

Reducing Corruption Risks in Construction Works

*Corruption Prevention Department
Independent Commission Against Corruption, Hong Kong, China*

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Outline



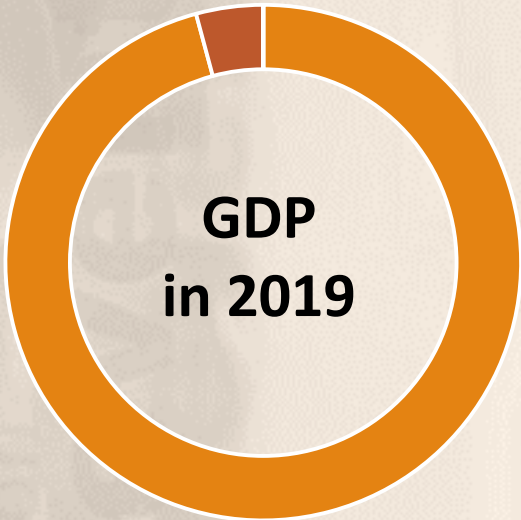
- **The Construction Industry in Hong Kong, China**
- **Corruption Prevention Strategy**
- **Major Corruption Risks and Preventive Measures**
- **Work Done and Way Forward**



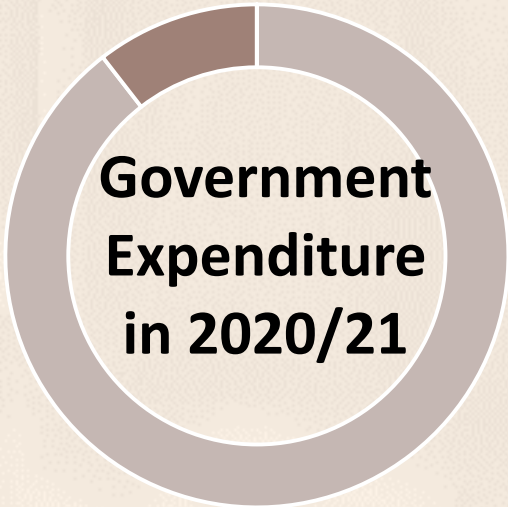
The Construction Industry in Hong Kong, China



Overview



\$236B
(~4.2%)



\$67B
(~8.2%)



> 300 000
employees (~8.4%)

Construction Expenditure

Actual Expenditure & Mid-Term
實際工程量及中期預測

Public Sector
公營界別

Private Sector
私營界別

E&M Works*
機電工程*

RMAA Works*
裝修及維修工程*

Civil Works
土木工程

Building Works
建造工程

Long-Term
長期預測

Public Sector
公營界別

Private Sector
私營界別

Public Sector
公營界別

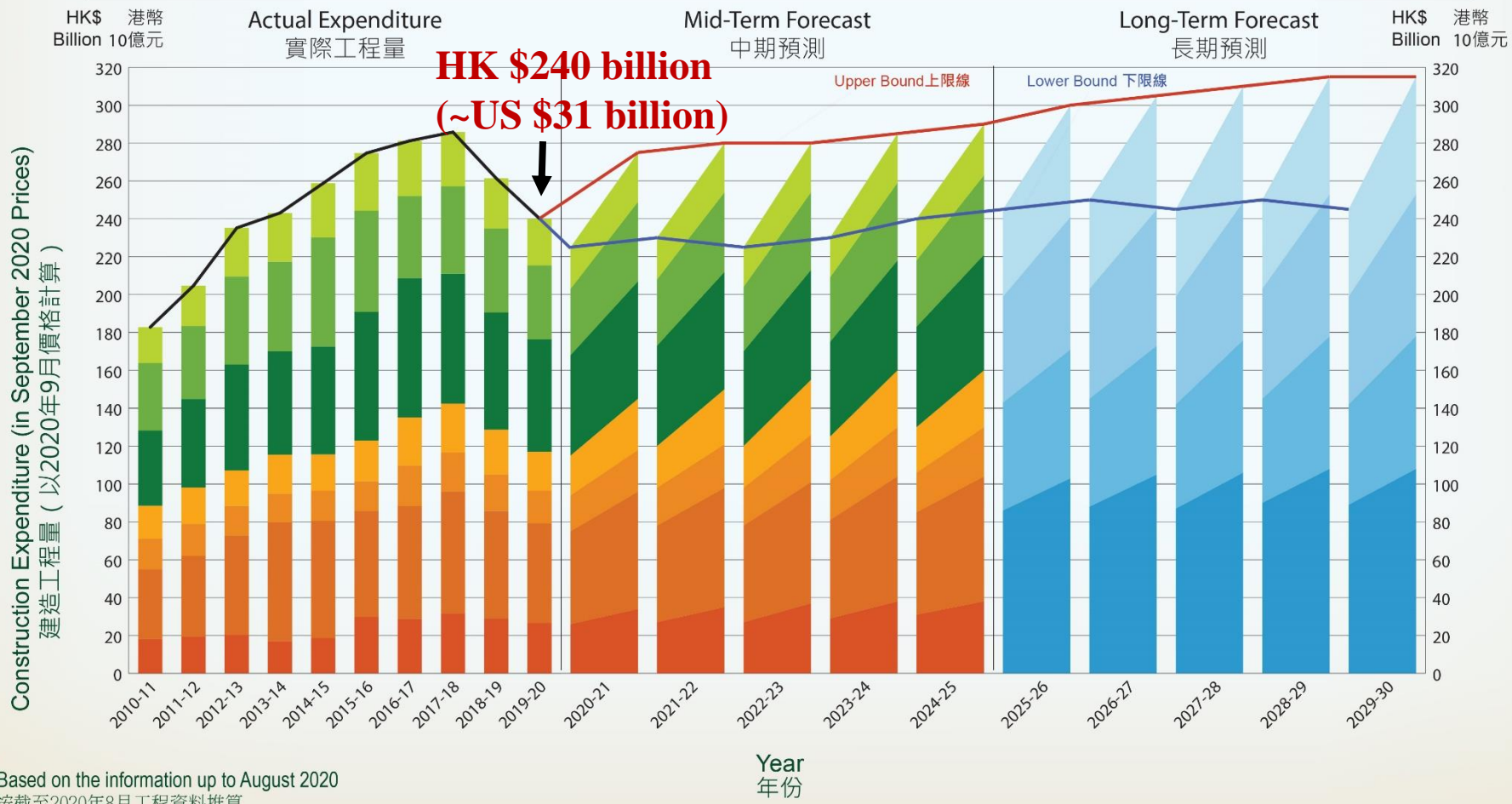
Private Sector
私營界別

*機電工程 - 電力與機械工程

*E&M Works - Electrical and Mechanical Works

*裝修及維修工程 - 維修、保養、改建及加建工程

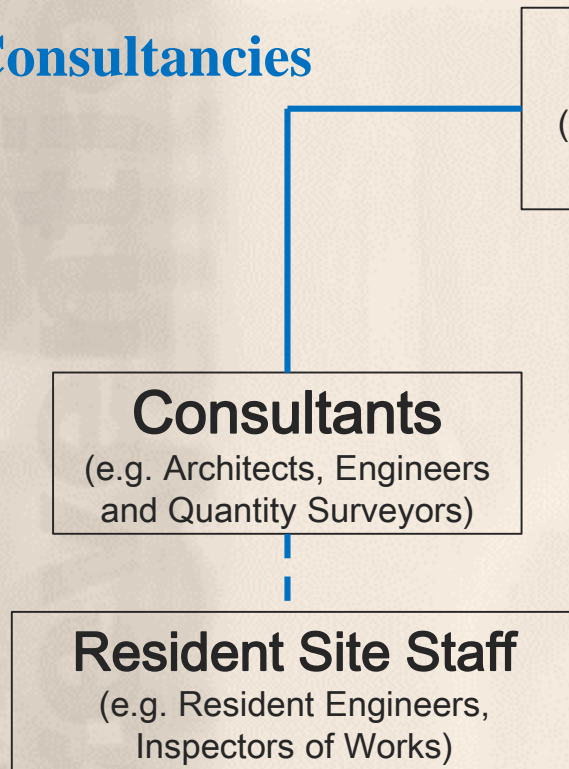
*RMAA Works - Repair, Maintenance, Alteration and Additional Works



* Based on the information up to August 2020
按截至2020年8月工程資料推算

Parties to Construction Projects

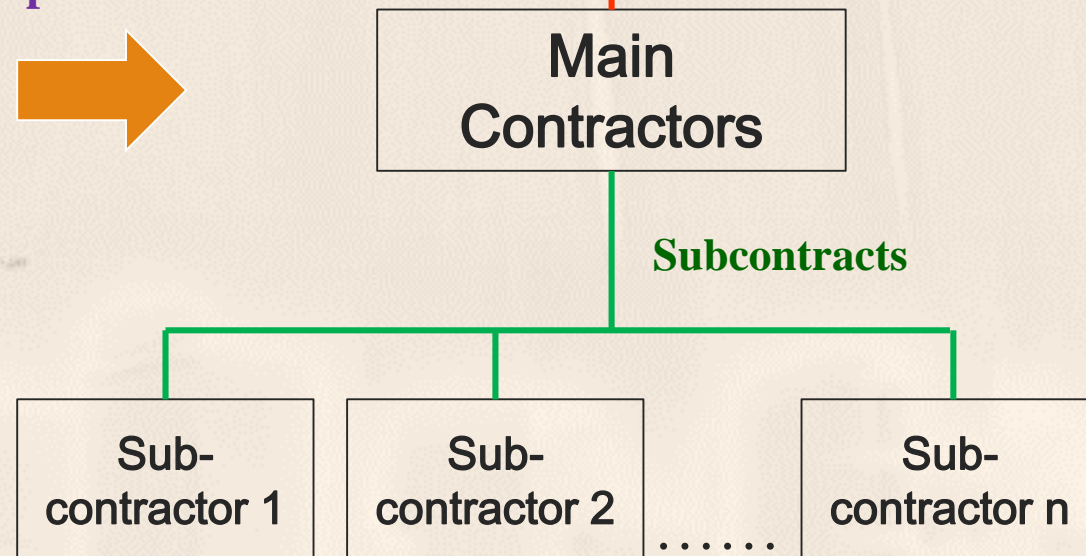
Consultancies



Supervision



Works Contracts



Subcontracts

Challenges in Construction Industry

- **Substantial Expenditure**
 - Incentive for corruption
 - Risk of embezzlement
- **Multi-layer Subcontracting**
 - Middle layer sub-contractors earn substantial profits
 - Inadequate fees for bottom layer sub-contractors
 - Lack of accountability

Challenges in Construction Industry

- **Means of Allocation of Contractual Risks**

- Lump sum v.s. Re-measurement
- Employer v.s. Contractor design
- High Liquidated Damages
- Tight construction programme
- Unexpected problems
 - delays and additional cost
 - circumvent control through corrupt means

- **Quality Control and Material Test**

- Tamper with samples
- Falsify test reports

Challenges in Construction Industry

- **Unhealthy Culture**
 - Accept lavish and frequent entertainment
 - Over-socialise with contractors
 - Consequence - Conflict of interest

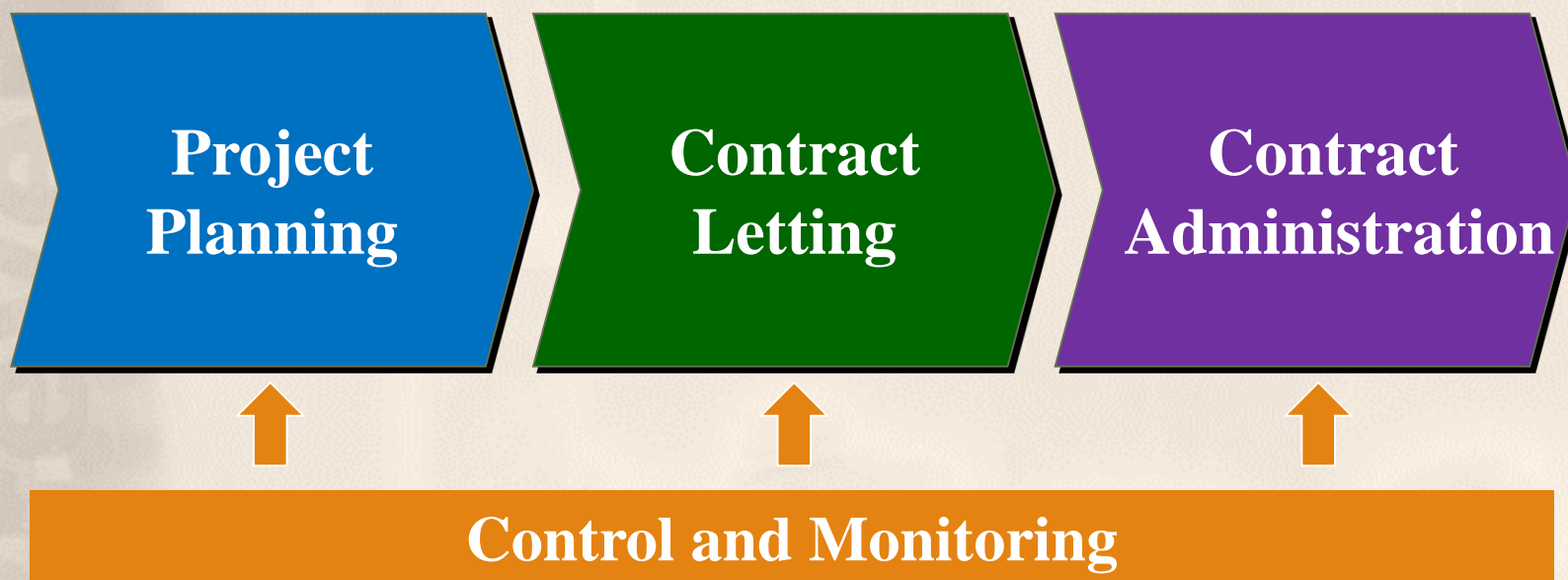




Corruption Prevention Strategy

Concurrent Approach

- Proactively offer advice to government departments and public bodies



Concurrent Approach

- **Corruption Prevention Input**

- ☑ Advise on procedures, tender documents, project agreements
- ☑ Observe and advise on tender opening and assessment processes
- ☑ Organise capacity building workshops for project officers, consultants and contractors


Concurrent Approach

International Airport



Cruise Terminal








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HOW TO BUILD A MEGA-AIRPORT **WITHOUT** **CORRUPTION**

New Transparency International Report Praises HK Experience - “Hong Kong Should Carry on with a Superb Tradition”

Issued by [Transparency International Secretariat](#)

The Airport Core Programme in Hong Kong is an outstanding example of how corruption can be minimised even in the most massive infrastructure projects, a new report by Transparency International (TI) says. The findings of the TI report* are all the more striking against the background of the recent Bribe Payers' Survey** by the anti-corruption organisation which shows the construction industry to be the sector to be most heavily entangled in corruption world-wide.

Private Sector Construction

- **Collaboration and partnership with -**
 - Construction Industry Council (including trade associations and unions)
 - Professional bodies (architects, engineers, surveyors)
- **Advice to individual companies upon request**
 - code of conduct, procedures and guidelines
 - integrity management training

Corruption Prevention Advisory Service

- Advisory services for private organisations:
 - Advice on code of conduct and procedures
 - Corruption prevention training



Tel. : 2526 6363

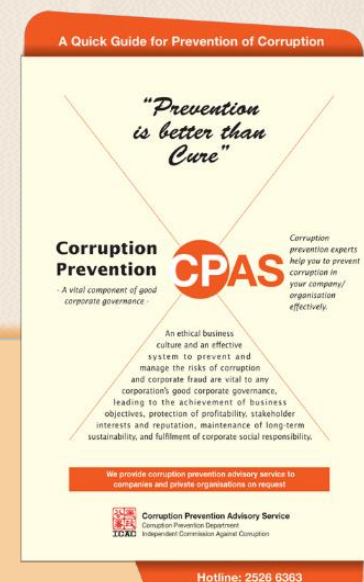
Email : cpas@cpd.icac.org.hk

Online Service Request Form :

https://cpas.icac.hk/Form/Service_Form?cate_id=30

Subscription to CPAS e-news :

https://cpas.icac.hk/Form/Subscription_Form?cate_id=31



CPAS Portal

<http://cpas.icac.hk>

Key Features:

- Guides and Tools

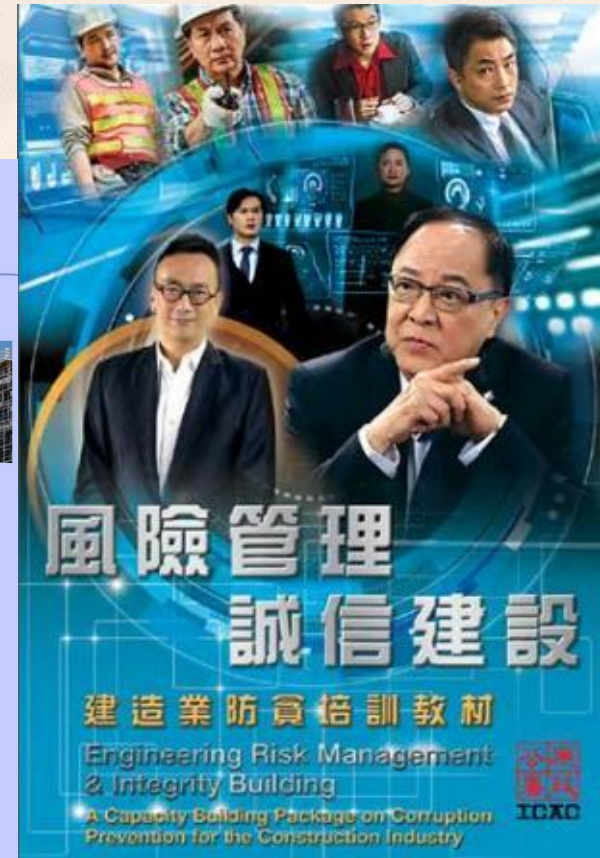
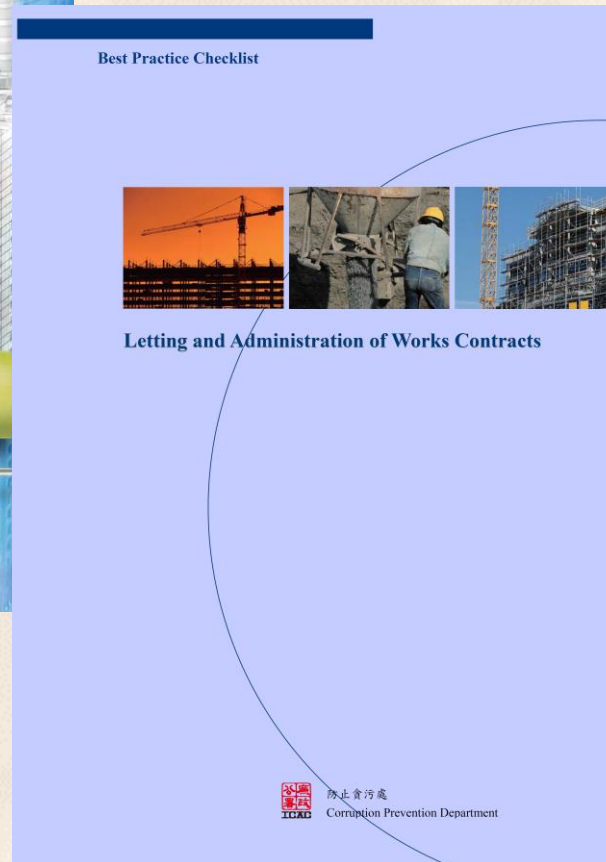
- A cyber library of all our published products, summarising our corruption prevention advice to different sectors and industries

- CP Advice

- Case Studies
- Quick Tips
- Red Flags, etc.



Reference Guides and Training Tools





Corruption Risks and Preventive Measures

- Contract Letting

Tendering



Project Officer

**Selection of suppliers
for generator sets**

Bribes

**Connived at tender rigging:
Suppliers inflated tenders and
decided the winner by rotation**



Suppliers

Tendering

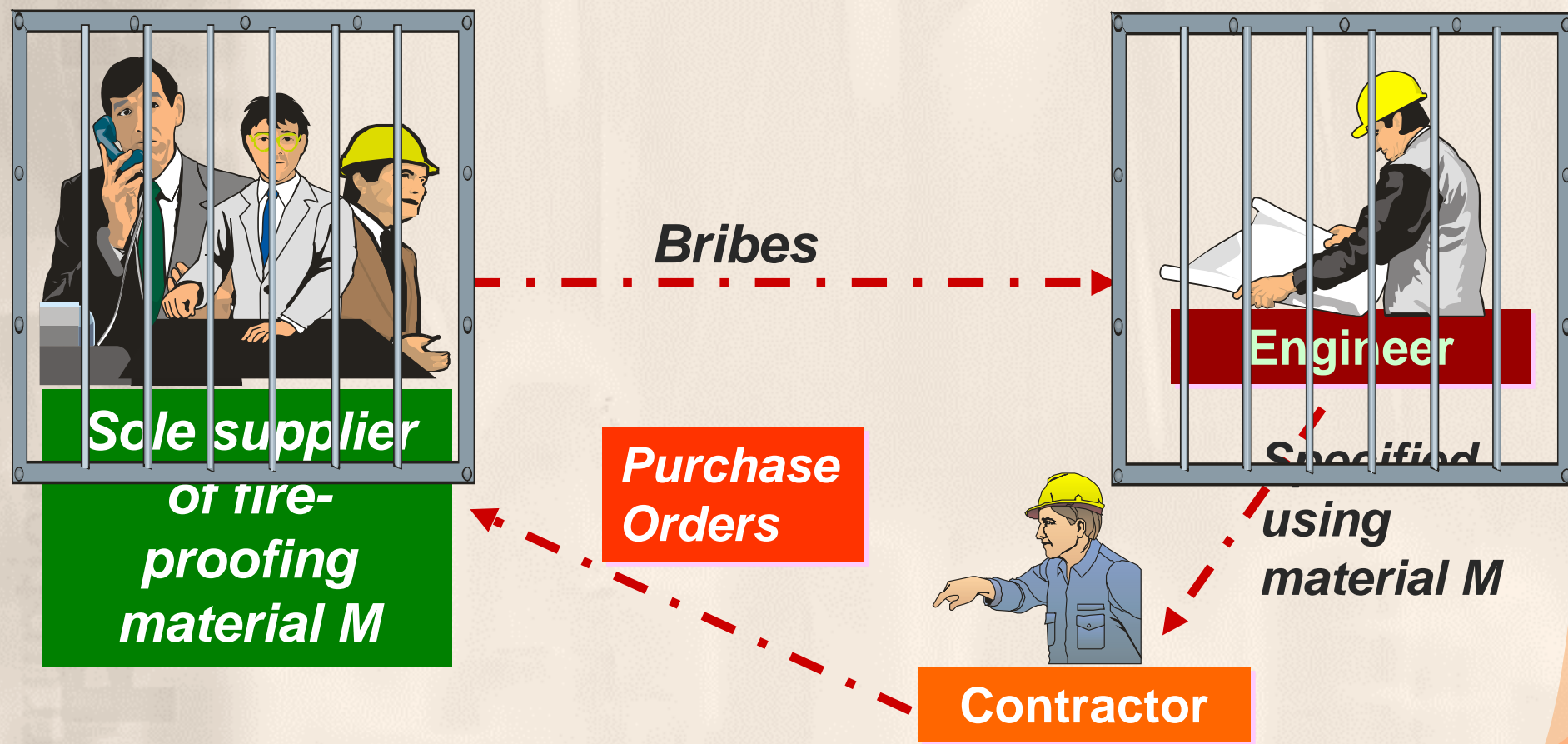
Corruption Risks

- 💣 Too few suppliers on approved list
- 💣 Absence of anti-collusion clause in tender documents

Preventive Measures

- ✅ Adopt open tenders
- ✅ Include anti-collusion clause in tender documents
- ✅ Conduct independent audits

Contract Specifications



Contract Specifications

Corruption Risks

- 💣 Specifying products by brand names
- 💣 Using restrictive specifications
- 💣 Inadequate control on use of alternative / equivalent products

Preventive Measures

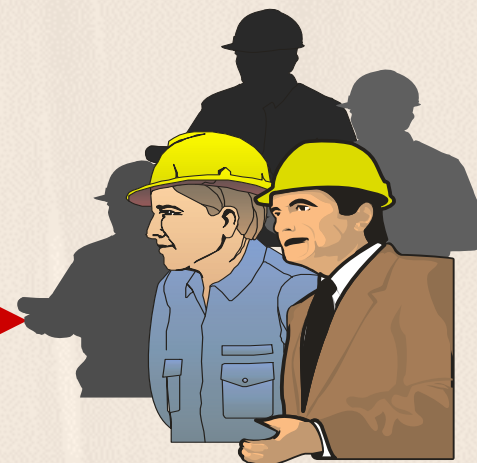
- ✓ Use performance specifications
- ✓ Set up committee to examine and approve
- ✓ Ensure availability of products in market
- ✓ Evaluate alternative products independently

Tender Opening and Assessment



Asked for tens of million dollars of bribes

for leaking tender price information of other tenderers



Contractors

Tender Opening and Assessment

Corruption Risks

- 💣 Leakage of tender information
- 💣 Favouritism in tender assessment

Preventive Measures

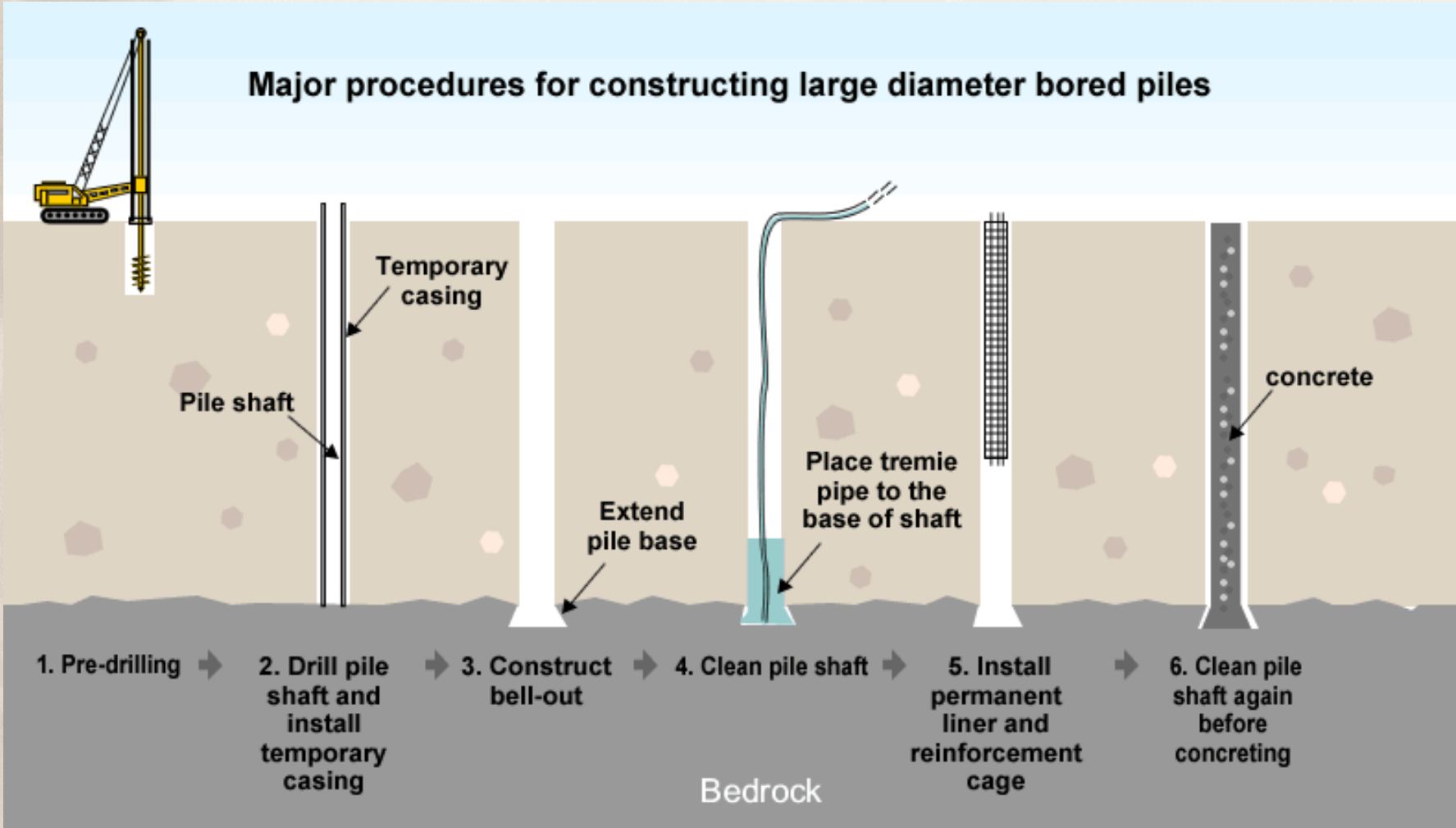
- ☑ Security of tenders
- ☑ Tender opening / assessment teams
- ☑ Predetermined evaluation criteria (e.g. lowest conforming tender)



Corruption Risks & Preventive Measures

- Site Supervision and Contract Administration

Short Piles



Short Piles



**Cut short
reinforcement bar cages
for bored piles at night**



**Tamper
measuring tape**

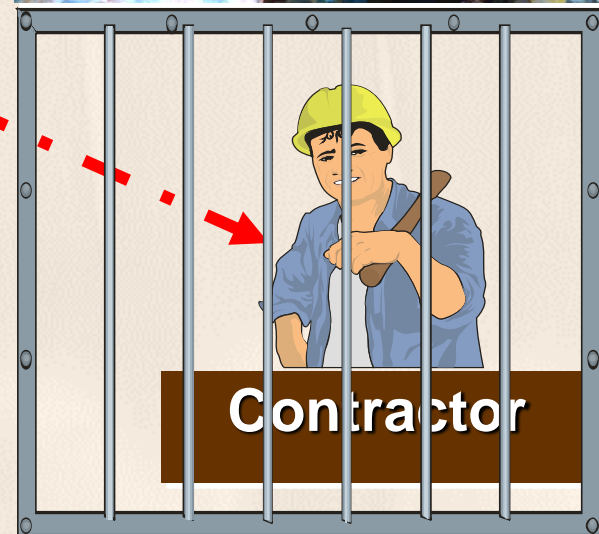


Site Supervision



- connived at sub-standard works, i.e. repainted NOT replaced damaged asbestos wall panels in tunnel

Judge :
“*health of tunnel users was put at risk*”



Site Supervision

Corruption Risks

- 💣 Blind eye to substandard works
- 💣 Insufficient site inspection
- 💣 Incomplete inspection records for hidden works

Preventive Measures

- ☑ Site supervision plan
- ☑ Supervisory checks
- ☑ Maintain site records

Contract Payments

Corruption Risks

- 💣 Exaggerate work done / progress
- 💣 Inadequate measurement records
- 💣 No time limit on payment

Preventive Measures

- ✓ Supervisory checks
- ✓ Field measurement records
- ✓ Contractual time limit for payment
- ✓ Independent check/audit

Contract Variations

Corruption Risks

- 💣 Unclear approving authorities and financial limits for issuing contract variations
- 💣 Ordering unnecessary variations
- 💣 Over-valuing variations

Preventive Measures

- ☑ Lay down approval authorities and financial limits
- ☑ Management reports
- ☑ Supervisory checks
- ☑ Independent valuation



Corruption Risks & Preventive Measures *- Material Testing*

Material Testing

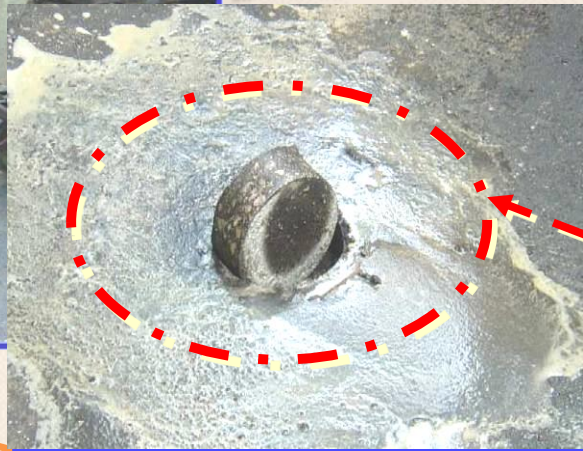
- Road Resurfacing Work

Laying
Bituminous
Materials



Material Testing

- Contractor prepared samples for testing



Samples

Material Testing

Fake samples

- Contractor prefabricated / tailor-made samples for testing purposes



Material Testing

Corruption Risks

- 💣 Manipulate selection, handling and safekeeping of test samples
- 💣 Tampering with test reports
- 💣 Conflict of interest between contractor and testing laboratory

Preventive Measures

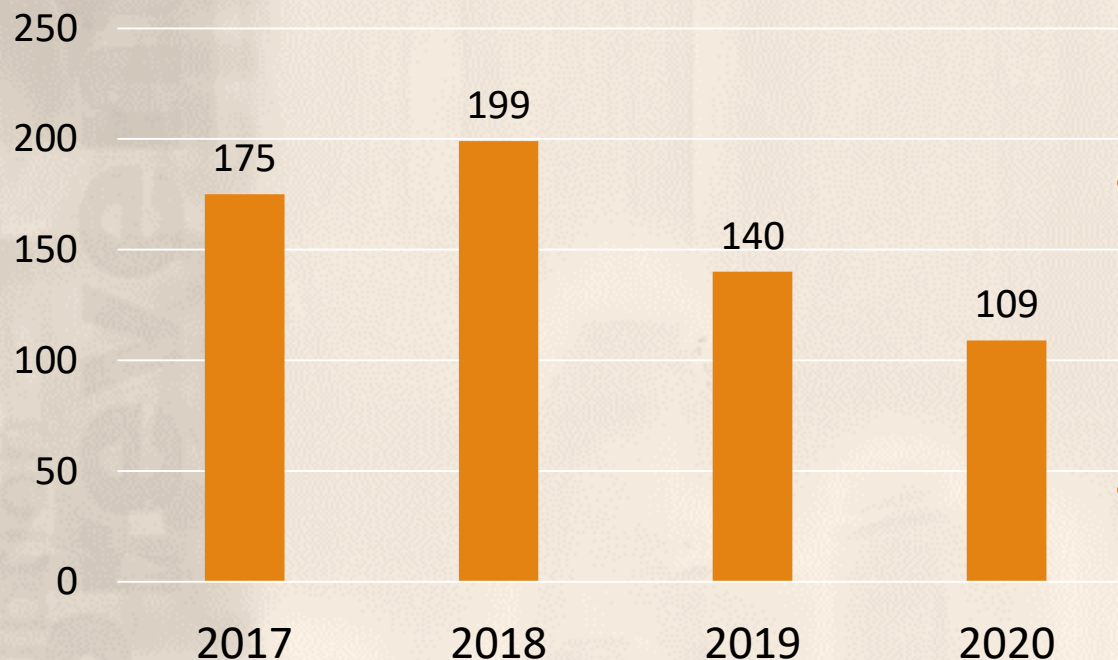
- ✓ Issue guidelines on supervision of sample selection and preparation
- ✓ Tighten security of sample handling, storage & transportation
- ✓ Test reports directly sent to owner or consultant
- ✓ Arrange independent parallel tests



Work Done and Way Forward

Integrity Issues

No. of Corruption Complaints in Construction Industry



- Lack of integrity policies by companies
- Low awareness and inadequate integrity training
- Ineffective corruption risk control measures

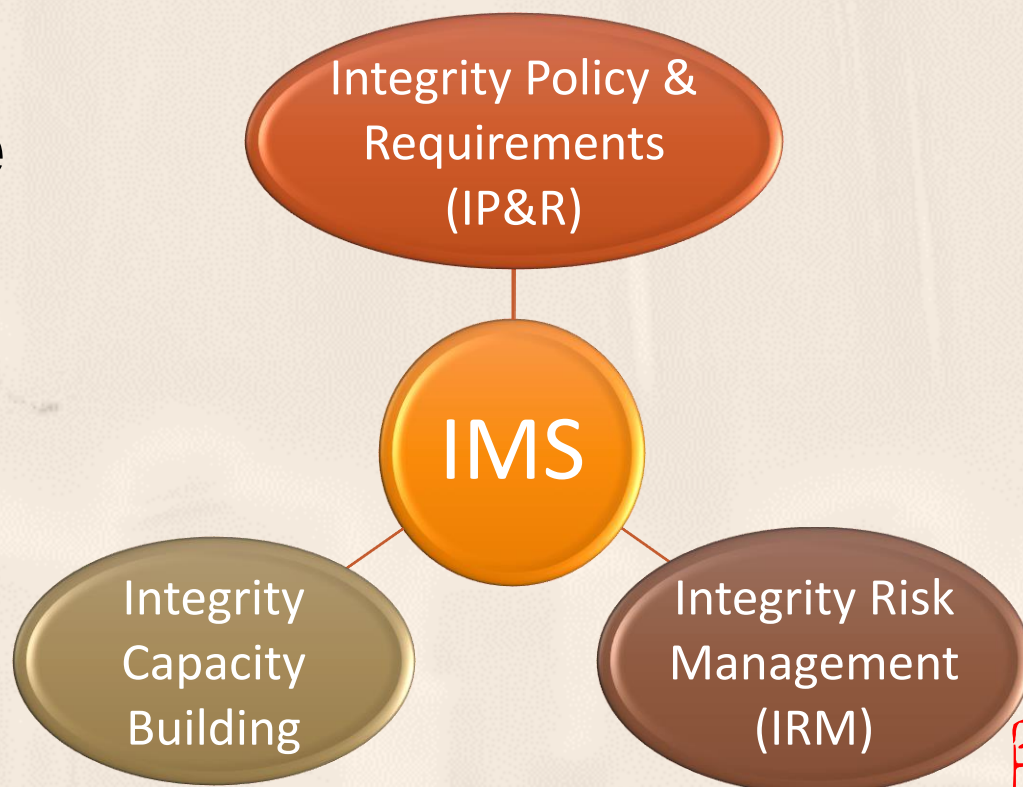
Integrity Management System

- Recommended the Development Bureau to require Public Works Contractors to implement an IMS

☑ **Sustainable**

☑ **Practicable**

☑ **Adaptable**

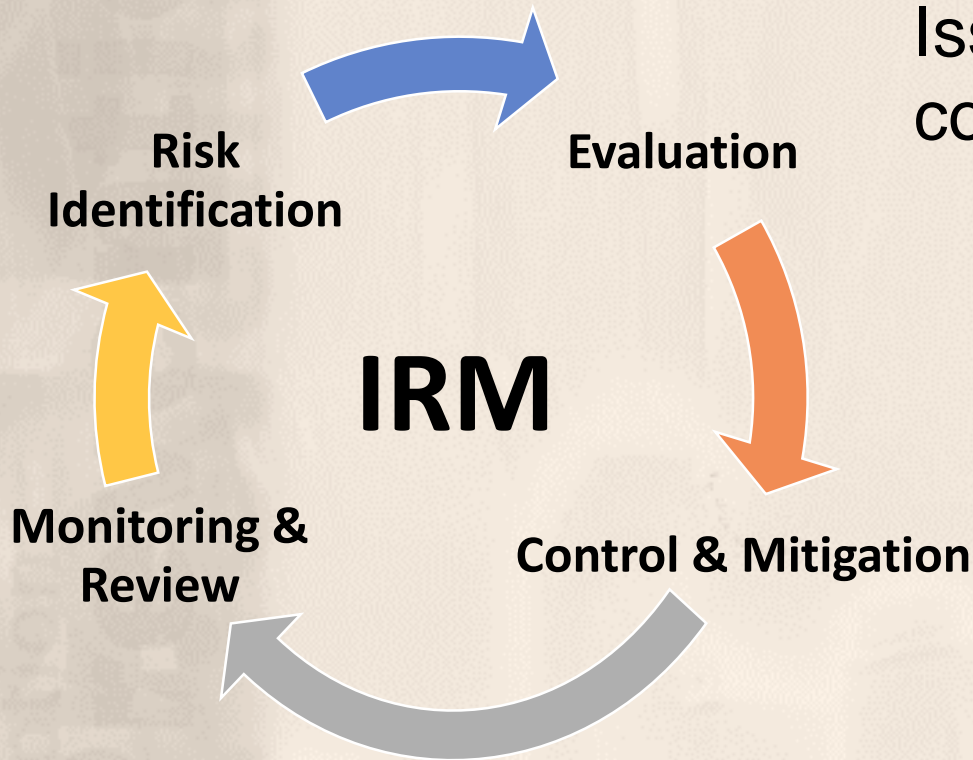


ICAC's Efforts

Integrity Policy & Requirements (IP&R)

- Setting tone from the top
- Communicating to employees and business counterparts
- Providing assistance to law enforcement agencies
- Restricting solicitation/ acceptance of advantages
- Handling conflict of interest
- Providing channel to report suspected malpractices

ICAC's Efforts



Issue templates for use by contractors

- List risk items
- Set inherent risk levels
- Provide suggested risk control measures

IRM Plan Framework

Identification					Evaluation			Mitigation			
Area	Subject	Work Procedure / Item	Integrity Risk	Inherent Risk Level (A)	Existing Practice / Control Measure(s)	Mitigating Factor* (B)	Residual Risk Level* (C=A-B)	Proposed Control Measure(s)	Action By	Mitigating Factor* (D)	Revised Risk Level* (E=C-D)

IRM Plan Framework

Risk level	Description
3 (High)	The work processes are exposed to high integrity risks . Controls measures should be adopted to mitigate the risks.
2 (Medium)	Existing control measures are barely sufficient to address the integrity risks. Further control measures are warranted.
0 - 1 (Low)	Existing control measures are sufficient and on-going monitoring should be maintained.

Enhanced Listing Requirements

Requirements for **ALL** Public Works Contractors
effective from 1 March 2021

Integrity Policy &
Requirements
(IP&R)



Integrity
Capacity
Building

- Admission criteria for ALL new applicant
- Retention requirement for existing contractors

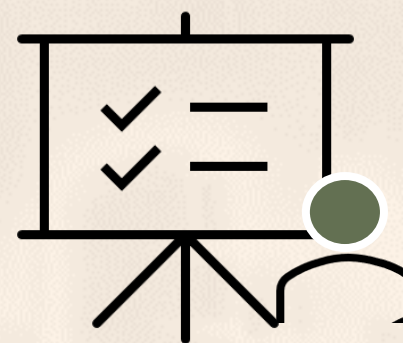
- Named personnel to complete integrity-training

Corruption Prevention Services



- Offer services to contractors who have not fully adopted the standard IP&R

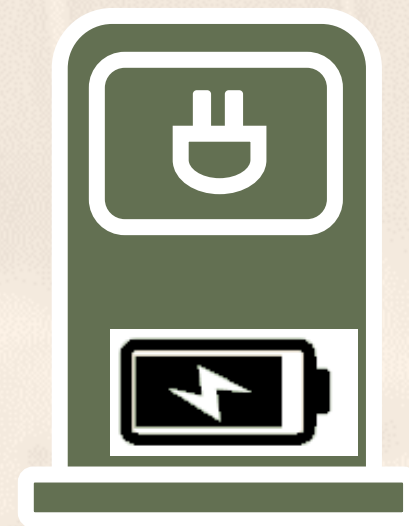
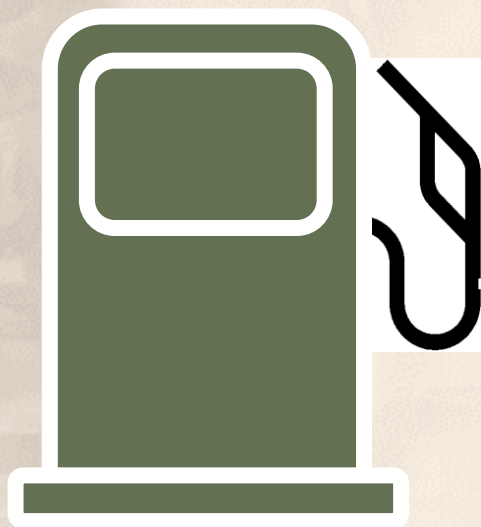
- Provide training to named personnel
- 300 Public Works Contractors and 600 Public Works Suppliers and Specialist Contractors



Hybrid Approach

Industry-wide Standard –
Making IMS a listing
requirement

Own System – Assistance
to individual contractors
when they implement IMS



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