

# Report No. 50 of the Director of Audit — Chapter 1

## ADMINISTRATION OF THE SKILLS UPGRADING SCHEME

### Summary

1. In October 2000, the Government announced in the Policy Address that \$400 million was set aside for training programmes for workers with low education levels. In June 2001, the Finance Committee (FC) of the Legislative Council 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. The Skills Upgrading Scheme Steering Committee (SC) was set up in November 2000 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. The Skills Upgrading Scheme Steering Group (SG) was set up in March 2002. Industry working groups (IWGs) were set up for individual industries covered by the SUS. In November 2001, the Vocational Training Council (VTC) was appointed to run the SUS Secretariat in the capacity of the appointed administrative agent of the SUS. Up to 31 March 2007, the total expenditure of the SUS amounted to \$257.5 million. Up to 30 September 2007, about 9,600 classes had been launched for 193,000 trainees. The Audit Commission (Audit) has recently carried out a review of the administration of the SUS.

### Governance of the SUS

2. *Governance structure.* 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). The SC decided that its strategic role would be transferred to the MDC. The SC would continue operation until the transfer of its strategic role to the MDC. The MDC was formally established in October 2002. The SC has continued its operation after the establishment of the MDC. However, Audit could not find SC meeting minutes relating to the transfer of its strategic role after the SC meeting of December 2001. In February 2008, the Labour and Welfare Bureau (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. *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.*

3. ***Handling of confidential information.*** In September 2003, the SUS Secretariat drew up a set of guidelines on the handling of confidential information for IWG members. It 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.*

4. ***Setting up of IWGs.*** 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. The proposal 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.*

#### **Provision of training courses**

5. ***Selection of industries for inclusion in the SUS.*** The SC has established criteria for determining the inclusion of industries in the SUS. The SUS Secretariat, following the criteria, identifies and recommends industries to be approved by the SC for inclusion in the SUS. Up to 31 December 2007, the Banking and Finance Industry had not been included in the SUS. Audit found that the industry might fulfill the criteria for inclusion in the SUS. The SUS Secretariat stated that it had reviewed the suitability of including the industry in the SUS and considered that the priority for admitting the industry 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. *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.*

6. ***Funding of individual industries.*** Allocation of training funding to individual industries is based on funding applications from IWGs. Details of the planned training courses have to be provided in the funding applications. 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. *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.*

7. ***Need to improve the enrolment rate.*** 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. The SUS Secretariat would pay the course provider the difference between the course fee and the tuition fees. *Audit has recommended that the SUS Secretariat should consider taking measures to increase the enrolment rate for SUS classes.*

8. ***Replies to follow-up letters.*** 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. 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. It will issue follow-up letters to request course providers to find out the causes for and advise the remedial actions to be taken on the low retention and passing rates. Audit analysed the course providers' responses to follow-up letters issued on classes held for three industries in 2006-07. Audit found that in 51 cases, the SUS Secretariat was unable to obtain replies within the time limit specified in the follow-up letters. *Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, 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.*

9. ***Need to encourage course attendance.*** Audit notes that a minimum attendance requirement is set for SUS courses. A trainee is not eligible for obtaining a course certificate if he does not achieve the minimum attendance. 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. *Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, take measures to encourage trainees' attendance at SUS courses.*

10. ***Education level of trainees.*** Trainees are required to indicate their education levels in the SUS course application forms. Audit analysed the education levels indicated by trainees in their course application forms for classes launched in 2006-07. Audit noted that 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. 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 has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, (a) consider revising the SUS course application forms for collecting more precise information about the education level of the trainees; and (b) take into account the information in the revised application forms when conducting analysis of the education level of the trainees.*

## **Selection of course providers**

11. ***Approval of the SUS Course Development, Tendering and Approving Procedures.*** The procedures for procurement and selection of course providers are laid down in the SUS Course Development, Tendering and Approving Procedures (SUS Procedures). 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 has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, ensure that the SUS Procedures are approved by the appropriate authority.*

12. ***Deviations from government practices.*** The Administration informed the FC in May 2001 that course providers would be selected in accordance with the Government's procurement procedures. Audit compared the SUS Procedures with the Government's Stores and Procurement Regulations (SPRs) and found that they were different in certain aspects. Regarding the weightings used in tender evaluation, 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. Regarding tenders with tender prices exceeding the upper cost limit, Audit notes that according to the SUS Procedures, such tenders will not be considered but the SPRs do not have such a requirement. Regarding the financial vetting of tenderers, Audit notes that according to the SPRs, for procurement with a value exceeding a certain amount, government departments need to conduct financial vetting of the tenderers. In comparison, there is no similar requirement in the SUS Procedures. *Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, consider (a) reviewing its marking scheme guidelines under the SUS Procedures, particularly the normal weightings for the technical score and the price score; (b) removing the restriction of capping the tender price; and (c) including a requirement to conduct financial vetting of tenderers if the tender price exceeds a certain amount.*

13. ***Compliance with the SUS Procedures.*** Regarding the computation of price scores, Audit noted that for two industries, the IWGs concerned did not define, for the purpose of computing the price scores, the term "lowest tender price" according to the definition stated in the SUS Procedures. Regarding the establishment of an assessment group for tender evaluation, Audit noted that instead of setting up such a group, the IWG of the Hairdressing Industry performed the role of vetting and evaluating the tenders. *Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, ensure compliance with the procurement requirements laid down in the SUS Procedures.*

14. ***Low response rate for tender invitations.*** Audit noted that only a small number of tenders were received in response to tender invitations for the Printing Industry. 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 and any remedial measures taken. *Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, take remedial measures to address the issue of and analyse the reasons for the low response rate to tender invitations.*

### **Inspection of training courses**

15. ***Frequency of inspections.*** 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.

16. ***Recording and reporting of inspections.*** Regarding the use of standard inspection reports, Audit found that the special circumstances of some industries warranted tailor-made inspection reports. Regarding the recording of inspection results for administrative inspections, Audit found that in 126 of the 234 administrative inspection reports reviewed, the inspection results were not completely recorded. Regarding the reporting of inspections to the FC, Audit found that there were differences between the number of course inspections reported in FC progress reports and that based on an actual counting of inspection reports.

17. ***Trainers not inspected for a long time.*** Based on a review of the academic inspection reports, Audit found seven cases in which trainers were not inspected for over one year.

18. ***Need to regularly review the inspection strategy.*** 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).

19. ***Audit recommendations.*** *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 conducting 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.*

## **Publicity and performance reporting**

20. ***Opinion surveys.*** The SUS Secretariat conducts opinion surveys for the training courses run. 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. *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.*

21. ***Evaluating the effectiveness of the SUS.*** The Education and Manpower Bureau commissioned consultancy studies in 2001 and 2004 to help carry out two evaluation exercises on the SUS. The studies collected information required for the evaluation of the overall effectiveness of the SUS. The findings of the consultancy studies were considered by the SC. Each of the evaluation exercises took a considerable period of time to complete (34 months for the first evaluation exercise and 26 months for the second evaluation exercise). *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.*

22. ***Need to adopt key performance indicators for performance reporting.*** In an SC meeting in August 2001, the SC members identified four key performance indicators (KPIs) to measure the outcome of the SUS. The relevant information for compiling the KPIs was collected in the surveys and tracking studies conducted during the 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 has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, consider publicising the four KPIs for information of key stakeholders of the SUS (e.g. course providers, industry associations) and the general public.*

23. ***Need to set performance targets.*** 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. *Audit has recommended that the SUS Secretariat should, in consultation with the Secretary for Labour and Welfare, consider setting performance targets for the KPIs adopted.*

## **Response from the VTC and the Administration**

24. The Executive Director, VTC and the Secretary for Labour and Welfare generally agree with the audit recommendations.

April 2008