

Procurement of operational equipment by the Hong Kong Police Force

The Audit Commission ("Audit") conducted a review to examine the work of the Hong Kong Police Force ("HKPF") on the procurement of operational equipment including information and communications technology systems, vehicles and other operational equipment (such as uniform and protective equipment).

2. HKPF is at the forefront to protect citizens, their properties and infrastructure from harm and loss. A well-equipped HKPF is vital to deal with a wide range of incidents, emergencies and crime on a timely basis. In 2016-2017, HKPF incurred \$341 million under the General Revenue Account and \$171 million under the Capital Works Reserve Fund on procuring operational equipment.

3. The Committee noted the following findings from the Director of Audit's Report:

- with the funding approval of \$948 million by the Finance Committee of the Legislative Council under the Capital Works Reserve Fund for replacing the Command and Control Communications System in 2001, HKPF put the new system (i.e. the Third Generation Command and Control Communications System ("CC3 system")) into operation in 2006 at a cost of \$435 million under two main contracts (i.e. Contracts A and B). When Contracts A and B were finalized in 2009, there was an unspent balance of \$414.7 million due to the lower-than-estimated tender prices. In this connection:
 - (a) HKPF had not reported the unspent balance to the Financial Services and the Treasury Bureau ("FSTB") in accordance with Financial and Accounting Regulation 320;¹
 - (b) the Administration had set an administrative cap on the use of surplus fund for works projects under the Capital Works Reserve Fund, but the same arrangement had not been extended to non-works projects such as CC3 system; and
 - (c) HKPF spent \$322 million on 43 items of extension and enhancement work of CC3 system, including 33 items of \$285.64 million spanning some 10 years after system roll-out in

¹ According to Financial and Accounting Regulation 320, where Controlling Officers have reason to believe that funds surplus to requirements exist under a subhead, they shall immediately inform FSTB so that the excess may be reserved.

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2006. However, the funding approved by the Finance Committee in 2001 was not a blanket approval for the extension and enhancement work after CC3 system roll-out in 2006. HKPF did not consult FSTB on the propriety of charging the expenditure of the extension and enhancement work into the CC3 project vote in accordance with Financial Circular No. 1/2004 on "Responsibility of Controlling Officers";²

- there were delays of 60 and 45 months³ respectively in implementing the Virtual Workstation project and the Second Generation of Communal Information System project with aggregate approved funding of \$452 million, and the delays had deferred the realization of the intended benefits, including enhanced operational efficiency and notional annual cost savings of over \$100 million;⁴
- HKPF experienced operational problems in using 131 electric vehicles procured by the Government Logistics Department at \$52.84 million from 2011 to 2014, such as long charging time, low average availability and low maximum driving range. Of 54 electric saloon cars with deteriorating battery performance, battery replacement work for 14 cars was still outstanding up to September 2018 when the contract warranty had expired;⁵
- there were late delivery and quality problems in a contract for the supply of 129 large police vans awarded in March 2016 at \$69.3 million. Up to September 2018 (some 13 months after the scheduled delivery dates in mid-2017), 124 vans had been delivered and the remaining five were rejected by the Electrical and Mechanical

² According to Financial Circular No. 1/2004, Controlling Officers must satisfy themselves that there are adequate procedures to monitor expenditure in order to ensure that it is only incurred within the limits and scope authorized, and Controlling Officers should consult the Treasury Branch of FSTB where in doubt.

³ The contract for the supply of the Second Generation of Communal Information System project was awarded in June 2012 with scheduled implementation date in February 2017, which was 14 months later than November 2015 stated in the funding paper. The scheduled implementation date was further extended to August 2019 during the contract stage, and the 45 months delay was based on the latest implementation date.

⁴ The expected notional annual cost savings for the implementation of Virtual Workstation project and the Second Generation of Communal Information System project were \$20.7 million and about \$93 million respectively.

⁵ The warranties of both the vehicles and the batteries had expired from August 2015 to September 2018.

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Services Trading Fund⁶ due to quality problem. After re-inspection, the abovesaid 124 delivered vans were found with defects shortly after putting into use, and the retrofit work was still in progress up to October 2018;

- in 2006-2007, HKPF obtained funding of \$6.2 million for replacing the aged electronic counter measures system. In the event, HKPF took some seven years to procure the new electronic counter measures system at a sum of about \$9.32 million in 2014 after conducting four tender exercises;
- in 2012 and 2013, HKPF received staff complaints that rubber soles of some combat boots peeled off easily, and it was found that the first-in-first-out method for managing stock had not been adopted to prevent prolonged storage of the combat boots. In 2014 and 2015, HKPF awarded two contracts to the supplier for repairing 3 923 pairs of combat boots at a total cost of \$2 million. However, in 2016, the detachment of soles still occurred in 64 pairs of the 2014 repaired combat boots. After negotiation with the supplier and consulting the Department of Justice, HKPF accepted the supplier's offer of replacing 300 of 599 pairs of the 2014 repaired boots in stock with new ones, and the remaining 299 pairs of repaired boots were disposed of in August 2017 to address the occupational and safety concern of police officers;
- HKPF purchased 1 336 body-worn video cameras at a total cost of \$4.81 million by four batches through an open tender exercise in 2015, a contract variation in 2016 and two quotations in 2016 and 2017. Audit considered that the procurement requirement under the second quotation in March 2017 for the Anniversary of the establishment of the Hong Kong Special Administrative Region could have been foreseen and consolidated with the first one in December 2016 to achieve better economy of scale; and
- Audit's sample checking of HKPF's Stores Management Division's⁷ purchases by quotation from 2015-2016 to 2017-2018 revealed that purchases of 13 items of operational equipment did not comply with

⁶ The Electrical and Mechanical Services Trading Fund is responsible for providing electrical and mechanical services to government bureaux/departments.

⁷ The Stores Management Division of the Finance Wing under the Finance, Administration and Planning Department in HKPF Headquarters is responsible for the overall procurement and stores management in HKPF.

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the requirement of Stores and Procurement Regulation 246.⁸ In 7 of the 13 cases, there were no documented reasons for not following the requirement.

4. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding the implementation of the CC3 project; the procurement of the electronic counter measures system, boot repair service, body-worn video cameras and other operational equipment of HKPF; and the information and communications technology projects. The consolidated replies from **Secretary for Security and Commissioner of Police**, and the replies from **Secretary for Financial Services and the Treasury, Director of Government Logistics** and **Director of Electrical and Mechanical Services** are in *Appendices 20* to *23* respectively.

5. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.

⁸ According to the requirement of Stores and Procurement Regulation 246, departments may only make repeated purchases of the same items within 12 months if the cumulative value of the purchases does not exceed the quotation limit of \$1.43 million.