Report No. 53 of the Director of Audit — Chapter 8

HONG KONG PRODUCTIVITY COUNCIL: MANAGEMENT OF PROJECTS AND SERVICES

Summary

1. The Hong Kong Productivity Council (HKPC) was established under the HKPC Ordinance (Cap. 1116) in 1967. In 2008-09, the total income of the HKPC was $478 million, which included government subvention of $170 million and project funding of $37 million from the Innovation and Technology Fund (ITF). In the same year, the HKPC's total expenditure was $468 million. The Commissioner for Innovation and Technology is the Controlling Officer of the subvention granted to the HKPC.

2. ***Audit review.*** The Audit Commission (Audit) has recently carried out a value for money audit of the HKPC. The audit findings are contained in two separate reports, namely: (a) HKPC: Corporate governance and administrative issues (Chapter 7 of the Director of Audit's Report No. 53); and (b) HKPC: Management of projects and services (the subject matter of this summary).

Management of training services

3. ***Approval of training courses.*** Audit examined the proposals of 50 training courses and noted that: (a) no information was provided on assessment of the market demand for the courses; and (b) justifications for organising the courses, engaging external trainers and setting different fee levels for them were not always documented. Audit also found that the estimated staff cost for eight courses organised from August 2007 to March 2009 was below 20% of the total project cost, contrary to the requirement of the HKPC's Standard Practices. *Audit has recommended that the HKPC should ensure that: (a) comprehensive information on training courses is provided in all course proposals; and (b) the staff cost of training courses is not less than 20% of the total project cost.*

4. ***Management information on training courses.*** No staff hour was recorded for 44% and 52% of the training courses held in 2007-08 and 2008-09 respectively. For some training courses held several times in 2007-08 and 2008-09, the recorded staff hours of the same course varied significantly when it was held at different times. Audit examination of 20 courses revealed that: (a) in 13 courses, no staff hour was recorded before the end of the courses; and (b) in 6 courses, expenses charged to them included those incurred for other courses. Audit also noted that information on the number of trainees was not readily available. *Audit has recommended that the HKPC should ensure that: (a) the staff hours and expenses for a training course are correctly and promptly recorded; and (b) the information on the number of trainees for a training course is readily available.*

5. *Evaluation of training courses.* An examination of the evaluation records of 30 training courses revealed that: (a) no evaluation was carried out in 3 courses; (b) of the 27 courses where evaluation was carried out, no evaluation summary was prepared in 6 courses; and (c) proposed improvement measures were not documented in 1 of the 5 courses where improvement measures were required. *Audit has recommended that the HKPC should ensure that: (a) evaluations are carried out for all courses; (b) feedbacks from the trainees are thoroughly analysed; and (c) improvement measures are properly documented and implemented.*

6. *Cancellation of training courses.* Audit examined 20 courses that were cancelled in 2008-09 and noted that: (a) they were all cancelled because of low enrolment; and (b) in 5 of these courses, the reasons for the low enrolments were not documented and action plans for improvement were not prepared. Audit also noted that there was no record showing that the HKPC had conducted any evaluation of the effectiveness of the different marketing channels used for promoting training services. *Audit has recommended that the HKPC should: (a) prepare an improvement plan for cancelled courses; (b) follow up on suggestions of the improvement plans; and (c) regularly evaluate the effectiveness of different marketing channels used for promoting training services.*

7. *Utilisation of training venues.* Although the overall average utilisation rates of the training venues increased from 27% in 2007-08 to 36% in 2008-09, the rates were still on the low side. *Audit has recommended that the HKPC should continue to monitor closely and consider taking effective measures to improve the utilisation of the training venues.*

Management of consultancy projects

8. *Project planning.* Audit examined 121 prospective studies of consultancy projects and found that: (a) the staff hours spent on the studies were not recorded in the Project Management System (PMS); and (b) 29 studies and 33 studies commenced in 2006-07 and 2007-08 respectively were still in progress as at 31 March 2009. The reasons why they had been outstanding for such a long time were not documented. Audit also examined 30 project proposals that were rejected during the period 2006-07 to 2008-09 and noted that the reasons for rejecting the project proposals were not documented in the files of 14 projects. No project file was kept for 5 other projects. *Audit has recommended that the HKPC should: (a) record in the PMS the staff hours spent on project prospective studies; (b) ensure that project prospective studies are completed in a timely manner; (c) ascertain and document the reasons for the delays in completing the project prospective studies; (d) record the reasons for project proposals which are not accepted by the clients or not approved by the management; and (e) keep files for all projects.*

9. *Project monitoring.* Audit examined 20 projects that were recorded as in progress as at 31 March 2009 in the PMS and noted that: (a) no staff hours had been charged to 10 projects that were recorded as 99% completed; (b) 6 projects were actually either completed or terminated; and (c) 4 projects were dormant during the period 2007-08 to 2008-09. No documentation was available showing whether there was any assessment of the possibility and the timing of resuming the projects. In 4 of the projects examined, the HKPC had outsourced part of the projects. In 2 of these projects, no written approval from the clients had been obtained as required. Audit also noted that no consultancy fees were received in 45 projects that were completed or terminated during 2006-07 to 2008-09. Audit examined 10 of these projects and noted that: (a) in 2 projects, the project team had not

recorded the reason for receiving no consultancy fees; and (b) in 2 other projects, the project team had not recorded the staff cost for the services provided, and had not taken action to collect the fees for the work carried out. *Audit has recommended that the HKPC should: (a) ensure that information maintained in the PMS is accurate and up-to-date; (b) take necessary action either to resume or to terminate projects which have been dormant for a long time; (c) ensure that the requirements of the project agreements are strictly complied with; and (d) ensure that consultancy fees are promptly collected.*

10. ***Inclusion of overheads in consultancy fees.*** The HKPC's pricing guideline stipulated that corporate overheads should not be included in the consultancy fees for clients with less than 100 staff. Audit reviewed the service fees for 530 consultancy projects approved during the period 2006-07 to 2008-09 for clients with less than 100 staff. In 438 projects, corporate overheads of $6 million were included in the total consultancy fees of $52 million charged to the clients. *Audit has recommended that the HKPC should ensure that all service fees of consultancy projects are determined in accordance with the HKPC's pricing guideline.*

11. ***Customer satisfaction assessment.*** The response rates of the customer satisfaction surveys for the period 2006-07 to 2008-09 were about 30%. The surveys, however, did not cover terminated projects. Excluding terminated projects from the customer satisfaction surveys may lead to biased results. *Audit has recommended that the HKPC should: (a) consider taking measures to improve the response rate of customer satisfaction surveys; and (b) ensure that all consultancy projects, including the terminated ones, are covered in customer satisfaction surveys.*

Withdrawal from mature markets

12. In April 2002, the HKPC decided that: (a) it should withdraw from mature markets where there was strong private sector presence; (b) prepare and implement a Dos and Don'ts List; and (c) monitor the implementation of the List and update it where necessary. Audit noted that: (a) up to September 2009, the List had not been reviewed or updated; (b) exit programme for the "don't" activities was not provided in the Annual Programmes and Estimates for 2008-09 and 2009-10; (c) there were delays in withdrawing from mature markets; (d) the exit programmes were not strictly complied with; and (e) there were inconsistencies in assessing the levels of the market maturity for similar projects. *Audit has recommended that the HKPC should ensure that: (a) the Dos and Don'ts List is regularly reviewed and updated; (b) an exit programme is prepared annually; (c) delays in withdrawal from mature markets are fully justified and approved; (d) the approved exit programme is strictly complied with; and (e) market maturity assessments are properly conducted and the inconsistencies in market maturity level for similar projects are properly justified.*

Management of research and development projects

13. Audit examined 30 research and development (R&D) projects funded by the ITF, comprising 25 completed projects and 5 projects that were in progress as at 31 March 2009, and 15 completed R&D projects funded by the HKPC's Commercial Research and Development Fund (CRDF).

14. ***Project planning.*** The proposals of the 30 ITF projects examined required revisions before submitting to the Innovation and Technology Commission (ITC). Audit found that: (a) the proposals of five projects took more than three months to revise; and (b) six projects took more than three months to commence after they had been approved by the ITC. According to the ITF Guide, if a budget for acquiring equipment is included in the project proposal, the applicant needs to state whether similar equipment is available for sharing within the applicant's organisation or with other ITF recipient organisations. Of the 30 proposals examined, 22 included an equipment budget. However, such a statement was not included in 16 of the proposals. Audit also noted that the HKPC had not established a risk management process as part of its project management system. *Audit has recommended that the HKPC should: (a) take measures to ensure that ITF project proposals are revised promptly; (b) ensure that R&D projects commence promptly after obtaining approval; (c) remind ITF project teams to check and document the availability of similar equipment for sharing; and (d) consider requiring project teams to analyse project risks during the planning stage.*

15. ***Project management.*** No progress information was input into the PMS for 19 of the 25 ITF projects examined. The progress information of 3 of the 15 CRDF projects examined was inaccurate. Project delays were experienced in 23 ITF projects and 9 CRDF projects. The delays ranged from 1 month to about 18 months. The ITF Guide stipulated that requests for change of project completion date should be submitted to the ITC well in advance. Among the five requests reviewed by Audit, three were made shortly before the original project completion date and two were made after the original project completion date. *Audit has recommended that the HKPC should: (a) ensure that information about project progress captured in the PMS is accurate; (b) improve project management to avoid undue project delays; and (c) ensure that requests for change of project completion date are submitted to the ITC as early as possible.*

16. ***Submission of project accounts and reports.*** For ITF projects, project accounts and reports are required to be submitted within a specified time frame. For the ITF projects examined, Audit noted that: (a) 21 of the 23 annual audited accounts were submitted 4 to 254 days late; (b) of the 18 final audited accounts that were due for submission, 15 were submitted late by 5 to 145 days, and 2 were overdue by 1 to 61 days; and (c) 8 of the 25 final reports were submitted late by 1 to 157 days, and 4 were overdue by 1 to 92 days. Upon completion of an ITF project, a performance report will be submitted to the Business Development Committee although such submission is not stipulated in the Standard Practices. Audit examined 10 performance reports of projects experiencing delays. In 5 reports, the projects were stated as completed on schedule. In 3 of the other 5 reports reporting delays, the reasons for the delays were not given. *Audit has recommended that the HKPC should: (a) ensure that the reporting requirements in the ITF Guide are fully complied with; (b) ensure that project staff provide comprehensive information in the performance report; and (c) revise the Standard Practices to include the requirement for the submission of performance report to the Business Development Committee.*

17. ***Project sponsorship.*** The ITF Guide requires all ITF projects to acquire sponsorship to cover at least 10% of the total approved costs. Audit examined the records of five ITF projects and noted that: (a) there were delays in receiving sponsorship in three projects; (b) in two of three projects receiving in-kind sponsorship, no evidence was provided to support the values of the sponsorship estimated by the sponsors; and (c) project sponsors were changed without obtaining prior approval from the ITC in two projects. *Audit has*

recommended that the HKPC should ensure that: (a) sponsorship payments are collected in a timely manner; (b) sufficient documentary evidence is provided to support the value of in-kind sponsorship; and (c) prior approval from the ITC is obtained for changes of project sponsors.

18. ***Project expenditure.*** The types of expenses that could be covered by the ITF funding are specified in the ITF Guide. Audit examined the accounts of 20 ITF projects and noted that: (a) unallowed costs, including salary increases, charges for inter-division services and overheads, are charged to project accounts; and (b) instead of actual staff cost, mid-point salaries were used to calculate the staff cost charged to the projects. *Audit has recommended that the HKPC should: (a) ensure that unallowed costs, including salary increases, charges for inter-division services and overheads, are not charged to the project accounts; (b)* ensure that *actual staff cost is charged to the project accounts; (c) carry out a review of all ITF project accounts to ascertain whether there were other cases of charging unallowed costs or incorrect salary costs; and (d) make the necessary consequential adjustments to the project accounts and take appropriate remedial action.*

19. ***Return of residual funds.*** According to the ITF Guide, recipient organisations should return all residual funds remaining in the project accounts to the Government within 90 days after completing the project. Audit noted that in one project, the HKPC took about 18 months to return all residual funds to the Government. *Audit has recommended that the HKPC should devise effective control measures to ensure that residual funds of ITF projects are promptly returned to the Government.*

20. ***Standard staff cost rates.*** The HKPC uses standard staff cost rates for charging staff costs to R&D projects and training and consultancy services. Every financial year, staff are required to estimate the percentages of the staff hours that they will spend on project work and administrative work for the calculation of the overheads component included in the standard staff cost rates. Audit compared the estimated percentages of staff hours for 2008-09 submitted by 25 staff to the records of actual staff hours, and found that the average percentages of staff hours spent on administrative work were 18% to 49% more than those estimated. Audit also noted that according to the HKPC's pricing policy, staff costs incurred for public mission activities should be excluded from the calculation of overheads. However, accurate information of the time spent on public mission activities was not available. *Audit has recommended that the HKPC should consider requiring all staff to: (a) record the staff hours spent on administrative work and public mission activities accurately; and (b) provide reliable estimates of the time spent on such activities for the determination of the standard staff cost rates.*

Response from the HKPC

21. The HKPC agrees with the audit recommendations.

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