.53 Audit noted that SLO did not set any time target to request the grantees for returning the unspent grants upon completion of projects. Of the 7 completed projects with final accounts submitted to and accepted by SLO as at 31 October 2024 (see para. 2.50(b)), 3 had unspent grants ranging from about \$86,000 to about \$390,000 (totalling about \$570,000). As at 31 October 2024, the final accounts of the 3 completed projects had been accepted by SLO 2 to 10 months (averaging 7 months) ago. According to SLO, the demand notes for the return of unspent grants were issued in December 2024 and settled by the grantees in January 2025.

2.54 Audit examined the 3 completed projects with unspent grants and revealed that an interim disbursement was released to the grantee of 1 project while the project still had disbursed grant not yet spent. The salient points are as follows:

- (a) in December 2022, NPO A submitted a progress report to SLO and requested SLO to release an interim disbursement of about \$300,000 in accordance with the disbursement schedule in the agreement;
- (b) according to the statement of income and expenditure submitted by NPO A, as at 30 October 2022, \$1.5 million of \$2 million approved grant had been released to NPO A and \$0.7 million (i.e. 47% of \$1.5 million) was not yet spent. In March 2023, the interim disbursement of about \$300,000 was released to NPO A; and
- (c) in the event, the project was completed in April 2023 with unspent grant of about \$390,000 (i.e. more than the last interim disbursement released in March 2023).

According to SLO, the unspent grant after project completion had been returned by NPO A to the Government in January 2025.

2.55 In Audit's view, CEDD needs to:

- (a) set a time target to request the grantees of conservation and related projects for returning the unspent grants upon completion of projects and ensure timely issuance of requests; and
- (b) take into account the amount of unspent grants held by the grantees of conservation and related projects before releasing interim disbursements in accordance with SLO guidelines.

Audit recommendations

2.56 **Audit has *recommended* that, in disbursements of grants to approved conservation and related projects, the Director of Civil Engineering and Development should:**

- (a) **consider providing more assistance to the grantees in preparing for project commencement with a view to enabling release of first disbursements as soon as practicable;**
- (b) **consider setting a time target for completing the processing of project deliverables submitted by the grantees and take measures to complete the processing in a timely manner;**
- (c) **set a time target to request the grantees for returning the unspent grants upon completion of projects and ensure timely issuance of requests; and**
- (d) **take into account the amount of unspent grants held by the grantees before releasing interim disbursements in accordance with SLO guidelines.**

Response from the Government

2.57 The Director of Civil Engineering and Development agrees with the audit recommendations.

PART 3: MINOR LOCAL IMPROVEMENT WORKS PROJECTS

3.1 This PART examines SLO's work in the administration of MLIW projects under LCF, focusing on:

- (a) identification of MLIW projects (paras. 3.2 to 3.11);
- (b) monitoring of MLIW projects (paras. 3.12 to 3.21); and
- (c) performance evaluation of MLIW projects and other issues (paras. 3.22 to 3.28).

Identification of minor local improvement works projects

Scope for enhancing the scope of MLIW projects

3.2 According to SLO, apart from the \$500 million funding approved for the conservation and related projects under LCF, another \$500 million is earmarked as a cap to carry out MLIW for conservation, eco-recreation and improvements in villages and environment in Lantau by the Government under LCF. MLIW projects should fall into the scope of LCF, as follows:

- (a) improvement works in villages to enhance the environment, livelihood and accessibility of villagers;
- (b) improvement works to eco-recreation facilities;
- (c) improvement works to promote eco-recreation and public education on environmental protection;
- (d) reinstatement works on government land affected by environmentally damaging activities (e.g. planting works and removal of illegal structures); and

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- (e) enhancement, rehabilitation and other projects for the natural environment/habitat and buildings on government land.

3.3 According to SLO and its guidelines, SLO should:

- (a) call for returns of potential MLIW projects from 10 relevant government departments identified to have potential MLIW projects (e.g. the Drainage Services Department and the Home Affairs Department) every year to identify eligible projects that fall into the scope of LCF;
- (b) identify potential MLIW projects that could have potential interplay with the approved conservation and related projects with a view to creating synergy effect between MLIW projects and the conservation and related projects under LCF; and
- (c) assess eligible projects and propose a project priority list for the consideration of MWSC and advice of LCFAC. The endorsed project priority list would then be submitted to the Director of Civil Engineering and Development for approval for funding support by LCF.

3.4 According to SLO, since the establishment of LCF in October 2020 and up to October 2024, SLO received 15 MLIW project proposals from 5 government departments, comprising 7 from CEDD and 8 from 4 other government departments (namely the Drainage Services Department, the Home Affairs Department, the Leisure and Cultural Services Department, and the Water Supplies Department). As at 31 October 2024, of the 15 MLIW project proposals, 11 had been approved, 3 had been withdrawn and 1 was pending approval (see Table 4).

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Table 4

MLIW project proposals (31 October 2024)

Year	Number of project proposals			Approved project estimate (\$ million)
	Approved	Withdrawn	Pending approval	
2020	3	0	0	55.4
2021	5	1	0	13.4
2022	1	2	0	0.5
2023	2	0	0	6.0
2024 (up to October)	0	0	1 (Note 1)	0
Total	11	3	1	75.3 (Note 2)

Source: SLO records

Note 1: According to SLO, the project proposal and the project priority list were endorsed by MWSC and LCFAC respectively in June 2024 and approved by the Director of Civil Engineering and Development in December 2024.

Note 2: As at 31 October 2024, of the total approved project estimate of \$75.3 million, \$39.4 million was incurred.

3.5 Audit noted that there was scope for enhancing the scope of MLIW projects, as follows:

- (a) **Participation of government departments and utilisation of funds on the low side.** Audit noted that:
 - (i) from October 2020 to October 2024, of the 10 relevant government departments identified to have potential MLIW projects, only 5 (50%) had submitted MLIW project proposals to SLO; and
 - (ii) as at 31 October 2024, 11 MLIW project proposals had been approved with a total approved project estimate of \$75.3 million, representing 15% of the \$500 million earmarked funding;

- (b) ***Number of MLIW projects and amount of funds approved on a decreasing trend.*** Audit noted that the number of MLIW projects and amount of funds approved had been on a decreasing trend from 2020 to 2024 (see Table 4 in para. 3.4), as follows:
 - (i) of the 11 approved MLIW projects, 3 and 5 projects were approved in 2020 and 2021 respectively. However, only 1 and 2 projects were approved in 2022 and 2023 respectively; and
 - (ii) the yearly approved project estimate decreased significantly by 89% from \$55.4 million in 2020 to \$6 million in 2023; and
- (c) ***No interplay with conservation and related projects.*** Audit noted that there was no interplay between the 11 approved MLIW projects with the approved conservation and related projects under LCF. In February 2025, SLO informed Audit that:
 - (i) in January each year, it called for returns of potential and eligible MLIW projects from relevant government departments. Efforts had been made to identify MLIW projects that would have potential interplay with the approved conservation and related projects;
 - (ii) up to February 2025, no MLIW projects with potential interplay with the approved conservation and related projects had been identified yet; and
 - (iii) it was reviewing its guidelines regarding the scope of MLIW projects.

3.6 In Audit's view, CEDD needs to:

- (a) ascertain the reasons for the decrease in the number of MLIW projects and amount of funds approved and take measures to address the matter; and
- (b) expedite the review of SLO guidelines regarding the scope of MLIW projects.

Minor local improvement works projects

Need to ensure that sufficient information is provided in MLIW project proposals

3.7 According to SLO guidelines, SLO should request the responsible government departments to provide information (e.g. project title and details, justifications for eligibility for funding under LCF, estimated project costs with preliminary cash flow, preliminary project implementation programme and views from relevant statutory and advisory bodies) in MLIW project proposals for the consideration of MWSC. Based on the project proposals, MWSC will discuss the project priority and the project priority list will then be submitted to LCFAC for advice. According to SLO, in practice, MLIW project proposals will also be presented at LCFAC meetings for members' reference.

3.8 Audit examined the 15 MLIW project proposals received from the responsible government departments from October 2020 to October 2024 and noted that there was scope for improvement in the provision of information in MLIW project proposals, as follows:

- (a) ***Some necessary information not provided in MLIW project proposals.*** Of the 15 project proposals, some necessary information was not provided in project proposals, as follows:
 - (i) 1 (7%) project proposal did not contain clear objectives and targets, nor sufficient information for justifying the project costs. In the event, the project priority of the proposal had not been endorsed by LCFAC as the members of LCFAC had reservation on the cost-effectiveness of the project and the proposal was subsequently withdrawn;
 - (ii) all the 15 project proposals did not contain any preliminary cash flow information; and
 - (iii) 6 (40%) project proposals did not contain any views from relevant statutory and advisory bodies. According to SLO, consultations with relevant statutory and advisory bodies were conducted after the project proposals had been submitted to MWSC for consideration. In the event, after consultations with the relevant rural committees and local communities, 2 of these 6 proposals were subsequently

withdrawn due to the concerns and diverse views received from local stakeholders; and

- (b) ***Performance targets for MLIW project proposals not required.*** SLO did not specify the requirements to set and include performance targets in MLIW project proposals. Of the 15 project proposals, only 2 (13%) contained the post-completion effectiveness monitoring measures.

3.9 In Audit's view, CEDD needs to:

- (a) remind the responsible government departments to provide sufficient information in their MLIW project proposals, in particular:
 - (i) all necessary project information such as the project objectives and targets, and justifications of the project costs; and
 - (ii) views on the project proposals from relevant statutory and advisory bodies as far as practicable; and
- (b) consider requiring the responsible government departments to include performance targets as far as practicable in their MLIW project proposals.

Audit recommendations

3.10 **Audit has *recommended* that the Director of Civil Engineering and Development should:**

- (a) **ascertain the reasons for the decrease in the number of MLIW projects and amount of funds approved and take measures to address the matter;**
- (b) **expedite the review of SLO guidelines regarding the scope of MLIW projects;**
- (c) **remind the responsible government departments to provide sufficient information in their MLIW project proposals, in particular all**

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necessary project information (e.g. project objectives and targets) and views on the project proposals from relevant statutory and advisory bodies as far as practicable; and

- (d) consider requiring the responsible government departments to include performance targets as far as practicable in their MLIW project proposals.**

Response from the Government

3.11 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) CEDD will continue to actively discuss with government departments and project proponents of conservation and related projects to identify suitable MLIW project proposals;
- (b) CEDD will discuss with the responsible government departments at the project proposal formulation stage about the best time to consult relevant statutory and advisory bodies; and
- (c) the responsible government departments have included performance targets in their MLIW project proposals where applicable. In practice, the effectiveness of the projects is being monitored by the respective government departments and CEDD, although it was not stated in the project proposals. CEDD will discuss with the responsible government departments regarding the monitoring of the effectiveness of the projects and will remind them to include the performance targets as far as practicable in their MLIW project proposals.

Monitoring of minor local improvement works projects

Need to ensure that returns on progress and expenditure of MLIW projects are received

3.12 According to SLO guidelines, the responsible government departments should provide quarterly returns on the progress and expenditure of MLIW projects to SLO for monitoring purpose. According to SLO, in practice, it will issue requests to the responsible government departments calling for the returns.

3.13 From December 2020 (i.e. when the three MLIW project proposals in the first year were approved by the Director of Civil Engineering and Development) to October 2024 (i.e. involving 15 quarters), SLO issued 7 requests to the responsible government departments of the approved MLIW projects calling for relevant returns (involving a total of 41 returns). Audit examined the 7 requests and found that:

- (a) requests for return were not issued for the periods from December 2020 to April 2022 and from May to October 2024. In the event, no return was provided by the responsible government departments during these periods;
- (b) from May 2022 to April 2024, the time lapse between each request for return issued ranged from 63 to 184 days (averaging 119 days) (i.e. not issuing on a quarterly basis); and
- (c) of the 41 returns submitted by the responsible government departments:
 - (i) 10 (24%) returns were submitted 1 to 42 days (averaging 9 days) after the respective deadlines set by SLO; and
 - (ii) 7 (17%) returns could not be located by SLO.

3.14 In Audit's view, CEDD needs to:

- (a) issue requests for return on the progress and expenditure of MLIW projects to the responsible government departments in accordance with the frequency as stipulated in relevant guidelines (i.e. quarterly); and

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- (b) take measures to ensure that the returns on the progress and expenditure of MLIW projects are submitted by the responsible government departments in a timely manner and the submitted returns are properly maintained.

Scope for enhancing the monitoring of the progress and expenditure of MLIW projects

3.15 According to SLO and its guidelines:

- (a) the responsible government departments should:
 - (i) make endeavour to achieve the project programme of individual MLIW projects as planned, in particular for financial control and expenditure monitoring;
 - (ii) inform SLO if there are changes of cash flow and delays of project programme so that spending positions can be reviewed and measures to be implemented on time throughout the project cycle of MLIW projects; and
 - (iii) notify SLO on the completion of MLIW projects and the amount of final project expenditure;
- (b) SLO should:
 - (i) carry out overall project progress and financial monitoring under LCF and oversee the overall fund performance including progress and spending position of the approved MLIW projects. For the completed MLIW projects, upon finalisation of the relevant project accounts, any unspent balance of their approved project estimate should be returned to the earmarked funding for MLIW projects under LCF; and
 - (ii) report the overall financial position of the earmarked funding for MLIW projects under LCF and the latest status (e.g. the latest progress of projects, update on project expenditure and forecast, and major variations of projects (if any)) of individual MLIW

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projects at LCFAC meetings and completion of MLIW projects at MWSC meetings; and

- (c) MWSC should monitor and oversee the progress and expenditure of the approved MLIW projects.

3.16 ***Progress of MLIW projects.*** As at 31 October 2024, of the 11 approved MLIW projects, 7 (64%) had been substantially completed and 4 (36%) were under construction. Audit examined the progress of the 11 approved MLIW projects and noted that, as at 31 October 2024:

- (a) of the 7 completed projects, 4 (57%) had delays in substantial completion of works by 1 to 18 months (averaging 9 months) (Note 9); and
- (b) of the 4 projects under construction, 2 (50%) had deferred their target completion dates by 20 and 30 months respectively.

3.17 ***Expenditure of MLIW projects.*** Audit examined the project expenditure of the 7 completed MLIW projects and noted that:

- (a) ***Actual project expenditure significantly less than the approved project estimate.*** As at 31 October 2024, the total actual project expenditure incurred for these projects was \$30.9 million, which was \$21.2 million less than the approved project estimate of \$52.1 million (i.e. 41% — ranging from \$40,000 to \$17 million, averaging \$3 million by individual projects). SLO had not taken follow-up actions with all the responsible government departments concerned in ascertaining the reasons for the variances between the actual project expenditure and the approved project estimate (i.e. the actual project expenditure lower than the approved project estimate). In particular, for the project with the largest variance of \$17 million (i.e. 58%) between the approved project estimate of \$29.4 million and the actual project expenditure of \$12.4 million upon its substantial completion, there was no evidence indicating that SLO had taken

Note 9: *According to SLO, the delays in substantial completion were mainly due to inclement weather, COVID-19 epidemic and prolonged liaison with the green groups.*

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follow-up actions with the responsible government department concerned in ascertaining the reasons for the variance. According to SLO, the works of the project concerned were substantially completed in September 2024. The outstanding payments were pending upon certification of interim payments and finalisation of project accounts and it was expected that the variance would be smaller after the payments were settled; and

- (b) ***SLO not timely notified of final project expenditure.*** While the responsible government departments are required to notify SLO on the completion of MLIW projects and their respective amount of final project expenditure, SLO did not set any time target for notification of such information by the responsible government departments. As at 31 October 2024, while the 7 projects had been substantially completed between January 2022 and September 2024 (i.e. a lapse of 1 to 33 months), none of the responsible government departments made relevant notifications to SLO and SLO had no information on whether the project accounts of these projects had been finalised. As a result, the unspent balance of the approved project estimate of these projects cannot be returned to the earmarked funding for MLIW projects under LCF.

3.18 ***Reporting to LCFAC.*** Audit noted that, from October 2020 to October 2024, while SLO had reported the overall financial position of the earmarked funding for MLIW projects under LCF and the latest project progress, updated project expenditure and forecast of individual MLIW projects at LCFAC meetings, the reasons for the delays in completion of works (see para. 3.16) and variances between the actual project expenditure and the approved project estimate of individual MLIW projects (i.e. the actual project expenditure lower than the approved project estimate — see para. 3.17(a)) were not reported.

3.19 In Audit's view, CEDD needs to:

- (a) keep under review the progress of MLIW projects, in particular those projects with delays in target completion of works, with a view to implementing measures on time throughout the project cycle of MLIW projects;
- (b) take measures to enhance the monitoring of expenditure of MLIW projects, including:

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- (i) ascertaining with the responsible government departments the reasons for the variance between the actual project expenditure and the approved project estimate for each project;
 - (ii) setting a time target for the responsible government departments to notify SLO on the completion of MLIW projects, finalisation of project accounts and expenditure; and
 - (iii) ascertaining whether the project accounts of the 7 completed MLIW projects had been finalised with a view to returning the unspent balance of their approved project estimates to the earmarked funding for MLIW projects under LCF as soon as practicable; and
- (c) take measures to ensure that all required information related to the update on the progress and expenditure of MLIW projects (including the reasons for the delays in completion of works and variances between the actual project expenditure and the approved project estimate) is reported at LCFAC meetings.

Audit recommendations

3.20 Audit has *recommended* that the Director of Civil Engineering and Development should:

- (a) **issue requests for return on the progress and expenditure of MLIW projects to the responsible government departments in accordance with the frequency as stipulated in relevant guidelines (i.e. quarterly);**
- (b) **take measures to ensure that the returns on the progress and expenditure of MLIW projects are submitted by the responsible government departments in a timely manner and the submitted returns are properly maintained;**
- (c) **keep under review the progress of MLIW projects, in particular those projects with delays in target completion of works, with a view to implementing measures on time throughout the project cycle of MLIW projects;**

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- (d) **take measures to enhance the monitoring of expenditure of MLIW projects, including:**
 - (i) **ascertaining with the responsible government departments the reasons for the variance between the actual project expenditure and the approved project estimate for each project;**
 - (ii) **setting a time target for the responsible government departments to notify SLO on the completion of MLIW projects, finalisation of project accounts and expenditure; and**
 - (iii) **ascertaining whether the project accounts of the 7 completed MLIW projects had been finalised with a view to returning the unspent balance of their approved project estimates to the earmarked funding for MLIW projects under LCF as soon as practicable; and**
- (e) **take measures to ensure that all required information related to the update on the progress and expenditure of MLIW projects (including the reasons for the delays in completion of works and variances between the actual project expenditure and the approved project estimate) is reported at LCFAC meetings.**

Response from the Government

3.21 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) CEDD has already revised the proforma for reporting of project updates by requiring the responsible government departments to state the reasons for delay in commencement/completion and cost variance, target date for finalisation of project accounts and final project expenditure;
- (b) for the project with the largest variance of \$17 million between the approved project estimate and the actual project expenditure as at 31 October 2024 mentioned in paragraph 3.17(a), according to the responsible government department concerned, as at 17 March 2025, the difference between the approved project estimate (i.e. \$29.4 million) and

the actual project expenditure (i.e. \$23.3 million) was \$6.1 million (i.e. 20.7%); and

- (c) as at 17 March 2025, the total actual project expenditure incurred for the 7 completed MLIW projects was \$41.9 million, which was \$10.2 million less than the approved project estimate of \$52.1 million (i.e. 19.6% — ranging from \$40,000 to \$6.1 million, averaging \$1.5 million by individual projects).

Performance evaluation of minor local improvement works projects and other issues

Scope for enhancing the performance evaluation of MLIW projects

3.22 ***Briefing notes for completed MLIW projects.*** According to SLO guidelines, SLO should prepare briefing notes for the completed MLIW projects and upload them onto LCF website. According to SLO, as it was considered more appropriate to brief the public regarding the aim and information of MLIW projects at an earlier stage instead of upon the completion of the projects, in practice, the brief information (including the aim of the project) of each MLIW project had been prepared and uploaded onto LCF website upon the approval of the project priority list by the Director of Civil Engineering and Development. However, Audit noted that, as at 31 October 2024, up-to-date project information (e.g. progress and expenditure of MLIW projects) of the 7 completed MLIW projects was not provided in their respective brief information.

3.23 ***Performance evaluation of MLIW projects.*** According to SLO guidelines, SLO should request the responsible government departments to provide information (e.g. justifications for eligibility for funding under LCF) in MLIW project proposals. Audit noted that, as at 31 October 2024, SLO did not require the responsible government departments of completed MLIW projects to provide any self-evaluation of the effectiveness of individual MLIW projects with a view to ascertaining whether the objectives of MLIW projects had been achieved.

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3.24 In Audit's view, CEDD needs to:

- (a) take measures to ensure that up-to-date project information for completed MLIW projects is provided in the brief information; and
- (b) consider requiring the responsible government departments of completed MLIW projects to provide self-evaluation of the effectiveness of individual MLIW projects.

Need to ensure that the guidelines are regularly updated

3.25 In March 2021, SLO issued the procedural guidelines for management of MLIW projects (i.e. Procedural Guidelines for Management of MLIW). Audit noted that, as at 31 January 2025, SLO had not updated the Procedural Guidelines for Management of MLIW since its issuance in March 2021 and some of its content was found not up-to-date, as follows:

- (a) SLO's practice in preparing brief information of MLIW projects was not reflected in the procedural guidelines (see para. 3.22);
- (b) conservation values of MLIW project proposals had been considered by LCFAC in the assessment process. However, such criterion was not included as one of the assessment criteria in the procedural guidelines (Note 10); and
- (c) while the in-year bid mechanism for submission of MLIW project proposals to MWSC for consideration during the period between the yearly MWSC meetings (i.e. adopting the similar mechanism for the in-year bid for block vote projects that bureaux are allowed to submit funding bids in-year between the annual resource allocation cycle for urgent projects) was

Note 10: *According to the Procedural Guidelines for Management of MLIW, the assessment criteria include: (a) urgency of the proposed project to provide intended improvements; (b) earliest commencement of the project; (c) potential interplay with conservation and related projects funded by the other part of LCF; (d) potential interfacing with on-going projects and future projects under planning in close proximity with each other; (e) views from relevant statutory and advisory bodies; and (f) capacity of in-house resources.*

agreed by the members of MWSC and LCFAC at the MWSC meeting in June 2022 and the LCFAC meeting in July 2022 respectively, the detailed mechanism and relevant procedures were not included in the procedural guidelines.

3.26 In Audit's view, CEDD needs to take measures to ensure that the Procedural Guidelines for Management of MLIW is timely updated to incorporate the latest procedures.

Audit recommendations

3.27 Audit has *recommended* that the Director of Civil Engineering and Development should:

- (a) take measures to ensure that up-to-date project information for completed MLIW projects is provided in the brief information;
- (b) consider requiring the responsible government departments of completed MLIW projects to provide self-evaluation of the effectiveness of individual MLIW projects; and
- (c) take measures to ensure that the Procedural Guidelines for Management of MLIW is timely updated to incorporate the latest procedures.

Response from the Government

3.28 The Director of Civil Engineering and Development agrees with the audit recommendations.

PART 4: GOVERNANCE AND OTHER ISSUES

4.1 This PART examines governance and other issues related to LCF, focusing on:

- (a) governance issues (paras. 4.2 to 4.12);
- (b) publicity and promotion programmes (paras. 4.13 to 4.16); and
- (c) other administrative issues (paras. 4.17 to 4.26).

Governance issues

4.2 LCFAC comprises both official and non-official members from relevant fields appointed by the Secretary for Development for a term of two years. Two Subcommittees were formed to assist LCFAC and each Subcommittee comprises non-official members of LCFAC with the same term of service as LCFAC. As at 31 October 2024, LCFAC comprised 21 non-official members (including the chairperson) and 4 official members (Note 11) whereas its two Subcommittees comprised 10 and 11 non-official members respectively (including the chairperson).

4.3 MWSC comprises official members only. As at 31 October 2024, MWSC comprised a chairperson (i.e. Head of SLO) and 6 members from 5 government departments (Note 12).

Note 11: *The 4 official members were the Permanent Secretary for Environment and Ecology (Environment), the Director of Agriculture, Fisheries and Conservation, the Director of Civil Engineering and Development and the Commissioner for Heritage of the Development Bureau (or their representatives).*

Note 12: *The 6 members comprised 2 officers from SLO of CEDD (i.e. the Deputy Head (Planning and Conservation) and a Chief Engineer) and 1 representative each from the Agriculture, Fisheries and Conservation Department, the Drainage Services Department, the Home Affairs Department and the Water Supplies Department.*

Scope for improving the attendance of LCFAC meetings

4.4 Since the establishment of LCFAC in October 2020 and up to October 2024, there were 7 and 4 LCFAC meetings held in Terms 1 (from 1 October 2020 to 30 September 2022) and 2 (from 1 October 2022 to 30 September 2024) respectively and no LCFAC meeting had been held in Term 3 (from 1 October 2024 to 30 September 2026). Audit examined the attendance records of the members of LCFAC at these meetings during the period, and noted that:

- (a) ***Decrease in attendance at meetings.*** The average attendance rate of LCFAC meetings decreased from 84% (ranging from 78% to 89% at each meeting) in Term 1 to 74% (ranging from 65% to 80% at each meeting) in Term 2. In particular, at an LCFAC meeting for vetting MA and EE projects in September 2023, only 9 (56%) of the 16 non-official members attended the meeting; and
- (b) ***Low attendance of some non-official members.*** There were some non-official members of LCFAC with low attendance (i.e. less than or equal to 50%) at LCFAC meetings, as follows:
 - (i) 2 non-official members had low attendance rate (43%) at LCFAC meetings in Term 1 but were re-appointed in Term 2. However, both members did not attend any of the 4 LCFAC meetings in Term 2 (i.e. attendance rate of 0%). Of these 2 members, 1 was re-appointed again in Term 3; and
 - (ii) 3 non-official members had low attendance rate (ranging from 25% to 50%) at LCFAC meetings in Term 2. However, all of them were re-appointed in Term 3.

As far as could be ascertained, there was no documentation showing that SLO had taken any follow-up actions with the members concerned to improve their attendance and had provided justifications for recommending their re-appointments in Terms 2 and 3 for the consideration of the Development Bureau despite their low attendance.

Governance and other issues

4.5 In February 2025, SLO informed Audit that the reasons for some non-official members not being able to attend the meetings were due to temporary personal and health issues. The attendance records of members were only for internal reference. In fact, members had been invited to assess and provide comments on the applications particularly for MA projects before the meetings, which would be presented at the meetings to facilitate consideration by other members. In this regard, although they were unable to attend the LCFAC meetings, they had actively participated in vetting and assessing the applications on RE and EE projects assigned to them at the LCFAC Subcommittee meetings. This factor together with members' expertise, experience, reputation and knowledge in Lantau were holistically considered before a decision was made on their appointments. In Audit's view, CEDD needs to:

- (a) monitor the attendance at LCFAC meetings and take measures to improve the attendance of the non-official members of LCFAC (e.g. ascertaining the reasons for low attendance and issuing reminders to members with low attendance to draw their attention to the importance of attending meetings); and
- (b) properly document the justifications for recommending non-official members of LCFAC with low attendance records to the approving authority for re-appointments.

Scope for improvement in preparing and issuing meeting materials for committee meetings

4.6 Audit examined the meeting materials prepared and issued for the meetings of LCFAC, LCFAC Subcommittees and MWSC from October 2020 to October 2024, and noted that there was scope for improvement in preparing and issuing meeting materials, as follows:

- (a) according to SLO guidelines, SLO should prepare and issue the project digests (see para. 2.3(b)) for the eligible applications for the conservation and related projects to members of LCFAC and/or its Subcommittees at least five working days before the meetings of LCFAC and/or its Subcommittees. However, no similar time target had been set by SLO for preparing and issuing other meeting materials (such as meeting agenda and meeting minutes) to members for the meetings of LCFAC, LCFAC Subcommittees and MWSC. Audit noted that in some cases the meeting

agendas were sent to the members shortly before the meetings or the meeting minutes were sent to the members long after the meetings. For example:

- (i) for an LCFAC meeting in September 2023, the meeting agenda was only sent to its members two working days before the meeting;
 - (ii) for an LCFAC meeting in November 2020, the meeting minutes was only sent to its members 130 working days after the meeting; and
 - (iii) for an MWSC meeting in April 2021, the meeting minutes was only sent to its members 263 working days after the meeting; and
- (b) for LCFAC Subcommittee meetings, SLO informed Audit in February 2025 that, in practice, instead of meeting minutes, SLO prepared the gist of discussions summarising the main points and assessments discussed at the meetings. However, Audit noted that unlike the meeting minutes of LCFAC meetings, the said documents did not record the declarations of interests made by the members during the meetings nor the conclusion of deliberation of RE and EE applications discussed at the meetings.

4.7 In Audit's view, CEDD needs to:

- (a) consider setting a time target for preparing and issuing meeting materials (such as meeting agenda and meeting minutes) to the relevant members for the meetings of LCFAC, LCFAC Subcommittees and MWSC; and
- (b) document the declarations of interests made by the members of LCFAC Subcommittees during the meetings and the conclusion of deliberation of RE and EE applications discussed at the meetings in the gist of discussions prepared for LCFAC Subcommittee meetings.

Scope for improvement in making declaration of interests

4.8 The applications for conservation and related projects are vetted by LCFAC (and its Subcommittees as necessary — see para. 2.12(a)(ii)) and the project priority lists for MLIW projects are vetted by MWSC and endorsed by LCFAC. According to SLO:

- (a) ***Two-tier reporting system.*** LCFAC and its Subcommittees adopt a two-tier reporting system for managing conflict of interests by the members of LCFAC (including its Subcommittees), as follows:
 - (i) ***First-tier reporting.*** All members should register in writing with SLO of their personal interests, direct or indirect, pecuniary or otherwise, within one month upon commencement of a new term of appointment and annually thereafter (i.e. by October annually); and
 - (ii) ***Second-tier reporting.*** All members should declare their interests in any matters to be transacted by the committees before or at the relevant meetings. SLO should ensure that the declarations of interests made by the members are properly recorded in the relevant meeting minutes; and
- (b) ***Declaration of interests with applications received.*** Regarding the vetting exercise for the conservation and related projects, all members of LCFAC (including its Subcommittees) should declare their interests with the applications received prior to the issuance of relevant project digests by SLO to them.

4.9 Audit noted that there was scope for improvement in making declaration of interests, as follows:

- (a) ***Need to maintain proper records of declaration of interests.*** SLO did not properly maintain some of the records of the declarations of interests made by the members of LCFAC (including its Subcommittees). From October 2020 to October 2024:
 - (i) of the 31 initial declarations made upon the first appointment as the members of LCFAC, 4 (13%) declarations were not found;

- (ii) of the 18 annual declarations in 2021 and 17 annual declarations in 2022 made by the members of LCFAC, 9 (50% of 18) and 3 (18% of 17) declarations were not found respectively;
 - (iii) of the 11 LCFAC meetings held in Terms 1 and 2, the second-tier declarations made by all members at 1 (9%) LCFAC meeting in November 2020 were not documented in the meeting minutes;
 - (iv) there were no records showing whether the second-tier declarations had been made by any members at LCFAC Subcommittee meetings held during the period (see para. 4.6(b)); and
 - (v) SLO conducted 7 vetting exercises for the conservation and related projects. Audit selected 4 vetting exercises for examination and found that in 1 vetting exercise for MA projects in the 2021-2022 round of application, the declarations of interests with the applications received made by 9 (50%) of the 18 members of LCFAC prior to the vetting exercise were not found (Note 13);
- (b) ***Delay in making declaration of interests.*** The initial and annual declarations were not made by some members of LCFAC (including its Subcommittees) before the stipulated deadlines in SLO guidelines (i.e. within one month upon commencement of a new term of appointment for initial declarations or by 31 October in each year for annual declarations). From October 2020 to October 2024:
- (i) of the 27 (i.e. 31 less 4) initial declarations with records maintained, 16 (59%) were made by the members of LCFAC 4 to 40 days (averaging 14 days) after the stipulated deadlines;
 - (ii) of the 9 (i.e. 18 less 9) annual declarations in 2021 and 14 (i.e. 17 less 3) annual declarations in 2022 with records maintained, 2 (22% of 9) and 4 (29% of 14) declarations were made by the members of LCFAC 10 to 12 days (averaging 11 days) and

Note 13: *According to SLO, at every LCFAC meeting, the chairperson did verbally ask all members to declare interests before discussion of each agenda item.*

3 to 113 days (averaging 33 days) after the stipulated deadlines respectively; and

- (iii) the annual declarations for 2023 and 2024 were made by the members of LCFAC 1 to 120 days (averaging 23 days) and 20 to 34 days (averaging 27 days) after the stipulated deadlines respectively. According to SLO, in 2023 and 2024, SLO only requested the members of LCFAC to make their annual declarations after the stipulated deadline of 31 October (i.e. on 1 November 2023 and 20 November 2024 respectively); and

- (c) ***Declarations of interests with applications not received from members prior to the issuance of project digests.*** Of the 4 vetting exercises for the conservation and related projects examined by Audit, Audit noted that in the vetting exercise for EE projects in the 2020-2021 round of application:

- (i) SLO issued the requests for declaration of interests with the applications received to all the 7 members of an LCFAC Subcommittee on 3 March 2021 with the stipulated deadline to reply by 16 March 2021;
- (ii) SLO received the declarations of interests from 4 and 1 of the 7 members before 16 March 2021 and on 17 March 2021 respectively. For the remaining 2 members, SLO only received the declaration of 1 member (without conflict of interests) on 3 May 2021 and another member had never submitted any declaration related to this vetting exercise (Note 14); and
- (iii) notwithstanding that declarations had not been received from the 2 members, the project digests of the relevant applications were issued to the members of the LCFAC Subcommittee concerned (i.e. including the 2 members) on 13 April 2021.

Note 14: *According to SLO, on 23 April 2021, the member concerned informed SLO that she would not be able to attend the LCFAC Subcommittee meeting (to be held on 5 May 2021). On 11 May 2021, she subsequently applied for temporary relief from the committee work due to health issue.*

According to SLO, both members were eventually clear from any conflict of interests.

4.10 In Audit's view, CEDD needs to:

- (a) take measures to ensure that the declarations of interests made by the members of LCFAC (including its Subcommittees) are properly maintained;
- (b) make timely requests to the members of LCFAC (including its Subcommittees) for making declaration of interests and take measures to ensure that the declarations are submitted by the members in a timely manner; and
- (c) take measures to ensure that the declarations of interests with applications are received from the members of LCFAC (including its Subcommittees) prior to the issuance of project digests.

Audit recommendations

4.11 **Audit has *recommended* that the Director of Civil Engineering and Development should:**

- (a) **monitor the attendance at LCFAC meetings and take measures to improve the attendance of the non-official members of LCFAC (e.g. ascertaining the reasons for low attendance and issuing reminders to members with low attendance to draw their attention to the importance of attending meetings);**
- (b) **properly document the justifications for recommending non-official members of LCFAC with low attendance records to the approving authority for re-appointments;**
- (c) **consider setting a time target for preparing and issuing meeting materials (such as meeting agenda and meeting minutes) to the relevant members for the meetings of LCFAC, LCFAC Subcommittees and MWSC;**

- (d) **document the declarations of interests made by the members of LCFAC Subcommittees during the meetings and the conclusion of deliberation of RE and EE applications discussed at the meetings in the gist of discussions prepared for LCFAC Subcommittee meetings;**
- (e) **take measures to ensure that the declarations of interests made by the members of LCFAC (including its Subcommittees) are properly maintained;**
- (f) **make timely requests to the members of LCFAC (including its Subcommittees) for making declaration of interests and take measures to ensure that the declarations are submitted by the members in a timely manner; and**
- (g) **take measures to ensure that the declarations of interests with applications are received from the members of LCFAC (including its Subcommittees) prior to the issuance of project digests.**

Response from the Government

4.12 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) the records of annual declarations and declarations of interests with applications made by members have been properly maintained from 2023 onwards; and
- (b) regarding the issuance of project digests before receipt of declarations of interests from members, the two cases happened at the early stage of LCF in 2021 and there was no re-occurrence of similar cases.

Publicity and promotion programmes

4.13 According to SLO, it is responsible for organising and conducting regular publicity and promotion programmes aiming to encourage potential applicants to apply for LCF, to build up the image and branding of LCF to the general public and to

increase the public awareness of Lantau conservation. From October 2020 to October 2024:

- (a) SLO organised 12 publicity activities, including 4 briefing sessions for potential applicants of LCF and 8 roving exhibitions to showcase the approved projects under LCF; and
- (b) SLO publicised LCF and disseminated information to the public through newspaper, magazines and social media platforms. Since October 2020, SLO had uploaded 3 publicity videos related to LCF onto the CEDD channel of a video sharing platform.

Scope for improvement in promoting LCF

4.14 According to SLO, to promote LCF, a public relations plan is prepared annually indicating the project milestones and planned public relations initiatives (e.g. briefing sessions and roving exhibitions) during the period. From 2021-22 to 2023-24, a total of \$3.4 million had been incurred by SLO in promoting LCF. Audit noted that there was scope for improvement in promoting LCF, as follows:

- (a) ***Need to conduct evaluation of publicity and promotion programmes.*** SLO did not conduct any evaluation (e.g. participant satisfaction surveys) to ascertain whether the publicity and promotion programmes had achieved their intended objectives; and
- (b) ***Need to set a timetable for implementing the public relations strategy.*** According to SLO, with a view to creating a brand image, establishing a unique position in the society that specialises in the conservation of Lantau and attracting more potential applicants to apply for LCF, in October 2023, SLO engaged an external service provider at a cost of \$0.4 million to formulate a comprehensive public relations strategy for LCF. The public relations strategy and the associated measures proposed by the service provider were accepted by SLO in September 2024. As at 31 January 2025, SLO had not yet set a timetable for implementing the proposed public relations strategy and the associated measures for LCF (e.g. creating an online platform as a resources database for successful applicants, distributing quarterly newsletter to target audience, and enhancing LCF website).

Audit recommendations

4.15 Audit has *recommended* that the Director of Civil Engineering and Development should:

- (a) conduct evaluation (e.g. participant satisfaction surveys) to ascertain whether the publicity and promotion programmes have achieved their intended objectives; and**
- (b) set a timetable for implementing the proposed public relations strategy and the associated measures for LCF with a view to encouraging applications under LCF, promoting the overall branding of LCF and raising the public awareness of the conservation of Lantau.**

Response from the Government

4.16 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that CEDD will:

- (a) conduct evaluation after completion of publicity and promotion programmes; and**
- (b) set a timetable to implement suitable measures recommended under the public relations strategy in a phased manner.**

Other administrative issues

Scope for enhancing the dissemination of information on LCF website

4.17 According to SLO guidelines:

- (a) upon the completion of approved conservation and related projects, SLO is required to upload the brief notes of the completed conservation and related projects onto LCF website; and**

- (b) throughout the entire cycle of MLIW project, with the relevant input from the responsible government departments, SLO will update the project information and report the completion of projects onto LCF website.

According to SLO, it conducts quarterly review of LCF website to ensure that the information provided on the website is up-to-date.

4.18 Audit examined the information disseminated on LCF website and noted that, as at 31 January 2025:

- (a) some information provided on LCF website was not accurate. For example:
 - (i) the total amount of grant approved for MLIW projects in 2021 as shown on LCF website (i.e. \$12.9 million) was different from the records of SLO (i.e. \$13.4 million); and
 - (ii) the procurement cost that warrants the issuance of an open tender by the grantee of the conservation and related projects as shown in the “Point to note for LCF approved projects” uploaded onto LCF website (i.e. one of the good practice guidance documents that facilitates grantees’ understanding of the proper use of LCF) was not yet updated in accordance with the updated Stores and Procurement Regulations of the Government;
- (b) the brief notes of all 10 completed conservation and related projects as at 31 October 2024 had not been uploaded onto LCF website as required; and
- (c) SLO did not specify the type of information of MLIW projects that should be uploaded onto LCF website. While SLO uploaded the general information of each MLIW project (see para. 3.22) and the total yearly grant approved for MLIW projects onto LCF website, some project information provided by the responsible government departments in their project proposals or returns submitted to SLO (e.g. approved project estimate and project status of individual MLIW projects) was not uploaded onto LCF website.

4.19 In Audit's view, CEDD needs to:

- (a) strengthen measures to ensure that the information provided on LCF website is comprehensive, accurate and up-to-date; and
- (b) consider specifying in SLO guidelines the type of information of MLIW projects to be uploaded onto LCF website.

Scope for enhancing performance measures of LCF

4.20 According to Financial Circular No. 2/2017 "Guides for Controlling Officers (a) Management of funding schemes and (b) Management of non-works projects funded by the Government", as a good practice, the Controlling Officer should consider developing and reporting on appropriate performance measures for the fund, preferably focusing on outcome-based targets.

4.21 Audit noted that, as at 31 October 2024, SLO did not provide any performance measures in respect of LCF on its website. According to SLO, it did not set any performance measures (e.g. key performance indicators) for monitoring the performance of LCF.

4.22 In Audit's view, CEDD needs to consider setting performance measures (e.g. key performance indicators) in relation to LCF and providing them on LCF website.

Need to conduct review on LCF

4.23 According to SLO, LCF was set up to support projects that would contribute to the overall conservation of rural Lantau, raise community awareness on the conservation of rural Lantau, and mobilise the community to put conservation into practice, with a view to fostering a quality living environment for the current generation and beyond.

4.24 Audit noted that:

- (a) the number of approved MLIW projects was on a decreasing trend from 2020 to 2024 and the yearly approved project estimate decreased significantly by 89% from \$55.4 million in 2020 to \$6 million in 2023 (see para. 3.5(b));
- (b) as at 31 October 2024, SLO did not require the responsible government departments of the 7 completed MLIW projects to provide any self-evaluation of the effectiveness of individual projects (see para. 3.23); and
- (c) since the establishment of LCF in October 2020:
 - (i) SLO had not conducted any formal review on the operation of LCF; and
 - (ii) SLO only conducted two rounds of surveys on the applicant organisations of the conservation and related projects in October 2021 and October 2022 to collect feedback related to its application process. However, SLO did not conduct similar surveys in 2023 and 2024. Moreover, SLO had not conducted any similar surveys on the government departments in collecting their feedback regarding the MLIW projects.

In Audit's view, it is an opportune time for CEDD to conduct a review on the implementation of LCF, taking into account the audit observations and recommendations in this Audit Report.

Audit recommendations

4.25 **Audit has *recommended* that the Director of Civil Engineering and Development should:**

- (a) **strengthen measures to ensure that the information provided on LCF website is comprehensive, accurate and up-to-date;**

Governance and other issues

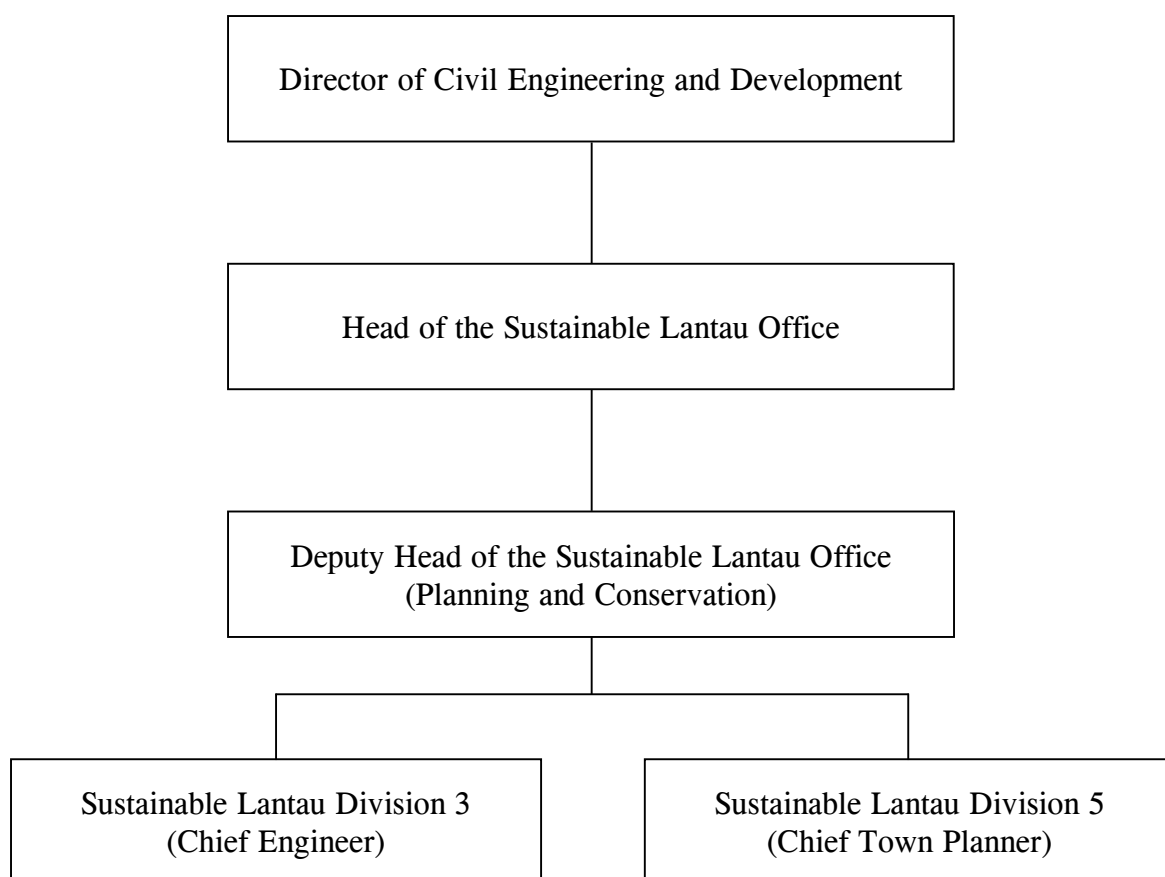
- (b) **consider specifying in SLO guidelines the type of information of MLIW projects to be uploaded onto LCF website;**
- (c) **consider setting performance measures (e.g. key performance indicators) in relation to LCF and providing them on LCF website; and**
- (d) **conduct a review on the implementation of LCF, taking into account the audit observations and recommendations in this Audit Report.**

Response from the Government

4.26 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) the information provided on LCF website has already been updated and CEDD will continue to update the information on a regular basis; and
- (b) key performance indicators have been included at project level in each of the conservation and related projects, whereas for MLIW projects, CEDD will discuss with the responsible government departments to consider setting performance measures for the projects.

**Civil Engineering and Development Department:
Organisation chart (extract)
(31 October 2024)**



Source: SLO records

Acronyms and abbreviations

Audit	Audit Commission
CEDD	Civil Engineering and Development Department
LCF	Lantau Conservation Fund
LCFAC	Lantau Conservation Fund Advisory Committee
MLIW	Minor local improvement works
MWSC	Minor Works Steering Committee
NPOs	Non-profit-making organisations
SLO	Sustainable Lantau Office