

**A brief account of Chapter 2 of Report 69
“Procurement and maintenance of government vessels”
by the Director of Audit
at the Public Hearing of the Public Accounts Committee
of the Legislative Council on Friday, 8 December 2017**

Mr. Chairman,

Thank you for inviting me here to give a brief account of Chapter 2 of Report No. 69 of the Director of Audit, entitled “Procurement and maintenance of government vessels”.

This Audit Report comprises four parts.

Part 1 of the Report, namely “Introduction”, describes the background of the audit.

The Marine Department (MD) is the endorsement authority and agent for procurement of government vessels. It aims to provide cost-effective marine transport services to government departments. The Government Fleet Division of the MD is responsible for the design, procurement and maintenance of government vessels, and for managing the Government Dockyard. As of March 2017, the government fleet comprised 848 vessels under the operational control of 14 government departments. As of August 2017, there were 28 ongoing projects with funding approval of about \$2,700 million for the procurement of 94 new vessels for seven government departments. In 2016-17, the MD spent about \$280 million on the procurement of maintenance services and materials for the government fleet.

Part 2 of the Report examines the procurement of government vessels.

The Audit Commission (Audit)’s examination revealed that the average ages of four major classes of government vessels, namely major mechanised vessels, minor mechanised vessels, high-speed craft (large type) and high-speed craft (medium type), had increased significantly over the ten-year period from 2007 to 2016. Among the 187 mechanised vessels and high-speed craft in service, 76 (or 41%) had served beyond their expected lifespans by 1 to 12 years. Besides, of the 25 ongoing procurement projects for the four major classes of vessels, 11 projects had been delayed. As a result, the Government had made provision of \$92 million for additional commitments to meet the increase in the vessel construction costs. Major causes of the delays in vessel procurement projects included long time taken to review the marking scheme for tender assessment, shortage of Surveyor of Ships (SoS) grade staff, slow progress in outsourcing project management work and cancellation of a tender due to discrepancies between the tender notice and the tender documents relating to vessel specifications. In this connection, Audit has recommended that MD should improve and step up the monitoring of the overall planning for the procurement of government vessels, and address the manpower shortage problems of SoS grade staff. We noted that the Steering

Committee on Systemic Reform of the MD set up by the Transport and Housing Bureau (THB) had recommended a grade structure review in 2016, and the MD had taken forward the recommendation to address the manpower shortage and succession problems.

Part 3 of the Report examines the maintenance of government vessels.

As reported in the Controlling Officer's Report of the MD, the vessel availability rate was on a decreasing trend over the ten years from 2007 to 2016, during which the availability rates were below the target of 87% in three years. Audit examination revealed that the availability rates reported by the MD only covered two of the four major classes of government vessels, and the downtime for repair work carried out outside the Government Dockyard was not taken into account. Besides, during the five years from 2012 to 2016, the total downtime of four major classes of government vessels due to preventive service and running repair had increased. There was also a need to make the maintenance service contracts more attractive to enhance competition. Therefore, Audit has recommended that the MD should take effective measures to achieve the target availability rate of 87%, explore better ways to report the vessel availability rates, closely monitor the increasing trend in downtime, and step up efforts in managing vessel maintenance work.

Part 4 of the Report examines the management of maintenance materials.

The MD's Maintenance Section is responsible for maintaining government vessels. Audit examination revealed that there were some slow-moving stock items of maintenance materials. Due to inadequate tracking of these items, any obsolete/dormant stock could not be disposed of in a timely manner to save storage space and realise any resalable value. Regarding the management of the Government Dockyard, while the provisions of the Dangerous Goods Ordinance do not apply to the Government, the handling of diesel and petrol, and the storage of oxygen and acetylene cylinders, paints and thinner could be improved to ensure that all staff and workers work in a safe and healthy environment. In this regard, Audit has recommended that the MD should step up stock review and take timely follow-up actions, and implement measures to minimise the safety hazards in the Government Dockyard.

Our views and recommendations were agreed by the THB and the MD. I would like to take this opportunity to acknowledge with gratitude the full cooperation, assistance and positive response of the staff of the MD during the course of the audit review.