

CHAPTER 1

Labour and Welfare Bureau

Vocational Training Council

**Administration of
the Skills Upgrading Scheme**

**Audit Commission
Hong Kong
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ADMINISTRATION OF THE SKILLS UPGRADING SCHEME

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PART 1: INTRODUCTION

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

Background

1.2 In October 2000, the Government announced in the Policy Address that \$400 million was set aside for a wide variety of tailor-made training programmes for workers with low education levels. The aim was to help them upgrade their skills and enhance their competitiveness in the labour market. In June 2001, the Finance Committee (FC) of the Legislative Council (LegCo) gave approval for setting up a Skills Upgrading Scheme (SUS) with funds of \$400 million. The FC was informed that the SUS would provide up-to-date skills training programmes for in-service workers, with a view to enhancing their employability and providing employers with staff who were both experienced in a particular field and adequately equipped with the latest skills required by the market.

1.3 *Skills Upgrading Scheme Steering Committee (SC).* The SC was set up in November 2000 by the then Education and Manpower Bureau (EMB — Note 1) to make recommendations to the Government on the use of the \$400 million set aside for the SUS and oversee the operation of the SUS. As at 31 December 2007, the SC, chaired by the Permanent Secretary for Labour and Welfare (Note 1), comprised eight other members (Note 2).

1.4 *Skills Upgrading Scheme Steering Group (SG).* The SG was set up in March 2002 by the SC to assist it to oversee the operation of the SUS. As at 31 December 2007, the SG was chaired by a Deputy Executive Director of the Vocational Training Council (VTC), and comprised four other members (Note 3) who were all SC members.

Note 1: *Following the reorganisation of the Government Secretariat with effect from 1 July 2007, the role and responsibilities of the EMB regarding manpower were transferred to the Labour and Welfare Bureau.*

Note 2: *As at 31 December 2007, the eight other members of the SC included the Executive Director of the Vocational Training Council, the Executive Director of the Employees Retraining Board and representatives from employers and employees.*

Note 3: *As at 31 December 2007, the four other members of the SG included the Executive Director of the Employees Retraining Board and representatives from employers and employees.*

1.5 ***Industry working groups (IWGs).*** The IWGs, set up for individual industries covered by the SUS, consist of representatives from employers and employees, course providers and government officials (e.g. a Chief Health Inspector of the Food and Environmental Hygiene Department is a member of the IWG for the Market Vending Industry). The IWGs are responsible for devising training packages, commissioning course providers, monitoring training courses, drawing up skills assessment standards, issuing certificates on completion of training courses, and promoting and publicising the SUS training programmes. As at 31 December 2007, 25 IWGs were set up.

1.6 ***Skills Upgrading Scheme Secretariat (SUS Secretariat).*** In November 2001, the VTC was appointed to run the SUS Secretariat in the capacity of the appointed administrative agent of the SUS. As at 31 December 2007, the SUS Secretariat had an establishment of 41 staff headed by a Chief Industrial Training Officer. An organisation chart (extract) of the SUS as at 31 December 2007 is shown at Appendix A.

Funding position of the SUS

1.7 The SUS was set up in June 2001 with funds of \$400 million (see para. 1.2). Up to 31 March 2007, the total expenditure of the SUS amounted to \$257.5 million. Details are shown in Table 1 below.

Table 1
SUS expenditure
(2001-02 to 2006-07)

	2001-02 (from June 2001)	2002-03	2003-04	2004-05	2005-06	2006-07	Total
	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)
Training expenses (Note 1)	1.6	13.2	81.5	32.0	27.3	25.1	180.7
Publicity and other expenses	1.0	1.0	1.3	3.4	0.8	0.9	8.4
Staff costs	4.5	9.0	10.3	12.8	14.9	14.2	65.7
Administrative expenses	0.1	0.3	0.9	0.7	0.4	0.3	2.7
Total	7.2	23.5	94.0 (Note 2)	48.9	43.4	40.5	257.5

Source: SUS Secretariat records

Note 1: Tuition fees, set at 30% of the course fees, are paid by trainees to course providers directly. Training expenses refer to the remaining 70% of course fees paid by the SUS as a subsidy.

Note 2: The Skills Enhancement Project was introduced in 2003-04 as part of the Government's one-off employment-related relief packages in response to the outbreak of the Severe Acute Respiratory Syndrome. The expenditure of \$94 million included expenditure of \$58 million on Skills Enhancement Project courses.

1.8 **Role of responsible policy bureau.** The Labour and Welfare Bureau (LWB) oversees the implementation of the SUS (the responsible bureau before 1 July 2007 was the EMB — see Note 1 in para. 1.3). The Permanent Secretary for Labour and Welfare is the Chairman of the SC. Since June 2002, half-yearly progress reports on the operation of the SUS have been submitted to the FC by the responsible policy bureau.

Trainees of the SUS

1.9 The SUS provides training courses to in-service workers for industries covered by it. Up to 30 September 2007, about 9,600 classes of training courses had been launched for 193,000 trainees. Details are at Appendix B.

Audit review

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

- (a) governance of the SUS (PART 2);
- (b) provision of training courses (PART 3);
- (c) selection of course providers (PART 4);
- (d) inspection of training courses (PART 5); and
- (e) publicity and performance reporting (PART 6).

Audit has found that there are areas where improvements can be made and has made a number of recommendations to address the issues.

Acknowledgement

1.11 Audit would like to acknowledge with gratitude the full cooperation of the staff of the LWB and the VTC during the audit.

PART 2: GOVERNANCE OF THE SKILLS UPGRADING SCHEME

2.1 This PART examines governance issues of the SUS and identifies areas where improvements could be made.

Governance structure of the SUS

2.2 The SC, set up in November 2000, oversees and monitors the operation of the SUS. In a meeting of the SC held in December 2001, the Chairman pointed out that the work of the SC would overlap that of the Manpower Development Committee (MDC), which would be set up to advise the Government on manpower matters. Following discussion by its members, the SC decided that its strategic role (such as approving funding under the SUS) would be transferred to the MDC and that an SG would be set up for overseeing the day-to-day operation of the SUS. The SC would continue operation until the transfer of its strategic role to the MDC.

2.3 In October 2002, the MDC (Note 4) was set up to advise the Government on:

- (a) the manpower needs of Hong Kong and policies for developing human resources to meet these needs;
- (b) the funding and mode of provision for vocational training and retraining, post-secondary education and continuing education;
- (c) the establishment and implementation of a qualifications framework and a quality assurance framework; and
- (d) any other matters referred to the MDC by the then Secretary for Education and Manpower.

Note 4: *As at 31 December 2007, the MDC, chaired by the Secretary for Labour and Welfare, comprised 19 other members. They were government officials (the Permanent Secretary for Labour and Welfare and the Government Economist), representatives from employers and employees, academics, the Chairman of the VTC and the Chairman of the Employees Retraining Board.*

Audit observations and recommendations

2.4 Audit noted that in line with the SC's decision of December 2001, the SG was set up in March 2002. The MDC was formally established in October 2002. However, the SC has continued its operation after the establishment of the MDC. Moreover, Audit could not find SC meeting minutes relating to this issue after the SC meeting of December 2001. In response to Audit's enquiry, in February 2008, the LWB said that the MDC's role and responsibilities upon establishment were not entirely the same as the proposal presented to the SC in December 2001. As a result, there was no overlap between the MDC and the SC in terms of role and responsibilities. The LWB agreed that the MDC and the SC should continue to perform different roles and responsibilities after the reorganisation of the Government Secretariat in July 2007. Audit considers that the SC should be duly informed and briefed on the subsequent development of the issue in a timely manner.

2.5 **Audit has recommended that the Secretary for Labour and Welfare should:**

- (a) **report back to the SC on the development of the proposal to transfer the strategic role of the SC to the MDC subsequent to the SC meeting of December 2001; and**
- (b) **ensure that the SC is briefed on governance issues of concern to it in a timely manner in future.**

Response from the Administration

2.6 The **Secretary for Labour and Welfare** has said that the LWB will follow up the audit recommendations. He has also said that:

- (a) the latest position on the respective roles and responsibilities of the SC and the MDC, taking into account the latest development, will be reported to the SC at its next meeting; and
- (b) the LWB will ensure that the SC will be briefed on governance issues of concern to it in a timely manner in future.

Management of conflicts of interest

2.7 For good governance, it is important for the SUS to establish guidelines stating clearly what constitutes a conflict of interest and the procedures to be followed in dealing with situations where there are actual or perceived conflicts of interest.

Audit observations and recommendations

Issue of guidelines to members

2.8 Audit noted that after completion of its review of the SUS in June 2003, the Independent Commission Against Corruption (ICAC) recommended that, upon appointment to the SC and the IWGs, members should be issued written guidelines on conflicts of interest (Note 5).

2.9 In September 2003, the SUS Secretariat drew up a set of written guidelines on declaration of interests for IWG members in accordance with the ICAC recommendation. Subsequently the SUS Secretariat issued them to IWG members. However, up to December 2007, it had not issued similar guidelines to members of the SC and the SG.

Two-tier reporting system

2.10 Audit notes that the ICAC has issued guidelines to public bodies for a two-tier reporting system for the management of conflicts of interest. According to the existing ICAC guidelines, members of a committee of a public body shall register in writing their personal interests, direct or indirect, pecuniary or otherwise, when they first join the committee, and annually thereafter, to the secretary of the committee. The registration shall be made on a standard form and a register of members' interests shall be kept by the secretary. The types of interests requiring registration include:

- (a) proprietorships, partnerships or directorships of companies;
- (b) remunerated employments, offices, trades, professions or vocations;
- (c) shareholdings in a publicly listed or private company (e.g. 1% or more of the company's issued share capital); and
- (d) other declarable interests, taking into consideration the nature of work of the committee.

2.11 Audit notes that the SUS guidelines do not include the following requirements laid down in the ICAC guidelines:

Note 5: *The ICAC review did not cover the SG.*

- (a) members should report their personal interests upon their appointment and annually thereafter; and
- (b) a register should be maintained to record and update the declarations of interests reported by them.

Audit recommendations

2.12 **Audit has recommended that the SUS Secretariat should:**

- (a) **ensure that guidelines on management of conflicts of interest are issued to members of the SC, the SG and the IWGs; and**
- (b) **consider taking measures to improve the reporting and registration of declarations of interests for members of the SC, the SG and the IWGs.**

Response from the VTC

2.13 The **Executive Director (ED)**, VTC has said that:

- (a) the ICAC had endorsed the guidelines drawn up by the SUS Secretariat. The SUS Secretariat will further liaise with the ICAC on possible improvements to the guidelines;
- (b) at present, IWG members are required to declare any possible conflicts of interest at IWG meetings, and these declarations are recorded in the minutes of the meetings. The SUS Secretariat will consult the ICAC to explore possible improvements to the reporting and registration arrangements; and
- (c) following consultation with the ICAC, the SUS Secretariat will issue the updated guidelines to members of the SC, the SG and the IWGs. The SUS Secretariat will re-circulate the guidelines to them annually.

Handling of confidential information

2.14 Following its review of the SUS (see para. 2.8), the ICAC recommended that, upon appointment to the SC and the IWGs, members should be issued written guidelines on the need to uphold the confidentiality of information acquired in the exercise of their duties.

Audit observations and recommendation

2.15 In September 2003, the SUS Secretariat drew up a set of written guidelines on the handling of confidential information for IWG members in accordance with the ICAC recommendation. The SUS Secretariat issued these guidelines to IWG members. However, up to December 2007, it had not issued similar guidelines to members of the SC and the SG. **Audit has recommended that the SUS Secretariat should ensure that guidelines on handling of confidential information are issued to members of the SC, the SG and the IWGs.**

Response from the VTC

2.16 The **ED, VTC** agrees with the audit recommendation. She has said that the SUS Secretariat will ensure that the guidelines on the handling of confidential information are issued to members of the SC, the SG and the IWGs.

Setting up of industry working groups

2.17 For the inclusion of an industry in the SUS, a preparatory committee will submit a proposal to the SG for endorsement and to the SC for approval. After the SC's approval for the inclusion of the industry in the SUS, the SUS Secretariat will take action to set up an IWG for that industry. As at 30 September 2007, IWGs were set up for 25 industries (see Appendix B).

Audit observations and recommendation

2.18 The proposal for the inclusion of an industry in the SUS submitted by a preparatory committee includes the proposed IWG's membership. The IWG's membership composition is also submitted to the SC and the SG when a funding request is made, for the first time, by any of the industries covered by the SUS. However, Audit could not find meeting records of the SC or the SG for formally approving IWGs' membership. **Audit has recommended that the SUS Secretariat should improve the documentation to explicitly seek the SC's and the SG's endorsement of the IWGs' establishment and membership.**

Response from the VTC

2.19 The **ED, VTC** agrees with the audit recommendation. She has said that in future, the presentation of proposal documents for the inclusion of industries in the SUS will be improved to explicitly seek the SC's and the SG's endorsement of the IWGs' establishment and membership.

PART 3: PROVISION OF TRAINING COURSES

3.1 This PART examines the provision of training courses under the SUS. Audit identifies a number of areas where there is room for improvement.

Selection of industries for inclusion in the SUS

3.2 *Industries for the pilot phase.* According to its terms of reference, the SC will tender advice on the target industries for inclusion in the SUS in different phases. In November and December 2000, the SC decided to include six industries (i.e. Chinese Catering, Import/Export Trade, Printing, Retail, Transport and Wearing Apparel/Textile) in the pilot phase of the SUS. The SC made reference to results of manpower studies (e.g. Report on Manpower Projection to 2005 — Note 6) provided by the EMB in making its decision.

3.3 *Criteria for inclusion of industries in the SUS.* In August 2001, the SC established the following criteria for determining the inclusion of industries in the SUS:

- (a) the future of the industry and its importance to the development of the Hong Kong economy;
- (b) a sizeable pool of low skill and low education workers in the industry that can benefit from skills upgrading under the SUS; and
- (c) the willingness of the employees and employers in the industry to actively participate in course development so that courses to be offered are of quality, being well recognised in the industry and conducive to the promotion of lifelong learning among the workers.

3.4 *Industries for subsequent phases.* The SUS Secretariat, following the criteria mentioned in paragraph 3.3 above, identifies and recommends industries to be approved by the SC for inclusion in the SUS. From time to time, the SUS Secretariat liaises with stakeholders (e.g. employer/employee representatives and trade associations) of individual industries to ascertain their need for joining the SUS. It also makes reference to the manpower survey results of individual industries (Note 7) to identify their skills upgrading needs.

Note 6: *The Report on Manpower Projection to 2005 dated November 2000 was prepared by the Economic Analysis Division of the then Financial Services Bureau in collaboration with the EMB, the Census and Statistics Department and the Labour Department.*

Note 7: *The manpower surveys collect up-to-date information on the manpower situation of industries. They are conducted by the VTC's Training Boards and General Committees, which advise on the training needs in respective industries. The Training Boards are industry specific. The General Committees are responsible for training areas (e.g. information technology) common to industries.*

Audit observations and recommendation

Inclusion of industries in the SUS

3.5 Audit reviewed four industries covered by the VTC Training Board manpower surveys (i.e. Banking and Finance, Insurance, Maritime Services, and Mass Communication). Audit noted that up to 31 December 2007, the Banking and Finance Industry had not been included in the SUS. However, Audit found that the industry might fulfill the criteria laid down by the SC for inclusion in the SUS as shown below.

Manpower survey of the Banking and Finance Industry

According to a manpower survey conducted by the Banking and Finance Industry Training Board of the VTC in November and December 2004, of the 96,962 employees in the Banking and Finance Industry, 26,603 (27%) worked in posts requiring education level at Secondary 5 (S5). The majority of such posts were clerical in nature as shown below:

<u>Job level</u>	<u>Number of posts requiring education level at S5</u>
Managerial	6
Supervisory	680
Clerical	25,917
Total	26,603

Audit findings

The Banking and Finance Industry was not included in the SUS and was not identified by the SUS Secretariat as a potential industry for the SUS. However, the Banking and Finance Industry is an important industry in Hong Kong, and the manpower survey in 2004 indicated that the industry had a significant number of posts suitable for employees with low educational attainments (i.e. at S5).

Source: 2004 Manpower Survey Report of the Banking and Finance Industry

3.6 In response to Audit's enquiry, in February 2008, the SUS Secretariat said that it had reviewed the suitability of including the Banking and Finance Industry in the SUS and considered that the priority for admitting the industry to the SUS was not the highest when compared to other industries. However, the results of the review and the decision of the

SUS Secretariat were not documented. **To better support the SC in identifying target industries, such as the Banking and Finance Industry, for inclusion in the SUS, Audit considers that the SUS Secretariat needs to document its reviews of industries and draw up medium to longer term strategic plans to identify and prioritise potential new industries for inclusion in the SUS for the SC's consideration.**

3.7 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, consider drawing up medium to longer term strategic plans to identify and prioritise potential new industries for inclusion in the SUS for the SC's consideration.**

Response from the VTC

3.8 The ED, VTC agrees with the audit recommendation. She has said that:

- (a) in identifying new industries for the SUS, the SUS Secretariat regularly reviews and makes reference to all available sources of information, such as VTC manpower surveys, labour statistics published by the Census and Statistics Department and the Labour Department. The SUS Secretariat also closely liaises with industries and makes use of its extensive network to identify industries with imminent training needs; and
- (b) the SUS Secretariat will draw up medium to longer term strategic plans to prioritise potential new industries for inclusion in the SUS, which will be submitted to the SC for consideration.

Funding of individual industries

3.9 To allow flexibility, the SC has not set any funding limit for organising skills upgrading courses for individual industries included in the SUS. Allocation of training funding to individual industries is based on funding applications from IWGs. Details of the planned training courses (e.g. course outlines, planned number of classes, planned number of trainees, and estimated cost) have to be provided in the funding applications. From time to time, the SUS Secretariat reports to the SC on the use of funding and the training classes delivered for each industry.

Audit observations and recommendations

3.10 Audit noted that a certain percentage of training classes of some industries were planned but had not yet commenced. Funding for these classes was allocated as early as in 2002. Details are given in Table 2. **Audit considers that the SUS Secretariat needs to ensure that planned training classes for individual industries start in a timely manner.**

Table 2

**Industries with significant percentage of
training classes planned but not yet commenced
(as at 30 June 2007)**

Industry	Date of approval of funding application	Training classes per funding application		Training classes included in funding application but not yet commenced		Funding approved but not yet utilised (\$ million)
		Number (a)	Funding approved (b) (\$ million)	Number (c)	Percentage (d) = (c)/(a)	
Real Estate Agents	September 2002	113	2.0	74	65.5%	1.4
Road Passenger Transport	December 2003	137	1.3	52	38.0%	0.6
	November 2005	126	1.1	118	93.7%	1.0
Automobile	September 2005	168	2.2	137	81.5%	1.9

Source: SUS Secretariat records

3.11 **Audit has recommended that the SUS Secretariat should:**

- (a) **take measures to ensure that training classes are commenced within a reasonable time frame after the allocation of funding; and**
- (b) **regularly review the IWGs' need for funding, taking account of the funding not yet utilised by the IWGs and the demand for training classes in the industries.**

Response from the VTC

3.12 The ED, VTC has said that:

- (a) while the SUS Secretariat endeavours to ensure that planned classes for all industries commence in a timely manner, some factors affecting the take-up rate are beyond its control (e.g. some industries experience tight labour supply and periodic upsurge of business activities, and learning culture among workers in specific industries). The IWGs have already taken remedial actions as appropriate, such as reviewing and revamping the courses regularly and introducing new courses to meet the needs of different industries;
- (b) the SUS Secretariat will continue to ensure that planned training classes for individual industries start in a timely manner. Besides, the SUS Secretariat and the IWGs will continue to regularly review and revamp the courses, and will introduce new courses to meet the needs of the industries;
- (c) industries vary from one another in terms of the number of workers, workers' motivation in training, extent of employers' support, etc. These will affect the funding needs of individual industries; and
- (d) the IWGs will periodically review the existing courses and their respective funding allocation. Any unspent allocation will be returned to the central pool for funding other courses under the SUS.

Launching of classes by course providers

3.13 The SUS Secretariat may commission different course providers to run classes for the same training course. The course providers have to notify the SUS Secretariat of the class details and obtain its endorsement before launching each class. They are not allowed to accept trainees exceeding the planned class size or to launch a class with an enrolment rate (i.e. the number of trainees enrolled in the class over the planned class size) of less than 65%. Decision to accept a trainee for a course rests with the course providers, who act in accordance with the guidelines provided by the SUS Secretariat. Trainees are regarded as "enrolled" if their applications for SUS courses are accepted and they pay the tuition fees.

3.14 For each training class, a course provider is committed to running the class at an agreed course fee. Upon launching a class, the course provider collects from the enrolled trainees tuition fees (usually set at a rate of 30% of the course fee) approved by the SUS Secretariat. The SUS Secretariat would pay the course provider the difference between the course fee and the tuition fees.

Audit observations and recommendations

Need to improve the enrolment rate

3.15 The SUS Secretariat allows course providers to launch a class if the enrolment reaches 65% of the planned class size. The SUS Secretariat will reduce payments to course providers if the enrolment rate of a class is lower than 85% (Note 8).

3.16 Of the 1,632 classes launched in 2006-07, 950 had an enrolment rate of less than 100%. As shown in Table 3 below, the lower the enrolment rate, the higher would be the actual training expenses (i.e. the difference between the course fee and the tuition fees) per trainee. **To achieve a more cost-effective use of the available funding for the SUS, Audit considers that the SUS Secretariat needs to consider ways of increasing the enrolment rate.**

Note 8: *Payments will be reduced according to the enrolment rates as follows:*

<i>Enrolment rate</i>	<i>Payment to be reduced by</i>
<i>80% to 84%</i>	<i>5% of the full course fee</i>
<i>75% to 79%</i>	<i>10% of the full course fee</i>
<i>70% to 74%</i>	<i>15% of the full course fee</i>
<i>65% to 69%</i>	<i>20% of the full course fee</i>

Table 3

**Effect of under-enrolment on the training expenses per trainee
(2006-07)**

Enrolment rate	Number of classes	Number of trainees		Training expenses paid by the SUS		Training expenses per trainee		Increase in actual training expenses per trainee (g) = [(f) - (e)]/(e) (%)
		Planned	Actual	Planned	Actual	Planned	Actual	
		(a)	(b)	(c)	(d)	(e) = (c)/(a) (\$)	(f) = (d)/(b) (\$)	
				(\$ '000)	(\$ '000)			
95% to 99%	178	4,152	3,974	2,658	2,709	640	682	7%
90% to 94%	189	4,072	3,734	2,526	2,617	620	701	13%
85% to 89%	180	3,731	3,235	2,642	2,796	708	864	22%
< 85%	403	8,869	6,673	5,491	5,199	619	779	26%
Overall	950	20,824	17,616	13,317	13,321	640	756	18%

Source: SUS Secretariat records and Audit analysis

Classes run by the same course provider for the same course

3.17 To allow trainees have a wider choice, more than one course provider can be invited to organise more than one class for the same course. However, Audit notes that the repeated launching of classes for the same course by the same course provider could affect the class enrolment rate if there was insufficient demand. An example is given below.

Example 1

- (1) The SUS Secretariat commissioned Course Provider A and other course providers to run the training course on shop management and customer service entitled “店鋪管理及顧客服務” for the Retail Industry.
- (2) With the endorsement of the SUS Secretariat, Course Provider A launched five classes for the course in 2006-07, each with a planned class size of 20 trainees, as follows:

<u>Class</u>	<u>Date launched</u>	<u>Enrolment rate</u>	<u>Number of trainees enrolled</u>	<u>Number of training places unfilled</u>
A	17/7/2006	65%	13	7
B	17/7/2006	80%	16	4
C	24/7/2006	75%	15	5
D	4/9/2006	80%	16	4
E	15/9/2006	65%	13	7
	Overall	73%	73	27

- (3) Class A was held at a venue in the New Territories. Classes B to E were held at the same venue in Kowloon.
- (4) The SUS Secretariat also endorsed the launching in July and September 2006 of another four classes for the same course by other course providers, who launched the four classes with at least 95% enrolment.

Audit findings

The enrolment rates of Classes A to E were unsatisfactory comparing with those of the other course providers. Altogether, 27 training places were unfilled.

Source: SUS Secretariat records

3.18 In 2006-07, 1,632 classes were launched for 373 training courses. In other words, four classes were run on average for each course during the year. **Audit considers that the SUS Secretariat may need to review the demand for the course if several classes are launched, as the enrolment rate may be low for some classes.**

Audit recommendations

3.19 For classes run under the SUS, Audit has *recommended* that the SUS Secretariat should consider:

- (a) taking measures to increase the enrolment rate for SUS classes; and
- (b) reviewing the demand for the course if several classes are launched.

Response from the VTC

3.20 The ED, VTC has said that:

- (a) currently, the SUS Secretariat and IWGs regularly review the demand for courses. Suitable measures are taken to boost the enrolment rates, including launching publicity campaigns and revamping the courses;
- (b) to strike a balance between cost-effectiveness and training benefits to persons who have enrolled in the courses, classes with an enrolment below 100% will still be run. Currently, 65% is the minimum enrolment rate for starting a class. Average enrolment rates in the past ranged from 83% for the Chinese Catering Industry to 99% for the Beauty Care Industry. Payment by the SUS Secretariat to course providers may be reduced in accordance with the SUS's payment reduction schedule (see para. 3.15);
- (c) course providers are encouraged to improve their enrolment rates. The enrolment record of their courses would be taken into account in future tender evaluations. In future, the SUS Secretariat will, in consultation with the IWGs, explore possible means to further improve the enrolment rates;
- (d) to facilitate the participation of trainees in some remote districts, classes for the same course are launched in different locations (e.g. in the New Territories). Course providers have reviewed the demand for the courses before they are launched; and
- (e) in view of the audit recommendations, the SUS Secretariat will take measures to advise course providers to critically examine the demand for classes if several classes for the same course are launched to avoid low enrolment rates.

Retention rate and passing rate

3.21 To assess the standard of trainees after their completion of a training course under the SUS, trainees are required to attend an end-of-course assessment. Those trainees who pass the assessment and meet the course requirements (e.g. attaining a satisfactory attendance) are awarded a course certificate.

3.22 The SUS Secretariat measures the extent to which trainees attend the end-of-course assessment and obtain course certificates by monitoring the retention rate and passing rate (Note 9). It will follow up with the course providers concerned for classes with low retention rates and/or passing rates, including issuing follow-up letters (Note 10) to alert course providers and request them to find out the causes for and advise the remedial actions to be taken on the low retention and passing rates. Information on retention and passing rates is included in the LWB's half-yearly progress reports to LegCo.

Audit observations and recommendations

3.23 An audit analysis of the retention and passing rates of the 1,632 classes launched in 2006-07 is shown in Table 4 below.

Note 9: *The retention rate and passing rate are calculated as follows:*

$$(a) \text{ Retention rate} = \frac{\text{Trainees who attend the end-of-course assessment}}{\text{Trainees who enrol in the class}} \times 100\%$$

$$(b) \text{ Passing rate} = \frac{\text{Trainees who are awarded a course certificate}}{\text{Trainees who attend the end-of-course assessment}} \times 100\%$$

Note 10: *According to the existing procedures of the SUS Secretariat, follow-up letters will be issued in the following circumstances:*

<i>Number of enrolled trainees in a class</i>	<i>If either passing rate or retention rate is below</i>
<i>25 to 30</i>	<i>80%</i>
<i>20 to 24</i>	<i>75%</i>
<i>15 to 19</i>	
<i>10 to 14</i>	<i>70%</i>
<i>Below 10</i>	<i>65%</i>

Table 4
Retention and passing rates
(2006-07)

Range (Percentage)	Number of classes with retention rate in the range	Number of classes with passing rate in the range
0% to 9%	0 (0%)	2 (0.1%)
10% to 19%	1 (0.1%)	1 (0.1%)
20% to 29%	7 (0.4%)	7 (0.4%)
30% to 39%	17 (1.0%)	3 (0.2%)
40% to 49%	23 (1.4%)	11 (0.7%)
50% to 59%	41 (2.5%)	13 (0.8%)
60% to 69%	104 (6.4%)	39 (2.4%)
70% to 79%	221 (13.5%)	67 (4.1%)
80% to 89%	421 (25.8%)	156 (9.6%)
90% to 99%	492 (30.2%)	286 (17.5%)
100%	305 (18.7%)	1,047 (64.1%)
Total	1,632 (100%)	1,632 (100%)

Source: SUS Secretariat records and Audit analysis

3.24 As shown in Table 4, the retention rates and passing rates were very low for some classes.

Replies to follow-up letters

3.25 An audit analysis of the course providers' responses to follow-up letters issued by the SUS Secretariat on classes held for three industries in 2006-07 is shown in Table 5 below. Audit found that in 51 cases, the SUS Secretariat was unable to obtain replies within the time limit (normally within one week of the issue of a letter) specified in the follow-up letters.

Table 5

**Follow-up letters issued to course providers during 2006-07
(Position as at 31 December 2007)**

Industry	Number of follow-up letters issued	Number of replies		
		received within the specified time limit	received after the specified time limit	still outstanding as at 31 December 2007
Insurance	45	12	5	28
Printing	26	12	1	13
Real Estate Agents	4	0	2	2
Total	75	24	8	43

Source: SUS Secretariat records and Audit analysis

Remedial actions in response to follow-up letters

3.26 Audit noted that the follow-up letters issued to course providers might not have the desired effect. One such example is given below for illustration.

Example 2

- (1) In 2006-07, Course Provider B of the Insurance Industry organised five classes for a course on mandatory insurance of vehicles entitled “強制性保險條例—汽車”. The passing rates of the classes were as follows:

<u>Class</u>	<u>Date launched</u>	<u>Passing rate</u>
F	30/6/2006	0%
G	22/9/2006	76%
H	4/12/2006	26%
I	20/3/2007	97%
J	29/3/2007	29%

- (2) In Class F, 20 trainees attended the end-of-course assessment and all failed the assessment. In Classes H and J, 27 trainees and 28 trainees attended the end-of-course assessment respectively. Only seven trainees in Class H and eight trainees in Class J passed the assessment. In response to the SUS Secretariat’s follow-up letters on the low passing rates of Class F, H and J, Course Provider B proposed to take remedial actions such as: (a) inviting trainees’ attention to the scope of the end-of-course assessment; (b) arranging focused revision for trainees to prepare for the assessment; and (c) arranging trainees who failed the end-of-course assessment to retake the assessment.
- (3) Subsequent to proposing the remedial actions, Course Provider B organised another seven classes for the course during April to September 2007, with the following passing rates:

<u>Class</u>	<u>Date launched</u>	<u>Passing rate</u>
K	7/6/2007	56%
L	13/6/2007	100%
M	16/6/2007	100%
N	25/6/2007	21%
O	27/6/2007	100%
P	13/8/2007	100%
Q	7/9/2007	31%

Audit findings

Though there were some improvements, the passing rates of the classes run by Course Provider B during April to September 2007 still fluctuated considerably between 21% and 100%. Audit noted that the course provider did not inform the SUS Secretariat as to whether remedial actions had been taken to improve the passing rates.

3.27 **Audit considers that the SUS Secretariat needs to follow through the follow-up letters issued to course providers with a view to ensuring that prompt action is taken to improve the retention and passing rates.**

Need to encourage course attendance

3.28 Audit notes that a minimum attendance requirement (e.g. 80% attendance) is set for SUS courses. A trainee is not eligible for obtaining a course certificate if he does not achieve the minimum attendance.

3.29 According to the SUS Secretariat, failure to complete a training course by a trainee (e.g. due to insufficient attendance or not sitting the end-of-course assessment) will not affect his future eligibility for the SUS. The trainee can still re-apply for the same course or apply for other SUS courses.

3.30 Audit test checked a sample of 100 trainees who dropped out (i.e. did not take the end-of-course assessment or did not meet the minimum attendance requirement) of SUS courses in 2006-07. Audit found that 29 (29%) of the trainees dropped out from more than one SUS classes. There is a need for the SUS Secretariat to take measures to encourage attendance.

Audit recommendations

3.31 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare:**

- (a) **take action to follow through the follow-up letters issued to course providers with a view to ensuring that prompt action is taken by them to improve the retention and passing rates; and**
- (b) **take measures to encourage trainees' attendance at SUS courses.**

Response from the VTC

3.32 The ED, VTC agrees with the audit recommendations. She has said that:

- (a) the SUS Secretariat will take action to follow through the follow-up letters issued to course providers;
- (b) as regards the trainees' attendance at SUS courses, the SUS is a voluntary scheme through which trainees take up training out of their own initiative. SUS

trainees are mostly working adults who, at times, may not be able to comply with the attendance requirements due to work and family commitments. Positive measures have been taken as appropriate to encourage attendance (e.g. awards to trainees of the Electrical and Mechanical Engineering Industry and the Building Maintenance and Decoration Industry); and

- (c) the SUS Secretariat will, in consultation with the IWGs, explore further ways to encourage attendance (e.g. incentive schemes such as Best Students Award and industry-based students awards offered in the Electrical and Mechanical Engineering Industry).

Target trainees of the SUS

3.33 In the FC paper of May 2001 seeking funding approval for the establishment of the SUS, regarding the eligibility criteria, it was stated that “As the Scheme aims to upgrade the skill level of workers with low education level, the programme will mainly cater for local workers with education at or below Form 5 level. However, some exceptions will be allowed, for example, in the import and export sector, where some employees had higher qualifications but nonetheless require skills upgrading just the same as the less well-educated workers”.

Audit observations and recommendations

Residency status of trainees

3.34 According to the SUS website, trainees of the SUS have to be Hong Kong residents who meet one of the following conditions:

- (a) have the right of abode in Hong Kong;
- (b) have the right to enter Hong Kong; or
- (c) have the right to stay in Hong Kong not subjecting to any conditions of stay.

3.35 From time to time, the SUS Secretariat issued warning letters to alert course providers of non-compliance with the requirements of the SUS because non-eligible trainees were enrolled. Audit reviewed the warning letters issued up to 30 November 2007, and noted three cases in which course providers enrolled residents outside Hong Kong (Macau residents) in their classes. **Audit considers that the SUS Secretariat needs to take measures to ensure that course providers, when determining the enrolment of trainees, follow the laid down eligibility requirements of the SUS in relation to the residency status of trainees.**

Education level of trainees

3.36 According to the laid-down procedures of the SUS Secretariat, trainees are required to indicate their education levels by marking against one of the following four boxes in the SUS course application forms:

- (a) “Secondary 1 (S1) to Secondary 3 (S3)”;
- (b) “Secondary 4 (S4) and S5”;
- (c) “Secondary 6 (S6) and Secondary 7 (S7)”;
- (d) “Others”. Trainees marking “Others” have to give further details about their educational attainments in the application forms.

3.37 Course providers have to check that a trainee’s education level meets the course requirements before accepting his application. An audit analysis of the education levels indicated by trainees in their course application forms for classes launched in 2006-07 is shown in Table 6 below. Audit noted that in 141 cases (0.5%), the trainees did not mark any boxes in the application forms to indicate their education levels. Moreover, of the 5,515 (17.6%) trainees who indicated “Others” for their education levels, a large number (about 2,500) did not provide any additional information about their educational attainments.

Table 6
Education levels indicated by trainees
(2006-07)

Education level	Trainees	
	Number	Percentage
S1 to S3	7,207	23.0%
S4 and S5	16,004	51.2%
S6 and S7	2,395	7.7%
Others:		
— with details about educational attainments	2,993	9.6%
— without details about educational attainments	<u>2,522</u>	<u>8.0%</u>
	5,515	17.6%
No information	141	0.5%
Total	31,262	100%

Source: SUS Secretariat records

3.38 For trainees who marked “Others” in the application forms and did not provide further details about their educational attainments, they could have education levels above S7, which are higher than the general eligibility level of S5. The course providers and the SUS Secretariat could not ascertain, based on the application forms alone, the actual education levels of those trainees. **Audit considers that the SUS Secretariat needs to consider revising the SUS course application forms to improve the collection of information about the education level of applicants. Such information would be useful for ascertaining whether the trainees are the target ones as stated in the FC paper of May 2001.**

Audit recommendations

3.39 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare:**

- (a) **take measures to ensure that course providers follow the laid down eligibility requirements of the SUS in determining the enrolment of trainees;**

- (b) **consider revising the SUS course application forms for collecting more precise information about the education level of the trainees; and**
- (c) **take into account the information in the revised application forms when conducting analysis of the education level of the trainees.**

Response from the VTC

3.40 The ED, VTC has said that:

- (a) all course providers have been notified of the eligibility criteria during the induction sessions. In view of the audit recommendation, the SUS Secretariat will issue periodic reminders to all course providers to ensure that the laid-down eligibility requirements are complied with; and
- (b) the SUS Secretariat will revise the SUS course application forms for collecting more precise information about the education level of trainees. The information collected will be analysed and submitted to the SC.

PART 4: SELECTION OF COURSE PROVIDERS

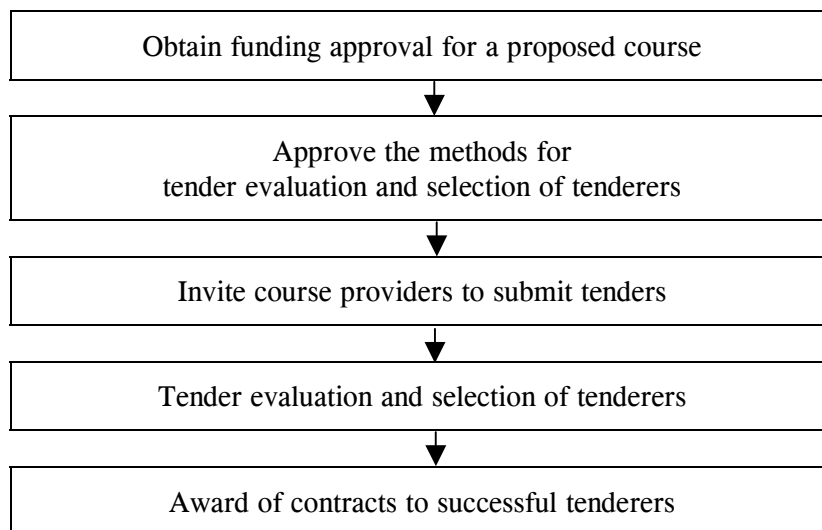
4.1 This PART examines the selection of course providers by the SUS and identifies room for improvement in the selection process.

Selection process and procurement requirements

4.2 A brief description of the selection process for course providers is given in Figure 1 below.

Figure 1

Selection process



Source: SUS records

4.3 The procedures for procurement and selection of course providers are laid down in the SUS Course Development, Tendering and Approving Procedures (hereinafter referred to as the SUS Procedures). The SUS Procedures require an IWG to approve, among other things:

- a list of course providers to be invited to submit tenders;
- the tender evaluation criteria and the marking scheme (including the weightings for calculating technical and price scores);

- (c) the formula for computing the price scores (Note 11);
- (d) the requirement to exclude from consideration those tenders with tender prices exceeding the upper cost limit (130% of the cost budgeted by the SUS Secretariat for a class);
- (e) the number of course providers to be selected for a course, having regard to the number of classes; and
- (f) the setting up of an assessment group to make recommendations on the selection of tenderers for approval by the IWG.

Audit observations and recommendations

Approval of the SUS Procedures

4.4 In its meeting of May 2001, the SC approved the principles and mode of operation of the SUS, including the procedures for approving tenders and selection of course providers. Audit could not find any SC or SG meeting records which indicated that the SUS Procedures subsequently drawn up by the SUS Secretariat had been approved by the SC or the SG. **Audit considers that the SUS Secretariat needs to ensure that the SUS Procedures are approved by the appropriate authority.**

Deviations from government practices

4.5 In seeking funding approval for the establishment of the SUS, the Administration informed the FC in May 2001 that course providers would be selected in accordance with the Government's procurement procedures.

4.6 Audit compared the SUS Procedures in force as at 31 December 2007 with the Government's Stores and Procurement Regulations (SPRs) and found that they were different in certain aspects, as shown at Appendix C. The audit observations on the comparison results are given in paragraphs 4.7 to 4.9 below.

Note 11: *For a marking scheme (of 100 marks) with a weighting of 30% for the price score, the price score of a tender being evaluated is computed as follows:*

$$\frac{\text{Lowest tender price among all tenders received}}{\text{Tender price of the tender being evaluated}} \times 30 \text{ marks}$$

4.7 ***Weightings used in tender evaluation.*** The SUS Procedures set out the guidelines for adopting a marking scheme for tender evaluation. According to the guidelines, a weighting of 70% may be used for the technical (quality) score and 30% for the price score (Note 12). In technical assessment, factors to be considered may include tenderers' track record, recognition, location of training sites, equipment available and trainers' qualifications. Audit notes that the 70% weighting for technical score under the SUS Procedures is much higher than the weighting of 30% to 40% normally adopted for technical score under the SPRs. **Audit considers that the SUS Secretariat needs to review its marking scheme, in particular the relative weightings for technical and price assessments.**

4.8 ***Tenders with tender prices exceeding the upper cost limit.*** According to the SUS Procedures, tenders with tender prices exceeding the upper cost limit will not be considered (see para. 4.3(d)). Audit found, in comparison, no similar requirement in the SPRs. Audit reviewed the tendering exercises conducted in 2006-07 for three industries (namely Automobile, Hairdressing and Printing). Audit found that 25 tenders of the Automobile Industry (or 33% of the 76 tenders received) and 4 tenders of the Printing Industry (or 9% of the 45 tenders received) were not accepted for further consideration due to this pre-qualification requirement. **The SUS Secretariat may need to review whether the Government's practice of not capping the tender price should be adopted.**

4.9 ***Financial vetting of tenderers.*** According to the SPRs, for procurement with a value exceeding a certain amount, government departments need to conduct financial vetting of the tenderers who are being considered for the award of a contract. This is to ensure that the tenderers are financially capable of fulfilling the contract requirements. Audit found, in comparison, no similar requirement in the SUS Procedures. **Audit considers that the SUS Secretariat needs to consider including a requirement to conduct financial vetting of the tenderers if the course fees payable to them exceed a certain amount.**

Compliance with the SUS Procedures

4.10 ***Computation of price scores.*** Based on the review of tendering exercises conducted for three industries (see para. 4.8), Audit noted that for two industries (Automobile and Printing), the IWGs concerned did not define, for the purpose of computing the price scores, the term "lowest tender price" according to the definition stated

Note 12: *The SUS Procedures do not specify the relative weightings for technical and price assessments. However, in a paper enclosed in the SUS Procedures for reference purpose, the weightings are 70% for technical score and 30% for price score. Audit's review of tendering exercises conducted in 2006-07 for three industries (see para. 4.8) indicated that such weightings were adopted.*

in the SUS Procedures (Note 13). For one industry (Hairdressing), there were 19 courses for which the price scores of the tenders were not computed using the “lowest tender price” as defined in the SUS Procedures. **Audit considers that the SUS Secretariat needs to ensure that the SUS Procedures in computing the price scores are complied with.**

4.11 ***Establishment of assessment group for tender evaluation.*** According to the SUS Procedures, an assessment group for tender evaluation has to be set up (see para. 4.3(f)). However, based on the review of tendering exercises conducted for three industries (see para. 4.8), Audit noted that instead of setting up an assessment group under the IWG, the IWG of the Hairdressing Industry performed the role of vetting and evaluating the tenders.

Allocation of classes to course providers

4.12 ***Ranking of successful tenderers.*** Audit reviewed the tendering exercises conducted for three industries (see para. 4.8). In respect of two industries, there were 27 courses for which tenderers who had a higher overall score were allocated classes less than the number of classes stated in their tenders. On the other hand, tenderers who had a lower overall score were allocated classes. For one industry (Automobile), the justifications for such allocations were documented in the minutes of an IWG meeting. However, the justifications were not documented for the other industry (Hairdressing). **Audit considers that the SUS Secretariat needs to ensure that the arrangements for allocation of classes to tenderers, including the justifications for accepting tenders with a lower overall score, are documented.**

4.13 ***Declaration of interests by IWG members.*** Audit notes that the following procedures are in place to address actual or potential conflicts of interest in the allocation of classes to course providers:

- (a) IWG members for individual industries are required to declare interests in each tendering exercise;
- (b) the tender assessment group, comprising three to seven IWG members, is responsible for the evaluation of tenders; and

Note 13: *For tenders with tender prices below the lower cost limit (70% of the cost budgeted by the SUS Secretariat), their tender prices are not treated as the “lowest tender price” in the formula for computing price scores (see para. 4.3(c)). In such cases, the “lowest tender price” refers to the lowest tender price among all tender prices not less than the lower cost limit.*

- (c) the IWG, comprising a membership ranging from 10 to 24 members, is responsible for approving the recommendation of the tender assessment group regarding the allocation of classes to different course providers.

According to the written guidelines on declaration of interests issued to IWG members (see para. 2.9), IWG members with a declared interest relating to a tender may be allowed to vote in the relevant IWG and assessment group meetings. The SUS Secretariat may need to re-examine this arrangement.

4.14 The VTC is appointed to run the SUS Secretariat in the capacity of the administrative agent of the SUS. Audit reviewed the 1,632 classes launched in 2006-07 for different industries and found that 15.6% of the classes were allocated to the VTC (e.g. training institutes, training centres and development centres). Details are at Appendix D. Audit estimated that the VTC received course fees of about \$5 million from these classes.

4.15 **In view of the close relationship between the VTC and the SUS, Audit considers that it is important to ensure that there is no actual or perceived conflicts of interest in the allocation of training classes to be run by the VTC.** The LWB may need to periodically review the VTC's role to run the SUS Secretariat.

Large number of classes run by a course provider

4.16 Based on the review of tendering exercises conducted for three industries (see para. 4.8), Audit noted that a large number of SUS classes were allocated to a tenderer in 2006-07. The tenderer was allocated 40 (40%) of the classes organised for the Automobile Industry. In response to Audit's enquiry, in February 2008, the SUS Secretariat said that 19 course providers were invited to bid for the courses. Ten course providers submitted tenders. However, not many of them could offer classes with proper practical facilities. Hence a course provider with good training facilities was awarded a higher percentage of classes. **In Audit's view, the SUS Secretariat needs to consider taking measures to encourage the use of more course providers.**

Low response rate for tender invitations

4.17 Based on a review of tenders received in response to tender invitations for the three industries (see para. 4.8), Audit noted that only a small number of tenders were received in response to tender invitations for the Printing Industry. Details are shown in Table 7.

Table 7
Tenders received for
planned training courses for Printing Industry
(2006-07)

Number of tenders received for each course	Training courses concerned	
	Number	Percentage
0	14	27%
1	33	62%
2	6	11%
Total	53	100%

Source: SUS Secretariat records

4.18 Audit found that the SUS Secretariat reported results of the tendering exercises to the IWG of the Printing Industry. However, no analysis was included in the report about the reasons for the low response rate to tender invitations and any remedial measures taken. In this connection, Audit noted that only 3 (13%) of the 23 course providers on the approved list of course providers (see para. 4.3(a)) submitted tenders in response to tender invitation. **Audit considers that the SUS Secretariat needs to take remedial measures to address the issue, and may include an analysis of the reasons for the low response rate to tender invitations in reporting the results of tendering exercises to the IWG.**

Audit recommendations

4.19 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare:**

Approval of the SUS Procedures

- (a) **ensure that the SUS Procedures are approved by the appropriate authority;**

Deviations from government practices

- (b) **taking into account government guidelines, consider:**
- (i) **reviewing its marking scheme guidelines under the SUS Procedures, particularly the normal weightings for the technical score and the price score;**
 - (ii) **removing the restriction of capping the tender price; and**

- (iii) including a requirement to conduct financial vetting of tenderers if the tender price exceeds a certain amount;

Compliance with the SUS Procedures

- (c) ensure compliance with the procurement requirements laid down in the SUS Procedures. Where there is a need to make an exception, the justifications should be documented and submitted for approval by the appropriate authority;

Allocation of classes to course providers

- (d) ensure that the arrangements for allocation of classes to tenderers, including the justifications for accepting tenders with a lower overall score, are documented;
- (e) re-examine the existing arrangements for allowing IWG members with a declared interest relating to a tender to vote in the relevant IWG and assessment group meetings;

Large number of classes run by a course provider

- (f) consider taking measures to encourage the use of more course providers; and

Low response rate for tender invitations

- (g) take remedial measures to address the issue of low response rate to tender invitations and include an analysis of the reasons for the low response rate in reporting the results of tendering exercises to the IWG.

4.20 In view of the number of classes allocated to the VTC, which also acts as the administrative agent of the SUS, a perceived conflict of interest may arise. To address this concern, Audit has *recommended* that the Secretary for Labour and Welfare should, as an administrative control, periodically review the VTC's role to run the SUS Secretariat.

Response from the VTC

4.21 The ED, VTC has said that:

Approval of the SUS Procedures

- (a) the SC recommended and approved the procedures for approving tenders and the criteria for selecting course providers at its meeting held in May 2001. The SUS Secretariat did not consider it necessary to seek the SC's further approval of the

operational details which had been drawn up on the basis of the SC's laid-down procedures and criteria. As these details impact on individual industries' operation, the approval from the IWGs had been sought. In view of the audit recommendation, the detailed procedures will be reported to the SC for endorsement;

Deviations from government practices

- (b) a higher weighting for technical score has been adopted in order to secure a higher standard of quality in the training courses, as the SUS attaches great importance to training quality. Since the IWGs have acted as the authority for exercising the duty of a tender board under the SUS, it has been assumed that the IWGs should also have the authority to determine the related weightings. In view of the audit recommendation, individual IWGs will be requested to re-examine the related weightings in the light of the specific requirements of their respective industries. The SC will also be requested to consider whether there should be a central approving authority for determining the score weightings;
- (c) she will adopt the recommendation of considering removing the restriction of capping the tender price;
- (d) currently the values of all contracts awarded under the SUS do not exceed the amount specified in the SPRs (i.e. \$5 million). The SUS Secretariat will follow the requirement to conduct financial vetting of tenderers if the value of the contract exceeds the specified amount;

Compliance with the SUS Procedures

- (e) regarding the computation of price scores, the SUS Secretariat will introduce a computer system to ensure computation accuracy. Staff training will also be enhanced;

Allocation of classes to course providers

- (f) the rationale of allocating classes to tenderers with lower score is to allow more course providers to operate classes. This is desirable because each course provider has its own network to attract trainees, and more course providers means that the training classes will be operated in more venues. The SUS Secretariat will improve its record keeping to ensure that the relevant justifications are documented and reflected in the minutes of relevant meetings;
- (g) following a review of the SUS by the ICAC in June 2003, the ICAC recommended the SUS Secretariat to adopt a set of procedures to address the issue of conflicts of interest. The ICAC suggested that subject to the granting of approval by the relevant IWG, any IWG member with a declared interest relating to a tender may vote in the relevant IWG and assessment group

meetings. In view of the audit recommendation, the SUS Secretariat will consult the ICAC to review the existing arrangements and explore if improvement is required;

Large number of classes run by a course provider

- (h) the SUS Secretariat welcomes and encourages the participation of more course providers. However, due to the special nature and the limited availability of specific training facilities in some industries, the number of qualified course providers and their training capacities vary among the industries. The SUS Secretariat will follow up with the relevant IWGs to consider how best to encourage the participation of more course providers; and

Low response rate for tender invitations

- (i) it is an existing practice for the SUS Secretariat to analyse and report to the IWGs the reasons for low response rates to tender invitations. The SUS Secretariat will improve its record keeping to ensure that the relevant reasons are documented.

Response from the Administration

4.22 The **Secretary for Labour and Welfare** has said that:

- (a) an independent Secretariat has been in place from the start, comprising staff who are mainly on secondment from the VTC or recruited from outside. The salaries of the staff of the SUS Secretariat are all paid from the SUS's fund. The SUS Secretariat reports to the LWB, and works independently of the VTC's operational units responsible for training provision;
- (b) allocation of training classes under the SUS to course providers must strictly follow the established mechanism which ensures a level-playing field for all providers;
- (c) it is the responsibilities of individual IWGs, not the SUS Secretariat, to process applications from course providers and approve allocation of course classes in accordance with the established procedures and criteria. The IWGs comprise largely non-official members who are representatives of employers, employees and course providers as well as representative(s) of the relevant government department(s); and
- (d) the SUS Secretariat has been able and will continue to maintain independence and impartiality in performing its role and responsibilities under the SUS.

PART 5: INSPECTION OF TRAINING COURSES

5.1 This PART examines the inspection of training courses of the SUS. Audit notes that there is room for improvement in the inspection arrangements.

Background

5.2 According to the FC paper dated May 2001, for quality assurance, inspections will be conducted on the training facilities of course providers, the trainers' qualifications and the conducting of classes. In July 2001, the SC approved a quality assurance (QA) mechanism. Under the QA mechanism, academic and administrative inspections and invigilation of end-of-course assessments would be performed by the SUS Secretariat and reported to the IWGs for follow-up action.

5.3 *Academic inspections.* These aim to observe how trainers conduct classes. According to the QA mechanism, trainers will be observed at least once for short courses (lasting for less than three months) and at least twice for long courses (lasting for three months or more). The inspection schedule has to be approved by the Senior Project Officers in charge of the courses under their respective industry portfolios. In addition to the SUS Secretariat, the relevant IWG may take part in the academic inspections. The inspection requirement was reported to the FC in the first half-yearly progress report on the SUS.

5.4 *Administrative inspections.* These aim to check whether class arrangements conform to approved conditions (e.g. proper keeping of attendance records, identity of trainers, commencement and finishing times of classes and location of training venues). The QA mechanism does not specify an inspection frequency. Nevertheless, according to the guidelines issued by the SUS Secretariat, administrative and academic inspections are normally performed at the same time.

5.5 *Invigilation of end-of-course assessments.* These aim to ensure that course providers conduct end-of-course assessments strictly in accordance with approved procedures. The SUS Secretariat performs invigilation for all end-of-course assessments.

5.6 *Computer system.* Inspecting staff are required to prepare a report after each inspection and submit it to the SUS Secretariat. The SUS Secretariat records the inspection information in a computer system, which includes the planned inspection schedule, the actual inspection date and a brief description of the follow-up actions taken (e.g. issue of warning letters).

Audit observations and recommendations

Frequency of inspections

5.7 According to the half-yearly progress reports submitted to the FC, during the period 2001-02 (from September 2001) to 2007-08 (up to September 2007), for the 9,616 classes launched, the SUS carried out 5,056 administrative inspections and 3,236 academic inspections. However, during the same period, the number of administrative inspections per class dropped from 0.5 to 0.4, and the number of academic inspections per class dropped from 1.3 to 0.4. Details are shown in Table 8 below.

Table 8
SUS course inspections based on FC progress reports
(2001-02 to 2007-08)

	2001-02 (from September 2001)	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (up to September 2007)	Overall
Number of classes (A)	256	1,166	2,157	1,935	1,684	1,632	786	9,616
Number of administrative inspections (B)	120	1,068	2,379	270	346	537	336	5,056
Number of administrative inspections per class (C) = (B) ÷ (A)	0.5	0.9	1.1	0.1	0.2	0.3	0.4	0.5
Number of academic inspections (D)	322	543	963	268	298	506	336	3,236
Number of academic inspections per class (E) = (D) ÷ (A)	1.3	0.5	0.4	0.1	0.2	0.3	0.4	0.3

Source: SUS Secretariat records

5.8 Audit reviewed the inspection reports for five industries for the period 2001-02 to 2007-08 (Automobile, Horticulture and Floral Art, Insurance, Real Estate Agents, and Sports and Recreation). Audit found that the SUS Secretariat did not perform academic inspections according to the laid-down frequency requirement for 75 course trainers. Moreover, no administrative inspections were performed for 67 course trainers. **Audit considers that the SUS Secretariat needs to ensure that administrative and academic inspections are conducted at appropriate intervals.**

Recording and reporting of inspections

5.9 Based on the review of inspection reports and FC progress reports, Audit found areas which might need improvement, as follows:

- (a) ***Use of standard inspection reports.*** Inspections were recorded in two standard forms, one for academic inspections and the other for administrative inspections. While the use of standard forms could facilitate the conducting of inspections and the reviewing of inspection results, the special circumstances of some industries warranted tailor-made inspection reports. For example, some courses for industries such as Automobile, Horticulture and Floral Art, and Sports and Recreation required special teaching equipment and venue;
- (b) ***Recording of inspection results for administrative inspections.*** In 126 of the 234 administrative inspection reports reviewed, the inspection results were not completely recorded; and
- (c) ***Reporting of inspections to FC.*** There were differences between the number of course inspections reported in FC progress reports and that based on an actual counting of inspection reports. Details are shown in Table 9.

Table 9
Number of course inspections
reported in FC progress reports and inspection reports
(2001-02 to 2007-08)

	2001-02 (from September 2001)	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (up to September 2007)	Total
Administrative inspection								
Number of inspections based on FC progress reports (A)	120	1,068	2,379	270	346	537	336	5,056
Number of inspections based on inspection reports (B)	114	343	1,861	273	346	537	345	3,819
Difference (C) = (A) - (B)	6	725	518	(3)	0	0	(9)	1,237
Academic inspection								
Number of inspections based on FC progress reports (D)	322	543	963	268	298	506	336	3,236
Number of inspections based on inspection reports (E)	290	517	751	269	311	518	362	3,018
Difference (F) = (D) - (E)	32	26	212	(1)	(13)	(12)	(26)	218

Source: SUS Secretariat records

5.10 **Audit considers that the SUS Secretariat needs to take measures to improve the completeness and accuracy of the recording and reporting of its inspections.**

Trainers not inspected for a long time

5.11 Based on a review of the academic inspection reports for two industries (Horticulture and Floral Art and Real Estate Agents) relating to trainers who taught over five classes of a course, Audit found seven cases in which trainers were not inspected for over one year (ranging from 465 days to 759 days). **Audit considers that the SUS Secretariat needs to consider whether it is feasible to plan its inspection in a way so that each trainer is inspected at least once within a certain period of time (e.g. once every two years) for each course.**

Need to regularly review the inspection strategy

5.12 The SUS Secretariat currently determines its frequency of academic inspections based on the course duration. Audit notes that the SUS Secretariat does not perform any assessment to identify courses that warrant more inspections (e.g. classes with exceptionally low retention and passing rates compared with other classes for the same course). **Audit considers that the SUS Secretariat needs to regularly review the inspection strategy, in particular the coverage and frequency of the inspections.**

Audit recommendations

5.13 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare:**

- (a) **review whether it is necessary to prescribe the inspection frequency for the conducting of administrative inspections;**
- (b) **take measures to improve the completeness and accuracy of the recording and reporting of its inspections;**
- (c) **ensure that staff strictly comply with the laid-down requirements on the conducting of administrative and academic inspections;**
- (d) **consider whether it is feasible to plan the inspections in a way so that each trainer is inspected at least once within a certain period of time for each course; and**
- (e) **regularly review the inspection strategy, in particular the coverage and frequency of the inspections, with a view to adopting a more proactive approach for course inspection.**

Response from the VTC

5.14 The **ED, VTC** has said that the inspection strategy will be regularly reviewed. She has also said that:

- (a) the existing mechanism to prescribe the inspection frequency will be reviewed;
- (b) the SUS Secretariat will improve the recording of inspections in its computer system;
- (c) the SUS Secretariat will improve its documentations to ensure the accuracy of statistical information;
- (d) further training will be provided to staff responsible for academic and administrative inspections to enhance the completeness and accuracy of the recording and reporting of inspections. Staff will be reminded to strictly follow the established guidelines in recording and reporting inspections;
- (e) the SUS Secretariat will improve the computer system to ensure comprehensive reporting. Staff training will also be stepped up to ensure compliance with the laid-down requirements on inspection;
- (f) there is an existing mechanism to determine the frequency of inspection (i.e. all trainers are to be inspected once every half year). The mechanism will be strictly enforced to ensure that sufficient inspections are conducted; and
- (g) the SUS Secretariat will conduct more inspections to classes where their previous retention/passing rates are low.

PART 6: PUBLICITY AND PERFORMANCE REPORTING

6.1 This PART reports the audit findings concerning publicity expenditure and performance reporting of the SUS.

Publicity expenditure

6.2 There are two main types of SUS publicity expenditure, as follows:

- (a) *Publicity expenditure for individual industries (hereinafter referred to as industry-related publicity expenditure).* The IWGs include provision for industry-related publicity expenditure in their funding applications for planned training courses for individual industries. The IWGs are responsible for planning the use of the industry-related publicity funding; and
- (b) *Publicity expenditure for the whole SUS (hereinafter referred to as general publicity expenditure).* The SUS Secretariat applies, where necessary, for general publicity funding for the whole SUS. The SUS Secretariat is responsible for planning the use of the general publicity funding.

6.3 The SUS Secretariat adopts the Government's procurement procedures as stated in the SPRs in processing publicity expenditure.

Audit observations and recommendations

Provision of publicity expenditure

6.4 Audit notes that the SC is responsible for approving publicity expenditure provisions, i.e. the industry-related publicity expenditure provisions as contained in the funding applications from the IWGs and the general publicity expenditure provisions as contained in the funding applications from the SUS Secretariat.

6.5 Audit compared the publicity expenditure with the number of trainees from 2001-02 to 2006-07. As shown in Table 10 below, increased publicity expenditure did not necessarily result in a larger number of trainees. In 2004-05, \$3.3 million was spent on publicity expenditure, representing a 173% increase over 2003-04. However, the number of trainees decreased in 2004-05 and the subsequent two years.

Table 10

**Publicity expenditure and number of trainees
(2001-02 to 2006-07)**

Year	Publicity expenditure (\$)	Percentage increase/ (decrease) over previous year	Number of Trainees	Percentage increase/ (decrease) over previous year
2001-02	954,084	N.A.	5,392	N.A.
2002-03	922,724	(3%)	24,503	354%
2003-04	1,213,298	31%	46,102	88%
2004-05	3,308,175 (Note)	173%	38,514	(16%)
2005-06	808,689	(76%)	32,706	(15%)
2006-07	884,189	9%	31,029	(5%)
Total	8,091,159		178,246	

Source: SUS Secretariat records

Note: A new round of publicity campaign for the SUS was carried out in 2004-05 with the SC's endorsement.

Industry-related publicity expenditure

6.6 Up to March 2007, the IWGs spent \$4.8 million (46%) out of the total provisions of \$10.4 million for industry-related publicity expenditure for individual industries (see Appendix E). As shown in Table 11 below, the average industry-related publicity expenditure was about \$46,000 to \$60,000 a year per industry, except in 2004-05 where the average expenditure was about \$111,000 per industry.

Table 11
Industry-related publicity expenditure
(2001-02 to 2006-07)

Year	Total expenditure (a) (\$)	Number of industries involved (b)	Average expenditure per industry (c) = (a) ÷ (b) (\$)
2001-02	282,716	6	47,119
2002-03	689,974	15	45,998
2003-04	593,977	13	45,691
2004-05	1,659,412	15	110,627
2005-06	805,884	17	47,405
2006-07	779,440	13	59,957
Total	4,811,403		

Source: SUS Secretariat records

- 6.7 An audit examination of the industry-related publicity expenditure revealed that:
- (a) the higher than average industry-related publicity expenditure for 2004-05 was due to the launching of new courses and the use of more expensive media (e.g. television). There were however no documented justifications on why a higher spending was required; and
 - (b) there were no records indicating that there was evaluation of the publicity campaigns, including the setting of clear objectives and performance targets to evaluate and measure the results (e.g. level of awareness of the campaigns by the public and the changes in public perception/behaviour, as intended by the campaigns).

General publicity expenditure

6.8 From 2001-02 to 2006-07, of the \$3.5 million provision for general publicity expenditure, \$3.3 million (94%) has been spent as shown in Table 12 below.

Table 12
General publicity expenditure
(2001-02 to 2006-07)

Year	Total expenditure (\$)
2001-02	671,368
2002-03	232,750
2003-04	619,321
2004-05	1,648,763
2005-06	2,805
2006-07	104,749
Total	3,279,756

Source: SUS Secretariat records

Evaluation of publicity efforts

6.9 **Consultancy findings.** A consultant was engaged by the EMB in 2001 and 2004 to review the effectiveness of the SUS (see paras. 6.19 to 6.22). The following observations were made in relation to the SUS publicity programmes:

- (a) **The first consultancy study.** The consultant found that publicity on the SUS, especially to small-sized companies, was not adequate and that it would be useful to keep employers, especially those employers who had sponsored trainees before, informed of news about the SUS. The consultant recommended that the SUS Secretariat should regularly promote the SUS to employers; and
- (b) **The second consultancy study.** The consultant again commented that it would be desirable if efforts could be made to promote the SUS to employers.

6.10 In response to the consultant's recommendations, the SUS Secretariat has taken more frequent promotional measures, such as shop visits (the SUS Secretariat appoints outsiders to visit shops in different regions for introducing the SUS and distributing promotional materials), and talks with employers and trainers.

6.11 *Need for evaluation of publicity campaigns.* Since the launch of publicity campaigns in 2001-02 and up to December 2007, the SUS Secretariat had not conducted any dedicated surveys to evaluate the effectiveness of the major publicity campaigns for the SUS. Apart from the findings of the two consultancy reports, there was no periodic review of the publicity campaigns. **To facilitate an effective allocation of publicity expenditure, Audit considers that the SUS Secretariat needs to draw up guidelines for publicity planning with a view to ensuring that the objectives of the expenditure have been achieved. The SUS Secretariat needs also to ensure that periodic surveys to evaluate the effectiveness of major publicity campaigns are conducted in future.**

Audit recommendations

6.12 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare:**

- (a) **draw up guidelines for planning the provision of industry-related publicity expenditure and general publicity expenditure; and**
- (b) **carry out periodic evaluation surveys on the effectiveness of major publicity campaigns.**

Response from the VTC

6.13 The ED, VTC has said that:

- (a) the SUS Secretariat will make reference to the Government's guidelines on publicity campaigns, and explore the feasibility of drawing up general guidelines for publicity campaigns;
- (b) to evaluate the effectiveness of publicity campaigns, the SUS Secretariat currently requires trainees to fill in an evaluation questionnaire at the end of the courses, in which a question on "how the trainees got to know of the SUS courses" is asked. The responses to the questionnaire will continue to be summarised for the IWGs' review; and

- (c) evaluation studies on the SUS conducted by independent consultants from time to time already cover evaluation of the effectiveness of major publicity campaigns. The SUS Secretariat will continue with the arrangement to collect the relevant information.

Opinion surveys

6.14 The SUS Secretariat conducts opinion surveys for the training courses run. In the surveys, every trainee gives his feedback in an evaluation form on various aspects of the training course (e.g. course content, the mode of instruction and facilities of course providers). The surveys are conducted on the last day of a class.

6.15 The SUS Secretariat monitors the survey results for individual classes. Periodically, the SUS Secretariat reports the results by industries to the SC. Table 13 summarises the results last reported to the SC in July 2007.

Table 13

**Results of opinion surveys
(September 2001 to June 2007)**

Aspect of training course	Proportion of trainees who were satisfied
Duration	84.0%
Content	93.0%
Usefulness	93.6%
Instructors' teaching techniques and attitudes	97.2%
Modes of teaching	95.2%
Arrangements for end-of-course assessments	94.3%

Source: SUS Secretariat records

Audit observations and recommendation

Need to enhance the comprehensiveness of surveys

6.16 While the opinion surveys showed that trainees were generally satisfied with the training courses, the surveys were not entirely comprehensive. Since the surveys were conducted on the last day of a class, trainees who were absent on that day were not included in the surveys. For example, in 2006-07, some classes had a retention rate of below 50% (see para. 3.23). More than 50% of the trainees enrolled in those classes were not present on the last day of the class and hence were not surveyed.

6.17 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, consider taking measures to include more trainees in opinion surveys. These may include, for example, collecting the opinions of trainees who were absent on the day of the surveys.**

Response from the VTC

6.18 The ED, VTC has said that:

- (a) at present, the SUS Secretariat conducts random telephone interviews with trainees who had dropped out from classes to understand their reasons for dropping out; and
- (b) the random surveys will be continued to ensure that the opinions of more trainees can be collected.

Evaluating the effectiveness of the SUS

Consultancy studies for evaluating the SUS

6.19 The EMB commissioned consultancy studies (conducted by the same consultant) in 2001 and 2004 to help carry out two evaluation exercises on the SUS. The studies collected background information on the trainees and other essential information required for the evaluation of the overall effectiveness of the SUS. To enable a better assessment of the impact of the SUS, the studies also conducted tracking surveys of the trainees after the end of the training classes. The studies indicated that the SUS had positive impact on the vocational skills, work attitudes, teamwork spirit, manner and overall performance of most trainees, and that the trainees were those who were most in need of skills upgrading.

The first evaluation exercise

6.20 The consultancy study for the first evaluation exercise covered six industries which were included in the pilot phase of the SUS, namely Chinese Catering, Import/Export Trade, Printing, Retail, Transport and Wearing Apparel/Textile. The study collected information on a sample basis in three stages, as follows:

- (a) collecting information from trainees when the training classes commenced;
- (b) collecting information from trainees and their employers three months after the end of the training classes; and
- (c) collecting updated information from trainees twelve months after the end of the training classes.

The consultant periodically reported interim findings of the study to the EMB. The consultant submitted the final report of the consultancy study in April 2004. The SC considered the findings of the final report.

The second evaluation exercise

6.21 The consultancy study for the second evaluation exercise covered another eleven industries which were included in the SUS after the pilot phase (Note 14). The study collected information on a sample basis in two stages, namely, collecting information from trainees when the training classes commenced, and collecting information from trainees and their employers three months after the end of the training classes. The study did not further collect information from trainees twelve months after the end of the training classes.

6.22 Similar to the first evaluation exercise, the consultant periodically reported to the EMB interim findings of the study. The consultant submitted the final report of the study in August 2006. The SC considered the findings of the final report.

Audit observations and recommendations

Need to expedite the evaluation exercises

6.23 Each of the evaluation exercises took a considerable period of time to complete as shown in Table 14 below.

Note 14: *The eleven industries were Beauty Care, Building Maintenance and Decoration, Real Estate Agents, Elderly Care, Electrical and Mechanical Engineering, Hairdressing, Hotel, Insurance, Property Management, Road Passenger Transport and Tourism.*

Table 14

Time taken to complete the evaluation exercises

Milestone		First evaluation exercise	Second evaluation exercise		
(1)	The EMB commissioned the consultancy study	October 2001	October 2004		
(2)	The consultant submitted:	} 30 months	} 22 months		
	(a) first interim report			March 2002	August 2005
	(b) second interim report			October 2002	December 2005
	(c) third interim report			March 2003	N.A.
	(d) final report			April 2004	August 2006
(3)	The SC met to deliberate the final report	August 2004	December 2006		
Total time lapse		34 months	26 months		

Source: SUS Secretariat records

6.24 Audit considers that the time taken to complete the evaluation exercises (34 months for the first evaluation exercise and 26 months for the second evaluation exercise) was long. **Because market conditions always change over time, there is a need to consider taking measures to speed up the completion of the evaluation exercises in future.** This will help the SC assess whether the SUS is effective in meeting the market demands and make necessary improvements.

Audit recommendations

6.25 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, take measures to facilitate:**

- (a) **the completion of consultancy studies on the SUS within a reasonable time frame; and**
- (b) **the consideration of the results of the consultancy studies by the SC in a timely manner.**

Response from the VTC

6.26 The ED, VTC has said that:

- (a) there was a slippage of about 9 and 15 months for the first and second evaluation exercises respectively. The slippage was mainly caused by the difficulty in organising the focus group discussions for employers and the time required to prepare for the Chinese translation of the draft report; and
- (b) the SUS Secretariat will closely monitor the progress in the coming evaluation to ensure timely completion. The review results will be submitted to the SC in a timely manner.

Management information

Database for the SUS

6.27 The SUS Secretariat maintains a database for the SUS. The database contains financial data and other information for administration of the SUS, as follows:

- (a) ***Financial data.*** Examples are staff cost, administrative expenses for the SUS and funding allocated to industries; and
- (b) ***Information for administration of training courses.*** Examples are details of training courses and course providers, number of trainees who completed training courses and details of inspections conducted by the SUS Secretariat.

6.28 The database helps provide management information for governing bodies (e.g. the SC and the SG) to oversee the operation of the SUS.

Progress reports for individual industries

6.29 To help monitor the SUS, the SUS Secretariat extracts from the database information for compilation of the progress reports of individual industries. The progress reports provide the latest information about the training classes arranged for individual

industries, background information about the trainees and opinion survey results. The SUS Secretariat compiles separate progress reports for use by the SC and the SG.

Audit observations and recommendation

6.30 During the period April 2004 to September 2007, the SUS Secretariat submitted seven progress reports to the SG. Audit noted that there was no laid-down time frame for the submission of the progress reports. In practice, the intervals between the submission dates of successive progress reports ranged from three to nine months. Table 15 below shows the progress reports submitted to the SG during the period April 2004 to September 2007.

Table 15
Progress reports submitted to the SG
(April 2004 to September 2007)

Report showing the position of the SUS as at	Period in which the report was submitted	Date submitted	Time lapsed since last submission (number of months)
8 September 2004	2004-05	20 September 2004	N.A.
5 April 2005	2005-06	14 April 2005	7
5 August 2005		15 August 2005	4
12 December 2005		21 December 2005	4
13 March 2006		27 March 2006	3
15 August 2006	2006-07	29 August 2006	5
30 April 2007	April to September 2007	21 May 2007	9

Source: SUS Secretariat records

6.31 Audit further noted that no progress reports were submitted to the SC during the period April 2004 to November 2006. To facilitate the work of the SC and the SG, Audit considers that the SUS Secretariat needs to provide management information reports to the SC and the SG on a regular basis.

6.32 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, ensure that the SC and the SG are provided with management information on a regular basis.**

Response from the VTC

6.33 The ED, VTC has said that in future, the SUS Secretariat will submit progress reports at regular intervals, e.g. on a half-yearly basis.

Performance reporting

6.34 The LWB reports the funding position of the SUS (i.e. approved commitment, cumulative expenditure, revised estimated expenditure and balance) in its CORs. The LWB also submits half-yearly progress reports to the FC of LegCo, reporting the cumulative overall trainee enrolment rates, course retention rates, course passing rates and other operational statistics of the SUS, such as the number of training classes started and completed, and the number of trainees who have completed training courses.

Audit observations and recommendations

Need to adopt key performance indicators for performance reporting

6.35 In an SC meeting in August 2001, the SC members identified four key performance indicators (KPIs) to measure the outcome of the SUS in relation to its two basic objectives, namely to improve skills and employability of trainees and to improve awareness of the importance of life-long learning. Table 16 shows the KPIs.

Table 16

KPIs identified by the SC

	Objective	KPI-1	KPI-2
(1)	Improve skills and employability of trainees	Whether trainees can put what they have learnt into practice	Improvement in trainees' work performance and attitudes to work
(2)	Improve awareness of the importance of life-long learning	Whether the trainees have participated in other training courses within a year after attending SUS training courses	Whether there is a change in trainees' attitude to life-long learning

Source: SUS Secretariat records

6.36 In response to Audit's enquiry, the SUS Secretariat advised in February 2008 that relevant information for compiling the above KPIs was collected in the surveys and tracking studies conducted during the first and second evaluation exercises, and the results of such surveys and studies were posted to the SUS website. Audit noted, however, that there was no specific mentioning of the term KPIs in the SUS website. Audit considers that the SUS Secretariat needs to consider compiling KPIs for inclusion in its website.

Need to set performance targets

6.37 In the guidelines on performance measures issued by the Secretary for Financial Services and the Treasury in October 2007, it is stated that when developing performance measures, Controlling Officers should focus on "targets" measured preferably in terms of outcome (versus output or input) and should apply the most relevant performance indicators that measure economy, efficiency and cost-effectiveness of the resources deployed. Audit noted that, up to 31 December 2007, no targets had been set on the performance of the SUS, including performance targets for the KPIs as identified by the SC meeting of August 2001. **Audit considers that a performance target is a yardstick which provides an unambiguous definition of achievement. To enhance accountability, the SUS Secretariat needs to consider setting performance targets for the KPIs adopted.**

Audit recommendations

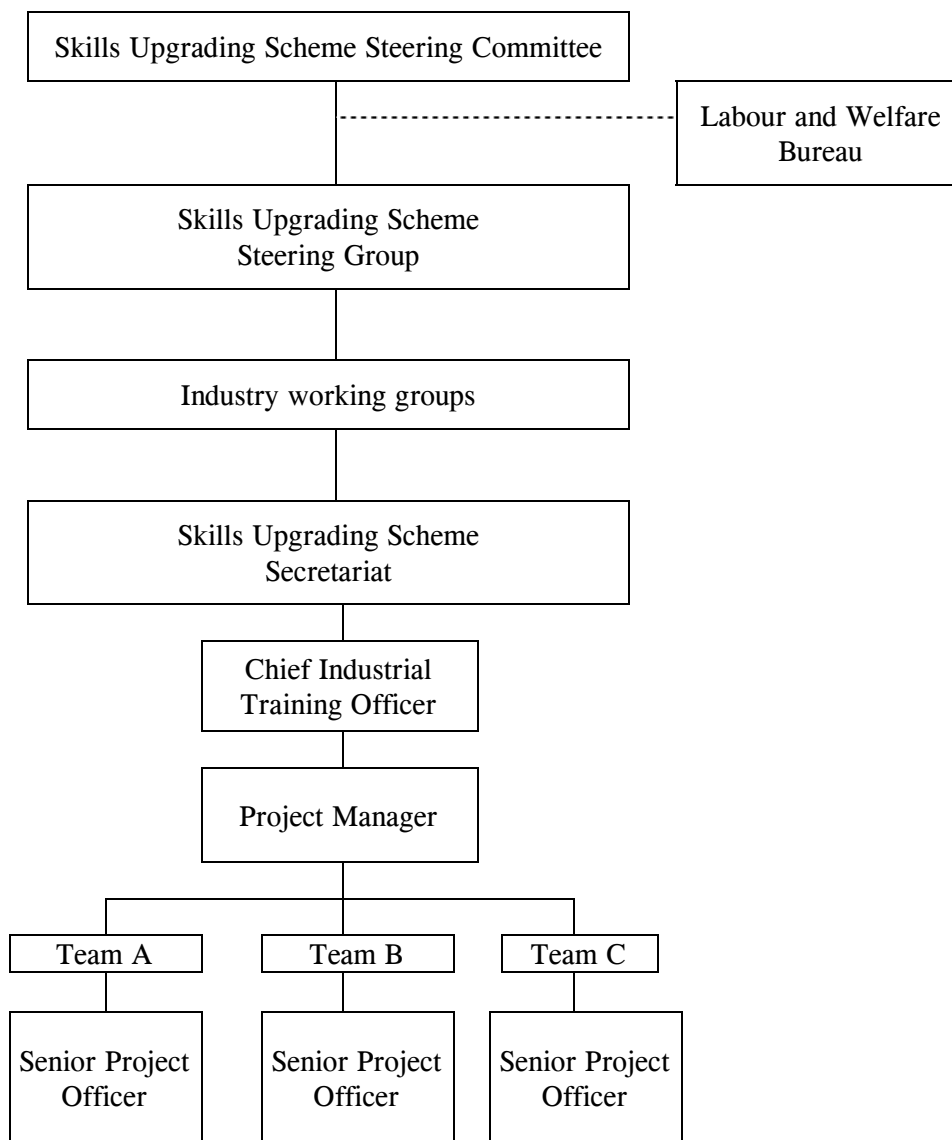
6.38 **Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, consider:**

- (a) **setting performance targets for the KPIs adopted; and**
- (b) **publicising the KPIs as identified by the SC in its meeting of August 2001 for information of key stakeholders of the SUS (e.g. course providers, industry associations) and the general public.**

Response from the VTC

6.39 The **ED, VTC** has said that the SUS Secretariat will, after discussing with the LWB, consider setting performance targets for the KPIs and explore suitable means to publicise the KPIs.

**Skills Upgrading Scheme
Organisation chart (extract)
(31 December 2007)**



Source: SUS Secretariat records

Appendix B
(paras. 1.9 and
2.17 refer)

**Classes launched and trainees enrolled for industries
covered by the Skills Upgrading Scheme
(up to 30 September 2007)**

Industry		Number of classes launched	Number of trainees enrolled
1.	Retail	1,167	25,579
2.	Electrical and Mechanical Engineering	1,224	24,307
3.	Chinese Catering	606	14,014
4.	Beauty Care	832	13,631
5.	Insurance	503	12,855
6.	Tourism	530	12,602
7.	Hairdressing	855	12,429
8.	Import/Export Trade	550	11,862
9.	Property Management	479	10,665
10.	Printing	603	8,810
11.	Elderly Care	356	8,292
12.	Transport	206	5,445
13.	Building Maintenance and Decoration	308	5,314
14.	Wearing Apparel/Textile	216	4,421
15.	Medical and Health Care	197	3,935
16.	Horticulture and Floral Art	257	3,904
17.	Hotel	158	3,383
18.	Watches, Clocks and Jewellery	143	2,809
19.	Films, TV and Entertainment	129	2,543
20.	Sports and Recreation	120	2,531
21.	Road Passenger Transport	105	2,330
22.	Real Estate Agents	41	842
23.	Automobile	31	602
24.	Market Vending (Note)	0	0
25.	Environmental Hygiene (Note)	0	0
Total		9,616	193,105

Source: SUS Secretariat records

Note: The Market Vending Industry and the Environmental Hygiene Industry were included in the SUS in December 2006 and July 2007 respectively. Up to 30 September 2007, classes under these two industries had not commenced. Preparation work, including drawing up detailed course proposals, making funding requests to the SC, inviting and evaluating tenders for operating training courses, and preparing course material by selected course providers, has to be done before classes could commence.

**Comparison of SUS Procedures
with Government's Stores and Procurement Regulations
(31 December 2007)**

SUS Procedures	Government's SPRs
1. To adopt a marking scheme with a weighting of 70% for the technical score and 30% for the price score	When determining the relative weightings for technical and price assessments, government departments should normally adopt a 30% to 40% weighting for technical score, as against a weighting of 60% to 70% for price score. Departments should note that a higher technical weighting would not necessarily ensure a higher quality of the service/product to be delivered by the successful supplier. Departments proposing a weighting higher than 30% to 40% for technical score should provide full justification in their submissions to the relevant tender boards.
2. Tenders with tender prices exceeding the upper cost limit will not be considered	No similar requirement.
3. No similar requirement	For service contracts of a value exceeding \$5 million, or contracts for supply of goods which require also the provision of service of a value exceeding \$5 million, financial vetting shall be conducted of a tenderer who is being considered for the award of the contract in order to ensure that the tenderer is financially capable of fulfilling the contract requirements.

Source: SUS Procedures and the SPRs

Course providers of classes launched in 2006-07

Course provider	Classes launched	
	Number	Percentage
VTC	254	15.6%
Course Provider A	176	10.8%
Course Provider B	101	6.2%
Course Provider C	85	5.2%
Course Provider D	66	4.0%
Course Provider E	65	4.0%
Course Provider F	53	3.2%
Course Provider G	51	3.1%
Other 73 course providers (Note)	781	47.9%
Total	1,632	100%

Source: SUS Secretariat records and Audit analysis

Note: Each of these 73 course providers ran less than 50 classes (i.e. 3% of the 1,632 classes).

**Skills Upgrading Scheme publicity expenditure
(31 March 2007)**

Industry-related publicity		Accumulated allocation (\$'000)	Accumulated expenditure (\$'000)
1.	Printing	800	453
2.	Import/Export Trade	753	423
3.	Chinese Catering	520	405
4.	Films, TV and Entertainment	600	351
5.	Electrical and Mechanical Engineering	550	338
6.	Hairdressing	685	323
7.	Wearing Apparel/Textile	400	269
8.	Retail	1,000	262
9.	Transport	530	243
10.	Property Management	613	237
11.	Building Maintenance and Decoration	350	227
12.	Beauty Care	550	209
13.	Real Estate Agents	200	154
14.	Watches, Clocks and Jewellery	200	152
15.	Road Passenger Transport	300	131
16.	Insurance	550	126
17.	Hotel	198	107
18.	Elderly Care	250	86
19.	Medical and Health Care	150	70
20.	Tourism	550	70
21.	Automobile	150	61
22.	Horticulture and Floral Art	300	59
23.	Sports and Recreation	250	55
Total for industry-related publicity		10,449	4,811
General publicity		3,500	3,280
Total		13,949	8,091

Source: SUS Secretariat records

Remarks: All unspent allocations in respect of publicity campaigns will be returned to the central pool of funds that can be used for other purposes under the SUS.

Acronyms and abbreviations

Audit	Audit Commission
COR	Controlling Officer's Report
ED	Executive Director
EMB	Education and Manpower Bureau
FC	Finance Committee
ICAC	Independent Commission Against Corruption
IWG	Industry working group
KPI	Key performance indicator
LegCo	Legislative Council
LWB	Labour and Welfare Bureau
MDC	Manpower Development Committee
QA	Quality assurance
S1 to S7	Secondary 1 to Secondary 7
SC	Skills Upgrading Scheme Steering Committee
SG	Skills Upgrading Scheme Steering Group
SPR	Stores and Procurement Regulation
SUS	Skills Upgrading Scheme
SUS Secretariat	Skills Upgrading Scheme Secretariat
VTC	Vocational Training Council