

**REPORT OF THE  
PUBLIC ACCOUNTS COMMITTEE  
ON  
REPORT NO. 30 OF THE DIRECTOR OF AUDIT  
ON  
THE RESULTS OF  
VALUE FOR MONEY AUDITS**

*February 1999*

*P.A.C. Report No. 30*

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## I. INTRODUCTION

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**The Establishment of the Committee** The Public Accounts Committee is established under Rule 72 of the Rules of Procedure of the Legislative Council of the Hong Kong Special Administrative Region, a copy of which is attached in *Appendix 1* to this Report.

2. **The Membership of the Committee** The following Members are appointed by the President under Rule 72(3) of the Rules of Procedure to serve on the Committee:

<b>Chairman</b>	The Hon Eric LI Ka-cheung, JP
<b>Deputy Chairman</b>	The Hon Fred LI Wah-ming
<b>Members</b>	The Hon David CHU Yu-lin The Hon NG Leung-sing The Hon Mrs Sophie LEUNG LAU Yau-fun, JP The Hon LAU Kong-wah The Hon Emily LAU Wai-hing, JP
<b>Clerk</b>	Mrs Florence LAM IP Mo-fee
<b>Legal Adviser</b>	Mr Jimmy MA Yiu-tim, JP

## II. PROCEDURE

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**The Committee's Procedure** The practice and procedure have been determined by the Committee, in accordance with Rule 72 of the Rules of Procedure, as follows:

- (a) the public officers called before the Committee in accordance with Rule 72 of the Rules of Procedure, shall normally be the Controlling Officers of the Heads of Revenue or Expenditure to which the Director of Audit has referred in his Report except where the matter under consideration affects more than one such Head or involves a question of policy or of principle in which case the relevant Bureau Secretary of the Government Secretariat or other appropriate officers shall be called. Attendance before the Committee shall be a personal responsibility of the public officer called and whilst he may be accompanied by members of his staff to assist him with points of detail, the responsibility for the information or the production of records or documents required by the Committee shall rest with him alone;
- (b) where any matter referred to in the Director of Audit's Report on the accounts of the Government relates to the affairs of an organisation subvented by the Government, the person normally required to attend before the Committee shall be the Controlling Officer of the vote from which the relevant subvention has been paid, but the Committee shall not preclude the calling of a representative of the subvented body concerned where it is considered that such a representative can assist the Committee in its deliberations;
- (c) the Director of Audit and the Secretary for the Treasury shall be called upon to assist the Committee when Controlling Officers or other persons are providing information or explanations to the Committee;
- (d) the Committee shall take evidence from any parties outside the civil service and the subvented sector before making reference to them in a report;
- (e) the Committee shall not normally make recommendations on a case on the basis solely of the Director of Audit's presentation;
- (f) the Committee shall not allow written submissions from Controlling Officers other than as an adjunct to their personal appearance before the Committee; and

## PROCEDURE

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- (g) the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee can suggest fruitful areas for value for money study by the Director of Audit.

2. **The Committee's Report** This Report by the Public Accounts Committee responds to Report No. 30 of the Director of Audit on the results of value for money audits which was tabled in the Legislative Council on 18 November 1998. Value for money audits are conducted in accordance with the guidelines and procedures set out in the Paper on Scope of Government Audit in the Hong Kong Special Administrative Region - 'Value for Money Audits' which was tabled in the Provisional Legislative Council on 11 February 1998. A copy of the Paper is attached in *Appendix 2*.

3. **The Government's Response** The Government's response to the Committee's Report is contained in the Government Minute, which comments as appropriate on the Committee's conclusions and recommendations, indicates what action the Government proposes to take to rectify any irregularities which have been brought to notice by the Committee or by the Director of Audit and, if necessary, explains why it does not intend to take action. It is the Government's stated intention that the Government Minute should be laid on the table of the Legislative Council within three months of the laying of the Report of the Committee to which it relates.

### **III. THE DIRECTOR OF AUDIT'S REPORTS ON THE ACCOUNTS OF THE HONG KONG GOVERNMENT FOR THE YEAR ENDED 31 MARCH 1997 AND THE RESULTS OF VALUE FOR MONEY AUDITS (REPORT NO. 29)**

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**The Laying of the Reports** The Director of Audit's Report on the Accounts of the Hong Kong Government for the year ended 31 March 1997 and the Report on the results of value for money audits (Report No. 29) were laid in the Provisional Legislative Council on 19 November 1997. The Committee's subsequent Report was tabled on 11 February 1998, thereby meeting the requirement of the Audit Ordinance and of Rule 73 of the Rules of Procedure of the Provisional Legislative Council that the Report be tabled within three months of the Director of Audit's Reports being laid.

2. **The Government Minute** The Government Minute in response to the Committee's Report No. 29 was tabled in the Provisional Legislative Council on 1 April 1998. The Committee will refer to matters arising from this Minute in their next Report.

## IV. COMMITTEE PROCEEDINGS

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**Consideration of the Director of Audit's Reports tabled in the Legislative Council on 18 November 1998** As in previous years, the Committee did not consider it necessary to investigate in detail every observation contained in the Director of Audit's Reports. They therefore selected only those chapters in the Director of Audit's Report No. 30 which, in their view, referred to more serious irregularities or shortcomings. It is the investigation of those chapters which constitutes the bulk of this Report. The Committee expect, however, that the Government will take appropriate remedial action on other issues raised in the Director's Reports.

2. **Meetings** The Committee held 13 meetings, including six public hearings. During the public hearings, the Committee heard evidence from a total of 21 witnesses including 5 Bureau Secretaries and 7 Heads of Department. The names of the witnesses are listed in *Appendix 3* to this Report. Copies of the Chairman's Introductory Remarks at the first public hearing held on 3 December 1998 and Opening Remarks at the public hearing held on 10 December 1998 are in *Appendices 4 and 5*.

3. **The Arrangement of the Report** The evidence of the witnesses who appeared before the Committee and the Committee's specific conclusions and recommendations, based on the evidence and on their deliberations on the relevant chapters of the Director of Audit's Report, are set out in Chapters 1 - 5 below.

4. A verbatim transcript of the Committee's public proceedings will be placed in the Library of the Legislative Council for inspection by the public.

5. **Acknowledgements** The Committee wish to record their appreciation of the co-operative approach adopted by all the persons who were invited to give evidence. In addition, the Committee are grateful for the assistance and constructive advice given by the Secretary for the Treasury, the Legal Adviser and the Clerk. The Committee also wish to thank the Director of Audit for the objective and professional manner in which he has completed his Report, and for the many services which he and his staff have rendered to the Committee throughout their deliberations.

# Chapter 1

## Management of stores

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In examining the Director of Audit's Report on the management of stores, the Committee's concerns were in the following areas:

### **Part I: Unallocated stores of the Government Supplies Department (GSD)**

#### Stock turnover rate

2. The Committee noted that the target stock turnover rate set by the GSD as a performance pledge was on the low side and the Director of Government Supplies had agreed with Audit's recommendation to set a higher and more challenging stock turnover rate to improve the cost-effectiveness of the GSD's storage and distribution functions. Referring to paragraph 11 of the Audit Report which mentioned that the GSD was committed to raising the stock turnover rate progressively and the target stock turnover rate had been raised from three to four times per year with effect from 1998 and for common-user items the rate would be five times per year with effect from 1999, the Committee asked what the most effective stock turnover rate would be. **Mr Nigel C L Shipman, Director of Government Supplies**, said that:

- stock turnover rates differed enormously according to the different types of store and it could be as high as 25 times per year or just once a year; and
- the GSD was trying to:
  - (i) raise the stock turnover rate progressively;
  - (ii) provide a comprehensive service by supplying departments with a wide range of common-user items; and
  - (iii) avoid increases in total costs that might ensue if suppliers were required to make more frequent deliveries.

3. In regard to the Committee's concern about the application of the "just in time" delivery concept in the GSD, the **Director of Government Supplies** replied that:

- the concept was primarily used in the manufacturing industry and considered to be not applicable to the operations of the GSD;
- the GSD would be assisted in determining the optimum stock balance by the use of economic order quantities generated by the new computerised system,

## Management of stores

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“Goods On-line Ordering, Distribution, Stock Movement and Accounting Network (GOODSMAN)”;

- he would consider the Committee’s comment that the GSD should negotiate with the suppliers to achieve a degree of “just in time” delivery concept.

### Stock discrepancies

4. Paragraph 14 of the Audit Report mentioned that under the Stores and Procurement Regulation (SPR) 1015(b)(iii) (formerly Stores Regulation (SR) 391(c)), departments should inspect and verify stores completely immediately prior to and immediately following the transfer of stores from one storage area to another. Noting that the GSD had conducted a 100% stock verification of the items stored in its warehouses in Oil Street and Cheung Sha Wan in July and August 1996, the Committee asked why the GSD did not carry out the stock verification immediately prior to the relocation of stores from these two warehouses to the warehouse in Chai Wan in November 1996, contrary to SPR 1015(b)(iii). The **Director of Government Supplies** explained that:

- he agreed that it would have been preferable to have conducted the stock verification exercise immediately before removal so as to establish an accurate closing balance;
- it was, however, considered necessary to conduct the stock verification exercise a few months before the relocation of stores to the new warehouse in Chai Wan taking into account the scale of stock verification exercise, which involved a quantity count of more than 26 million unit items and required 1,856 man-hours. If a 100% stock verification exercise was to be conducted immediately before the relocation, it would have prolonged the period of suspension of the GSD’s stores delivery service; and
- it had been the intention of the GSD to make use of GOODSMAN, the new computerised system, to assist in the removal. In that case, the problems would not have arisen in the stock verification. If the major functions of GOODSMAN had been made available on time (i.e. by August 1996), the stock records could have been transferred from “Inventory Management, Procurement and Accounting Control Technique (IMPACT), the old computerised system, to GOODSMAN prior to the removal, physical stock could have been checked against those records, and GOODSMAN could have given complete visibility of stock during the removal.

## Management of stores

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5. The Committee were concerned that the GSD's 100% stock verification after the relocation of stores during the period from late November to early December 1996 had revealed that there were 433 deficient stock items totalling \$8.78 million and 317 surplus stock items totalling \$8.39 million. However, the GSD had not promptly reported the stock discrepancies and submitted an application to the Secretary for the Treasury for writing off the deficiencies, contrary to the requirement of SPRs 1035 and 1040. The **Director of Government Supplies** replied that:

- the GSD's views were that there should be no stock loss during the removal of the warehouses and the results of the stock verification exercises conducted in November and December 1996 were "inaccurate";
- the rechecking exercise conducted by the GSD in November 1997, on the 30 items previously recorded as having the largest deficiencies by value, produced markedly different figures, including elimination of all deficiencies for 10 items; surpluses for 8 items totalling \$113,152; and deficiencies for 12 items totalling \$228,677. The re-checking exercise confirmed that the results of the previous verification exercise were not reliable;
- the GSD had arranged for a further 100% stock verification exercise in April 1998 to establish the true inventory level at the warehouse in Chai Wan. The value of the true level of deficiency was found to be only \$616,000; and
- it therefore would not have been appropriate to submit an application to the Secretary for the Treasury for writing off "discrepancies" about which the GSD was not certain, and which might have to be corrected subsequently.

6. Noting that the Director of Government Supplies submitted the report of stock discrepancy to the Secretary for the Treasury only after the GSD had carried out another 100% verification exercise in April 1998, the Committee asked why the report had not been submitted to the Secretary for the Treasury earlier. The **Director of Government Supplies** replied that he could have advised the Secretary for the Treasury of the situation but it seemed appropriate for him, as Controlling Officer, to proceed as soon as he could to provide a reliable stock balance and then to proceed to seek write-off of any deficiency. **Miss Denise YUE Chung-ye**, **Secretary for the Treasury**, supplemented that:

- there was no provision in the SPR as to when the Director of Government Supplies should notify the Secretary for the Treasury concerning stock discrepancies and she considered that the Director of Government Supplies was

## Management of stores

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in the best position to decide when the issue should be brought to her attention; and

- the senior officers of the GSD were only aware in April 1997 of the stock verification results concerning the inaccuracies. She was of the view that the Director of Government Supplies should consider the necessary steps and measures to tighten up the arrangement so that the GSD officers at senior levels could receive problem reports in an expeditious manner, be aware of the nature of the problems and formulate measures to deal with them.

7. With reference to the explanation by the Director of Government Supplies that the problems of stock verification had arisen from GOODSMAN not being available on time, the Committee asked why the GSD could not have conducted a reliable stock-take even without GOODSMAN, as numerous reliable stock verifications were conducted in the private sector without a sophisticated computer to assist. The **Director of Government Supplies** said that:

- prior to the removal, stores were in fixed locations and the former computer system, IMPACT, would have assisted in any 100% stock check; and
- the problem was that when stores were moved to the new warehouse in Chai Wan and stored at random locations, the absence of GOODSMAN made it not possible to obtain computer-generated stock balances, stock records or stock location listings. Thus, it was very difficult to identify the whereabouts of all stocks when post-removal check was conducted.

### The implementation of GOODSMAN

8. According to SPR 350, departments should ensure that tender specifications were drawn up in a manner which met the Government's procurement principle of maintaining open and fair competition. Paragraph 33 of the Audit Report mentioned that in Audit's view, the GSD and the Information Technology Services Department (ITSD) should have noted that the specification of the use of either Package A or Package B for customisation in the tender document for GOODSMAN would prevent the Government from obtaining the best value for money. In view of the restrictive nature of the tender for GOODSMAN, the Committee asked whether in the absence of an allowance in the tender specifications for the use of an "equivalent package", the tender for GOODSMAN was unduly limited and the Government could have received a tender bid with a higher tender price due to the lack of competition. The **Director of Government Supplies** said that:

## Management of stores

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- it was the normal tender practice to specify that equivalent features could be acceptable;
- however, in the case of GOODSMAN, when time was short, the view was that to have a further search for alternatives could cause delay;
- although the GSD would have welcomed greater competition, the only offer that was made in response to the tender invitation for GOODSMAN was capable of meeting the GSD's needs; and
- the tender price was reasonable and within the estimate and the actual tendered amount had also been reduced through subsequent negotiation.

9. According to the first inset of paragraph 33 of the Audit Report which mentioned that in the feasibility study report, the consultant had already indicated that there was a risk that the required version of Package A would not be available in time, the Committee asked whether, had the GSD and the ITSD followed up the consultant's observation, they would have found that the required version of Package A would not be available at the time of tender. In reply, **Mr LAU Kam-hung, Director of Information Technology Services**, said that:

- Package A was a warehouse management system and there was already a version of the system in the market which was in use on a particular hardware or platform;
- there were different platforms operating in the market and the supplier had expressed great interest in expanding its market by revising Package A so that it could run on open platform;
- according to the information gathered by the ITSD during the time of tendering, there would be an open platform version available for Package A and the supplier was interested in joining the tender exercise; and
- therefore, Package A was included in the tender document.

10. The **Director of Government Supplies** supplemented that it was not apparent that the supplier of Package A would not be able to submit tender. Before the issue of tender, the Director had gone to a demonstration by the supplier of Package A. The supplier gave

## Management of stores

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assurance that the various requirements about changing the operation of Package A for running on open platform would be met in time for the tender.

11. Referring to the Audit's comment that the GSD and the ITSD had underestimated the extent of work required to customise the identified computer software package to meet the GSD's requirements, the Committee asked whether the GSD and the ITSD had assessed the extent of work required in the customisation. The **Director of Information Technology Services** replied that:

- to ascertain the extent of customisation required, extensive knowledge about the software package and its specifications was necessary and essential; and
- the ITSD was not familiar with the content and the specifications of the identified software package. Hence, they did not vet the matter in great detail and had to rely on the recommendation of the consultant in the estimation of the extent of customisation.

### Liquidated damages (LD) for the delayed implementation of GOODSMAN

12. The Committee were concerned that the maximum amount of LD (10% of the contract price) had prevented the Government from reasonably recovering the loss or damages resulting from the delayed implementation of GOODSMAN. The estimated amount of LD not recovered was \$10.45 million. In this regard, the Committee asked whether the LD for GOODSMAN contract had been assessed carefully to reflect the actual loss or damages to the Government. The **Director of Information Technology Services** said that:

- the Standard Computer Contract (SCC), as a general guideline, had set an upper limit of 10% for LD due to contractor delays;
- the ITSD had got many years of experience in negotiating the ceiling for LD with contractors on many computerisation contracts and their experience showed that if the ceiling of LD was higher than 10%, contractors would tend to negotiate for lowering the ceiling;
- if a higher LD ceiling was set, the process of negotiating the contract terms would be prolonged as the contractors would put forward counter-proposals; and

## Management of stores

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- the tender price would go up as the contractors would have to do more prudent calculations concerning their costs.

13. In Audit's view, as long as a realistic timetable was set for the completion of a project, removing or raising the upper limit of LD should not cause a tenderer to increase the tender price significantly in an open competitive tender. The Committee asked whether the time allowed for the contractor of GOODSMAN was reasonable. The **Director of Information Technology Services** admitted that as the ITSD was not familiar with the specifications of the identified software package, they had no way of ascertaining the amount of time and manpower resources required for customising the package for the use of the GSD. In making the decision, they could only rely on the information available at that time and the recommendation of the consultant.

14. After the hearing, the **Director of Information Technology Services** provided a written reply dated 24 December 1998 and the Committee were advised, vide *Appendix 6*, that:

- in the SCC drawn up by the Department of Justice according to the requirements of the GSD and the ITSD, 10% was adopted as the upper limit for LD due to contractor delays;
- the ITSD had not conducted formal research or assessment of market practices in determining the aforesaid general guideline;
- the ITSD would review and revise the SCC from time to time to reflect market changes and the Government's procurement needs;
- in a recent project, a 15% upper limit was adopted. This reflected that the ITSD would adopt a higher limit if circumstances warranted;
- the ITSD had not prescribed guidelines for the assessment of LD, but as a general practice, the LD specified in tender documents were derived from the claimed benefits of projects and any loss arising from such delays; and
- there was no apparent relationship between the interests of tenderers in bidding tenders and the level of the limit of LD.

## Management of stores

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15. Concerning the assessment of the capability of the consultant in delivering the required services, the Committee realised that both the ITSD and the consultant were not experts in the identified software package and thus asked how the ITSD could be certain that the consultant's assessments and recommendations were accurate. The **Director of Information Technology Services** said that:

- in selecting the required software package, the ITSD had considered all the necessary information, in terms of operations and functions, to make sure that the software package recommended by the consultant could meet the needs of the GSD;
- the problem was with the extent of work that was required during customisation, as the time required and the extent of work were greater than the estimation of the consultant; and
- he admitted that if the ITSD had taken the work of the consultant in the assessment of customisation, the possibility of the project being completed on time would have been greater.

16. The Committee considered that if consultant was engaged and the performance of the consultant was not properly monitored, the blame should be on the department which engaged the consultant. The **Director of Information Technology Services** said that:

- he agreed that the department which engaged the consultant should be held responsible for the performance of the consultant; and
- during the process of selecting the consultant, the department concerned would select a consultant with high professional standard and in many areas, the department had to have faith in the professional standard of the consultant.

17. The **Director of Government Supplies** also agreed that if the consultant could not deliver the right quality and right kind of work, the engaging department did have a responsibility. He further said that the GSD was satisfied with the work of the consultant, as the software package as recommended by the consultant was at least proved to be suitable for the use of the GSD.

## Management of stores

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### Part II: Departmental stores of the Hong Kong Police Force

18. According to paragraph 80(c) of the Audit Report, the Police Force would continue to further extend civilianisation where appropriate and the need for the posts of Senior Superintendent of Police and the Superintendent of Police in the Stores Management Division would be examined as part of an overall review of all specialist posts. The Committee asked whether the two posts could be taken over by Supplies Grade officers. **Mr HUI Ki-on, Commissioner of Police**, said that:

- the need for police officers in the Stores Management Division had been examined in 1993 and the conclusion was that having regard to the diverse and complex range of uniforms, arms, equipment and other store items required for the Police Force's operations, all the disciplined posts including the Senior Superintendent of Police and Superintendent of Police in the Stores Management Division should be retained;
- nevertheless, in May 1997, the post of Chief Inspector of Police in the Stores Management Division was filled by a Chief Supplies Officer; and
- the Police Force would continue to talk with the GSD to see if there was further room for civilianisation.

19. In response to the Committee's concerns on the manpower strength and deployment arrangement of the Police Force, the **Commissioner of Police** said that:

- there was no shortage of policemen at present; and
- if it was decided that the posts of Senior Superintendent and Superintendent be filled with Supplies Grade officers, the police officers concerned would be transferred out.

20. Noting that the Supplies Grade officers were generally assigned to head and manage the stores divisions of other disciplined service departments, the Committee asked whether there were any differences between the Police Force and the other disciplined service departments in the management of stores. The Committee also asked whether there would be danger if Police posts were to be filled by Supplies Grade officers. In reply, the **Commissioner of Police** said that:

## Management of stores

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- there would not be any danger in having Police posts filled by Supplies Grade officers; there were in fact over 190 of them in the Police Force;
- having regard to the diverse and complex range of uniform, arms, equipment and other store items required for the Police Force's operations as well as the amount of quantities involved, the present staffing in the management of Stores Management Division should be maintained; and
- in deciding which person should fill which post, it should best be decided by the Heads of Department.

### 21. **Conclusions and recommendations** The Committee

#### Stock turnover rate

- note that the Government Supplies Department (GSD) is committed to raising the stock turnover rate progressively to improve the cost-effectiveness of the GSD's storage and distribution functions;

#### Stock discrepancies

- express concern that the GSD has neglected the importance of having a thorough plan prior to the relocation exercise and the need for a system of comprehensive control over the recording of stock movements;
- express serious concern that:
  - (i) the arrangement for conducting the 100% stock verification a few months before the relocation of stores did not meet the requirement of the Stores and Procurement Regulations;
  - (ii) significant discrepancies were found in the 100% stock verification exercise in November and December 1996 and that the internal control system of the GSD in updating stocks records had proved to be weak; and
  - (iii) despite the significant discrepancies found in the stock verification exercise, the GSD did not promptly investigate to determine if there were any weaknesses or irregularities in the accounting and internal control systems;

## Management of stores

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- urge the Director of Audit to examine the stock verification exercise in April 1998 and provide assurance that there is no sizable loss;

### The implementation of GOODSMAN

- express dissatisfaction that:
  - (i) a contingency plan had not been drawn up to cater for the delay in the implementation of GOODMAN, which later hampered the ability of the GSD to take remedial actions in a timely manner; and
  - (ii) the GSD and the Information Technology Services Department (ITSD) did not recognise the importance of a reliable stock record before relocation and had not exercised due care to ensure that the required version of software package was available in the market before the tender invitation was issued in October 1995;
- express serious concern that the tender exercise for GOOSDMAN did not fully achieve its intended purpose of obtaining the best value for money due to the absence of competition;
- express concern that the GSD and the ITSD had under-estimated the extent of work required to customise the recommended computer software package to meet the GSD's requirements;
- express dismay that the GSD has failed to adequately plan for the tendering and implementation of GOODSMAN even with the help of the ITSD and a consultancy study;
- recommend that, to prevent recurrence of similar cases and for future computerisation projects, Heads of user department and the Director of Information Technology Services should:
  - (i) assess the extent of work required to customise a computer software package in deciding whether to use a package solution or a tailor-made system development approach;
  - (ii) conduct a thorough market research on the specialised computer software package which the Government intends to acquire so as to ascertain:

## Management of stores

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- (a) whether there is any exclusive commercial arrangement for the purchase or use of the package; and
- (b) whether the required version of the package is readily available in time for the tender;
- (iii) adopt the most cost-effective tendering strategy;
- (iv) ensure that there will be no subcontracting without the prior written consent of the Government; and
- (v) prepare effective contingency plans for processing critical transactions to respond promptly to disruptions in the provision of services, in particular those services to essential users;

### Liquidated damages (LD) for the delayed implementation of GOODSMAN

- express concern that the additional staff cost that would be incurred by the GSD and the ITSD in case of project delay had not been included in the daily rate of LD in the GOODSMAN contract;
- express serious concern that the upper limit of LD of 10% had prevented the Government from reasonably recovering the loss or damages resulting from the delay;
- consider that:
  - (i) the best policy to protect the Government is to have detailed advance plan and clear tender specifications, rather than to rely on LD; and
  - (ii) in determining the appropriate level of LD, the ITSD should conduct a systematic market research so that a balance is struck between the protection of the Government's interest and the contractor's incentive to submit tenders;

### Management of stores in the Hong Kong Police Force

- acknowledge the Police Force's policy in extending civilianisation whenever appropriate to achieve better value for money;

## Management of stores

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- consider that there is scope for deploying Supplies Grade officers to take over the supplies duties performed by the Senior Superintendent of Police and the Superintendent of Police of the Stores Management Division of the Police Force, and the Barrack Sergeants of police stations;
- recommend that the Commissioner of Police should, in conjunction with the Director of Government Supplies:
  - (i) commence a pilot project of assigning Supplies Grade officers, instead of Barrack Sergeants, to manage certain police formation stores for a reasonable period of time so as to examine whether the management of the police formation stores can be taken over by Supplies Grade officers; and
  - (ii) re-examine the possibility of extending civilianisation to the posts of the Senior Superintendent of Police and Superintendent of Police in the Stores Management Division, according higher priority to value for money;
- wish to be kept informed of:
  - (i) the progress of the civilianisation to the posts of the Stores Management Division and the Barrack Sergeants of police stations; and
  - (ii) the outcome of discussions between the Police Force and the GSD on the operational details of delivery stores to police formations by the GSD; and
- recommend that the Director of Government Supplies should, in the light of the results of the pilot project in police formation stores, consider conducting similar pilot projects in conjunction with the Controlling Officers of the other disciplined services.

## Chapter 2

### The provision of legal services by the Civil Division of the Department of Justice

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The Committee noted that the Director of Audit's review covered the following issues relating to the provision of legal services by the Civil Division of the Department of Justice:

- introduction of a time-recording system;
- implementation of the Information Systems Strategy (ISS);
- productivity and performance measurement;
- monitoring the progress of civil litigation cases; and
- overseas experience in regard to cost-recovery and private sector competition.

2. At the public hearing, **Ms Elsie LEUNG Oi-sie, Secretary for Justice**, made an opening statement and said that:

- she welcomed Audit review on the operation of the Civil Division and comments on the progress of the ISS;
- in principle, most of the Audit recommendations were accepted and some of which had already been implemented. These included:
  - (i) the incorporation of a time-recording system for the Civil Litigation Unit (CLU) in the ISS. This would be useful in the assessment of costs of legal proceedings. The new system would be computerised and tailored to provide information for the costing of individual cases;
  - (ii) the close monitoring of the remaining projects under the ISS with a view to achieving the revised targeted completion of these projects by September 1999. (Of the seven projects under the ISS, four had already been completed. They were the Network Installation and Office Automation System, the English Document Management System, the Bilingual Laws Information System and the Library Automation System. The remaining three projects included the Electronic Tracking Project, the Administration System and the Information Centre Project);

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- (iii) the effective use of a full range of performance pledges developed over the years to monitor the Department's workload. These indicators were monitored on a quarterly basis. The Department evaluated the growth in workload and the associated deployment of staff resources. To tie in with the Government's Enhanced Productivity Programme, the Department had embarked on a review to maximise resources to enhance productivity;
  - (iv) the implementation of bar coding of all files in the CLU and Debt Collection Unit (DCU) to improve file tracking procedures and to ensure that the computer records were updated regularly; and
  - (v) steps to ensure the timely re-registration and appropriate enforcement of charging orders. To date, all charging order files had been checked and re-registered as required;
- the Department was happy to follow the Audit recommendation to keep in view and, where appropriate, draw on the experience of other jurisdictions;
  - the Civil Division of the Department was committed to providing the most cost effective legal service to government departments and bureaux, particularly the recovery of debts; and
  - as an indication of improvement in this regard, the DCU's average monthly recovery between 1996 and 1998 had been increased from \$1.26 million to \$4.32 million.

3. The Committee noted that in October 1990, the Department of Justice had taken the initiative to introduce a time-recording system in the Civil Division. Despite the initial success reported in the 1992-93 Annual Estimates, the time-recording system quickly became unpopular and the percentage of return of time sheets was low. In mid-1993, the Department discontinued the system. The Committee asked about the reasons for this. **Mr Ian Wingfield, Law Officer (Civil Law)**, said that:

- the major problem with the time-recording system introduced in 1990 was that it focused too much on the recording of the work of individual counsel;
- the system was of limited value as the measure of the cost-benefit of the work done should be based on the work of the Division as a whole, not just on the work of individual members of the Division; and

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- the system also attempted to break down into ten-minute intervals the work performed by each counsel during the day, but it did not provide measures of actual productivity of individual counsel nor the productivity of the Division as a whole.

4. Noting that in the private sector solicitors firms, a similar time-recording system was regarded as being effective, the Committee asked why the system could not work in the Civil Division. The **Law Officer** said that:

- time-recording system in the private sector was principally for the purpose of billing clients and it was not applicable to the Civil Division, except in the Civil Litigation Unit (CLU); and
- even though in the CLU where a record of costs expended on individual cases was required, the essential thing was to have a file which included a record of all the time spent on that particular case, rather than the time and the identity of individual counsel.

5. In responding to the Committee's question about the calculation of the expenses on recovering a particular debt, the **Law Officer** said that:

- there was no point assessing the work done by individual counsel on each case;
- the expenses on recovering particular debt should be measured by the work done by the counsel and supportive staff collectively; and
- there were raw figures indicating that there had been a marked improvement in the cost for recovery of debts and it had gone from something approaching a dollar for a dollar down to something nearer twenty cents for the recovery of every dollar.

6. The Committee considered that it was useful to compare overall figures and overall costs, but it was also useful to measure the performance of each individual professional as it was a very important instrument for planning the work force. Noting that there was future plan to re-introduce time-recording in the CLU, the Committee asked what the plan was. The **Law Officer** said that :

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- the Department was proposing to introduce into the computer system a facility to record the time spent by professional officers on litigation cases for the purpose of providing costing; and
- the time-recording function would be built into the Tracking Project under the ISS, which would be an enhanced computerised system as opposed to the manual record on the file.

7. **Mr Stephen LAM Sui-lung, Director of Administration and Development, Department of Justice**, supplemented that:

- the tracking system of the ISS had now been extended to the entire Department of Justice;
- the system could help track every licensing case and the progress of every request for legal advice as well as to keep the record in terms of time spent and the cost recoverable by the Civil Division; and
- in the case of the CLU, the recovery of the court costs could also be made by the ISS.

8. Referring to the last inset of paragraph 21 of the Audit Report, which mentioned that the Secretary for Justice envisaged that it was unlikely to extend time recording to other units of the Civil Division where the calculation of costing would not be required, the Committee asked whether it implied that, no matter how successful the time-recording was, it would not be extended to other units of the Civil Division or other Divisions of the Department. The **Secretary for Justice** explained that :

- for some Divisions, such as the Legal Policy Division, there was little likelihood that the time-recording system would be extended to them;
- in the case of the Prosecutions Division where cost calculation was already one of the tasks which had to be done, time-recording might be helpful; and
- all in all, the Department would have to examine how the time-recording system being implemented in the CLU and evaluate its results and effectiveness before any further extension would be taken.

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9. The **Law Officer** supplemented that:

- the new time-recording system would be used by counsel of the CLU as a first step and might then be extended to other units of the Civil Division and other Divisions of the Department if the system proved to be successful and appropriate; and
- the arrangement would be very much in accordance with Audit's recommendations.

10. The Committee asked when the new time-recording system would be available. The **Law Officer** said that the system would be in place in early 1999 while the ISS was expected to be completed by September 1999.

11. Paragraph 22 of the Audit Report mentioned that the Secretary for the Treasury had reservations about the benefits of using the time-recording system, which could be rather labour-intensive, for management purposes, the Committee asked whether it was still the view of the Secretary for the Treasury. **Miss Denise YUE Chung-ye, Secretary for the Treasury**, said that:

- she was interested to know more about the ISS Tracking Project as it was expected to give the Department of Justice a scientific and effective way to record time of the staff members in the Department;
- the old time-recording system was done in a labour-intensive manner and she believed that the proposed new system would be more streamlined and acceptable to the staff members concerned in the Department; and
- the accuracy of the recorded data could also be enhanced through the new system.

12. In regard to the issue of inter-departmental charging for cost-recovery, the **Secretary for the Treasury** said that:

- there were many departments within the Government which were responsible for providing services to other government departments and the Department of Justice was one of them;

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- according to the financial and accounting regulations and the standing accounting guidelines within the Government, charging the provision of services within the Government was only implemented by the five departments operating trading funds and two other departments, namely the Government Printer and the Government Land Transport Agency; and
- the present system of inter-departmental charging was considered to be appropriate and necessary because:
  - (i) if all service-providing departments charged user departments for their services, the expenditure accounts and the revenue accounts of the Government would inevitably expand. This would be meaningless and undesirable; and
  - (ii) the departments concerned would have to use more resources, such as manpower, to issue bills and to do all the accounting work for charging their services to user departments. This was not worthwhile as resources would be wasted in a way that it was taking money out from the right pocket of the Government and putting it back in the left pocket.

13. On the point about performance indicators of the government departments, the **Secretary for the Treasury** said that:

- the present system of limited inter-departmental charging did not mean that the departments providing the services were not required to pay attention to efficiency and cost-effectiveness. In his Policy Address in 1997, the Chief Executive had made it very clear that all government service providers should be target-based; and
- different departments had different performance indicators which were included in the Annual Estimates and therefore, Heads of Department, Controlling Officers as well as the Legislative Council Members and the general public could assess the services provided by the government departments against their performance targets and indicators as well as their level of efficiency and effectiveness.

14. Noting that the Department of Justice did not charge government departments (except the trading funds) for its legal advisory and litigation services, the Committee asked

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whether it was a waste of resource to introduce a new time-recording system in the CLU of the Department. The **Secretary for the Treasury** said that:

- it would depend on how much resources were required to provide the new time-recording system;
- the new system under the ISS was believed to be able to provide a streamlined procedure for the counsel in the CLU to record their work time;
- in her view, the system would also provide the Secretary for Justice with management information which was useful in monitoring performance, setting priorities, obtaining resources and allocating them to priority uses; and
- the CLU would be the trial point for implementing the time-recording system in the Department of Justice and it was for the Secretary for Justice to decide whether the time-recording system should be extended to other parts of the Department.

15. Regarding the issue on whether inter-departmental charging should be fully extended to the Department of Justice, the **Secretary for the Treasury** said that:

- the Government did not want to see unnecessary expansion of its revenue and expenditure accounts because of inter-departmental charging;
- user departments might not be able to accurately estimate the amount of services they would require from the Department of Justice and there would be a lot of unnecessary work incurred within the Finance Bureau and the user departments;
- when departments drew up their annual estimates, they had no idea as to how much funding they needed in order to get the required legal services from the Department of Justice and it was impossible to accurately estimate the cost of legal services required by government departments every year; and
- supplementary provision would then be necessary for departments if they needed legal service for a major case and thus the full extension of inter-departmental charging system for the Department of Justice might not be a desirable option.

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16. According to paragraph 65(b) of the Audit Report, the Secretary for Justice said that the situation in other advanced countries such as the United Kingdom (UK), Australia and Canada was very different from that of Hong Kong and it should not be presumed that their systems were applicable or relevant to Hong Kong. It was difficult to make any comparison with the Hong Kong situation on a like-with-like basis. The Committee asked whether the experience of advanced countries were totally not relevant to Hong Kong. The **Law Officer** said that:

- Audit was just suggesting that there might be lessons for Hong Kong to learn from advanced countries and the Department of Justice agreed with this view;
- the option of briefing out work to private sector lawyers in those advanced countries was only exercised by departments that had their own in-house legal advisers and the selection, briefing and monitoring of the private sector lawyers were all undertaken by the in-house lawyers in that particular department;
- it was not the case in Hong Kong where the option of briefing out work to private sector lawyers could only be done through the Department of Justice;
- many of the departments of the advanced countries had in-house legal units and almost all legal advice would be given in-house, which was completely different from Hong Kong where all legal advice was given by the Department of Justice; and
- therefore, it was difficult to make comparison of the Hong Kong situation with that of other advanced countries.

17. In response to the Committee's concern about the recovery of service costs from users and also whether it was easier to recover costs in advanced countries than in Hong Kong, the **Law Officer** said that:

- taking the UK as an example, government departments would have to reimburse the Treasury Solicitor's Department for the costs of the legal service provided; and
- it was very much what the Secretary for the Treasury was describing earlier on inter-departmental charging. She was not in favour of that arrangement to take place across the board in Hong Kong.

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18. Noting that the private sector lawyers in Hong Kong were experiencing lower workload and their charging rate appeared to be going down, the Committee asked whether the lower charging cost would be a favourable consideration for the Department of Justice to brief out more cases. The **Secretary for Justice** said that:

- the Department of Justice did realise that the business workload of the private sector lawyers had gone down significantly;
- the Department had been asked by legal professional bodies to consider whether more work could be contracted out; and
- regular liaison with relevant professional bodies would be conducted by the Department to review the arrangement for briefing out so as to ensure the best value for money.

19. The **Law Officer** supplemented that:

- the staff cost of counsel within the Department of Justice ranged from an average of \$511 per hour for Government Counsel, up to \$1,420 per hour for Principal Government Counsel;
- the solicitors in briefed out cases charged an hourly rate of \$1,200 to \$4,000; for barristers, the rate was from \$1,000 to \$4,500 per hour;
- on a direct staff costs basis, the costs of Counsel in the Government were considerably lower than the costs of lawyers in the private sector; and
- the costs of Counsel were \$858 per hour and up to \$2,626 for Principal Government Counsel if the costs of accommodation, secretarial support, etc. were included. However, there was still a cost difference in favour of the Government Counsel as compared to the private sector lawyers.

20. The Committee asked what were the number of civil litigation cases briefed out by the Civil Division and the amount involved. The Committee also asked for comparative statistics on cases handled by Government Counsel and lawyers in the private sector. The **Law Officer** said that:

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- it was extremely hard to give a meaningful percentage of cases that were briefed out because the majority of them were very small debt collection cases, which were not cost-effective to brief out;
- the cases which were briefed out were almost exclusively construction litigation cases. The number of such cases was very small but the costs were very large and so it was quite difficult to give a percentage;
- most of the High Court civil litigation cases were briefed out to barristers but the number of cases was again quite small; and
- the Department had briefed out most of the cases that would have been briefed out in other jurisdictions.

21. At the request of the Committee, the **Law Officer** in his letter of 16 December 1998 in *Appendix 7*, provided the following information:

- the hourly rates for Government Counsel;
- range of hourly rates for outside lawyers briefed by the Civil Division in 1998;
- the total costs of work and the number of cases briefed out by the Civil Division; and
- the numbers of civil litigation cases handled by Government Counsel and briefed out to outside lawyers.

22. In his letter of 26 January 1999 in *Appendix 8*, the **Law Officer**, at the request of the Committee, provided further information on:

- the mechanism within the Department of Justice for keeping in view the costs/remuneration trend of legal professionals in the market and for monitoring the rate of remuneration for the lawyers in the private sector in briefed out cases;
- the comparative total costs to the Government for 1996/97, 1997/98 and 1998/99 (up to the present) in respect of cases handled by Government Counsel in each respective grade and those cases briefed out to outside lawyers with comparable professional standing and experience;

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- the way and criteria adopted by the Department of Justice in selecting lawyers in the private sector for briefed out cases and the measure to monitor their productivity and service quality against pre-determined productivity and quality targets of the Department; and
- the number of contract Government Counsel in each Division of the Department.

23. Paragraph 45 of the Audit Report mentioned that the progress of some civil litigation cases was very slow and had apparently stayed at a particular stage of the litigation process for a long time without any noticeable progress. Audit identified 1,173 such “slow-progress cases” as at October 1997. The Committee were concerned about the unsatisfactory progress in the monitoring of civil litigation cases. The **Law Officer** said that:

- at present, management data on civil litigation cases were recorded in a computerised work-in-progress (WIP) system which was introduced in 1988;
- the WIP system was proved to be extremely ineffective and the integrity of the system was in doubt;
- the WIP system had become very outdated, providing only information concerning the status of individual cases;
- the information recorded in the system was not necessarily up-to-date because the status was constantly changing as the cases progressed; and
- therefore, the electronic tracking facilities of the ISS were being proposed so as to recall all the required information and ensure that it was effectively implemented and included into the system.

24. The Committee noted that the tracing of case files for the 27 missing slow-progress cases identified by Audit had taken four months to complete and, in the event, the Department of Justice had to reconstruct these case files from the client departments’ record. The Committee asked why there were such serious delays in the tracing of case files. The **Secretary for Justice** said that she accepted that there had been deficiencies in the past, but the Department had taken steps to improve its file tracking procedures, for example, through the bar coding of all files which had now been implemented in the CLU, to ensure that the computer records could be fully updated.

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25. According to section 17 of the Land Registration Ordinance (Cap. 128), the registration of a charging order would cease to have effect at the end of five years from the date of registration, but the order might be re-registered from time to time, if so, re-registration would have effect for five years from the date of re-registration. The Committee noted that from the slow-progress cases, Audit had randomly selected ten case files involving charging orders for scrutiny. The results of the scrutiny revealed that only in one case was timely action taken to re-register the charging order before the order ceased to have effect. In view of the fact that there were omissions in re-registration of charging orders, the Committee asked what measures had been taken to rectify the situation and to avoid similar omissions in future. The **Law Officer** said that:

- all the cases in the audit sample which were subject to delays in re-registration had been re-registered and the Department of Justice had also checked all charging order files and had implemented re-registration action where appropriate;
- the number of cases referred to the DCU of the Civil Division in 1994 was 1,052 while the number of cases referred in the month of November 1998 was 507 (about half of the cases for the whole year of 1994), the omission was, therefore, partly a reflection of the huge increase in the work volume; and
- having recognised that there was problem in meeting the increasing demands, the Department had taken very serious steps and implemented them to ensure that case tracing would be improved and the weaknesses identified by Audit could be remedied.

26. The Committee asked whether the delayed re-registration of charging orders would not have been completed if Audit had not carried out the review. The **Law Officer** said that:

- one of the policy commitments made by the Secretary for Justice in 1997 was to speed up actions to recover costs and enforce judgement debts;
- the Department was very much aware of the need to improve the arrangements for debt collection, and that included improving supervision of files and tracing their allocation; and
- proactive steps had been taken by the Department to ensure that omission would not happen again.

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27. The Committee asked whether the amount of the judgement debts and costs recovered should be assessed as one of the performance indicators of the Civil Division in the Annual Estimates. The **Secretary for Justice** said that:

- the amount of recovery depended very much on the ability of the persons involved to repay the judgement debts and costs;
- the debts and costs could not be recovered if the persons involved had no money and went bankrupt; and
- therefore, it was not appropriate to measure performance, just in terms of the amount of recovery.

28. In view of the fact that as at October 1997, the total amount of outstanding judgement debts and costs was \$184 million, the Committee asked whether there was any writing off procedure. The **Law Officer** said that:

- there was a procedure for writing off debt, but it was not a step to take unless the debt proved to be absolutely irrecoverable;
- there would be debts that probably were irrecoverable, but they were not written off simply if there was a remote possibility that the debts might be paid off at a later date; and
- the Department of Justice would keep the enforcement of debts alive for as long as possible until it was absolutely certain that there was no prospect of recovery.

29. The **Secretary for the Treasury** supplemented that Heads of Department could apply to the Treasury to seek authorisation to write off debt.

30. Referring to paragraph 55 of the Audit Report, which mentioned that the judgement debts of the ten audit sample cases had all been outstanding for over a decade, the Committee asked whether more positive actions should be taken to expedite the recovery of debts. The **Law Officer** said that:

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- charging order was generally the most effective means of securing payment;
- however, mortgagee action on charging orders had in most cases not been cost-effective because the amounts involved were small and it was not practical to take mortgage proceedings to recover small debts;
- it seemed that charging a property and then not seeking to enforce the charge until the property was eventually sold was quite a cost-effective way of recovering relatively small debts;
- therefore, even though the debts might have been outstanding for a period of time, it was not necessarily an indication of ineffectiveness or inefficiency; and
- nevertheless, the rate of recovery was still considered to be one of the indicators to assess productivity as it did show the extent to which the recovery had been successful, and the Department would consider whether it should be included as a performance indicator.

31. In view of the importance of the physical control and custody of case files, the Committee asked what the present filing system in the Department of Justice was and what actions would be taken to strengthen the filing system. The **Secretary for Justice** said that:

- different Divisions of the Department had their own filing systems and normally when a case was closed, the file would go back to the concerned Division's central filing;
- the Department would improve the timely re-registration of charging order with the help of the ISS; and
- the file management would be strengthened under the new file tracking system of the ISS which would provide an effective control over the movement of files.

32. The **Law Officer** supplemented that:

- since April 1998, all counsel of the Department had been asked on a monthly basis to check and confirm that they held the files that had been allocated to them according to the WIP system;

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- therefore, there was a monthly reconciliation on a manual basis between the record of file allocation and the actual files held by individual counsel;
- with the implementation of the bar coding system, there would be periodic scanning on all bar codes to ensure that no file would go missing; and
- a number of simple measures would be adopted including the colour-coding of file jackets, to enhance the detection of files that might have been misfiled.

### 33. Conclusions and recommendations The Committee:

- acknowledge the Secretary for Justice's opening statement made at the public hearing on 10 December 1998 in response to the Director of Audit's Report and note that she has accepted most of the Audit's recommendations and some of which had already been implemented;
- consider that the time-recording system can provide management with information about the work profile of individual counsel, units and divisions, and that such information is useful for assisting management in assessing the costs of legal proceedings, monitoring performance, setting priorities, obtaining resources and allocating them to priority uses;
- recommend that the Secretary for Justice should consider extending the time-recording system to other units of the Civil Division if the implementation of the system in the Civil Litigation Unit is successful;
- note that the Secretary for Justice has agreed to closely monitor the implementation of the Information Systems Strategy (ISS) projects and to complete them by September 1999;
- express concern that the existing performance indicators of the Civil Division do not provide a measure of the productivity and service quality against pre-determined productivity and quality targets;
- consider that early action to define productivity and performance measures will help ensure that the ISS projects being developed can meet the information needs of the Department of Justice;
- note that the Secretary for Justice has agreed to accord a high priority to the issue of productivity and performance measurement;

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- express serious concern that inadequacies were found in:
  - (i) the control of cases files;
  - (ii) the input of data to update the computer records;
  - (iii) the re-registration of charging orders; and
  - (iv) the recovery of the judgement debts;
- note that the Secretary for Justice has taken measures to improve the situation;
- acknowledge the Secretary for Justice's statement that she would keep in view and, where appropriate, draw on the experience of other jurisdictions in the provision of legal advisory and litigation services;
- recommend that the Secretary for Justice should, in consultation with the Secretary for the Treasury, seriously consider adopting cost recovery as a long term option, so as to provide an incentive for service providers to deliver efficient and quality services and also promote users' cost consciousness when they require legal services;
- reject the Secretary for Justice's view that the system of full-cost recovery from user bureaux and departments would inhibit them from seeking legal advice due to budgetary constraints, as bureaux and departments are expected to seek all necessary quality legal advice and the required funding for their operations, and they are liable for the consequences should they fail to do so;
- consider that the services of the Department of Justice should be subject to competition with the private sector lawyers as far as possible and the Secretary for Justice should ensure that outside lawyers' productivity and service quality are also assessed by the same pre-determined productivity and quality measurements for the Department's own counsel;
- recommend that the Secretary for Justice should closely monitor the rates of remuneration for legal professionals in the market and explore the possibility of increasing the number of cases briefed out to outside lawyers when the market situation favours the Government's ability to negotiate for lower remuneration, thus enhancing cost-effectiveness; and
- wish to be kept informed of :

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- (i) the progress of the incorporation of the time-recording system in the ISS;
- (ii) the progress of the implementation of the ISS;
- (iii) the actions taken to define productivity and performance measures;
- (iv) the actions taken to improve the monitoring mechanism in civil litigation cases; and
- (v) the result of the Secretary for Justice's review in regard to adopting cost recovery as a long term option, in 6 months' time.

## Chapter 3

### Acceleration of works in the Strategic Sewage Disposal Scheme Stage I

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The Committee held public hearings on 10 December 1998 and 22 January 1999 to receive evidence on this subject from the Secretary for Works and the Director of Drainage Services. At the second public hearing, the witnesses undertook to provide further information on the issues raised.

2. The Committee understand that the witnesses will need time to research into the past records and to collate a reply. Under the circumstances, the Committee decided to defer a full report on this subject. On receipt of the additional evidence, the Committee will endeavour to finalise their report to the Council at the earliest opportunity.

## Chapter 4

### The Year 2000 Problem

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The practice of using a two-digit year in computer systems has created what is known as the Year 2000 (Y2K) Problem or the “Millennium Bug”. The Y2K Problem generally refers to computers or systems with data-coding facilities being unable to correctly interpret dates from and including Y2K. The Problem is not just a computer issue. It is a business problem that can threaten the effective functioning of the global community in the next millennium. It can also affect key government functions such as health care, emergency services, immigration controls and revenue collection systems. The Committee noted that the Director of Audit had carried out a review to provide an independent check to ascertain whether the Administration was addressing the Y2K Problem adequately and effectively. The Committee examined the following findings in the Audit Report:

- awareness and recognition of the Y2K Problem;
- slow rate of progress in government organizations;
- overall preparedness of the Government; and
- the Government’s promotion and monitoring of the Y2K Problem in the private sector.

2. In view of the seriousness of the implications of the Y2K Problem, the Committee asked who was in charge of the Y2K Problem in the Government; whether enough resources had been allocated to tackle the issue; and who should be ultimately responsible if the rectification programmes for the Y2K Problem failed. **Mr KWONG Ki-chi, Secretary for Information Technology and Broadcasting**, said that:

- since the setting up of the Information Technology and Broadcasting Bureau (ITBB), the Secretary for Information Technology and Broadcasting had taken a pivotal role in managing the Y2K Problem in a whole-of-government approach, and also on a community-wide basis, with the assistance of a Steering Committee on Y2K Compliance;
- the Steering Committee, comprising representatives from the relevant policy bureaux as well as government departments, would oversee the progress in the rectification of all mission-critical systems and equipment of the Government and also of the non-government organizations funded or regulated by the Government;

## The Year 2000 Problem

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- the Steering Committee met regularly to review quarterly reports submitted through the relevant policy bureaux on the progress of rectification work. It would then discuss whether the progress was adequate and whether some additional work should be done;
- funding approval had been obtained from the Finance Committee of the Legislative Council for the necessary rectification work for government departments and organizations funded by the Government. Organizations which were entirely privately-funded (e.g. the power companies) were responsible for the funding of their rectification programmes for the Y2K Problem;
- it would be very difficult to answer who should be ultimately responsible if the rectification programmes for the Y2K Problem turned out to be a failure, as the definition of failure was difficult to define; and
- therefore, the answer to the question really was that the Administration had taken all reasonable steps to ensure that the Y2K Problem was rectified as much as possible and the rectification work would be prioritised with the focus on mission-critical systems and equipment which affected the provision of essential services.

3. The Committee asked whether the ITBB would undertake the responsibility to certify all the mission-critical areas in government departments as well as the private sector. The **Secretary for Information Technology and Broadcasting** said that:

- Heads of Department were required to sign off the progress reports for submission to the policy secretaries concerned, who, in turn, would forward the reports to the ITBB; and
- the sign-off arrangement was delegated down to the Heads of Department as they were in the best position to certify the progress of Y2K compliance in their departments.

4. Noting that the vetting and certification of the Y2K progress of a listed company in the private sector would be conducted by outside independent professionals, the Committee asked whether there would be similar independent certification for the public sector. The **Secretary for Information Technology and Broadcasting** said that:

## The Year 2000 Problem

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- in the case of the public sector, the professional departments would work together with the departments concerned on the rectification programmes;
- the Information Technology Services Department (ITSD) would work with the concerned departments on their computer systems, and the Electrical and Mechanical Services Department (EMSD) would work with departments on embedded systems; and
- the arrangement already provided an independent and impartial input for assessing the progress.

5. Paragraph 119 of the Audit Report which mentioned that the survey of the Hong Kong Monetary Authority had found that there had been cases of slippage in some authorised institutions' Y2K projects, with 10% of institutions behind schedule, the Committee asked how far these institutions were behind schedule and whether any remedial actions had been taken. The **Secretary for Information Technology and Broadcasting** said that a detailed briefing on the rectification exercise of the authorised institutions had been given earlier to the Panel on Financial Affairs of the Legislative Council. The Administration's conclusion basically was that everything was on track. After the public hearing, a copy of the Information Paper from the Financial Services Bureau to the Panel on Financial Affairs in **Appendix 9** was provided to the Committee.

6. The Committee noted that in a memorandum to the Director of Information Technology Services dated 31 March 1998, the Judiciary Administrator said that "After we have received the Director of Audit's memo on 24 December 1997, I began to realize the width and depth of the problem". The Committee were concerned about whether the awareness within policy bureaux and government departments on the Y2K Problem was really sufficient. The **Secretary for Information Technology and Broadcasting** said that:

- in December 1996, the ITSD started to give notification to various departments for holding seminars on the Y2K Problem so as to generate awareness;
- in May 1997, notice was also sent to departments to stress that the Y2K Problem should be given priority and when necessary, departments should seek funding for the rectification programmes;
- he was disappointed to learn that the said officer had made the above comments, despite two notifications having already been issued; and

## The Year 2000 Problem

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- more than 80% of the rectification work in the public sector had already been completed.

7. In response to the Committee's question on the development of contingency plans, the **Secretary for Information Technology and Broadcasting** said that:

- all the Y2K rectification work for essential services would have to be completed by June 1999;
- compliance progress reports were being sought every month; and
- if there were doubts about the progress, further meeting would be held to determine whether contingency plans should be developed.

8. The Committee asked whether, if a government department failed to achieve the required progress on Y2K rectification work, there were measures to compel or put pressure on the department so that the required progress could be achieved. The **Secretary for Information Technology and Broadcasting** said that:

- the seriousness of the Y2K Problem had been clearly spelt out in a meeting of Heads of Department chaired by the Chief Secretary for Administration;
- Heads of Department were then asked to sign off a quarterly progress report on Y2K rectification programmes;
- the Chief Executive, the Chief Secretary for Administration and the Financial Secretary had all given their support to the ITBB in addressing the Y2K Problem; and
- the ITBB would proactively assist departments concerned to ensure that their schedule of Y2K compliance would not be delayed.

9. According to paragraphs 57 and 58 of the Audit Report, in order to gauge the level of awareness of the Y2K Problem in the public sector, Audit had conducted a survey of policy bureaux and government departments through a detailed questionnaire. Among the respondents, ten government organizations indicated that they were not affected by the Y2K Problem. In this connection, the Committee asked what the basis was for these organizations

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to have made this statement. The **Secretary for Information Technology and Broadcasting** said that:

- he did not have a concrete answer at this stage; and
- the following were possible reasons why these organizations were not affected by the Y2K Problem:
  - (i) their computer equipment was free from the Y2K Problem; or
  - (ii) they had done the required verification work.

10. After the public hearing, the Committee invited the Secretary for Information Technology and Broadcasting to provide further information on:

- the basis on which the ten government organizations made the statement that they were not affected by the Y2K Problem and whether there were any subsequent changes in their position; and
- the current position of the four government organizations which either had not furnished their returns in response to Audit's questionnaire on the Y2K Problem or had furnished their returns too late for Audit's consideration.

11. The Paper dated December 1998 from the ITBB in *Appendix 10* was summarised as follows:

- in response to the Audit's questionnaire, ten government organizations had indicated that they were not affected by the Y2K Problem;
- according to the latest information, six out of the these ten government organizations did not have any mission-critical computer or embedded systems which were affected by the Y2K Problem;
- the responsibilities of the former Broadcasting, Culture and Sports Bureau were redistributed to the Home Affairs Bureau (HAB) and the ITBB in April 1998 and both the HAB and the ITBB did not have any mission-critical computer systems or embedded systems affected by the Y2K Problem;

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- the Agriculture and Fisheries Department had 15 mission-critical systems which were non-compliant and would be rectified by June 1999;
- for the Civil Aviation Department (CAD), its air traffic control (ATC) systems had all been confirmed to be Y2K-compliant. Of the other mission-critical embedded services facilities, two had been confirmed to be non-compliant and the other twenty one were being examined by the EMSD to ascertain their Y2K compliance status. The CAD would draw up contingency plans if the necessary rectification work could not be completed by June 1999;
- for the Trade and Industry Bureau, two systems relating to the Community Electronic Trading Service had been identified as non-compliant and would be rectified by April 1999;
- four policy bureaux/government departments had not submitted their returns to Audit's questionnaire. They were the Central Policy Unit (CPU), the Civil Service Bureau (CSB), the Intellectual Property Department (IPD) and the Management Services Agency (MSA); and
- according to the latest information, the CPU, the CSB and the MSA did not have any mission-critical computer systems or embedded systems affected by the Y2K Problem. The IPD had three non-compliant mission-critical computer/embedded systems which would be rectified by the end of 1998.

12. Responding to the Committee's concern as to whether there were enough qualified information technology (IT) professionals in government departments, the **Secretary for Information Technology and Broadcasting** said that:

- the use of computer varied among government departments and relevant training would be provided to the officials concerned from time to time;
- there were specialists in the ITBB for the Y2K rectification programmes; and
- departments might employ or commission appropriate IT professionals for their rectification work if this was considered necessary.

13. Noting that the questionnaire sent out by Audit had been able to increase awareness of the Y2K Problem in government departments, the Committee asked whether this kind of

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management measure, serving as a kind of “indirect reminder”, would be adopted for use in future. The **Secretary for Information Technology and Broadcasting** said that:

- Audit had increased, to a substantial extent, the awareness of government departments and drawn their attention to the need to give priority to the Y2K Problem; and
- Audit’s approach would be followed all along and both the ITBB and the ITSD had adopted a very proactive stand in addressing the Y2K Problem.

14. The Committee asked whether those organizations which were providing essential public services such as the Hospital Authority, the Mass Transit Railway Corporation and the two municipal councils would also be Y2K-compliant by mid-1999.

15. The **Secretary for Information Technology and Broadcasting** said that those essential service providers which were funded or regulated by the Government had been included in the whole-of-government Y2K compliance programme and therefore, they should also be Y2K compliant by mid-1999.

16. With regard to the Committee’s concern about the public awareness of the Y2K Problem, the **Secretary for Information Technology and Broadcasting** said that:

- since its formation in April 1998, the ITBB had organised a lot of publicity work through the mass media and conducted seminars on the Y2K Problem to increase public awareness;
- there was a Government web-site solely on the Y2K issue; and
- transparency would be further increased so that the public would be made aware of the progress of the Y2K rectification programmes.

17. The Committee asked whether more seminars on the Y2K Problem could be provided to the small and medium-sized enterprises (SMEs) and whether the message could be conveyed in more layman terms. The **Secretary for Information Technology and Broadcasting** said that:

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- a number of seminars for the Y2K Problem had already been conducted for SMEs and the message was not conveyed in technical terms;
- there were quite a lot of press reports on the Y2K Problem at present, given the fact that IT was now a matter of wide concern; and
- the ITBB would certainly give publicity to the Y2K issue as much as possible to enhance public awareness.

### 18. **Conclusions and recommendations** The Committee:

- note that if the Year 2000 (Y2K) Problem is not handled properly, there may be catastrophic impact on the community;
- express concern that despite the seriousness of the implications of the Y2K Problem, the Government's Steering Committee on Y2K Compliance was only set up in March 1998;
- urge the Secretary for Information Technology and Broadcasting, in consultation with the Director of Information Technology Services to:
  - (i) proactively assist government organizations which are behind schedule to ensure that their mission-critical systems and equipment are Y2K compliant by the deadline;
  - (ii) continue to monitor the progress and effectiveness of the whole-of-government Y2K compliance, accelerate the pace of compliance and ensure that government organizations will meet the strict target of completing all Y2K work by mid-1999;
  - (iii) take all measures, including the development of contingency plans and testing of the plans, to ensure that the Government's key services and operations will continue to function properly and smoothly in year 2000;
  - (iv) include all the essential service providers, which are funded and regulated by the Government such as the Hospital Authority and the Airport Authority, into the whole-of-government Y2K compliance programme so as to ensure that they are also Y2K compliant by mid-1999; and

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- (v) in view of the substantial amount of expenditure to be incurred, closely monitor the use of Y2K funding to ensure that the principles of economy, efficiency and effectiveness are being observed;
- express serious concern that, prior to the establishment of the Information Technology and Broadcasting Bureau in April 1998, the Government had failed to address the Y2K Problem in the private sector in a comprehensive, coordinated and systematic manner;
- urge the Secretary for Information Technology and Broadcasting to:
  - (i) strengthen the Government's role in educating the public to comprehend and manage the Y2K Problem;
  - (ii) consider providing additional support to the private sector, particularly small and medium-sized enterprises;
  - (iii) review and, if necessary, strengthen the existing regulatory control to ensure that essential service providers in the private sector are Y2K compliant; and
  - (iv) develop a counterparty assessment framework for the interface testing of essential service providers and to formulate contingency plans in order to avoid major disruptions to the community;
- express concern that there was no independent and impartial input in assessing the progress of Y2K compliance programme in government organizations and that certification of progress by independent professionals had not been arranged; and
- request the Secretary for Information Technology and Broadcasting to submit to the Committee by mid-1999 at the latest a report which should include:
  - (i) the overall assessment of Y2K progress in both government organizations and the private sector and the remedial actions to be taken; and
  - (ii) a full list of essential service providers and information on whether their Y2K compliance programmes have been fully tested and on their contingency plans put in place.

## Chapter 5

### Maintenance and procurement of government vehicles

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The Committee noted that the Director of Audit's review of the maintenance and procurement of government vehicles examined the following areas:

- maintenance of vehicles;
- replacement of vehicles;
- supernumerary and surplus vehicles;
- procurement of large saloon cars; and
- allocation of responsibilities for vehicle procurement.

2. Referring to paragraph 96 of the Audit Report which mentioned that the May 1996 tender for large saloon grade A and grade B cars was unsuccessful because, for grade A cars, the Central Tender Board (CTB) was informed that users' feedback during the evaluation session showed that none of the offers could meet their requirements particularly comfort of the rear-seat passengers regarding headroom, legroom and width of seat, the Committee asked whether there were written records on the users' feedback and the names of users who had given the feedback. **Mr P B Walker, Government Land Transport Administrator**, said that:

- for the May 1996 tender, the users' feedback was collected on an informal basis and there was no formal method to measure users' views as the quality assessment factor had not been built into the tender process at that stage; and
- the full list of users who had given the feedback was also not available, but the Director of Protocol, senior police officials, and representatives from the Civil Service Bureau and the Finance Bureau had been involved in the evaluation.

3. In his letter of 17 December 1998 to the Committee in *Appendix 11*, the **Government Land Transport Administrator** supplemented that it was not uncommon to collect feedback from various users on an informal basis. This was the case during the May 1996 assessment. There was no written record on the users' feedback nor a record of users who had given the feedback. He also confirmed that the qualitative assessment exercise on conforming offers was not carried out prior to the May 1996 tender.

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4. The Committee were concerned about the rejection of the offers in the May 1996 tender for large saloon grade A cars, which complied with all the specifications, for the sole reason of not meeting the users' comfort requirements. The **Government Land Transport Administrator** said that there was no point in buying cars that were not acceptable or useful for the users. The Government Land Transport Agency (GLTA) would take into account users' needs and requirements, the hierarchical system in the allocation of government vehicles, updated vehicle design and technologies, safety and environmental requirements as well as the offers in the market in drawing up the tender specifications and that the specifications would be as broad as possible to allow for open and fair competition so as to ensure best value for money.

5. **Mr KWONG Ki-chi, Secretary for Information Technology and Broadcasting, formerly Secretary for the Treasury**, said that it was a reasonable arrangement, in selecting the vehicle to be purchased, to consider the users' comfort as well as the facilities and features of the vehicle.

6. Responding to the Committee's question on whether user comfort would be the key factor in future evaluation of vehicle tenders, **Miss Denise YUE Chung-ye, Secretary for the Treasury**, said that the most important thing was to look at the kind of vehicles to be purchased. She considered that user comfort would be an important factor in the case of passenger cars.

7. Noting that the May 1996 tender exercise was cancelled on the recommendations of the GLTA, the Committee asked what procedures the GLTA had gone through in the cancellation of the tender and what the reasons were. The **Government Land Transport Administrator** said that:

- users' feedback concerning the conforming offers in the May 1996 tender was channeled to the GLTA through the Finance Bureau and there were considerable doubts expressed about comfort of the rear-seat passengers;
- because of the future projected requirement of VIP cars for the 1997 Handover Ceremony and the subsequent World Bank Conference, the GLTA had extensive discussions with the Protocol Division on the May 1996 tender and the conclusion was that the conforming offers did not meet the requisite degree of comfort and access into the rear seats;

## Maintenance and procurement of government vehicles

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- therefore, the GLTA conducted an evaluation session for the two lowest conforming offers under actual operating conditions and the offered cars were tried by staff from the Finance Bureau and also, he believed, from the Protocol Division;
- the feedback during the evaluation session showed that none of the offers could meet the users' requirements;
- however, as a quality assessment factor had not been built into the tender process, it was considered inappropriate to base selection on users' feedback at that late stage; and
- hence, the GLTA recommended and the CTB approved that the tender be cancelled to allow the GLTA to re-examine the specifications of the tender and build in the additional requirement for comfort.

8. The **former Secretary for the Treasury** supplemented that:

- from the report given to the CTB by the GLTA regarding the May 1996 tender, it was expressly recorded that the dimensions of the conforming offers were up to the requirement, but in terms of comfort level none of them could meet the required level;
- the dimensions alone should not be the only criterion for considering grade A and grade B vehicles; and
- if additional conditions were to be included in the tendering exercise, the whole equity of the exercise would be called into question and that was why the CTB decided that the May 1996 tender should be cancelled.

9. Responding to the Committee's concern as to why the Protocol Division's involvement and participation in the May 1996 tender had not been expressed in the Audit Report, the **Government Land Transport Administrator** said that the issue was not mentioned in the Report but the future projected requirement of VIP cars for the 1997 Handover Ceremony and the World Bank Conference was certainly a consideration that the GLTA had taken into account in the May 1996 tender.

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10. In order to ascertain the role of the Protocol Division in the May 1996 tender, the Committee asked the Director of Protocol to provide all records and relevant information indicating the Protocol Division's involvement and participation in the May 1996 tender and the actual arrangements and sources of VIP cars for the 1997 Handover Ceremony and the World Bank Conference.

11. In her letter of 23 December 1998 in *Appendix 12*, the **Director of Protocol** advised the Committee that:

- having searched through the records of the Protocol Division, she was unable to trace any information indicating the Protocol Division's involvement and participation in the May 1996 tender;
- the only piece of relevant information was a letter of 17 December 1996 from the Government Land Transport Administrator to the then Director of Protocol confirming the arrangements of a subsequent car trial scheduled on 21 December 1996;
- staff members who were with the Protocol Division at that period recalled that Mr V L Warrington, the then Director of Protocol and now retired, had participated in the car trial in December 1996, but they were not able to recall anything further about the Protocol Division's participation in the May 1996 tender; and
- transport arrangements for the 1997 Handover Ceremony and the World Bank Conference were dealt with by the Secretariat of the respective organisers.

12. The Committee asked whether the GLTA had ascertained and finalised all users' requirements and included them into the specifications of the May 1996 tender as certain specifications were revised in the October 1996 tender. The **Government Land Transport Administrator** said that:

- the specifications of tender were drawn up as an attempt to match users' requirements with what the market could offer, to allow the widest possible competition under the greatest degree of transparency to get the best value for money;
- each tender could only reflect the situation at that particular time;

## Maintenance and procurement of government vehicles

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- for the May 1996 tender, specifications were drawn up in early 1996 originally to cover two grades of cars, grades A and B as there was the requirement for a common vehicle chassis at that time;
- a compromise had to be made between the users' requirements of these two grades and the requirements of grade A cars tended to be overlooked; and
- by the time the tender was evaluated in July 1996, there was already a different set of requirements and taking into account the projected VIP cars requirement in 1997, the GLTA thus took the opportunity to review the specifications of grade A cars for the October 1996 tender.

13. In regard to the Committee's concern on the need of specifying the additional minimum requirements for the exterior dimensions in the October 1996 tender when the minimum requirements for the interior dimensions had already been specified, the **Government Land Transport Administrator** said that:

- the inclusion of additional minimum requirements for the exterior dimensions was to ensure relativity between cars of different grades, which reflected the dignity appropriate to the rank and status of the post of an officer as a Head of Department or Bureau Secretary; and
- selection based solely on the interior dimensions would not reflect such relative ranks and status.

14. According to paragraph 98 of the Audit Report which mentioned that in both the September 1996 and the October 1996 tenders, a weighted score assessment method was introduced to take into account both the price and quality of the vehicle in the tender evaluation, the Committee asked why the weight assigned to the quality score was 50% in the two tenders, contrary to the guidelines subsequently given in Appendix III (G) to the Stores and Procurement Regulations (SPR). The **Secretary for the Treasury** said that:

- the respective weights for quality and price factors as laid down in the SPR were just general reference and they might not necessarily apply to each and every scenario;
- there was a very detailed procedure whereby if departments considered it more appropriate to adopt different weights for these two factors, they would have to seek the approval of the relevant tender board before issuing the tender; and

## Maintenance and procurement of government vehicles

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- the proposal of the GLTA in using the same weight of 50% to the price score and quality score in the October 1996 tender had followed all the proper procedures and the CTB, after very detailed consideration, approved the GLTA's proposal.

15. In paragraph 26 of the Audit Report, Audit stated that the preliminary results of the trial of contracting out the maintenance of 12 vehicles revealed that the Electrical and Mechanical Services Trading Fund (EMSTF)'s services for vehicles included in the trial were less cost-effective than those of the contractors. The Director of Electrical and Mechanical Services mentioned in paragraph 29(c) that the trial scheme of contracting out vehicle maintenance was agreed on a three-year duration to enable realistic data to be collected for evaluation. The scheme would not be completed until the end of 1998. The partial and premature use of data by Audit at this stage was considered inappropriate for drawing any conclusions, especially when the accuracy of the data collected was being queried. The Committee asked whether the preliminary results of the trial were valid and suitable for drawing conclusion. **Mr Hugh B Phillipson, Director of Electrical and Mechanical Services**, said that:

- his views as expressed in paragraph 29(c) were still valid;
- the preliminary results of the trial showed a difference of 19% in the service costs between the EMSTF and the contractors, but according to the updated figures for the month of June 1998 which were available in October 1998, the costs between the EMSTF and the contractors were very much the same; and
- it confirmed the fact that the true comparison could only be made until the trial was completed.

16. The **Director of Electrical and Mechanical Services** also said that:

- the latest figures of the trial scheme produced markedly different figures from the preliminary results, and confirmed that it was inappropriate to draw any conclusion before the completion of the scheme;
- a committee that was reviewing this vehicle trial, chaired by the Government Land Transport Administrator, with representatives from the Finance Bureau, the EMSTF, various user departments and the two municipal councils, had

## Maintenance and procurement of government vehicles

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considered the preliminary results and their view was that they did not present a fair comparison;

- notwithstanding, the EMSTF agreed with Audit's view on the need for continuous improvement in its vehicle services as well as the general principles of improvement as outlined by Audit; and
- the EMSTF welcomed future audit review on the final results of the trial scheme.

17. **Mr KWONG Hon-sang, Secretary for Works**, supplemented that:

- it would not be fair to use just part of the data of the trial scheme to draw conclusions;
- the situation should be reviewed on the latest available information and the figures at the end of the trial scheme might tell a different story; and
- the recommendations of Audit to improve the existing services of the EMSTF were welcome and had been adopted to improve the cost-effectiveness of the EMSTF.

18. The Committee were concerned about the possibility of drawing conclusions on the basis of some inconclusive evidence and the Director of Audit was asked to present his view. **Mr Dominic CHAN Yin-tat, Director of Audit**, said that:

- Audit was not drawing any conclusion and what had been brought up and highlighted were just some interim observations on the basis of the information available at the time;
- it was not reasonable and sensible to wait for the completion of the trial scheme to conduct audit review as Audit was just trying to throw up all the problems and highlighting the observations; and
- Audit's recommendations on maintenance of vehicles were agreed by the EMSTF and there had been no major disagreements between the two parties.

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19. In response to the Committee's concern on whether Audit had cited some wrong data and inaccurate information, the **Director of Audit** said that this could be just a matter of interpretation but certainly, he would not adduce any incorrect information. As he had not received the latest data and information from the EMSTF, it was inappropriate for him to give any further comments on the validity of the data.

20. The Committee asked whether it was the usual practice to conduct audit review for trial scheme before its completion and the **Director of Audit** said that the main objective of the audit review was to add value to the trial and it was felt that it was not necessary to wait until the completion of the trial to demonstrate the need for improvement.

21. The **Director of Electrical and Mechanical Services** supplemented that:

- Audit had made some very valid points about the frequencies of vehicle maintenance, and the EMSTF had improved its vehicle services and reduced the maintenance frequencies as recommended by Audit; and
- the EMSTF accepted that the improvements should commence right now and not to wait until the end of the trial.

22. At the request of the Committee, the **Director of Electrical and Mechanical Services** in his reply on 15 December 1998 in *Appendix 13* provided the latest data of the trial scheme collected after compilation of the Audit Report. The Committee asked Audit to analyse the latest data and comment as to whether the sample of 12 vehicles was appropriate. The **Director of Audit** in his letter of 17 December 1998 in *Appendix 14*, advised the Committee that:

- the EMSTF's total maintenance costs for the period from January 1998 to June 1998 were 28% of the total maintenance costs for the period from January 1996 to December 1997;
- the contractors' total maintenance costs for the period from January 1998 to June 1998 were 44% of the total maintenance costs for the period from January 1996 to December 1997;
- Audit expected the improvements to be made by the EMSTF, as the main objective of the audit review was to add value to the trial; and

## Maintenance and procurement of government vehicles

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- Audit had reservations on the small sample of 12 vehicles in the trial and therefore, expanded the sample by using 20 medium vans and 11 17-seater buses as additional samples for evaluating the cost-effectiveness of the EMSTF.

23. The Committee went on to ask whether the size of the samples for audit review was appropriate and the **Director of Audit** said that sensible and reasonable samples had been selected for the audit review. The interim results had prompted the EMSTF to further improve the cost-effectiveness of vehicle maintenance services and Audit's views were shared by the Director of Electrical and Mechanical Services.

24. Noting that there were 261 supernumerary vehicles and 250 surplus vehicles as at 31 October 1997, the Committee asked what actions had been taken to rectify the situation. The **Government Land Transport Administrator** said that:

- there were now no surplus vehicles and they had all been recalled and disposed of in the appropriate way;
- the number of supernumerary vehicles had also been considerably reduced; and
- a tighter control system for surplus vehicles and supernumerary vehicles had been put in place and enforced.

25. In response to the Committee's concern about the conflicting views between the EMSTF and the GLTA regarding the EMSTF's responsibility for the control of surplus vehicles, the **Director of Electrical and Mechanical Services** said that:

- the EMSTF was a trading fund and that its clients (i.e. user departments) would be having a choice of alternative providers;
- from a practical point of view, it was not likely that the user departments would choose the EMSTF for vehicle services if it was in the business of confiscating surplus vehicles from the user departments; and
- the role and responsibility for the control of surplus vehicles should be in the hand of the GLTA.

26. The **Government Land Transport Administrator** said that:

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- there had been a grey area on the issue, particularly when the services for the maintenance of government vehicles were taken over by the EMSTF;
- the GLTA had taken active measures to rectify the situation;
- all the surplus vehicles were now recalled as the GLTA would de-license the vehicles if they were not returned by the user departments; and
- the control system for the supernumerary vehicles had been enhanced and tightened up.

27. The Committee asked whether it was acceptable that departments could have new vehicles while keeping the old vehicles for years as supernumerary or surplus vehicles. The **Secretary for the Treasury** said that:

- surplus vehicles should be surrendered to the GLTA and supernumerary vehicles could only be kept for a short period while there was real functional need; and
- two control mechanisms had been used by the GLTA and they were as follows:
  - (i) all replacement vehicles would be sent to the departments only after the old vehicles had been surrendered to the GLTA; and
  - (ii) with sufficient justification and approval given by the GLTA, supernumerary vehicles could be kept only for six months, and in very extraordinary circumstances another six months could be granted, but it would then be final.

28. The Committee asked why the new measures could not be enforced earlier and the **Government Land Transport Administrator** said that he had to thank Audit because the audit review gave a lot of impetus to the actions that the GLTA had been trying to take for two years. Therefore, the majority of the enforcement actions had taken place in the few months following the audit review.

29. In response to the Committee's question about the number of supernumerary vehicles, the **Government Land Transport Administrator** said that there were 170 vehicles

## Maintenance and procurement of government vehicles

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kept by departments for operational purposes, and a further 100 by the Police Force for short-term purpose.

30. The Committee asked what the source of power was for the GLTA to de-licence the surplus vehicles and the **Government Land Transport Administrator** said that:

- all government vehicles had to be on the government inventory and be authorised to be used by departments;
- if that authorisation was withdrawn, the vehicles were no longer allowed to be used on the roads; and
- the power to de-licence was simply the fact that the GLTA would withdraw the authorisation for the vehicles to be used on the roads.

31. **Mr Roger LAI Sze-hoi, Trading Services Manager of the Electrical and Mechanical Services Department**, supplemented that an Internal Administrative Order had been issued by the GLTA to the EMSD which gave specific instructions regarding the return of old vehicles and the collection of new ones by user departments.

32. The Committee were also advised at the hearing that the GLTA had issued a memorandum to remind the departments concerned of the circumstances under which supernumerary vehicles could be retained.

33. As requested by the Committee, the **Government Land Transport Administrator** in his letter of 17 December 1998, vide *Appendix 11* enclosed copies of the Internal Administrative Order and the Memorandum for the Committee's information. In the Internal Administrative Order dated 1 September 1998, the EMSD was requested by the GLTA to strictly enforce the rule of delivering replacement vehicles to departments only upon the return of the vehicles to be replaced. Paragraph 4 of the Memorandum dated 1 September 1998 to all Heads of Department mentioned that approval for retaining supernumerary vehicles would only be granted under exceptional circumstances. The Committee were also advised that internally, the GLTA had adopted the practice that a supernumerary vehicle would only be approved for retention for a maximum of six months. Further retention beyond that period would be exceptionally granted, subject to the provision that a returned vehicle would not be used as a supernumerary vehicle for more than one year.

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### 34. **Conclusions and recommendations** The Committee:

#### Maintenance of vehicles

- express dismay and alarm that the Electrical and Mechanical Services Trading Fund (EMSTF)'s maintenance services for vehicles not included in the trial were less cost-effective than those for vehicles included and as a result, the credibility of the trial scheme was put into doubt;

#### Replacement of vehicles

- express concern that the EMSTF had not followed the recommendation of the Finance Bureau that vehicle replacement should be based on the economic life and the cumulative maintenance costs rather than the age of a vehicle;
- urge the Government Land Transport Administrator to fully take into account the recommendations of the Finance Bureau when preparing the provisional annual replacement list of vehicles;

#### Supernumerary and surplus vehicles

- express concern that the prolonged retention of a large number of supernumerary and surplus vehicles has inflated the size of the government vehicle fleet beyond the level set in the Annual Estimates and approved by the Legislative Council;
- express concern that the supernumerary and surplus vehicles have been used beyond their economic life even though they are uneconomical to maintain;
- express dissatisfaction that there were significant discrepancies in the number of supernumerary and surplus vehicles recorded by the Government Land Transport Agency and the EMSTF;
- support the Government Land Transport Administrator, in conjunction with the Director of Electrical and Mechanical Services to:
  - (i) take expeditious action to reduce the number of supernumerary and surplus vehicles now retained by government departments;
  - (ii) strictly enforce the requirement for departments to return their old vehicle

## Maintenance and procurement of government vehicles

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at the time of collecting a new replacement vehicle unless written approval for keeping the old vehicle as a supernumerary one has been obtained from the Government Land Transport Administrator; and

- (iii) critically examine the need for government departments to retain supernumerary vehicles and tighten up the approval and control procedures to ensure that supernumerary vehicles are not retained for prolonged periods;

### Procurement of large saloon cars

- deplore that:
  - (i) in the May 1996 tender for grade A cars, the users' feedback was used as the sole reason for rejecting the tender offers which conformed to the technical specifications; and
  - (ii) no written record on the users' feedback could be provided to the Public Accounts Committee;
- consider it inexplicable and unacceptable that the Administration had made the decision to assign the same weight of 50% to the price score and the quality score in both the September 1996 and October 1996 tenders without paying sufficient regard to economy;
- disagree with the view of the Government Land Transport Administrator on the need and usefulness of specifying the minimum requirements for the exterior dimensions in the tender for saloon cars when the minimum requirements for the interior dimensions have already been specified;
- express concern that the specification of minimum requirements for the exterior dimensions without a permitted range of allowance had created obstacles to fair competition and it would be easily interpreted by the public that the Government was in favour of a particular model and brand of vehicle;
- express concern that only the initial unit purchase price of the vehicle but not all relevant cost factors such as the running and maintenance costs, was taken into account in the tender evaluation exercise;
- condemn the Government Land Transport Administrator for making a remark without substantiation in alleging that the projected requirement of VIP cars for

## Maintenance and procurement of government vehicles

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the 1997 Handover Ceremony and the subsequent World Bank Conference could be a key factor for consideration in the May 1996 tender for large saloon cars;

- totally reject the Government Land Transport Administrator's view that the inclusion of minimum requirements for the exterior dimensions was to ensure relativity between cars of different grades, which reflected the dignity appropriate to the rank and status of an officer as a Head of Department or Bureau Secretary;
- consider that the dignity appropriate to the rank and status of senior civil servants could be better reflected by efficiency and frugality, rather than luxury and extravagance;
- express alarm and strong resentment at the frequent changes of requirements and tender specifications, and the weak justifications given by the Administration, all of which could create an impression that the tender exercise was being manipulated in order to satisfy senior civil servants' subjective preference;
- consider that there is a strong need to set up an independent vetting mechanism outside government departments for the selection of tender offers for the procurement of large saloon cars so as to minimize the perceived conflict of interests in that senior civil servants are selecting their own cars without taking economy into account;
- recommend that since the provision of saloon cars for senior civil servants has been considered as part of the staff's fringe benefits, the Standing Commission on Civil Service Salaries and Conditions of Service should be involved in the tender process so as to provide proper checks and balances;
- recommend that the Government Land Transport Administrator should, in conjunction with the Director of Electrical and Mechanical Services:
  - (i) critically review the tender specifications for the supply of government vehicles and remove all non-critical requirements that would create obstacles to open and fair competition among suppliers;
  - (ii) distinguish mandatory requirements from desirable features in future tender specifications for the supply of government vehicles;

## Maintenance and procurement of government vehicles

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- (iii) disqualify a tender offer only if it does not meet the mandatory requirements;
- (iv) pay due regard to economy in the selection of government vehicles and limit the weight for quality score in any marking scheme to 30% in accordance with the Stores and Procurement Regulations; and
- (v) in the selection of tender offers, consider all relevant cost factors, including the running and maintenance costs, in addition to the initial unit purchase price;

### Allocation of responsibilities for vehicle procurement

- express concern that the Administration has not resolved the issue of a central procurement unit; and
- recommend that the Administration should:
  - (i) in addition to the recommendation on the involvement of the Standing Commission on Civil Service Salaries and Conditions of Service, further consider the merits of a central procurement unit in the light of the establishment of the EMSTF; and
  - (ii) take early action to resolve the issue of a central procurement unit.

**SIGNATURES OF THE CHAIRMAN, DEPUTY CHAIRMAN AND  
MEMBERS OF THE COMMITTEE**

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Eric LI Ka-cheung  
(*Chairman*)

Fred LI Wah-ming  
(*Deputy Chairman*)

David CHU Yu-lin

NG Leung-sing

Sophie LEUNG LAU Yau-fun

LAU Kong-wah

Emily LAU Wai-hing

3 February 1999

**CHAPTERS IN THE DIRECTOR OF AUDIT'S REPORT NO. 30  
DEALT WITH IN THE PUBLIC ACCOUNTS COMMITTEE'S REPORT**

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<b>Director of Audit's Report No. 30 Chapter</b>	<b>Subject</b>	<b>P.A.C. Report No. 30 Chapter</b>
2	Management of stores	1
5	The provision of legal services by the Civil Division of the Department of Justice	2
7	Acceleration of works in the Strategic Sewage Disposal Scheme Stage I	3
9	The Year 2000 Problem	4
11	Maintenance and procurement of government vehicles	5

**RULES OF PROCEDURE OF  
THE LEGISLATIVE COUNCIL OF  
THE HONG KONG SPECIAL ADMINISTRATIVE REGION**

**72. Public Accounts Committee**

(1) There shall be a standing committee, to be called the Public Accounts Committee, to consider reports of the Director of Audit –

- (a) on the accounts of the Government;
- (b) on such other accounts required to be laid before the Council as the committee may think fit; and
- (c) on any matter incidental to the performance of his duties or the exercise of his powers as the committee may think fit.

(2) The committee shall also consider any report of the Director of Audit laid on the Table of the Council which deals with examinations (value for money audit) carried out by the Director relating to the economy, efficiency and effectiveness of any Government department or public body or any organization to which his functions as Director of Audit extend by virtue of any Ordinance or which receives public moneys by way of subvention.

(3) The committee shall consist of a chairman, deputy chairman and 5 members who shall be Members appointed by the President in accordance with an election procedure determined by the House Committee. In the event of the temporary absence of the chairman and deputy chairman, the committee may elect a chairman to act during such absence. The chairman and 2 other members shall constitute a quorum.

(4) A report mentioned in subrules (1) and (2) shall be deemed to have been referred by the Council to the committee when it is laid on the Table of the Council.

(5) Unless the chairman otherwise orders, members of the press and of the public shall be admitted as spectators at meetings of the committee attended by any person invited by the committee under subrule (8).

(6) The committee shall meet at the time and the place determined by the chairman. Written notice of every meeting shall be given to the members and to any person invited to attend a meeting at least 5 clear days before the day of the meeting but shorter notice may be given in any case where the chairman so directs.

(7) All matters before the committee shall be decided by a majority of the members voting. Neither the chairman nor any other member presiding shall vote, unless the votes of the other members are equally divided, in which case he shall have a casting vote.

(8) The chairman or the committee may invite any public officer, or, in the case of a report on the accounts of or relating to a non-government body or organization, any member or employee of that body or organization, to give information or any explanation or to produce any records or documents which the committee may require in the performance of its duties; and the committee may also invite any other person to assist the committee in relation to any such information, explanation, records or documents.

(9) The committee shall make their report upon the report of the Director of Audit on the accounts of the Government within 3 months (or such longer period as may be determined under section 12 of the Audit Ordinance (Cap. 122)) of the date on which the Director's report is laid on the Table of the Council.

(10) The committee shall make their report upon the report of the Director of Audit mentioned in subrule (2) within 3 months (or such longer period as may be determined by the Council) of the date on which the Director's report is laid on the Table of the Council.

(11) Subject to these Rules of Procedure, the practice and procedure of the committee shall be determined by the committee.

**Paper presented to the Provisional Legislative Council  
by the Chairman of the Public Accounts Committee  
at the meeting on 11 February 1998 on  
Scope of Government Audit in the  
Hong Kong Special Administrative Region -  
'Value for Money Audits'**

**SCOPE OF WORK**

1. The Director of Audit may carry out examinations into the economy, efficiency and effectiveness with which any bureau, department, agency, other public body, public office, or audited organisation has discharged its functions.
  
2. The term "audited organisation" shall include -
  - (i) any person, body corporate or other body whose accounts the Director of Audit is empowered under any Ordinance to audit;
  - (ii) any organisation which receives more than half its income from public moneys (this should not preclude the Director from carrying out similar examinations in any organisation which receives less than half its income from public moneys by virtue of an agreement made as a condition of subvention); and
  - (iii) any organisation the accounts and records of which the Director is authorised in writing by the Chief Executive to audit in the public interest under section 15 of the Audit Ordinance (Cap. 122).
  
3. This definition of scope of work shall not be construed as entitling the Director of Audit to question the merits of the policy objectives of any bureau, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the following Guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

## GUIDELINES

4. The Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to these Guidelines, he will not comment on policy decisions of the Executive Council and the Legislative Council, save from the point of view of their effect on the public purse.

5. In the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry.

6. The Director of Audit may also -

- (i) consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;
- (ii) consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- (iii) consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;

- (iv) consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- (v) consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- (vi) be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

## **PROCEDURES**

7. The Director of Audit shall report his findings on value for money audits in the Legislative Council twice each year. The first report shall be submitted to the President of the Legislative Council within seven months of the end of the financial year, or such longer period as the Chief Executive may determine. Within one month, or such longer period as the President may determine, copies shall be laid before the Legislative Council. The second report shall be submitted to the President of the Legislative Council by the 7th of April each year, or such date as the Chief Executive may determine. By the 30th April, or such date as the President may determine, copies shall be laid before the Legislative Council.

8. The Director's report shall be referred to the Public Accounts Committee for consideration when it is laid on the table of the Legislative Council. The Public Accounts Committee shall follow the rules governing the procedures of the Legislative Council in considering the Director's reports.

9. A Government minute commenting on the action Government proposes to take in respect of the Public Accounts Committee's report shall be laid on the table of the Legislative Council within three months of the laying of the report of the Committee to which it relates.

10. In this paper, reference to the Legislative Council shall, during the existence of the Provisional Legislative Council, be construed as the Provisional Legislative Council.

**Principal witnesses who appeared before the Committee  
(in order of appearance)**

Mr Hugh B Phillipson, JP	Director of Electrical and Mechanical Services
Mr Roger LAI Sze-hoi	Trading Services Manager, Electrical and Mechanical Services Department
Mr P B Walker	Government Land Transport Administrator
Miss Denise YUE Chung-yee, JP	Secretary for the Treasury
Mr KWONG Hon-sang, JP	Secretary for Works
Mr KWONG Ki-chi, JP	Secretary for Information Technology & Broadcasting
Mr Nigel C L Shipman, JP	Director of Government Supplies
Mr LAU Kam-hung, JP	Director of Information Technology Services
Mr John WONG Shek-chuen	Chief Systems Manager, Information Technology Services Department
Mr HUI Ki-on	Commissioner of Police
Mrs Regina IP LAU Suk-yee, JP	Secretary for Security
Mrs Elizabeth YEUNG LAU Sau-ching	Principal Management Services Officer (Security), Security Bureau
Hon Elsie LEUNG Oi-sie, JP	Secretary for Justice
Mr Ian Wingfield, JP	Law Officer (Civil Law), Department of Justice
Mr Stephen LAM Sui-lung, JP	Director of Administration and Development, Department of Justice
Mr J Collier, JP	Director of Drainage Services
Mr Raymond CHEUNG Tat-kwing	Assistant Director/Sewage Services Drainage Services Department

Miss Betty HO Siu-ping

Acting Principal Assistant Secretary for  
Information Technology and Broadcasting

Mr Dennis PANG Chi-tat

Assistant Director of Information  
Technology Services (Technical Services)

Mr LEE Che-kit

Senior Electronics Engineer (Special Duty),  
Electrical and Mechanical Services  
Department

Mr Anthony WONG Sik-kei

Director-General of Telecommunications

**Introductory remarks by the Chairman  
of the Public Accounts Committee,  
the Hon Eric LI Ka-cheung, JP  
at the first public hearing of the Committee  
on Thursday, 3 December 1998**

Good morning, ladies and gentlemen. Welcome to this public hearing of the Public Accounts Committee.

For the benefit of the members of the public and other concerned parties who are interested, I would like to give a brief outline about the role and function of the Public Accounts Committee.

The Public Accounts Committee is a standing committee of the Legislative Council. It plays the role of a watchdog over public expenditure through consideration of the reports of the Director of Audit laid before the Council on the accounts and the results of value for money audits of the Government and of any organizations which receive income from public moneys.

For the Committee, public hearing is a crucial part of our work, the purpose of which is to explore the background and the facts surrounding the issues raised in the Director of Audit's reports. Our approach, as always, will be fact-finding and problem-solving rather than assigning blame and expressing opinions. I wish to emphasize that our aim in examining the issues raised in the Director of Audit's reports is that any observations we make and conclusions we draw are both constructive and positive. The objective of the whole exercise is to maintain and improve the high accounting standards of the Government of the Hong Kong Special Administrative Region, and to learn lessons from the past in order to improve control over expenditure and to ensure that every cent of public funds is spent with due regard to economy, efficiency and effectiveness.

Three Director of Audit's reports were tabled in the Legislative Council on 18 November 1998, namely his Report on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 1998 and his two Reports on the results of value for money audits completed between October 1997 and June 1998 and July and September 1998 respectively, i.e. Report Nos. 30 and 31. According to the paper tabled in the Provisional Legislative Council on 11 February 1998 on the Scope of Government Audit in the Hong Kong Special Administrative Region – 'Value for Money Audits', Report No. 30 should have been submitted to the President of the Provisional Legislative Council in April 1998. It was deferred due to the cessation of business of the Provisional Legislative Council after 8 April 1998 in view of the elections of the first Legislative Council on 24 May 1998. The Chief Executive later determined that Report No. 30 should be submitted to the President of the first Legislative Council no later than end October 1998.

Following our preliminary study of the Director's Report Nos. 30 and 31, the Committee have decided to look into 15 of the issues raised, and for this purpose we have invited the public officers and relevant parties concerned to appear before the Committee and answer our questions. Apart from this morning, we have also set aside the mornings of 7, 8 and 10 December for our public hearings. After we have studied the issues and taken the necessary evidence, we will produce our conclusions and recommendations which will reflect the independent and impartial judgement and views of the Committee. These recommendations will be made public when we report back to the Legislative Council within three months' time. Before then, we will not, as a committee or individually, be making any public comment on our conclusions.

I now declare the Committee to be in formal session.

**Opening Remarks by Chairman  
of the Public Accounts Committee,  
the Hon Eric LI Ka-cheung, JP,  
at the Public Hearing of the Committee  
on Thursday, 10 December 1998**

Good morning, ladies and gentlemen. At today's public hearing, the Public Accounts Committee will continue to receive evidence from Controlling Officers on issues raised in the Director of Audit's Report Nos. 30 and 31. Chapter 5 of Report No. 30 concerns "The provision of legal services by the Civil Division of the Department of Justice". In this connection, I have received a letter from Mrs Florence LAM, Clerk to the Public Accounts Committee, who would like to declare that her husband, LAM Sui-lung Stephen, holds the position of Director of Administration and Development of the Department of Justice and acts as Controlling Officer of the department in this capacity. The Committee consider that it is proper for her to make the declaration. In order to avoid any potential conflict of interests and to maintain the impartiality of the Committee and the Secretariat, the Committee has agreed that Mrs LAM be exempted from the duties relating to this particular subject. She will not handle any correspondence, participate in the public hearing and deliberations of the Committee, nor involve in the compilation of the report on Chapter 5 of the Director of Audit's Report No. 30. Such duties will be performed by her supervising officer.

