



**Civil Engineering and Development Department
Technical Circular No. 03/2023**

Technical Audits on Works Contracts

Introduction

This technical circular (TC) sets out the departmental procedure to be adopted by the Contract Advisory Unit of Technical Branch, Headquarters for carrying out technical audits on works contracts.

Effective Date

2. This TC takes immediate effect.

Effect on Existing Circular

3. This TC supersedes Civil Engineering and Development Department TC No. 02/2020 which is hereby cancelled. This revision is to update the division of duties among the Contract Advisers and **Appendix A** to this TC.

Background

4. Paragraph 21.2 of Project Administration Handbook for Civil Engineering Works (PAH) Chapter 7 provides guidelines on carrying out technical audits on works contracts, reporting technical audit findings and follow-up actions to be taken by works departments. This TC sets out a unified departmental procedure for planning, reporting and implementation of follow-up actions for carrying out technical audits on works contracts.

Contract Advisory Unit in CEDD

5. The Contract Advisers of the Civil Engineering and Development Department (CEDD) are the Senior Engineer/Contract Adviser (1) (SE/CA(1)), the Senior Engineer/Contract Adviser (2) (SE/CA(2)) and the Senior Engineer/Contract Adviser (3) (SE/CA(3)). The Contract Advisers are responsible for carrying out technical audits on works contracts supervised by either in-house staff or by consultants. The Offices/Divisions for which each Contract Adviser will carry out technical audits are listed below: -

| <u>Contract Adviser</u> | <u>Offices/Divisions</u> |
|-------------------------|--|
| SE/CA(1) | Fill Management Division, Pier Improvement Unit and Port Works Division of Civil Engineering Office and all Divisions of Geotechnical Engineering Office |
| SE/CA(2) | Housing Projects 1 Unit, Housing Projects 2 Division, Housing Projects 3 Division, Land Works Division, Special Duties (Works) Division, Health Projects Unit and Project Unit of Civil Engineering Office, West Development Office and Landscape Division of the Headquarters |
| SE/CA(3) | East Development Office, North Development Office, South Development Office and Sustainable Lantau Office |

Procedure

6. The departmental procedure for planning, auditing, reporting and implementation of follow-up actions for technical audits on works contracts is set out at **Appendix A**.

Annual Review of Technical Audits

7. When audit findings identify areas for improvement that require changes of existing policies, the relevant Contract Adviser will advise the Assistant Director (Technical) (AD(T)) to bring such findings to the attention of the Development Bureau (DEVB). If the areas for improvement are of common interest to other departments, AD(T) will keep these departments informed of the proposed improvements.

8. The Chief Engineer/Chief Geotechnical Engineer concerned will each submit an annual summary report to the relevant Contract Adviser before 15 January of each year on technical audits carried out in the preceding calendar year on works contracts under his administration. The report should include all non-compliances identified for each contract, the programme and progress of the follow-up actions if they have not yet been completed, and the sanctions taken or the reasons for no sanction taken, as appropriate.

9. The Contract Advisers will each check the respective annual summary report from the respective Offices/Divisions and pass the report to SE/CA(1) on or before 7 February of each year. SE/CA(1) will then consolidate all these reports into an annual review report for AD(T) to submit to DEVB before the first working day in March in accordance with the requirements of Paragraph 21.2 of PAH Chapter 7.

Enquiries

10. Enquiries on this TC should be addressed to the relevant Contract Adviser.

(Signed)

(Michael H S FONG)
Director of Civil Engineering and Development

Departmental Procedure for Technical Audit on Works Contracts

Audit planning

- (i) At the beginning of each quarter, each Contract Adviser will prepare a quarterly Activity Report following the requirements of Paragraph 21.2.1 of Project Administration Handbook for Civil Engineering Works (PAH) Chapter 7. Each Contract Adviser will include a quarterly audit programme in the Activity Report showing the contracts under his purview to be audited in the quarter. The programme will be prepared according to the number of active contracts, the complexity of the contracts, progress of works and the degree of compliance by the supervisory staff as observed in the previous technical audits, if any. The Report should be sent to the relevant Head of Office, with a copy each to CAS(W)7 of DEVB and the CE/CGE responsible for administration of the works contracts scheduled for technical audit in the quarter.

Audit procedure and reporting

- (ii) An audit team will normally comprise an Engineer/Contract Adviser and a Senior Inspector of Works. Technical audits are carried out with reference to the Manual for Technical Audits on Works Contracts in Appendix 7.39 of PAH Chapter 7.
- (iii) On Item B.42 of the above Manual regarding “Report on Contractor’s Performance”, a copy of the Evaluation Standard Checklist updated with reference to the latest version of Part D of “Guidance Notes for Completion of Reports” in Appendix 4B of the Contractor Management Handbook is posted on CEDD Bulletin Board:-

CEDD Bulletin Board > 03 Technical Branch > 3) Contract Advisory Unit > 2. Technical Audits on Works Contract > Evaluation Standard Checklist for Technical Audits on Report on Contractor’s Performance

Upon request by the audit team, the Reporting Officer concerned should return the completed Checklist together with a copy of the Report on Contractor’s Performance and any necessary supporting documents on or before the third working day after the end day of the reporting period. The audit team will complete this part of the technical audits and report to the Reporting Review Committee if there is any anomaly in reporting within ten working days from

receiving these reports.

- (iv) Pursuant to paragraph 21.14.1 of PAH Chapter 7, to strengthen the monitoring of Sub-contractor Management Plan (SMP) submissions, the revised technical audit procedure in Appendix 7.39 of PAH Chapter 7 for checking the compliance of the SMP will be followed. Additionally, in accordance with paragraph 16 of DEVB TC(W) No. 6/2021, the audit team will spot-check on the compliance with respect to contractors' submission of documentary proof that all Relevant Subcontracts have been incorporated with Security of Payment Provisions.
- (v) Pursuant to paragraph 5.13 of PAH Chapter 7, the audit team should carry out spot checking on the compliance with respect to implementation of the mechanism of request for inspection/ survey check (RISC).
- (vi) Pursuant to paragraph 12.5.2 of PAH Chapter 7, the audit team should carry out checking on the aspects on the implementation of the trip-ticket system and the implementation of follow-up actions for any non-compliance with the requirements of the system.
- (vii) Pursuant to DEVB TC(W) No. 2/2023, the audit team should carry out checking on the proper adoption and use of the Digital Works Supervision System.
- (viii) For on-going contracts, the audit team will liaise with the Project Engineer (PE) to fix the date of the technical audit and confirm the detailed arrangements of the site visit. For contracts supervised by the Consultants, the PE should inform the Consultants and Resident Site Staff concerned of the date fixed and the detailed arrangements made. For completed contracts, the PE should send the necessary documents and records to the relevant Contract Adviser within the first month of the quarter in which technical audit has been scheduled to take place.
- (ix) For each technical audit carried out, the Contract Adviser will submit an audit report to the relevant Head of Office via the Deputy Head of Office, with a copy each to the CE/CGE concerned and CAS(W)7 of DEVB. Pursuant to paragraph 28 of DEVB TC(W) No. 6/2010, where there is any non-compliance with the Trip Ticket System, the audit report will also be copied to the Secretary of Public Fill Committee. For an on-going contract, the audit report will be submitted within about one month of completion of the technical audit. For a completed contract, the audit report will be submitted within the first month of the next quarter.

Follow-up actions on technical audit reports

- (x) For works contracts supervised by the Consultants, the CE/CGE concerned, after receiving the technical audit report, should request the Consultants to respond within 4 weeks, or such a period of time as he considers appropriate. The CE/CGE should then check the Consultants' response and respond to the technical audit report within 6 weeks of receiving the report.
- (xi) For works contracts supervised by in-house staff, the CE/CGE concerned should respond to the technical audit report within one month of receiving the technical audit report.
- (xii) Response to a technical audit report should be in the form of a memo addressed to the relevant Head of Office via the Deputy Head of Office, with a copy to the relevant Contract Adviser. The content of the memo should include, but not be limited to, the following information:
 - a) clarification to the non-compliances/observations identified in the audit report;
 - b) confirmation that corrective and/or preventive actions have been taken where rectification can be implemented immediately;
 - c) an action plan outlining the corrective and/or preventive actions to be taken with target dates where rectification can only be implemented with time or in stages; and
 - d) whether defaulting parties are clearly identified and, if not, a confirmation of the absence of a defaulting party or why a defaulting party cannot be clearly identified.
- (xiii) The CE/CGE concerned should review the audit findings to identify the cause of any non-compliance/observation with a view to avoiding recurrence. The relevant Head of Office may give directions on the follow-up actions to be taken. When the rectification measures identified in any action plan have been fully implemented, the CE/CGE should confirm to the Head of Office via the Deputy Head of Office the completion of the plan, with a copy of the correspondence to the relevant Contract Adviser. For cases where defaulting parties are clearly identified, the CE/CGE should recommend to the Head of Office via the Deputy Head of Office the appropriate sanctions against the defaulting parties (e.g. reflecting the cases in the Contractors' or the Consultants' performance reports, or taking appropriate

disciplinary actions against the personnel involved, as the case may be), with a copy of the correspondence to the relevant Contract Adviser. The Head of Office should decide on the sanctions to be taken and may request the works contract concerned to be audited again. The relevant Contract Adviser will take such a request into account when preparing the future audit programmes.