MANAGEMENT OF INLAND REVENUE CENTRE

Executive Summary

1. It is the Government's policy to accommodate its offices in government-owned properties as far as circumstances permit and reprovision those with no location requirements out of high value areas, including the central business districts. Following the announcement in the 2017 Policy Address, the Inland Revenue Department (IRD), originally accommodated in the Revenue Tower in Wan Chai, would be relocated to a new office building to be constructed (i.e. the Inland Revenue Centre (IRC)) in a site in the Kai Tak Development Area. In April 2018, the Finance Committee of the Legislative Council approved the design-and-build project for the construction of IRC at an estimated cost of $3.6 billion. The construction of IRC was completed in June 2022 at a cost of $2.9 billion and IRC was officially inaugurated on 30 March 2023. IRD is responsible for the day-to-day property management of IRC. Since December 2022, IRD has engaged contractors to provide property management services for IRC. In order to tie in with office relocation, IRD needed to reprovision its information technology (IT) systems and facilities for IRC. In July 2020, the Finance Committee approved a commitment of $742 million for the enhancement and relocation of IT systems and facilities of IRD (hereinafter referred to as the IT project). Up to 31 March 2026, the actual expenditure was $709 million. The Audit Commission (Audit) has recently conducted a review to examine the management of IRC.

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2. ***Room for improvement in conducting security guarding services.*** According to the contracts, the property management services for IRC provided by contractors included the provision of security guarding services. The security guarding services include carrying out patrol on 5 routes, comprising 4 indoor routes and 1 outdoor route. In carrying out the patrol duties, a Security Guard carries an electronic patrol device to record his patrols at various check points according to the pre-designed sequence, and reports any irregularities observed in the paper-form Occurrence Book, which would be inspected at least twice every day by the Senior Security Guards. Audit examined the patrol records of October 2025 and noted that

there was room for improvement in conducting security guarding services. For example, for the 4 indoor patrol routes:

(a) for 631 (62%) of the total 1,020 patrols carried out, the Security Guards checked all the check points but not in the pre-designed sequence (i.e. patrols that were "complete with error");

(b) there were also occasions of "incomplete" patrols on which the missed check points were not covered; and

(c) there were occasions on which patrols were not performed within the scheduled time.

However, there were no records on the Occurrence Book showing the irregularities or follow-up actions taken by Senior Security Guards (paras. 2.2, 2.5 to 2.9).

3. ***Need to strengthen the monitoring of contractors.*** According to the Stores and Procurement Regulations, government bureaux/departments shall devise an effective monitoring mechanism to ensure that a contractor performs to standard and complies with the terms of a contract, including the setting of key performance indicators for the monitoring of contracts. In this regard, IRD conducted reviews of the services provided according to a checklist of key performance indicators on a half-yearly basis between June 2023 and March 2025 and on a monthly basis since April 2025 (i.e. monthly performance report). Audit examined all the 16 monthly performance reports compiled for the period from April 2025 to July 2026 and noted that while the contractor's performance was considered satisfactory by IRD in all the 16 monthly reports, every report (containing 17 questions) were qualitative in nature instead of quantitative. Audit also noted that the contracts did not contain a mechanism to incentivise the contractors to maintain a satisfactory performance standard (e.g. deduction from monthly service fee payments in the event of non-compliance with a set of pre-determined performance requirements) (paras. 2.10 to 2.12).

4. ***Need to ensure provision of manpower is in accordance with contract requirements.*** The manpower required, service level and frequency of each service are clearly specified in the contract requirements. Audit examination of the monthly summaries of workers' attendance records from July 2025 to June 2026 revealed that:

(a) ***Non-provision of cleaning services on General Holidays.*** While seven Cleaners should be provided on every Saturday, Sunday and General Holiday, from December 2025 to June 2026, they were only deployed on Saturdays and Sundays but not on General Holidays;

(b) ***Absence of supervisory staff.*** While supervisory staff should be provided to directly monitor the delivery of services and during their absence sufficient relief workers should be arranged, there were occasions where no relief workers were arranged. For example, there were no relief workers during the absence of Senior Security Guards in 504 shifts, representing 23% of the total shifts. According to IRD, in practice, there were relief arrangement of supervisory staff, in which the position of a Senior Security Guard would be relieved by a Security Guard of suitable calibre on site. However, such relief arrangement was not properly documented; and

(c) ***Actual manpower deployment deviated from contract requirements.*** There were several occasions on which the actual manpower deployment deviated from the contract requirements, such as deployment of additional Security Guards. Notwithstanding that IRD may require the contractors to provide additional workers to carry out additional services by giving verbal notice (for emergency services) or written notice (for other services), there were no written notices by IRD or other documentary evidence showing the justifications to provide additional workers (paras. 2.13 to 2.16).

5. ***Room for improvement in making monthly payments of service fees to contractors.*** Payment of monthly service fees to the contractor is subject to adjustments (e.g. deduction arising from shortfall in actual manpower deployed during the month) and the provision of a certified monthly statement that confirms the compliance of measures to protect non-skilled workers stipulated in the contracts. Audit examination revealed the following room for improvement:

(a) ***Need to ensure timely submission of proper supporting documents.*** In the period from December 2022 to June 2026, for 22 (51%) of the 43 months, the adjustments for the deductions were only included in the invoices issued after 2 to 8 months. Moreover, for all the 43 months, IRD made payments of monthly fees prior to the receipt of the certified monthly statements. As of August 2026, the certified monthly statements for the 4 months from March to June 2026 were still outstanding. For the 39 certified monthly

statements received, only the deployment and wages of Security Guards were certified, without certification for those of other non-skilled workers; and

(b) ***Need to critically verify the amounts of monthly payments to the contractors.*** From December 2025 to June 2026, instead of making deductions for Cleaners' absences on General Holidays (see para. 4(a)), an extra fee of $94,500 was arranged for the cleaning services performed on Sundays. Audit also noted that for some types of workers, the deductions for absences were not calculated in accordance with the hourly rates specified in the contract. Moreover, Audit sample check of the timecard records of 6 months from 2023 to 2025 revealed that for 45 shifts in 5 months, while there were no relevant timecard records, the summarises of workers' attendance showed that the workers had attended work (paras. 2.17, 2.18 and 2.20).

6. ***Need to enhance the access card system at IRC.*** To ensure office security, an access card system is installed at all floors at IRC. Audit examination of the active access card registers as of July 2026 revealed that of the total 3,483 active access cards:

(a) 2,793 (80%) cards had been assigned to individual staff. However, the cards issued to certain staff who had left IRD were still active, and some staff had been issued with multiple active access cards; and

(b) the remaining 690 (20%) cards had not been assigned and were kept by individual Units. It may not be necessary for the Units to maintain a large number of unassigned active access cards (paras. 2.24 and 2.25).

7. ***Need to enhance monitoring of service performance by the Electrical and Mechanical Services Trading Fund (EMSTF).*** EMSTF is responsible for the provision of operation and maintenance services for the engineering systems and equipment at IRC under a service level agreement (SLA). According to SLA, a mechanism would be established such that IRD would be informed about the work schedule and progress, whereas performance reports on actual performance compared with the specified targets would be provided yearly. Audit noted that IRD and EMSTF had a management meeting in June 2026 (39 months since the official inauguration of IRC) to report the maintenance performance in the last

three financial years and the progress of replacement and maintenance works at IRC. Audit considers that IRD needs to enhance the mechanism to monitor the service performance of EMSTF (paras. 2.28, 2.30 and 2.31).

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8. ***Need to report the revised completion dates in a timely manner.*** Audit examined the target and actual live-run dates of the approved IT project and noted that IRD rescheduled the live-run date of the new tax portals (NTPs) from March 2025 to July 2025 to avoid launching NTPs during the peak of e-filing season. While the rescheduled live-run date was endorsed by the Project Steering Committee at the meeting held in October 2022, IRD had not reported the date in its progress reports submitted to the then Office of the Government Chief Information Officer or the Digital Policy Office until January 2025 (paras. 3.5 and 3.6).

9. ***Lessons learnt from incidents.*** According to IRD, there were 11 incidents regarding the enhanced workflow technology and NTPs during the period from April/July 2025 (i.e. after enhancement of the respective systems) to 30 June 2026. Audit reviewed the incident reports and noted that:

(a) ***Misrouting to the disaster recovery server.*** In late April 2025, IRD found that an outdated server in the disaster recovery environment was accidentally connected to the production environment and business functions were wrongly performed on the disaster recovery server for 16 minutes;

(b) ***Limit of maximum number of database connections.*** During IRD's system check in late July 2025, a system error in NTPs regarding unsuccessful login by mobile devices was detected by IRD. The issue was found to be related to the configuration of maximum number of database connections to the Government Cloud Infrastructure Services; and

(c) ***Unable to pass the validation check due to different system configurations of users.*** In late July 2025, another system error regarding delays in loading Business Register enquiry records in NTPs was detected by IRD. Upon review, it was found that the software version did not support the new internet protocol address format.

While the above incidents had been resolved, Audit considers that IRD needs to take measures to prevent the reoccurrence of these incidents and ensure the smooth operation and service provision to the public (paras. 3.11, 3.12 and 3.14).

10. ***Need to enhance the e-filing rates of tax returns.*** IRD is committed to promoting tax digitalisation and has implemented various measures (e.g. promotional activities, pre-filling of individual tax returns, improvement in financial data submission and upload, and mandatory e-filing of profits tax returns) to encourage e-filing of tax returns. According to the funding paper submitted to the Finance Committee, the implementation of the IT project would bring about annual savings of $87 million from 2029-30 onwards. The projected savings were based on the assumption that the e-filing rates of individual tax returns and employer's returns would reach 60% and e-filing rates of profits tax returns would reach 90%. Audit examination found that in 2025-26, the e-filing rates of individual tax returns and profits tax returns were 42% and 2% respectively, yet to meet their corresponding targets of 60% and 90% (paras. 3.18 and 3.19).

Other related issues

11. ***Need to review whether fresh approval of Schedules of Accommodation (SoA) is required.*** Audit conducted site visits to IRC in July 2026 and found that apparently some actual allocation/use of office space was not in accordance with the corresponding approved SoA or there were changes in the use of which fresh approval of SoA might be required, for example:

(a) while according to the approved SoA, a mini library should be provided in an open plan area with space provision of about 12 square metres (m^2), the mini library was located in an interview room (i.e. a cellular room) which deviated from the conditions of approval of the relevant SoA; and

(b) an open storage area of 72 m^2 was changed into a cellular storage room (para. 4.3).

12. ***Need to improve the accuracy in preparing the list for the procurement of furniture and equipment.*** Audit examination of the list of newly acquired furniture and equipment for IRC as of June 2026 revealed that the total actual cost was only

$70.7 million, $32.2 million (31%) lower than the total approved cost of $102.9 million, which was mainly due to the following reasons:

(a) ***Over-estimation of quantities.*** Of the 133 furniture items, for 17 (13%) items, the actual quantities procured were only 80% or less of the approved quantities. For example, of the 23 discussion tables approved to be procured for a Unit, only 2 (9%) were finally procured; and

(b) ***Over-estimation of costs.*** Some items were procured in one go and the lump sum tender amounts were far less than the approved costs. For example, while the approved cost of mobile rack systems was $21.8 million, the actual cost was $7.7 million (i.e. 35%) (para. 4.9).

13. ***Need to explore measures to enhance monitoring of the performance of energy efficient features.*** According to a paper submitted to the Public Works Subcommittee (PWSC) of the Finance Committee in January 2018, of the estimated cost of $44.1 million for the various additional energy conservation, greenery and recycled features to be adopted in IRC, $27 million (or 61% of the $44.1 million) was related to the proposed energy efficient features, which were expected to achieve an 11.8% saving in annual energy consumption with a payback period of about 8.5 years. Audit noted that the actual cost of implementing the energy efficient features was not available, and the achievement of the payback period for the relevant features could not be calculated. Moreover, IRD did not have the benchmark values required for calculating the energy savings attributable to the energy efficient features of IRC. Audit considers that IRD needs to, in consultation with the Architectural Services Department (ArchSD) and the Electrical and Mechanical Services Department (EMSD), explore measures to enhance monitoring of the performance of the energy efficient features as far as practicable (paras. 4.17 to 4.19).

14. ***Need to ensure compliance with the chilled water return temperature requirement for district cooling services.*** IRC connects to the Kai Tak District Cooling System and IRD is responsible for properly maintaining its own installation of chilled water system of IRC's central air-conditioning system to maintain a chilled water return temperature of 14 degree Celsius (°C). In February 2024, EMSD consistently observed that the chilled water return temperature fell below 14°C and raised concerns regarding the impact on the energy efficiency of District Cooling System plant. In June 2026, Audit conducted a site visit and noted that the chilled water return temperature was 12.5°C. Moreover, Audit sample check of

30 daily records of the chilled water return temperature from July 2025 to June 2026 revealed that all of them were lower than 14°C (ranging from 7°C to 13°C) (paras. 4.20 to 4.23).

15. ***Room for improvement for operating rainwater harvesting system.*** IRC has adopted a rainwater harvesting system for landscape irrigation. Audit examination revealed the following room for improvement:

(a) ***Need to ensure the quality of recycled water attains stipulated standards.*** According to the Technical Specifications on Grey Water Reuse and Rainwater Harvesting, there should be regular monitoring of recycled water quality, with water sampling and laboratory testing to be conducted on a monthly basis. Audit noted that IRD did not have records regarding the quality of recycled water and could not ascertain the quality of recycled water collected from the rainwater harvesting system; and

(b) ***Need to monitor the performance of rainwater harvesting system.*** While the system is expected to save approximately 4.81 million litres of potable water annually, Audit analysis of the flow measurement records revealed that there were shortfalls of 1.98 million and 2.12 million litres in the amounts of rainwater delivered by the system from July 2024 to June 2025 and from July 2025 to June 2026 respectively (paras. 4.28 to 4.30).

16. ***Need to take measures to enhance monitoring of the utilisation of car parking spaces.*** IRC has a carpark with a total of 66 parking spaces. Audit noted that:

(a) while IRD informed PWSC in February 2018 that 26 of the 66 car parking spaces would be allocated for vehicles of official visitors and it would review the arrangement of the visitor parking spaces upon completion of IRC, such review was only completed in October 2026; and

(b) regarding the feasibility of providing public parking facilities in IRC outside office hours in the future, while IRD informed PWSC in February 2018 that it would review the operational needs after completion of IRC, such review was only completed in September 2026 (paras. 4.34, 4.35 and 4.37).

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 Commissioner of Inland Revenue should:**

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(a) **consider reviewing the pre-designed sequence of the patrol routes in view of the considerable number of "complete with error" patrols (para. 2.22(c));**

(b) **take measures to improve the monitoring of the security guarding services to ensure compliance with contract requirements (para. 2.22(d));**

(c) **take measures to strengthen the monitoring of contractors, including:**

(i) **reviewing the checklist of key performance indicators and the monthly performance reports; and**

(ii) **considering introducing an incentive mechanism in future property management services contracts (para. 2.22(e));**

(d) **properly document the relief arrangement of supervisory staff with the contractors and obtain the written consent from the contractors (para. 2.22(f));**

(e) **properly document the justifications when additional workers are required (e.g. by issuing written notices) (para. 2.22(g));**

(f) **take measures to ensure that the provision of manpower by the contractors is in accordance with the contract requirements as far as practicable (para. 2.22(h));**

(g) **take measures to ensure that adjustments to the monthly payments to the contractors are made in a timely manner and accurate certified monthly statements are received before making monthly payments to the contractors (para. 2.22(i));**

(h) **remind responsible staff to critically verify the amounts of monthly payments to the contractors (para. 2.22(j));**

(i) **sustain IRD's efforts in ensuring the safe custody of access cards (para. 2.34(a));**

(j) **enhance the mechanism to monitor the service performance of EMSTF (para. 2.34(c));**

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(k) **for future IT projects, report the progress and revised implementation dates to the Digital Policy Office in a timely manner (para. 3.9(b));**

(l) **implement preventive measures to avoid and accelerate the detection of misrouting between disaster recovery servers and production servers in future IT projects (para. 3.22(a));**

(m) **perform thorough assessment in the demand and system configurations of potential users before launching new systems in future (para. 3.22(b))**;

(n) **continue to monitor system capacity and performance of NTPs and take timely follow-up actions when necessary (para. 3.22(c));**

(o) **sustain IRD's efforts in enhancing the e-filing rates of individual tax returns (para. 3.22(e));**

(p) **keep in view the implementation of mandatory e-filing of profits tax returns and step up efforts in promoting voluntary e-filing of profits tax returns (para. 3.22(f));**

Other related issues

(q) **review whether fresh approval from the relevant approving authority is required regarding changes in the use of office space from the approved SoA, and seek the Government Property Agency's advice where necessary (para. 4.5);**

(r) **improve the accuracy in preparing the list for the procurement of furniture and equipment in future public works projects as far as practicable (para. 4.14(a));**

(s) **in consultation with ArchSD and EMSD, explore measures to enhance monitoring of the performance of the energy efficient features as far as practicable, with a view to ascertaining their effectiveness in reducing annual energy consumption (para. 4.32(a));**

(t) **take measures to monitor the operations of IRC's air-conditioning system and implement corrective actions where necessary, with a view to ensuring the compliance with the chilled water return temperature requirement under District Cooling Services Supply Conditions (para. 4.32(b));**

(u) **take measures to ensure that the quality of recycled water attains stipulated standards, including regular monitoring of recycled water quality, with water sampling and laboratory testing to be conducted on a monthly basis (para. 4.32(d));**

(v) **monitor the performance of the rainwater harvesting system and take improvement measures where necessary (para. 4.32(e)); and**

(w) **sustain IRD's efforts in monitoring the utilisation of car parking spaces (para. 4.42(a)).**

Response from the Government

18. The Commissioner of Inland Revenue agrees with the audit recommendations.