

CHAPTER 1

Education and Manpower Bureau

Student Financial Assistance Agency

Administration of the Continuing Education Fund

**Audit Commission
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This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

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Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

ADMINISTRATION OF THE CONTINUING EDUCATION FUND

Contents

	Paragraph
PART 1: INTRODUCTION	1.1
Background	1.2 – 1.9
Audit review	1.10 – 1.11
General response from the Administration	1.12
Acknowledgement	1.13
 PART 2: MEETING THE OBJECTIVES OF THE CONTINUING EDUCATION FUND	 2.1
Relaxation of eligibility criteria to include degree holders	2.2 – 2.5
<i>Audit observations</i>	2.6
<i>Audit recommendations</i>	2.7
Response from the Administration	2.8
Evaluation of the Continuing Education Fund	2.9 – 2.10
<i>Audit observations</i>	2.11 – 2.15
<i>Audit recommendations</i>	2.16
Response from the Administration	2.17
Gauging the views of applicants	2.18
<i>Audit observations</i>	2.19
<i>Audit recommendation</i>	2.20
Response from the Administration	2.21

	Paragraph
PART 3: OPERATING ARRANGEMENTS OF THE CONTINUING EDUCATION FUND	3.1
Single quotation for evaluating the Continuing Education Fund	3.2 – 3.4
<i>Audit observations</i>	3.5 – 3.8
<i>Audit recommendations</i>	3.9
Response from the Administration	3.10
Duration of courses and qualifications attained	3.11 – 3.14
<i>Audit observations</i>	3.15 – 3.16
<i>Audit recommendations</i>	3.17
Response from the Administration	3.18
Review of sector-specific competencies	3.19
<i>Audit observations</i>	3.20
<i>Audit recommendations</i>	3.21
Response from the Administration	3.22
Inspection of reimbursable courses	3.23 – 3.25
<i>Audit observations</i>	3.26 – 3.28
<i>Audit recommendations</i>	3.29
Response from the Administration	3.30
Inspection of courses under the Interpersonal and Intrapersonal Skills for the Workplace sector	3.31
<i>Audit observations and recommendation</i>	3.32 – 3.33
Response from the Administration	3.34
PART 4: PROCESSING OF APPLICATIONS	4.1
Application and reimbursement arrangements	4.2 – 4.4

	Paragraph
Prevention of duplicate subsidies	4.5
<i>Audit observations</i>	4.6 – 4.8
<i>Audit recommendations</i>	4.9
Response from the Administration	4.10
Reimbursement payments for course modules	4.11 – 4.15
<i>Audit observations</i>	4.16 – 4.25
<i>Audit recommendations</i>	4.26
Response from the Administration	4.27 – 4.28
Reimbursement payments for language courses	4.29 – 4.31
<i>Audit observations</i>	4.32 – 4.34
<i>Audit recommendation</i>	4.35
Response from the Administration	4.36
Authentication Exercises	4.37 – 4.41
<i>Audit observations</i>	4.42 – 4.52
<i>Audit recommendations</i>	4.53
Response from the Administration	4.54
Process re-engineering	4.55
<i>Audit observations</i>	4.56 – 4.57
<i>Audit recommendations</i>	4.58
Response from the Administration	4.59

	Page
Appendices	
A : Continuing Education Fund – An example of sector-specific competencies	39
B : Acronyms and abbreviations	40

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines its objectives and scope.

Background

1.2 In his 2001 Policy Address, the Chief Executive announced that the Government would set aside \$5 billion to subsidise those with learning aspirations to pursue continuing education and training programmes. This has given rise to the Continuing Education Fund (CEF).

1.3 Soon after the 2001 Policy Address, the Education and Manpower Bureau (EMB), in consultation with different sectors of the community, worked out the following four principles governing the operation of the CEF:

- (a) applicants must be adults aged between 18 and 60;
- (b) eligible courses must be approved by the Government;
- (c) courses must contribute to the economic development of Hong Kong; and
- (d) applicants may not enjoy double subsidy.

1.4 In April 2002, the Finance Committee (FC) of the Legislative Council (LegCo) approved a commitment of \$5 billion to launch the CEF. The aim of the CEF is to provide subsidy to people for the pursuit of continuing education so as to better prepare Hong Kong's workforce for the knowledge-based economy.

1.5 In June 2002, the CEF started to receive applications. At that time, Hong Kong residents aged between 18 and 60 and who did not possess a university degree could apply for subsidy under the CEF. Since 1 September 2003, the eligibility to apply for the CEF has been relaxed to include degree holders.

1.6 When the CEF was launched in 2002, the following economic sectors and skill domains (hereinafter referred to as sectors) were covered by the CEF:

- (a) Logistics;
- (b) Financial Services;
- (c) China Business;
- (d) Tourism;
- (e) Language (English, Putonghua and written Chinese);
- (f) Product and Digital Design; and
- (g) Interpersonal and Intrapersonal Skills for the Workplace (IISW).

These were either economic sectors considered with high growth potential and manpower requirements or skill domains in which the workforce might have deficiencies.

1.7 In January 2004, following a review of the manpower requirements in various sectors up to 2007 and consultations with different sectors of the community, the EMB expanded the coverage of the CEF by:

- (a) including in the CEF a new Creative Industries sector to cover courses in advertising, digital entertainment, films, television and video;
- (b) expanding the coverage of the existing China Business sector to include training in business management, and renaming this sector as Business Services to reflect the wider scope; and
- (c) including training in three additional foreign languages, namely French, German and Japanese under the existing Language sector.

1.8 Course providers which offer self-financing courses in specified subject disciplines may apply for registration of their courses under the CEF. All courses are required to undergo an assessment process to determine their eligibility for registration under the CEF (see para. 3.23). The EMB is the authority to approve the registration of the courses. It also sets principles and guidelines regarding the operation of the CEF. The Student Financial Assistance Agency (SFAA) is responsible for controlling the fund amount of \$5 billion. The fund amount is shown as a commitment item in the Estimates of the Government in respect of the SFAA. The Office of the Continuing Education Fund (OCEF) of the SFAA is responsible for processing applications and making payments (on a reimbursable basis) to applicants.

1.9 As at 31 May 2005, there were 4,163 approved courses and 183,725 approved applications under the CEF. The total funds committed and used were \$1,077 million and \$481 million respectively.

Audit review

1.10 The Audit Commission (Audit) has recently conducted a review of the administration of the CEF. The audit has focused on the following areas:

- (a) the extent the CEF has met its objectives (PART 2);
- (b) the adequacy of the CEF's operating arrangements (PART 3); and
- (c) the adequacy of the SFAA's arrangement of processing CEF applications (PART 4).

1.11 Audit has found that there are areas where improvements can be made.

General response from the Administration

1.12 The **Secretary for Education and Manpower and the Controller, SFAA** generally agree with the audit observations and recommendations.

Acknowledgement

1.13 Audit would like to acknowledge with gratitude the full cooperation of the staff of the EMB and the SFAA during the audit.

PART 2: MEETING THE OBJECTIVES OF THE CONTINUING EDUCATION FUND

2.1 This PART examines the extent the CEF has met its objectives.

Relaxation of eligibility criteria to include degree holders

2.2 As mentioned in paragraph 1.4, the CEF aims to provide subsidy to people for the pursuit of continuing education so as to better prepare Hong Kong's workforce for the knowledge-based economy. At its launch in June 2002, the CEF only benefited those people who did not possess a university degree. **In the FC Paper dated April 2002 seeking funding approval for the CEF, the FC was informed that, given the limited resources available, it would be appropriate to confine the applicants to those not having any university degree “as they are the ones who may be less adaptable in the new knowledge-based economy”.**

2.3 After the launch of the CEF, the EMB noted that the number of CEF applications was small. By June 2003 (one year after the launch of the CEF), about 31,000 CEF applications were approved and \$310 million was committed. The EMB saw a need to step up publicity efforts to encourage more people to apply for the CEF.

2.4 Meanwhile, in July 2003, the EMB consulted the LegCo Panel on Manpower about relaxing the eligibility criteria of the CEF to include degree holders. The LegCo Panel was informed that:

- (a) to meet the challenge in a knowledge-based economy, university degree holders shared the same needs as workers with lower educational attainment to further improve their knowledge and skills. Feedback from employers reflected a strong need for this group of workers to acquire knowledge and skills beyond their degree qualifications;
- (b) the willingness of degree holders to improve and upgrade themselves through continuing education might be hindered due to the threat of unemployment and reduced wage bill during the economic slowdown. Since employers who were willing to sponsor continuing education remained a minority, there was a need for the CEF to cover degree holders to encourage their pursuit of continuing education; and
- (c) the EMB did not anticipate that the relaxation of criteria would have an enormous impact on the funding available to the other eligible applicants currently covered under the CEF. The financial implications resulting from the relaxation of the eligibility criteria would depend on how many and when degree holders actually came forward to apply for the CEF. Assuming one in

ten degree holders applied for the CEF, the commitment would be about \$523 million, or about 10% of the total funding commitment of \$5 billion.

2.5 After consultation with the LegCo Panel on Manpower, the EMB relaxed the eligibility criteria of the CEF to include degree holders with effect from 1 September 2003.

Audit observations

2.6 The EMB anticipated that the relaxation of eligibility criteria to include degree holders would not have an enormous impact on the funding available to other eligible CEF applicants because it only entailed a financial commitment of about \$523 million, or about 10% of the CEF's total funding commitment of \$5 billion. However, Audit noted that in a 2004 evaluation of the effectiveness of the CEF, about 39% of the applicants had university degrees. Thus, degree holders could draw much more than 10% of the CEF's total funding commitment. **Audit considers that relaxing the eligibility criteria could expose the CEF to the risk of attracting continually a large number of degree holders drawing unexpectedly substantial resources from the CEF. Consequently, this might result in a smaller proportion of the funds available to non-degree holders. Despite the aforesaid risk, Audit notes that the EMB does not have readily available information to keep track of the number of applications from degree and non-degree holders, as applicants are not required to specify their academic qualifications in the application forms.** The EMB can only obtain this information through surveys which present only a snapshot position of the CEF.

Audit recommendations

2.7 **Audit has recommended that the Secretary for Education and Manpower should:**

- (a) **collect continually information on the number of applications from degree and non-degree holders; and**
- (b) **take measures to encourage more eligible non-degree holders to apply for the CEF, if necessary.**

Response from the Administration

2.8 The **Secretary for Education and Manpower** has said that he will consider Audit's recommendations, in the light of the review of the effectiveness of the CEF and what can be done to encourage more non-degree holders to make use of the CEF. He has also said that:

- (a) he does not consider that the relaxation of eligibility criteria has crowded out the training opportunities for those with lower educational attainment. As at the end

of August 2005, \$1.85 billion was committed and \$588 million was paid out of the CEF. There remains adequate funds to meet the demand of non-degree holders; and

- (b) there are other government programmes (e.g. the Employees Retraining Scheme and the Skills Upgrading Scheme) which target at enhancing the employment prospects and competitiveness of workers with lower educational attainment.

Evaluation of the Continuing Education Fund

2.9 In July 2002, the EMB commissioned a consultant to evaluate the effectiveness of the CEF. In August 2003, the consultant completed its evaluation. The major findings included the following:

- (a) over half of the applicants, on completion of the courses, considered that their objectives of attending the courses had been fully or mostly achieved;
- (b) the majority of applicants, on completion of the courses, considered that the courses had been very helpful or helpful in improving their vocational skills, increasing self-confidence, enhancing their adaptability at work, and arousing their interest in continuing education; and
- (c) the majority of the applicants considered that the Government's 80% subsidy of the course was reasonable.

2.10 In July 2004, the EMB commissioned the same consultant to conduct another evaluation of the effectiveness of the CEF, using the same methodology adopted in the first evaluation. In the interim report completed in January 2005, the consultant concluded that the CEF had a similar positive impact on the learners, as found in the first evaluation (see para. 2.9). The consultant is expected to complete the final report by December 2005.

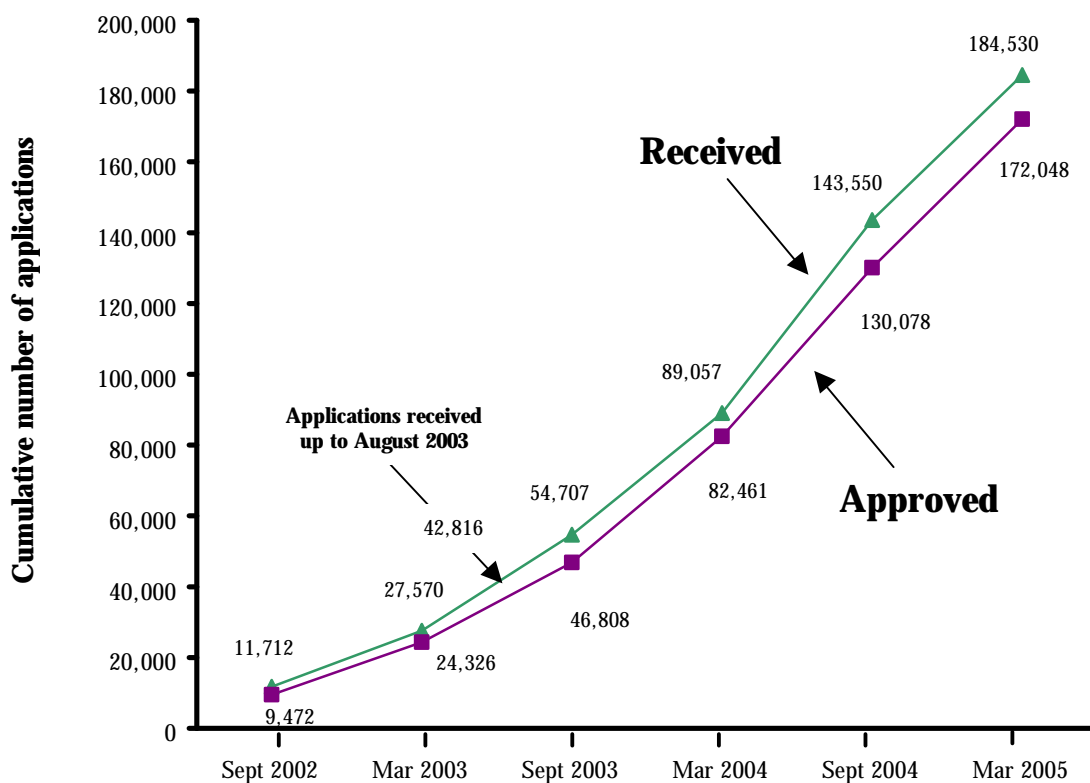
Audit observations

2.11 According to the 2001 Policy Address, the new CEF subsidy was intended to encourage more people to enrol in various continuing learning courses in their spare time so as to upgrade themselves. Up to the end of August 2003, the CEF received only 42,816 applications, approved 38,075 applications, and made total reimbursements of \$37 million.

2.12 With growing public awareness of the CEF and upon its expanded coverage to include degree holders and more sectors since September 2003, the cumulative number of applications received by the CEF had increased by 331% (from 42,816 as at 31 August 2003 to 184,530 as at 31 March 2005 – see Figure 1).

Figure 1

**Cumulative number of applications received and approved
since the launch of the CEF**



Source: OCEF records

2.13 Notwithstanding that a large number of people enrolled in various courses, Audit considers that the CEF's success depends very much on whether it could attract people who would not pursue continuous education without the subsidy. There is a need for the EMB to ascertain the extent to which the CEF has helped people who would not have pursued a course of study without the subsidy.

2.14 In a letter dated May 2002 to the consultant concerning the evaluation of the CEF, the Secretary for Education and Manpower stated that:

"..... people will almost certainly answer that it (the CEF) has helped them (to pursue continuous learning). What we might wish to go on to probe is whether the students would have studied anyway without the CEF although there may be some risk as it's possible, as overseas experience has apparently indicated, that

schemes like the CEF tend not to draw new people into the continuous education net but instead give additional help to those who are already there.”

2.15 **In both evaluations of the effectiveness of the CEF, no assessment had been made as to whether the CEF was successful in drawing new people to pursue continuing education.** Audit noted that, for example, in the evaluation of the Individual Learning Accounts in the UK (Note 1), for the purpose of identifying new learners or otherwise in the scheme, respondents were asked whether they agreed or not with the following statements:

- (a) “Without the subsidy I would not have been able to pay for my course.”;
- (b) “I would have chosen to take the course even without the subsidy.”; and
- (c) “The subsidy helped to fund a course that I was already planning to undertake.”.

Such information would enhance the EMB’s ability to formulate policies and draw up plans to encourage more people, especially those who are less adaptable to the knowledge-based economy, to upgrade themselves.

Audit recommendations

2.16 **Audit has recommended that the Secretary for Education and Manpower should:**

- (a) **in each evaluation of the effectiveness of the CEF, ensure that the key questions cover the extent to which the CEF has encouraged applications from new learners; and**
- (b) **based on the evaluation results, formulate policies and draw up plans to encourage more people, especially those who are less adaptable to the knowledge-based economy, to upgrade themselves.**

Response from the Administration

2.17 The **Secretary for Education and Manpower** agrees with the audit recommendations. He has said that:

Note 1: *The UK Government introduced the Individual Learning Accounts in 2000 to help overcome financial barriers to learning faced by individuals, and to contribute to its objective of developing in everyone a commitment to life-long learning and to a better-equipped workforce. The Accounts ceased to operate in 2002 due to potentially serious fraud and abuse.*

- (a) he instructed the consultant in August 2005 to include questions on the extent the CEF had encouraged applications from new learners in the second evaluation of the effectiveness of the CEF; and
- (b) the evaluation results will be taken into account in the EMB's review of the CEF.

Gauging the views of applicants

2.18 The EMB monitors the performance of the CEF through periodic evaluation surveys. The conduct of surveys takes time and presents only a snapshot position of the performance of the CEF. This hampers the EMB's ability to monitor closely the performance of the CEF and, where necessary, to take prompt remedial actions.

Audit observations

2.19 **In Audit's view, the EMB should consider putting in place a system to capture regularly the relevant information for monitoring the performance of the CEF.** One option is that the OCEF requests an applicant to return a completed questionnaire when he submits his claim for reimbursement of the course fees. The questionnaire may include questions on the profile of the applicant, the extent to which the CEF has encouraged him to pursue continuing education, and the impact of the CEF on him. To keep track of the longer-term impact, the OCEF may request a sample of these applicants to complete a follow-up questionnaire (say six months) after completion of the courses. The OCEF's computer system will then produce regularly management reports based on the survey results.

Audit recommendation

2.20 **Audit has recommended that the Secretary for Education and Manpower should, in conjunction with the Controller, SFAA, consider putting in place a system to gauge continually the views of applicants on the CEF, including their views on the impact of the CEF.**

Response from the Administration

2.21 The **Secretary for Education and Manpower** agrees with the audit recommendation. He has said that:

- (a) the OCEF will seek the views of applicants on matters relating to the processing of applications and reimbursement claims; and
- (b) this will be supported by periodic and more comprehensive evaluations of the CEF to be conducted by independent consultants.

PART 3: OPERATING ARRANGEMENTS OF THE CONTINUING EDUCATION FUND

3.1 This PART examines the adequacy of the CEF's operating arrangements.

Single quotation for evaluating the Continuing Education Fund

3.2 In July 2002, the EMB invited and approved a single quotation of \$480,000 from a consultant (see para. 2.9) to evaluate the effectiveness of the CEF on the following justifications:

- (a) the consultant was an independent, non-profit-making research institute. One of its major businesses was evaluating and examining implications of new policy initiatives. Given its experience in conducting similar research for the Government, the consultant was an appropriate choice and was capable of conducting the evaluation on the CEF; and
- (b) the evaluation had to be started as soon as the CEF was launched. If more consultants had to be invited to submit quotations, commencement of the evaluation would be delayed, possibly leading to extra costs in collecting evaluation data, and also causing the evaluation to be less effective than it would otherwise have been.

3.3 In June 2004, the EMB invited and approved another single quotation of \$1,054,000 from the same consultant to conduct another evaluation of the effectiveness of the CEF. The higher fee (compared with the first evaluation) was due to the additional costs needed to carry out separate surveys on the training needs of Hong Kong's workforce, as well as the development of standardised assessment tools for assessing the effectiveness of the courses under the IISW sector. In July 2004, the EMB entered into a service agreement with the consultant.

3.4 The EMB's justifications for approving the single quotation in June 2004 were largely identical to those of July 2002. In addition, the EMB considered that the experience of the consultant in the first evaluation was relevant and important for conducting the second evaluation, and that the consultant's performance in the first evaluation was good. Furthermore, in order to make available useful data by the end of 2004, the EMB aimed to start the second evaluation in June 2004.

Audit observations

3.5 In both evaluations of the effectiveness of the CEF, the EMB followed the procedures for procurement by single quotation as laid down in the Government's Stores and Procurement Regulations. However, Audit notes that there is scope for improvement in seeking better value for money in the EMB's engagement of the consultant to conduct the evaluations. Audit observations are stated in paragraphs 3.6 to 3.8.

First evaluation of the Continuing Education Fund

3.6 The EMB's justifications for approving the single quotation for the first evaluation of the effectiveness of the CEF were that the consultant was experienced in conducting similar research for the Government and that the time schedule of the evaluation was tight (see para. 3.2). **Audit considers that there is scope for improvement in obtaining quotations.** There were other sources (such as tertiary institutions and consultancy companies) in Hong Kong which could provide similar services. The EMB should endeavour to obtain quotations from these sources so as to ensure that the services acquired represented best value for money.

3.7 As regards the tight time schedule of the evaluation, Audit found that, when the EMB approved the single quotation in July 2002, there was no documented analysis or deliberation showing why inviting more consultants could lead to extra costs in collecting evaluation data and could cause the evaluation to be less effective (see para. 3.2(b)). **In seeking funding approval for the CEF in April 2002, it was stated in the FC Paper that the EMB would review the implementation of the CEF from time to time, and in any case no later than one year after its implementation. Audit considers that there would not be any significant adverse impact on the evaluation if the EMB had allowed, say, another one month for the selection process.** Selection of consultant could have been completed in August 2002 instead of July 2002, after evaluating their proposals.

Second evaluation of the Continuing Education Fund

3.8 **In selecting a consultant for the second evaluation of the effectiveness of the CEF, the EMB had opined that the consultant's performance in the first evaluation was good and that its previous experience was relevant. However, Audit considers that improvement could have been made in obtaining quotations** for the following reasons:

- (a) the second evaluation was not just a continuation of the first one. It entailed separate surveys on the training needs of Hong Kong's workforce and the development of standardised assessment tools for assessing the effectiveness of the courses under the IISW sector (see para. 3.3); and
- (b) the first evaluation was completed by the consultant in August 2003. As such, the EMB would have had sufficient time to invite quotations for the second evaluation. However, Audit found that, for the single quotation obtained from the same consultant for the second evaluation, the invitation for proposal was made and the approval was given only in June 2004.

Audit recommendations

3.9 **Audit has recommended that the Secretary for Education and Manpower should:**

- (a) **ensure that the acquisition of outside services is always made on a fair and competitive basis, by inviting quotations from service providers; and**

- (b) **plan the timing for the acquisition of outside services so as to avoid having to resort to a single quotation.**

Response from the Administration

3.10 The **Secretary for Education and Manpower** has said that he will take note of Audit's concern in future quotation exercises. He has also said that:

- (a) the decision to conduct a second evaluation was made in June 2004. It was the EMB's intention that an interim report should be ready by the end of 2004 for initial analysis and a final report ready by the second half of 2005 for subsequent follow-up action. To adhere to this time schedule, the EMB considered it more effective and expedient to continue to engage the same consultant; and
- (b) as Audit has rightly pointed out, there were additional features in the second evaluation. However, the knowledge, information and experience gained by the consultant in the first evaluation were valuable and relevant to the second one. In view of the good performance of the consultant and the similar nature of the two evaluations, and for the avoidance of a steep learning curve for a new consultant, the EMB awarded the second evaluation work to the same consultant.

Duration of courses and qualifications attained

3.11 In December 2001, the EMB informed the LegCo Panel on Manpower that:

- (a) there had already been a lot of subsidies for short-term life-long learning and skills upgrading courses. In order to achieve "value addedness" and to differentiate from these short-term courses, the CEF courses should be of high intensity and relatively longer duration, should be substantial, and should lead to a qualification; and
- (b) the Administration would present more detailed proposals to the LegCo Panel before the submission was made to the FC in 2002 for approving the funding of the CEF.

3.12 Accordingly, the EMB started to work out the minimum requirements of courses to be eligible for registration under the CEF. The EMB's initial thought was that the courses should at least have 160 contact hours and should lead to some sort of formal certification or qualification.

3.13 The general view of the course providers and industry representatives was that the requirement of 160 hours of training was too stringent and not practicable because there were not enough courses available in the market. After discussions on a wide range of contact hours, 100 hours were accepted as a compromise. In January 2002, the EMB

informed the Federation for Continuing Education in Tertiary Institutions (Note 2) that the CEF courses should be at least 100 hours long. **The EMB considered that only courses with such a duration would add value to those working in the sectors concerned.**

3.14 Subsequently, there were further discussions between the EMB and the course providers on the minimum requirements of courses. In the event, when the CEF was launched in June 2002, the EMB approved the following course requirements (which are currently still in force):

- (a) the minimum contact-hour requirement of reimbursable courses should be 30 hours for all sectors (except the IISW and the Language sectors – Note 3). In addition, the courses of all sectors (except the IISW sector – Note 4) should be designed to cover at least one or more of the approved sector-specific competencies (see para. 3.19(a) and Appendix A for details). The minimum proportion of a course covering one or more of the specified competencies should not be less than 50%. The remaining course content should be related to the specific industry;
- (b) with the exception of language courses (other than written Chinese courses) which must lead to one of the specified benchmark examinations (see para. 4.29) of the relevant examination bodies or agents, the courses of other sectors were required to lead to a qualification based on a formal assessment of the applicant by the course provider. The assessment might take the form of examination or continuous assessment or both; and
- (c) all courses were required to undergo an assessment process to determine their eligibility for registration. The major criterion for registration was the potential ability of the course to provide continuing education in accordance with the stipulated competencies. The courses would not be assessed in terms of their academic levels or standards, or in terms of the academic qualifications they led to.

Note 2: *The Federation for Continuing Education in Tertiary Institutions was established in 1994 to promote life-long learning in Hong Kong. Its current membership consists of the eight institutions funded by the University Grants Committee, the Caritas Adult and Higher Education Service, the Vocational Training Council, and the Open University of Hong Kong.*

Note 3: *The minimum contact-hour requirement of a reimbursable course on IISW is 40 hours. The minimum contact-hour requirements of reimbursable courses on Language are as follows: English language (90 hours), Putonghua and written Chinese (60 hours), French and German (110 hours), and Japanese (120 hours).*

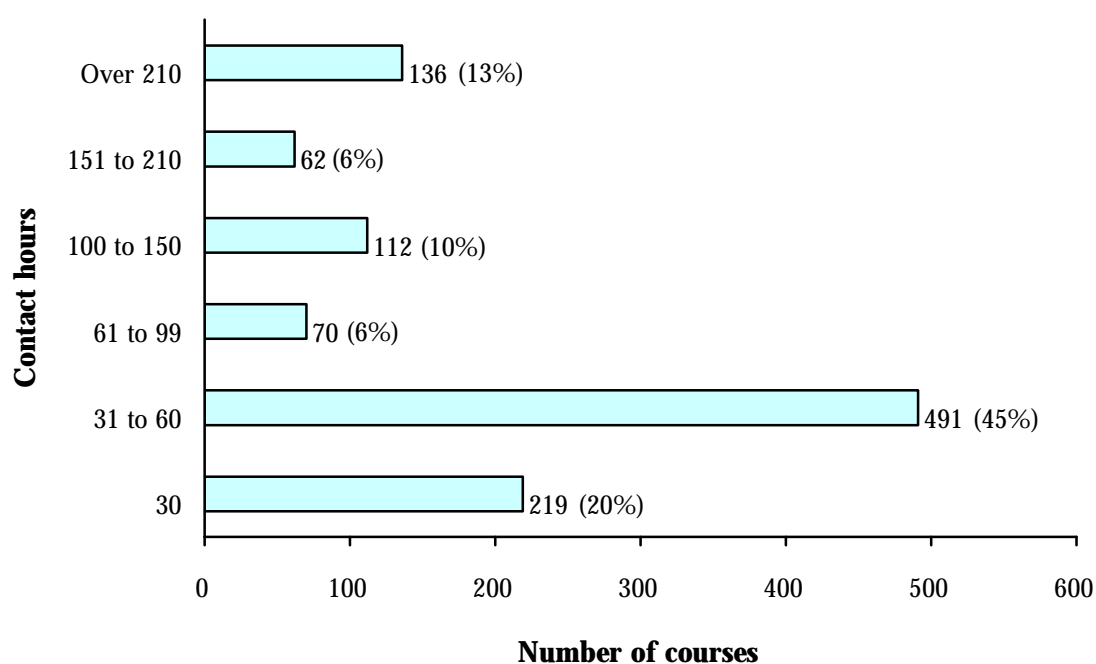
Note 4: *The courses on IISW should be designed to cover all the three components of the competencies approved for the sector, namely life skills, working with others, and values and attitudes.*

Audit observations

3.15 Audit notes that after consulting the course providers and industry representatives, in January 2002, the EMB expressed the view that only courses with a duration of at least 100 contact hours would add value to those working in the sectors concerned (see para. 3.13). When the CEF was launched in June 2002, the minimum duration of CEF courses was reduced to 30 contact hours. In addition, the courses would not be assessed in terms of their academic levels or standards, or in terms of the academic qualifications they led to (see para. 3.14(a) and (c)). Audit analysis of the 1,090 CEF courses approved between 1 April 2003 and 31 January 2005 shows that the duration of 65% of the courses was 30 to 60 contact hours (see Figure 2).

Figure 2

**Analysis of duration of the 1,090 CEF courses approved
between 1 April 2003 and 31 January 2005**



Source: EMB records and Audit analysis

3.16 Audit recognises that the EMB had to take into account the views of relevant parties when formulating the minimum requirements of reimbursable courses. **However, Audit considers that the lowered minimum duration requirements are at variance with the Government's original aim that the courses should be different from other types of short-term life-long training courses and should add value to those working in the sectors concerned.**

Audit recommendations

3.17 **Audit has recommended that the Secretary for Education and Manpower should review and, if necessary, revise the minimum duration requirements of courses reimbursable under the CEF.**

Response from the Administration

3.18 The **Secretary for Education and Manpower** has said that:

- (a) he will continue to consult the industries concerned on the appropriate minimum duration requirements of courses reimbursable under the CEF;
- (b) the minimum duration of 30 contact hours was set after discussions with course providers. The market trend was to offer shorter or modular courses with different levels of progression to facilitate and motivate workers studying part-time. The originally proposed duration of 100-160 contact hours was considered too onerous. This might deter potential learners and limit the flexibility for course design;
- (c) the duration of a course is one of the indicators which measure the quality of a course. Each course will be considered on its merits having regard to the content, mode of delivery and target group. The EMB has engaged the Hong Kong Council for Academic Accreditation (HKCAA – Note 5) to assure the EMB that all CEF courses would meet the core competency requirements as determined by the Focus Group of the sector (see para. 3.19); and
- (d) with the introduction of the Qualifications Framework (Note 6), it is the EMB's policy intent that in future, all CEF courses will be required to have been quality assured before they are eligible for government subsidy.

Review of sector-specific competencies

3.19 With a view to ensuring that CEF courses met the needs of the respective sectors and Hong Kong, the EMB had set up various Focus Groups (comprising representatives of the respective sectors) to advise the Government on the following:

Note 5: *The HKCAA was established in 1990 as an independent statutory body to provide advice to the Government on the academic standards of degree programmes in the higher education institutions in Hong Kong. It also performs advisory functions in respect of academic qualifications and educational standards in general.*

Note 6: *The Qualifications Framework was endorsed by the Executive Council in February 2004. It aims to define clearly the standards of different qualifications, ensure their quality and indicate the articulation ladders between different levels of qualifications.*

- (a) the scope and competencies required in the sectors. An example of the sector-specific competencies as advised by the Focus Groups is shown in Appendix A;
- (b) courses already available in the market to meet these requirements; and
- (c) the extent new courses needed to be provided to meet requirements that were not already met.

Based on the advice of the Focus Groups, the EMB discussed with the training providers on how they could assist in filling the training gaps identified.

Audit observations

3.20 To ensure that there are no training gaps and that the changing needs of the respective sectors and Hong Kong are met, it is desirable for the Focus Groups to meet regularly to review the competency requirements of the sectors as well as the available courses in the market. **Audit noted that the Focus Groups had helped identify the competency requirements for the relevant sectors prior to the launch of the CEF in 2002 and the expansion of sector coverage in 2004. However, they had not held regular meetings to ascertain whether there should be further refinements.**

Audit recommendations

3.21 **Audit has recommended that the Secretary for Education and Manpower should examine the need to convene Focus Group meetings regularly to review:**

- (a) **the competency requirements of various sectors; and**
- (b) **the adequacy of training courses available in the market for meeting these requirements.**

Response from the Administration

3.22 The **Secretary for Education and Manpower** agrees that meetings of the Focus Groups should be held regularly to review and update the competency requirements, where necessary. He has said that:

- (a) apart from the Focus Groups, the EMB has set up a Vetting Committee (VC) for each sector to assess/approve applications from local universities for registration as reimbursable courses. A VC meets four times a year to consider applications; and
- (b) representatives of the corresponding Focus Group attend the relevant VC meetings. These VC meetings serve as useful forums for the EMB to keep in view the need to review the competency requirements.

Inspection of reimbursable courses

3.23 All courses are required to undergo an assessment process to determine their eligibility for registration as reimbursable courses under the CEF. In this connection, the HKCAA has been appointed to advise the EMB on the following matters:

- (a) whether individual courses are properly structured to deliver the specified competencies;
- (b) whether relevant teaching and learning activities, assessment requirements and quality assurance procedures are in place so that individual courses are delivered in an appropriate manner; and
- (c) whether courses are eligible for registration.

To monitor the quality of courses, the HKCAA has to conduct inspections as deemed necessary by the EMB.

3.24 At the completion of this audit in July 2005, the HKCAA had conducted two rounds of inspections to ascertain whether the registered reimbursable courses offered by non-university providers (Note 7) fulfilled the registration criteria and should continue to be reimbursable courses. In the first round, which was conducted during the period December 2003 to February 2004, the HKCAA inspected 20 registered reimbursable courses. The HKCAA concluded that:

- (a) the CEF was operating satisfactorily; and
- (b) the inspections enabled both the EMB and itself to better focus their effort with a view to further promoting the CEF for life-long learning among the citizens of Hong Kong.

3.25 In the second round of inspections, which was conducted during the period May 2004 to April 2005, the HKCAA inspected 27 registered reimbursable courses. The EMB expects to receive the inspection report from the HKCAA in the last quarter of 2005.

Note 7: *Courses offered by the continuing education sections of local self-accrediting universities (i.e. the eight institutions funded by the University Grants Committee and the Open University of Hong Kong) are not subject to quality inspections by the HKCAA. The universities concerned only need to submit to the EMB a letter certifying that the courses concerned have undergone internal quality assurance processes, and that effective measures are in place to ensure that the standards of the courses are maintained.*

Audit observations

3.26 In April 2002, the Independent Commission Against Corruption advised the EMB that it should:

- (a) work out with the HKCAA the criteria for selecting courses for inspection;
- (b) ensure that the HKCAA conducted inspections consistent with a laid-down inspection plan; and
- (c) conduct surprise inspections as far as possible.

3.27 Audit noted that from time to time, the EMB reached agreements with the HKCAA on the arrangements of inspections. These agreements include, for example, the following:

- (a) institutions to be inspected by the HKCAA having regard to various risk factors;
- (b) the coverage of inspections;
- (c) the requirement that inspections should be conducted more regularly, instead of concentrating on particular months of the year; and
- (d) the requirement that surprise inspections would be conducted.

3.28 Audit appreciates that there were agreements between the EMB and the HKCAA on how inspections should be proceeded. However, the documentation of these agreements was fragmented. For example, some agreements were recorded in minutes of meetings while some others were in correspondence between the two parties. **There is no formal inspection plan to ensure that the HKCAA has conducted inspections in accordance with the agreements.**

Audit recommendations

3.29 **Audit has recommended that the Secretary for Education and Manpower should:**

- (a) **in consultation with the Executive Director, HKCAA, draw up a formal inspection plan; and**
- (b) **ensure that the HKCAA conducts inspections in accordance with the agreed inspection plan.**

Response from the Administration

3.30 The **Secretary for Education and Manpower** has said that:

- (a) the existing inspection arrangements agreed between the EMB and the HKCAA (see para. 3.27) have been effective; and
- (b) he will consider whether improvements to formal documentation of the inspection plan can be made.

Inspection of courses under the Interpersonal and Intrapersonal Skills for the Workplace sector

3.31 Similar to courses under other sectors, the courses under the IISW sector are required to undergo an assessment process to determine their eligibility for registration as reimbursable courses. The assessment is carried out by an Assessment Panel which comprises representatives of the EMB, business organisations, and non-profit-making organisations. The role of the Panel is similar to that of the HKCAA (see para. 3.23).

Audit observations and recommendation

3.32 At the completion of this audit in July 2005, the Assessment Panel had not carried out any inspections on IISW courses, nor had the EMB worked out any inspection plans with the Panel. In response to Audit's enquiry, the EMB advised that there were only six registered IISW course providers. A quality monitoring procedure was in place whereby IISW course providers were required to submit, for review by the Assessment Panel, enrolment figures, participants' evaluation, staffing plans, and detailed course outline. As the Assessment Panel was satisfied with the quality of the course providers, no quality inspections were carried out.

3.33 **Audit considers that the quality monitoring procedure for IISW courses is not a substitute for proper inspections. To monitor properly the quality of IISW courses, Audit has recommended that the Secretary for Education and Manpower should draw up an inspection plan for IISW courses and monitor its implementation.**

Response from the Administration

3.34 The **Secretary for Education and Manpower** agrees that quality inspections of IISW courses should be held as frequently, as and when necessary. He has said that:

- (a) the Assessment Panel has agreed to produce an assessment checklist for inspection purpose; and
- (b) the EMB will, in consultation with the Assessment Panel, monitor the operation of IISW courses and conduct surprise inspections.

PART 4: PROCESSING OF APPLICATIONS

4.1 This PART examines the adequacy of the SFAA's arrangement of processing CEF applications.

Application and reimbursement arrangements

4.2 An eligible applicant who has enrolled in a reimbursable course and paid the tuition fees can apply for approval in-principle for fee reimbursement from the OCEF before course commencement.

4.3 Upon granting the approval in-principle, the OCEF opens an account and earmarks \$10,000 for the applicant. Upon successful completion of a reimbursable course, the applicant is entitled to claim 80% of the course fees (and benchmark examination fees in the case of language courses) from his account balance. An applicant can make two fee reimbursement claims within a two-year period. Each reimbursement claim can cover the fees for several courses. The applicant will need to produce evidence (such as copies of fee receipts and copies of proof of successful completion of the courses) to support his reimbursement claims.

4.4 The OCEF will close an applicant's account once he has claimed the second reimbursement or drawn the full sum of \$10,000. If the applicant does not claim any reimbursement or draw the full sum within the two-year period, the OCEF will claw back the balance in his account for allocation to other applicants.

Prevention of duplicate subsidies

4.5 CEF applicants are prohibited from receiving financial assistance from other publicly-funded financial assistance schemes for the same courses and examinations. They are required to sign a declaration that they have read and understood the CEF Guidance Notes for Application, which states that they are liable to legal proceedings to obtain pecuniary advantage by deception. The OCEF has also implemented the following additional measures to avoid duplicate subsidies and abuse:

- (a) ***Matching records within the OCEF's computer system.*** The OCEF matches reimbursement claim records against one another. The purpose is to identify applicants who have made use of the same courses and examinations twice for claiming reimbursement. The OCEF will reject duplicate reimbursement claims;
- (b) ***Matching records of the OCEF with those of the SFAA.*** The OCEF compares the personal data of CEF applicants with those of the students who have received

financial assistance under the SFAA's Financial Assistance Scheme for Post-secondary Students (FASP – Note 8). If a CEF applicant has obtained assistance from the FASP, the OCEF will follow up the applicant's claim under the CEF to ensure that he will not receive subsidies twice for the same course;

- (c) ***Prevention of duplicate claims under other publicly-funded financial assistance schemes.*** In Hong Kong, there are publicly-funded agencies that administer financial assistance schemes to provide grants to employers for supporting training of their employees. Examples of these schemes include the Small and Medium Enterprises Training Fund (Note 9) and the Funding Scheme for Workplace English Training (Note 10). The OCEF has measures in place to prevent duplicate subsidies arising from the situation where:

- (i) an applicant has claimed for CEF subsidy for a course; and
- (ii) the applicant's employer has claimed subsidy for the same course under other publicly-funded financial assistance schemes.

When a CEF applicant submits a copy of fee receipt to support his reimbursement claim and the fee receipt bears a company name as the payer, the OCEF will withhold the reimbursement claim. The OCEF will require the applicant to give further evidence (e.g. a written confirmation) from the company concerned showing that the applicant is authorised to apply for reimbursement. The applicant will not receive any payment if he fails to provide the evidence; and

- (d) ***Tackling other abuse.*** The OCEF disallows CEF applicants to use the result of one benchmark examination to support the reimbursement claims for more than one language course. The OCEF regularly checks the details of reimbursement claims in its computer system to ensure that the benchmark examinations corresponding to the reimbursement claims are in order.

Note 8: *The FASP provides financial assistance, in the form of grants or loans for payment of tuition fees, to enable full-time students to pursue accredited self-financing post-secondary education programmes.*

Note 9: *The Small and Medium Enterprises Training Fund gives training grants to encourage small and medium enterprises in Hong Kong to provide training relevant to their business operations to their employers and employees, with a view to improving the capabilities and competitiveness of small and medium enterprises.*

Note 10: *The Funding Scheme for Workplace English Training is a component of the Workplace English Campaign. The scheme subsidises employers whose employees (non-civil-servants) need to use English in the workplace and take English language training courses.*

Audit observations

Prevention of duplicate claims

4.6 The OCEF started to receive applications in June 2002. However, it was not until November 2003 that the OCEF implemented measures to prevent duplicate subsidy claims under other publicly-funded financial assistance schemes administered outside the SFAA. **Audit welcomes the OCEF's initiative in setting up the measures to prevent duplicate subsidies. Audit, however, is concerned about the time lag of 17 months between the commencement of the CEF's operation and the implementation of the measures. This time lag had exposed the CEF to the risk of duplicate subsidies.**

Using copies of fee receipts to support reimbursement claims

4.7 Audit notes that other publicly-funded financial assistance schemes (e.g. the Small and Medium Enterprises Training Fund and the Funding Scheme for Workplace English Training) generally require their applicants to submit original fee receipts to support reimbursement claims. However, the OCEF accepts copies of fee receipts to process reimbursement claims. In response to Audit's enquiry, the OCEF advised that it did not collect original fee receipts from applicants for the following reasons:

- (a) applicants claiming reimbursement payments had to submit a reimbursement claim form. The course provider had to certify that the course fees stated in the claim form were correct. The OCEF therefore considered copies of fee receipts sufficient to support reimbursement claims; and
- (b) the CEF provided subsidy only up to 80% of fees, or \$10,000, whichever was the less. The applicant might need the original fee receipts to seek sponsorship from his employer or other sources.

4.8 **Requiring an applicant to submit the original fee receipt is an effective way to prevent the applicant from using the same receipt to claim duplicate subsidies. Nevertheless, Audit recognises that accepting copies of fee receipts may facilitate applicants in making reimbursement claims and the OCEF in processing the claims. Audit considers that applicants should be required to retain original fee receipts for inspection by the OCEF upon request.**

Audit recommendations

4.9 **Audit has recommended that the Controller, SFAA should:**

- (a) **keep abreast of the introduction of new publicly-funded financial assistance schemes and the development of existing ones to identify areas where there is a risk of providing duplicate subsidies to CEF applicants;**

- (b) **implement timely measures to mitigate the risk of duplicate subsidies; and**
- (c) **require applicants to retain original fee receipts for inspection by the OCEF upon request.**

Response from the Administration

4.10 The **Controller, SFAA** accepts the audit recommendations. He has said that:

- (a) the OCEF will revise its Guidance Notes for Application, and advise applicants to retain the original fee receipts for inspection when needed; and
- (b) the OCEF will ask for the original fee receipt if the copy provided by the applicant is illegible or the applicant refuses to obtain certification from the course provider.

Reimbursement payments for course modules

4.11 The OCEF makes reimbursement payments to eligible applicants after checking their reimbursement claim applications. Applicants normally receive payments within six weeks after submitting the claims. For the financial year ended 31 March 2005, the total amount of reimbursement payments was \$289 million.

4.12 It is a requirement of the CEF that applicants should have successfully completed a reimbursable course before obtaining reimbursement payments. A reimbursable course can be:

- (a) a course that may or may not consist of different modules (i.e. separate parts of a course); or
- (b) a module of a course,

which has been registered with the EMB.

4.13 The OCEF will reimburse the fee of a module of a course if that module has been registered with the EMB as a reimbursable course. However, it was at one time unclear whether an applicant could obtain reimbursement payments by modules if the modules were not registered individually as reimbursable courses.

4.14 In response to an enquiry made by a course provider in November 2002, the EMB stated that:

- (a) if a course provider was willing to confirm that an applicant had completed a module/modules out of a whole programme, the OCEF would process the reimbursement claim; and
- (b) it was up to a course provider to decide and define what was meant by “completion of course”. If the course provider concerned considered that a student needed to complete the whole programme before claiming for reimbursement, it could refuse certification on the reimbursement claim form.

4.15 Based on the explanation given in paragraph 4.14, the EMB does not require course providers to register individually each course module. Applicants can obtain reimbursement payments of the course modules they have completed, so long as the modules are components of registered reimbursable courses and the course providers certify the completion of these modules.

Audit observations

4.16 Audit selected randomly 150 reimbursement payments made during the period April 2004 to March 2005 (see Table 1) to examine the propriety of the OCEF's reimbursement for course modules. These 150 payments amounted to \$977,127 and were related to reimbursement for 141 reimbursable courses.

Table 1

**The 150 reimbursement payments for course modules
(April 2004 to March 2005)**

	Number of payments		Amount	
	(No.)	(%)	(\$)	(%)
Reimbursement payment for:				
• module of reimbursable course	32	21%	216,351	22%
• whole reimbursable course	118	79%	760,776	78%
Total	150	100%	977,127	100%

Source: OCEF records and Audit analysis

4.17 As can be seen from Table 1, it was not uncommon that the OCEF made reimbursement payments for modules which were not individually registered reimbursable courses, but were only components of registered reimbursable courses of a longer duration. In 32 payments (21%), the applicants obtained total reimbursement of \$216,351 for the modules they had completed. Audit noted that, in each of these 32 payments, the course provider certified that the applicant had completed the module(s) for which he subsequently obtained the reimbursement payments. However, there was no proof as to whether the applicant had completed the entire reimbursable course.

4.18 **Audit considers that the practice of making reimbursement for modules out of a reimbursable course, irrespective of whether the modules had been registered individually as reimbursable courses, should be revised.** Audit's observations are elaborated in paragraphs 4.19 to 4.22.

Applicants might not have acquired the required sector-specific competencies

4.19 For the 32 payments of course modules that Audit examined, the HKCAA was responsible for conducting an independent assessment of the related reimbursable courses. The HKCAA assessed each reimbursable course to ensure that its contents met the stipulated sector-specific competency requirements. Based on the HKCAA's assessment, the EMB approved the registration of the reimbursable courses.

4.20 Audit noted that the HKCAA's assessment was based on the **"totality"** of each reimbursable course in the sense that, while individual modules of a reimbursable course might not meet the sector-specific competency requirements, the course that comprised various modules had, as a whole, met the competency requirements and hence could be registered with the EMB as a reimbursable course. **Audit considers that unless each module has undergone a separate assessment by the HKCAA or an applicant has completed the whole reimbursable course, making reimbursement on a modular basis may have allowed applicants to receive subsidies without having acquired the required competencies. The certification of course providers is merely an acknowledgement of the completion of individual modules by applicants and is not a substitute for the HKCAA's independent assessment of the competencies of course modules.**

Applicants might not have obtained the intended awards

4.21 Course providers have to specify the awards, if any, that their students would be conferred when registering the courses with the EMB as reimbursable courses. If an applicant has not completed the reimbursable course, he will not be conferred the intended award. Example 1 shows an applicant who had not obtained the intended award, but received reimbursement for course fees. This is a typical example of the 32 payments for course modules that Audit examined.

Example 1

Reimbursement payments to an applicant who had not obtained the intended award

The applicant enrolled in a reimbursable course which would confer on her a master degree in Strategic Purchasing and Supply Management.

In June 2004, the applicant applied for the CEF reimbursement payments after having completed two modules of the master degree programme. The course provider issued a letter certifying that the applicant had successfully completed the two modules. As the fees for the two modules amounted to \$18,000, the OCEF made the maximum reimbursement payment of \$10,000 to the applicant.

The OCEF's records did not show whether the applicant had actually obtained the master degree.

Source: OCEF records

4.22 **As can be seen from Example 1, unless an applicant has completed the whole reimbursable course, the OCEF's prevailing practice of making reimbursement payments on a modular basis has allowed the applicant to receive subsidies without having obtained the intended award.**

EMB's measures to improve the propriety of reimbursement payments for course modules

4.23 In response to Audit's enquiry, the EMB advised that:

- (a) the arrangement to allow reimbursement of fees of individual modules out of a whole course of long duration was considered necessary since the time required to complete these courses might exceed the two-year reimbursement period (see para. 4.3); and
- (b) to ensure that reimbursement would only be made to those modules meeting the competency requirements, with effect from September 2004, private-sector course providers were required to register individual modules of a course as independent reimbursable courses.

4.24 Although private-sector course providers have been required to register individual modules of a course as independent reimbursable courses with effect from September 2004, Audit noted that such courses accounted for only a small proportion of reimbursable courses. **At the end of May 2005, when Audit substantially completed the audit fieldwork, 74% of the 4,163 reimbursable courses available in the market were provided by the continuing education sections of the local self-accrediting universities. The EMB has not required these course providers to register individual modules of a course as independent reimbursable courses.**

4.25 Audit also notes that the new requirement effective from September 2004 does not cover courses that were registered before September 2004. **As most of these pre-September 2004 courses are still available in the market, Audit considers that it is essential for the EMB to take remedial action to avoid making reimbursement payments for modules which were not registered individually as reimbursable courses.**

Audit recommendations

4.26 **Audit has recommended that:**

- (a) **the Secretary for Education and Manpower should:**
 - (i) **require all course providers (both private-sector course providers and continuing education sections of local self-accrediting universities) to register individual modules of a course as independent reimbursable courses when applying for registration under the CEF in future;**
 - (ii) **introduce measures to avoid making reimbursement payments for modules which were not registered individually as reimbursable courses (e.g. by re-registering individual modules of a course as independent reimbursable courses); and**
 - (iii) **set a cut-off date after which reimbursement payments by modules will not be made, if these modules are not registered as independent reimbursable courses; and**
- (b) **the Controller, SFAA should ensure proper implementation of the revised practice for fee reimbursement.**

Response from the Administration

4.27 The **Secretary for Education and Manpower** shares Audit's concern as mentioned in paragraph 4.20. He has said that:

- (a) the EMB had, since September 2005, required the continuing education sections of local self-accrediting universities to register individual modules of a course as independent reimbursable courses when applying for registration under the CEF in future; and
- (b) the EMB will discuss those recommendations stated in paragraph 4.26(a)(ii) and (iii) with the SFAA and the HKCAA on how best they could be taken forward, taking into account the resource implications and the need for further deliberations.

4.28 The **Controller, SFAA** has said that the OCEF will work closely with the EMB on the implementation of any revised arrangements for fee reimbursement.

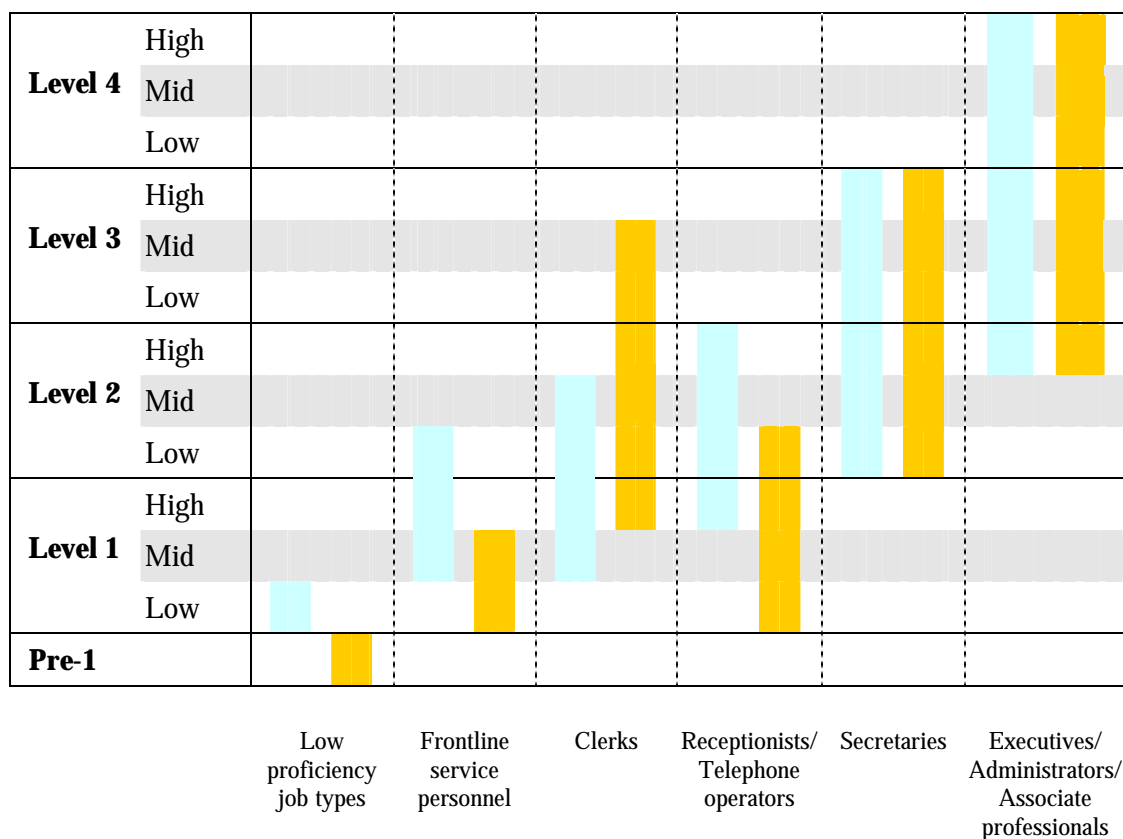
Reimbursement payments for language courses

4.29 As a prerequisite for reimbursement payments, in addition to completing a reimbursable course, applicants who have attended language courses (other than written Chinese courses) should:

- (a) pass the specified examinations (e.g. General Certificate of Education Advanced Level); or
- (b) attain the minimum benchmarks of specified benchmark examinations (e.g. Business Language Testing Service Standard).

The CEF does not require applicants to sit any benchmark examinations in respect of written Chinese courses they have attended. Figure 3 illustrates, using the English language as an example, the different levels of benchmarks that can be achieved by an applicant.

Figure 3
Hong Kong Workplace English Benchmarks



Legend: Spoken
 Written

Source: *Hong Kong Workplace English Benchmarks*

4.30 The Hong Kong Workplace English Benchmarks (HKWEB) were developed by the Workplace English Campaign to spell out the standards of English in speaking and writing that the employees of six job types (see Figure 3) should strive to attain. There are other English language benchmark examinations an applicant can choose to attend in Hong Kong.

4.31 In the 150 samples of reimbursement payments that Audit had examined (see para. 4.16), 15 were related to the reimbursement for fees of language courses and benchmark examinations. Table 2 shows the types of language courses and benchmark examinations involved.

Table 2
Types of language courses
and benchmark examinations in audit samples

	Number of payments		Amount	
	(No.)	(%)	(\$)	(%)
Reimbursement payment for:				
• English language courses and related benchmark examinations	10	67%	64,336	62%
• Putonghua courses and related benchmark examinations	5	33%	39,386	38%
Total	15	100%	103,722	100%

Source: OCEF records and Audit analysis

Audit observations

4.32 Audit noted that 4 applicants in the 15 reimbursement payments (see Table 2 in para. 4.31) had attended language courses which were pegged to target benchmark levels. Of these four applicants, two of them failed to attain the target benchmark levels even though they had completed the courses. These two applicants had taken English language courses which were pegged to certain levels of the HKWEB. Although the two applicants failed to attain the target benchmark levels (see Figure 4), they still obtained reimbursement of \$15,512 for course fees and benchmark examination fees.

Figure 4

Target level of courses and actual level attained by two applicants

	Applicant 1	Applicant 2
	Course title: Professional diploma in English for business communication	Course title: Professional certificate in English for business communication
<u>HKWEB</u>	<u>Target level</u> <u>Attained level</u>	<u>Target level</u> <u>Attained level</u>
Level 4 High	4 High	
Level 4 Mid		
Level 4 Low		
Level 3 High		
Level 3 Mid		
Level 3 Low		
Level 2 High	2 High	
Level 2 Mid	2 Mid	2 Mid
Level 2 Low		
Level 1 High		1 High
Level 1 Mid		1 Mid
Level 1 Low		
Pre-1		

Source: OCEF records and Audit analysis

4.33 Audit notes that it is a practice of the OCEF to allow flexibility for applicants to meet their own personal circumstances and not to make it mandatory for applicants to attain the target benchmark levels their language courses are pegged to. As long as applicants have completed their courses and attained the minimum level of specified benchmark examinations, for example, the HKWEB “Pre-1” level in the case of English language, they could obtain reimbursement payments from the OCEF.

4.34 **Using the English language courses as an example, Audit considers that the OCEF’s practice of using the minimum level as a criterion for reimbursement is undesirable.** As pointed out in paragraph 1.4, the aim of the CEF is to provide subsidy to people for the pursuit of continuing education so as to prepare Hong Kong’s workforce for the knowledge-based economy. An applicant who has attained the minimum level of “Pre-1” will only meet the English language requirement for low proficiency jobs (see Figure 3 in para. 4.29). It is doubtful that he will be equipped to meet the needs of the knowledge-based economy.

Audit recommendation

4.35 **Audit has recommended that the Controller, SFAA should, in consultation with the Secretary for Education and Manpower, review the existing practice of using the attainment of minimum benchmark level as a condition for reimbursement.**

Response from the Administration

4.36 The **Controller, SFAA** agrees with the audit recommendation.

Authentication Exercises

4.37 After making reimbursement, the OCEF conducts Authentication Exercises to verify with course providers the validity of reimbursement claims. The OCEF regards an Authentication Exercise as the last goalkeeper in ensuring the prudent use of the CEF. A full cycle of Authentication Exercise comprises two parts, namely the First Authentication Exercise and the Second Authentication Exercise.

First Authentication Exercise

4.38 In the First Authentication Exercise, the OCEF verifies those applicants whose accounts are closed since the last Authentication Exercise. These applicants are those:

- (a) who have already submitted two reimbursement claims;
- (b) who have already drawn the full entitlement of \$10,000; or
- (c) whose two-year validity period has expired.

4.39 The OCEF prepares reports containing the selected applicants' reimbursement records. Each record contains details of the course for which the applicant has obtained fee reimbursement. As an applicant could have obtained reimbursement for more than one course, each applicant may have several reimbursement records. The OCEF sends the reports to course providers for checking and requires them to confirm if the applicants have successfully completed the courses. Upon the course providers' confirmation, the OCEF takes action to recover any overpayments of reimbursement claims.

Second Authentication Exercise

4.40 The OCEF conducts the Second Authentication Exercise after it has completed each First Authentication Exercise. The OCEF selects randomly from the First Authentication Exercise about 5% of the reimbursement records, and visits the course providers to check against their records of registration, fee payments, attendance and completion of courses. If the OCEF notes any overpayments of reimbursement claims, it will take action to recover the amount overpaid.

Full cycle of Authentication Exercise conducted in 2004

4.41 In June 2004, the OCEF conducted a First Authentication Exercise where 8,111 reimbursement records were verified. In September 2004, the OCEF commenced the Second Authentication Exercise to visit the selected course providers. In November 2004, the OCEF completed the Second Authentication Exercise. This marked the completion of a full cycle of the Authentication Exercise.

Audit observations

Effectiveness of the First Authentication Exercise

4.42 Audit found that the OCEF detected only one irregularity in the First Authentication Exercise on the 8,111 reimbursement records. For this case, the applicant obtained reimbursement payment for a course she had not attended. The OCEF reported the case to the Hong Kong Police Force (Police) for investigation.

4.43 In response to Audit's enquiry, the OCEF advised that:

- (a) applicants claiming reimbursement payments had to obtain course providers' certification on a reimbursement claim form that the applicants had successfully completed the courses. Course providers needed to stamp their institution chops on the forms to designate their certification. The First Authentication Exercise, which required course providers to confirm similar details, provided their management with a chance to review the performance of their frontline staff in the certification process. The OCEF found the First Authentication Exercise effective in covering 100% of the claims with the concerted efforts of the course providers; and

- (b) in the previous First Authentication Exercise conducted in December 2003, a course provider informed the OCEF that in checking the records, 10 students were found to have neither attended the course nor passed the course assessment but were given graduation proof. The course provider suspected that some of its former or existing staff had collaborated with the claimants. Eventually, the course provider and the OCEF reported the case to the Police. Another course provider also reported that a student had in fact failed in the assignments and mock examination.

4.44 Audit found that despite the complete check of 8,111 reimbursement records, some irregularities still could not be detected during the First Authentication Exercise (see para. 4.45). Furthermore, the Exercise detected only one irregularity (0.01%) out of the complete check. **There is a need for the OCEF to review the cost-effectiveness of the First Authentication Exercise, and to consider relying more on other means to authenticate details of reimbursement claims, for example, by conducting on-site inspections (during the Second Authentication Exercise) of more course providers and by verifying more reimbursement records during on-site inspections.** In this connection, Audit noted that the Internal Audit Unit of the SFAA conducted a review of the OCEF in October 2004. After the review, the Unit concluded that First Authentication Exercises could not detect fraudulent claims if the same staff of course providers were involved in preparing the claims and verifying the cases during the First Authentication Exercises. The Unit suggested the OCEF to reduce the extent of the First Authentication Exercises by 50%.

Effectiveness of the Second Authentication Exercise

4.45 Of the 8,111 reimbursement records verified during the First Authentication Exercise, the OCEF selected randomly 411 records (i.e. about 5%) for inspection and visited the course providers to inspect their records. Of these 411 records, 8 and 12 were related to Course Providers A and B respectively. The OCEF's inspections revealed that each of these Course Providers had, in one case, certified on the reimbursement claim form that an applicant had successfully completed the course, while in fact the applicant had failed the course. This resulted in overpayments of reimbursement claims.

4.46 Audit found from the First Authentication Exercise that, in addition to the 8 and 12 reimbursement records mentioned in paragraph 4.45, there were another 144 and 218 records that were related to Course Providers A and B respectively. The OCEF had not set any guidelines on extending the checking on those course providers' reimbursement records where irregularities were noted. While the OCEF had extended the checking to cover some of the 218 reimbursement records relating to Course Provider B, it had not checked any of the 144 reimbursement records relating to Course Provider A.

4.47 In response to Audit's enquiry, the OCEF advised that as a student of Course Provider A was found to have failed a module, the reimbursement should not have been made. The OCEF considered that the error was an isolated incident, and that there was no need to extend the checking. For the incident relating to Course Provider B, the OCEF noted that the course provider had provided incorrect course commencement information to

the OCEF. The OCEF extended checking to all other reimbursement records related to the same course. Subsequently, more overpayment cases were detected and the OCEF initiated refund action for such cases.

4.48 Audit considers that the OCEF should have extended the checking to cover more reimbursement records relating to Course Provider A because it might have been apt to commit errors. In the absence of extended checks, it could not be ascertained whether the incident relating to Course Provider A was actually an isolated case. In future, the OCEF should focus more of its checking on those course providers who had unsatisfactory track records.

4.49 Audit also noted that, when visiting course providers in the Second Authentication Exercise, the OCEF had not included any surprise elements in the inspection process. The OCEF informed course providers of the date and time of visits, and notified them in advance the names of students whose records were to be selected for inspection. **Audit considers that the lack of an element of surprise in the inspection process could have enabled course providers to cover up their shortcomings, and would have impaired the effectiveness of the Second Authentication Exercise.**

Timeliness of the Authentication Exercise

4.50 Audit examined the 8,111 reimbursement records to ascertain the time lag between applicants' submission of reimbursement claims and the completion of the entire Authentication Exercise in November 2004. Table 3 shows the results of Audit's analysis.

Table 3

Time lag between submission of reimbursement claims and completion of the Authentication Exercise in November 2004

Time lag	Reimbursement records	
	(No.)	(%)
Over 2 years	14	1%
Over 1.5 years to 2 years	1,093	13%
Over 1 year to 1.5 years	4,615	57%
Over 0.5 year to 1 year	2,389	29%
Total	8,111	100%

} **71%**

Source: OCEF records and Audit analysis

4.51 It can be seen from Table 3 that in 71% of the cases, the OCEF completed the Authentication Exercise more than one year after the applicants had submitted their reimbursement claims. This is a matter of concern. The OCEF would release payments shortly (normally within six weeks) after receiving reimbursement claims. Therefore, in most cases, the OCEF did not complete the whole Authentication Exercise until more than one year after applicants had received reimbursement payments. The OCEF regards an Authentication Exercise as the last goalkeeper in ensuring the prudent use of the CEF. **Given its important control function, Audit considers that there is a need for the OCEF to expedite its Authentication Exercises. This would not only enable the benefits of an Authentication Exercise to be reaped earlier, but would also facilitate investigations of irregularities, which would in turn increase the chance of recovering overpayments of reimbursement claims.**

4.52 In response to Audit's enquiry, the OCEF advised that it aimed to conduct Authentication Exercises twice a year, i.e. in June and December when both the OCEF and course providers could afford the time and staff resources to do so. **Audit considers that notwithstanding such restrictions, there is room for expediting the conduct of Authentication Exercises.** For example, the OCEF could select applicants who have received reimbursement payments in the past six months for authentication in June and December, instead of conducting authentication after applicants' accounts are closed (see para. 4.38).

Audit recommendations

4.53 **Audit has recommended that the Controller, SFAA should:**

- (a) **review the need of conducting full-scale First Authentication Exercises having regard to their costs, effectiveness and limitations;**
- (b) **consider relying more on other effective means to authenticate details of reimbursement claims, such as conducting on-site inspections (during the Second Authentication Exercises) of more course providers and verifying more reimbursement records during on-site inspections;**
- (c) **keep track of those course providers who are apt to commit errors;**
- (d) **take account of course providers' track records when selecting samples for conducting on-site inspections of course providers;**
- (e) **incorporate surprise elements in conducting on-site inspections;**
- (f) **issue guidelines to staff of the OCEF on increasing the extent of checking during the Second Authentication Exercises where irregularities are noted; and**
- (g) **consider conducting Authentication Exercises promptly after making reimbursement payments (e.g. by selecting payments for authentication within six months).**

Response from the Administration

4.54 The **Controller, SFAA** agrees with the audit recommendations. He has said that:

- (a) he will review the effectiveness of the First Authentication Exercise and the need for conducting more on-site inspections in the Second Authentication Exercise; and
- (b) he will consider the possibility of adopting other alternative timing for conducting Authentication Exercises, taking into account resource implications and cost-effectiveness.

Process re-engineering

4.55 From time to time, the OCEF reviews its operational procedures to cater for changes in the administration of the CEF. The OCEF incorporates its operational procedures in a manual entitled “Continuing Education Fund Vetting Guidelines and Procedures”. Example 2 shows some operational procedures of the OCEF.

Example 2

Matching the personal data of CEF applicants with those of university students in the SFAA’s database

Prior to September 2003 when degree holders were not eligible to apply for the CEF, the OCEF’s computer system matched regularly the personal data of CEF applicants with those of university students in the SFAA’s database. The matching exercise aimed to identify those applicants who were ineligible for the CEF by virtue of their degree qualifications. During the matching, the system automatically tagged the records of those applicants who were university students and generated a report incorporating their details to alert the OCEF.

Subsequent to relaxing the eligibility criteria for the CEF to include degree holders in September 2003, the OCEF updated its procedures. The OCEF continues to perform the matching exercise. According to the updated procedures, after every matching, the tags that the system has attached to individual applicants’ records have to be cleared by running a computer program.

Source: OCEF records

Audit observations

4.56 According to the OCEF, it is under immense pressure handling the increasing number of CEF applications. Audit notes that there is room for streamlining certain procedures of the OCEF. For instance, despite the fact that from September 2003 onwards, degree holders are no longer ineligible for the CEF, the OCEF still conducts the matching exercise regularly (see Example 2 in para. 4.55). Another example where the OCEF could streamline its procedures is on the First Authentication Exercise (see paras. 4.42 to 4.44). **Audit considers that it is necessary for the OCEF to review its operational procedures so as to enhance its cost-effectiveness of administering the CEF.**

4.57 In response to Audit's enquiry, the OCEF advised that:

- (a) to dispense with the matching of degree holders, the OCEF would need the computer maintenance contractor to rewrite the computer program and the OCEF to carry out the acceptance test; and
- (b) the OCEF considered it risky to modify the computer program at the moment.

Audit recommendations

4.58 **Audit has recommended that the Controller, SFAA should:**

- (a) **review the operational procedures of the OCEF, taking into account the audit recommendations in this report; and**
- (b) **monitor the implementation of the revised procedures.**

Response from the Administration

4.59 The **Controller, SFAA** has said that:

- (a) the OCEF will continue to review its operational procedures from time to time; and
- (b) the OCEF will consider Audit's recommendations in the light of the risk involved in modifying the computer program vis-à-vis the cost-effectiveness.

**Continuing Education Fund –
An example of sector-specific competencies**

Financial services sector
<ol style="list-style-type: none">1. Law, regulatory framework and best practice2. Corporate governance3. Risk management4. Customer relationship management / customer services5. Asset management (general)6. Financial advice, planning and analysis7. Accounting (general as well as industry-specific)8. Settlements processing9. Knowledge of financial products (industry-specific)10. Information technology skills11. Dealing and marketing skills12. Communication and presentation skills13. China financial products in Hong Kong

Source: EMB records

Appendix B

Acronyms and abbreviations

Audit	Audit Commission
CEF	Continuing Education Fund
EMB	Education and Manpower Bureau
FASP	Financial Assistance Scheme for Post-secondary Students
FC	Finance Committee
HKCAA	Hong Kong Council for Academic Accreditation
HKWEB	Hong Kong Workplace English Benchmarks
IISW	Interpersonal and Intrapersonal Skills for the Workplace
LegCo	Legislative Council
OCEF	Office of the Continuing Education Fund
Police	Hong Kong Police Force
SFAA	Student Financial Assistance Agency
VC	Vetting Committee