

## **CHAPTER 4**

### **Transport Department**

<p><b>Licensing of vehicles under the passenger service licence system</b></p>
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**Audit Commission  
Hong Kong  
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*This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.*

Report No. 50 of the Director of Audit contains 7 Chapters which are available on our website at <http://www.aud.gov.hk>.

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# LICENSING OF VEHICLES UNDER THE PASSENGER SERVICE LICENCE SYSTEM

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## **PART 1: INTRODUCTION**

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

### **Background**

1.2 Hong Kong has a diverse multi-modal public transport system comprising a variety of modes (Note 1), including non-franchised public buses, private buses, public and private light buses. The government policy on transportation is to maintain a balanced public transport system with coordination among the different modes and ensure the provision of safe, efficient and cost-effective public transport services. The Transport Department (TD) is the authority for administering the Road Traffic Ordinance (Cap. 374) and the legislation regulating the public transport system.

1.3 Different transport modes operate under different regulatory regimes. The operation of vehicles under the passenger service licence (PSL) system (i.e. non-franchised public buses, private buses, public light buses and school private light buses) is regulated through the PSLs and passenger service licence certificates (PSLCs) issued under the Road Traffic Ordinance. The PSLs authorise the licensees to operate vehicles whereas the PSLCs are issued to vehicles operating under the PSLs.

### **Licensing services**

1.4 The Public Vehicles Unit of the TD is responsible for, among other things, processing applications for PSLs and PSLCs. The TD Urban Regional Office and New Territories Regional Office are responsible for vetting applications for scheduled services under the PSL system at the district levels. As at 31 December 2007, there were 12,853 licensed vehicles under the PSL system. In 2007, the Public Vehicles Unit handled 28,917 applications.

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**Note 1:** *Tram services are regulated under the Tramway Ordinance (Cap. 107). Railway services are regulated under the Mass Transit Railway Ordinance (Cap. 556) and the Kowloon-Canton Railway Corporation Ordinance (Cap. 372). Franchised public bus services are regulated under the Public Bus Services Ordinance (Cap. 230). Taxi services are regulated under the Road Traffic Ordinance. Ferry service companies operate under franchise or licence.*

## Enforcement action against unauthorised services

1.5 Apart from the legislative controls, the operation of vehicles under the PSL system is also regulated through the imposition of licensing conditions (Note 2). The TD Urban Regional Office and New Territories Regional Office are responsible for regulating the operation of these vehicles and services in the districts and collecting evidence of unauthorised services. The TD Prosecution Unit is responsible for taking enforcement actions against unauthorised services and initiating prosecution under the Road Traffic Ordinance.

## Vehicle examination

1.6 To ensure the safety of vehicles through controlling design requirements and encourage proper maintenance, all vehicles under the PSL system are required to undergo a pre-registration examination and an annual roadworthiness examination. Under the Road Traffic Ordinance, if a vehicle is suspected to be defective, the driver or registered owner of the vehicle may be ordered to produce the vehicle concerned for examination (i.e. call-up inspection) at a government vehicle examination centre (Note 3). In 2007, 13,943 vehicle inspections, including 184 call-up inspections, were conducted for these vehicles.

## Audit review

1.7 The Audit Commission (Audit) has recently conducted a review to examine the economy, efficiency and effectiveness of the provision of licensing services of vehicles under the PSL system by the TD. The audit review has focused on the following areas:

- (a) provision of licensing services (PART 2);
- (b) performance measurement (PART 3);
- (c) enforcement action against unauthorised services (PART 4); and
- (d) vehicle examination under the PSL system (PART 5).

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**Note 2:** *The licensing conditions may include the number and types of vehicles, purposes for which the vehicles may be used and operation details.*

**Note 3:** *As at 31 December 2007, there were five government vehicle examination centres (viz. the Kowloon Bay Vehicle Examination Centre, the New Kowloon Bay Vehicle Examination Centre, the Sheung Kwai Chung Vehicle Examination Centre, the To Kwa Wan Vehicle Examination Centre and the Vehicle Examination Centre at the New Lantao Bus Company) providing vehicle inspection services.*



1.8 In carrying out the audit review, Audit examined the records and interviewed the staff of the TD. Audit has found that there are areas where improvements can be made. Audit has made a number of recommendations to address the issues.

### **Acknowledgement**

1.9 Audit would like to acknowledge with gratitude the full cooperation of the staff of the TD during the course of the audit review.

## **PART 2: PROVISION OF LICENSING SERVICES**

2.1 This PART examines the licensing requirements for vehicles under the PSL system and the licensing services provided by the TD for these vehicles, and suggests measures for further improvement.

### **Licensing services**

2.2 Under the Road Traffic Ordinance, a PSL authorises the licensee to operate a non-franchised public bus, a private bus, a public light bus or a school private light bus (Note 4) to provide passenger services. The licensee is required to comply with the licensing conditions stipulated in the PSL. The TD may, after consulting the licensee and giving a three months' advance notice, alter the licensing conditions at any time.

2.3 Under the PSL system, non-franchised public buses, public light buses and school private light buses carry passengers for hire or reward. All private buses are not allowed to carry passengers for hire or reward, except for the provision of services for students and disabled persons. The services provided by each type of vehicle are as follows:

- (a) ***Non-franchised public bus.*** There are eight types of non-franchised public bus services (i.e. services for tours, hotels, students, employees, international passengers, residents, multiple transports and contract hire). The licensee of a non-franchised public bus has to obtain a separate endorsement and approval for specified route, where appropriate, from the TD before operating any non-franchised public bus services;
- (b) ***Private bus.*** There are four types of private bus services (i.e. services for students, employees, disabled persons and other user groups);
- (c) ***Public light bus.*** Public light buses are classified into red minibuses for non-scheduled services and green minibuses for scheduled services. The number of public light buses has been frozen at 4,350 since 1976; and

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**Note 4:** *Prior to October 1999, operators of private light buses providing services for schools were not required to obtain PSLs. In order to exercise better control over the use of private light buses for providing services for students, the Road Traffic (Amendment) Ordinance was enacted in 1999 to require school private light buses to operate under the PSL.*

- (d) *School private light bus.* School private light buses are used exclusively for conveying students for hire or reward.

Details of services provided by vehicles under the PSL system are shown in Appendix A. As at 31 December 2007, there were 6,945 non-franchised public buses, 483 private buses, 4,350 public light buses and 1,075 school private light buses under the PSL system.

2.4 The Public Vehicles Unit handles different types of applications under the PSL system, including applications for the first issue, extension, amendment and duplicates of PSLs and PSLCs (Note 5). As at 31 December 2007, 3,360 PSLs and 14,300 PSLCs with 25,732 service endorsements were in force. Details are shown in Table 1.

**Table 1**  
**Number of valid PSLs and PSLCs**  
**(31 December 2007)**

Type of vehicle	Licensed vehicle (Number)	PSL (Number)	PSLC (Number)	Service endorsement (Number)
Non-franchised public bus	6,945	1,505	8,417	19,650
Private bus	483	194	487	686
Public light bus	4,350	1,041	4,323	4,323
School private light bus	1,075	620	1,073	1,073
<b>Total</b>	<b>12,853</b>	<b>3,360</b>	<b>14,300</b>	<b>25,732</b>

Source: TD records

Remarks: A licensee of non-franchised public buses and private buses may have more than one service endorsement and PSLCs for each of his vehicles under the PSL.

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**Note 5:** The Public Vehicles Unit also handles applications for registration, cancellation of registration, transfer of ownership, change of service type, display of advertisements, and retention and registration of registration marks of vehicles under the PSL system.

## **Application for service endorsement of non-franchised public bus**

2.5 Unlike public light buses, the licensees of non-franchised public buses, private buses and school private light buses have to specify the intended service periods, if any, when applying for separate endorsement and approval for using their vehicles to provide the different types of services with specified route under the PSLs. The applications have to be supported by contracts signed by the licensees with the user groups (e.g. property management agents and hotels) or letters from the user groups.

2.6 Before November 2005, a licensee was required, under the licensing condition of non-franchised public bus, to submit an application for providing contract hire services with specified route. The application should, as far as reasonably practicable, be delivered to the TD not less than 14 days prior to the date on which the applicant intended to operate a service serving the same origin and destination areas for more than 14 days (either intermittently or consecutively) in a year. With effect from 1 November 2005, prior approval is required for providing such services for more than 2 days (either intermittently or consecutively) in a period of 30 days (Note 6).

## **Audit observations and recommendations**

### ***Enforcement of the licensing condition on application for providing contract hire services with specified route***

2.7 The TD records the applications for the eight types of service endorsements of non-franchised public bus in eight manual registers. In 2007, there were 354 applications for providing contract hire services. Audit noted that the information relating to the intended service periods for providing contract hire services with specified route was recorded in the register of applications for providing contract hire services. Of the 44 applications for providing contract hire services with specified route, the intended service periods of only 22 applications had been recorded in this register. Details are shown in Table 2.

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**Note 6:** *As a licensing condition, with effect from 1 February 2007, an application for providing other types of services (other than contract hire services) with specified route should be delivered to the TD not less than 30 days prior to the intended service commencement date. Before 1 February 2007, for services with specified route provided to hotels and students, prior approval was not required. For services with specified route provided to international passengers and residents, applications were required to be submitted not less than 14 days prior to the intended service commencement date.*

**Table 2**

**Application for providing contract hire services with specified route in 2007**

<b>Time of application</b>	<b>Number of applications</b>	<b>Intended service period without approval (Days)</b>
(A) Application submitted not less than 14 days prior to the intended service commencement date	6	—
(B) Application submitted less than 14 days prior to the intended service commencement date (Note)	11	1 to 55
(C) Application submitted after the intended service commencement date	5	2 to 51
	} 16	
<b>Total</b>	<b>22</b>	

Source: *Audit analysis of TD records*

Note: *One of the applications was rejected by the TD. The licensee might have provided services without approval during the period from the intended service commencement date to the date of the TD's rejection.*

2.8 Of the 22 applications, Audit noted that the following 16 (73%) applications for providing contract hire services with specified route had not been submitted 14 days prior to the intended service commencement date:

- (a) 11 applications were submitted, on average, 9 days (ranged from 3 to 13 days) prior to the intended service commencement date. The periods without approval (i.e. from the intended service commencement date to the date of the TD's approval) ranged from 1 to 55 days; and

- (b) 5 applications were submitted, on average, 3 days (ranged from 1 to 8 days) after the intended service commencement date. The periods without approval ranged from 2 to 51 days.

**2.9 Audit considers that the TD needs to ensure compliance with the licensing condition that the licensee should, as far as reasonably practicable, submit the application for providing contract hire services with specified route not less than 14 days prior to the intended service commencement date. The TD also needs to introduce control measures to address the risk that applicants may provide unauthorised services (i.e. operating without approval for specified route).**

*Application submitted prior to the intended service commencement date*

2.10 The Public Vehicles Unit followed the normal procedures in processing applications submitted less than 14 days prior to the intended service commencement date. In a case (Case A), an application for providing contract hire services with specified route was submitted three days prior to the commencement date of the intended four-day service period. The Public Vehicles Unit continued to process the application after the last date of the intended service period. In Case A, Audit noted that:

- (a) the intended service period was from 25 to 28 May 2007;
- (b) the service contract was signed with the user group on 12 April 2007 (i.e. 43 days prior to the intended service commencement date). Therefore, the applicant could have submitted the application 14 days prior to the commencement date;
- (c) on 22 May 2007, the Public Vehicles Unit recorded the receipt of the application in the register and issued an acknowledgement letter to the applicant;
- (d) on 29 May 2007, the Public Vehicles Unit requested the applicant by phone to submit necessary documents for processing his application. The applicant agreed to do so;
- (e) on 7 August 2007, 10 weeks after the expiry of the service contract, the Public Vehicles Unit sent a reminder informing the applicant that the case would not be processed if he could not submit the required documents by 14 August 2007; and
- (f) on 14 August 2007, the case was closed.

2.11 To continue processing the application after the expiry of the service contract was a waste of staff resources. Instead of requesting the applicant to provide documents, he should have been reminded and warned that it was a breach of licensing condition to provide contract hire services with specified route without the TD's approval. **In Audit's view, the TD needs to review the procedures for handling applications for providing contract hire services with specified route submitted less than 14 days prior to the intended service commencement date, especially for applications with a short intended service period. The TD also needs to ensure that its staff should stop processing applications with expired service contract.**

*Application submitted after the intended service commencement date*

2.12 **Provision of services prior to approval.** Five applications for providing contract hire services with specified route (see Table 2 in para. 2.7) were submitted after the intended service commencement date. The intended service periods without approval for specified route, from the intended service commencement date to the date of the TD's approval, ranged from 2 to 51 days. In July 2004, the Transport Advisory Committee (TAC — Note 7) completed a review on the regulation of non-franchised public bus operation. The review covered the operation of unauthorised non-franchised public bus services, and the problems and concerns relating to enforcement and prosecution. The TAC review raised the following points:

- (a) **Regulation of non-franchised public bus operation.** Some non-franchised public bus operators started to provide services while the TD was processing their applications. These operators perceived that providing such services during the period when their applications were being processed should be treated differently from services operating beyond the specified scope or without the TD's approval; and
- (b) **Contravention of PSL system.** The TAC considered that the provision of services prior to approval was a contravention of the PSL system and should not be allowed. The TAC recommended that the TD should:
  - (i) take enforcement actions to combat all unauthorised non-franchised public bus services, including the provision of services before the granting of approval; and
  - (ii) expedite the processing of applications as appropriate with a view to minimising problems caused by such services.

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**Note 7:** *The TAC's primary role is to advise the Administration on broad issues of transport policy and major transport-related proposals with a view to improving the movement of people and freight in Hong Kong.*

*Long intended service period without approval for specified route*

2.13 Apart from the applications for providing contract hire services, some applications for providing other services of non-franchised public bus were also submitted after the intended service commencement date. In one case (Case B), an application for providing services, with specified route, for employees was submitted 6 months after the commencement date of the intended 12-month service period. The Public Vehicles Unit followed the normal procedures in processing the application. In Case B, Audit noted that:

- (a) the intended service period was from July 2006 to June 2007;
- (b) the service contract was signed with the user group on 11 April 2006 (i.e. 3 months prior to the intended service commencement date). Therefore, the applicant could have submitted the application prior to the commencement date;
- (c) on 5 January 2007 (i.e. 6 months after the intended service commencement date), the Public Vehicles Unit recorded the receipt of the application for providing services, with specified route, for employees and issued an acknowledgement letter to the applicant;
- (d) on 12 January 2007, the Public Vehicles Unit sent a letter to the applicant requesting for additional supporting documents;
- (e) on 14 March 2007, the applicant provided the TD with all the supporting documents; and
- (f) on 27 April 2007, the TD issued an approval letter for the provision of services covering the period from 3 May to 30 June 2007 to the applicant.

2.14 On the day of receipt of the application (i.e. 5 January 2007), it was apparent that approval could not be granted to the applicant for delivering the services for the whole contract period from July 2006 to June 2007. The Public Vehicles Unit staff should have:

- (a) obtained explanations from the applicant for submitting applications six months after the intended service commencement date;
- (b) reminded and warned the applicant that it was a breach of licensing condition to provide services for employees without the TD's approval; and
- (c) requested the applicant and the user group to re-confirm the period of the service contract.



**Audit considers that the TD needs to review the procedures for handling applications for providing services with specified route submitted after the intended service commencement date, including the re-confirmation of the intended service period of the service contract by the applicant.**

**2.15 Audit has *recommended* that the Commissioner for Transport should:**

- (a) ensure compliance with the licensing condition that the licensee should, as far as reasonably practicable, submit the application for providing contract hire services with specified route not less than 14 days prior to the intended service commencement date;**
- (b) introduce control measures to address the risk that applicants may provide unauthorised services (i.e. operating without approval for specified route);**
- (c) review the procedures for handling applications for providing contract hire services with specified route submitted less than 14 days prior to the intended service commencement date, especially for applications with a short intended service period;**
- (d) ensure that TD staff should stop processing applications with expired service contract; and**
- (e) review the procedures for handling applications for providing services with specified route submitted after the intended service commencement date, including the re-confirmation of the intended service period of the service contract by the applicant.**

### **Response from the Administration**

**2.16 The Commissioner for Transport agrees with the audit recommendations. He has said that the TD will:**

- (a) remind the non-franchised public bus operators who wish to introduce contract hire services with specified route for more than 2 days in a period of 30 days to submit applications not less than 14 days prior to the intended service commencement date as far as reasonably practicable;**
- (b) consider introducing measures to address, within the available resources, the risk that applicants may provide services without approval for specified route; and**

- (c) review the existing procedures for handling applications for providing services with specified route and develop guidelines for TD staff to ensure that applications with expired service contract will no longer be processed.

### **Extension of passenger service licence and passenger service licence certificate**

2.17 Under the Road Traffic (Public Service Vehicles) Regulations (Cap. 374 sub. leg. D), a PSL may be issued for a period not exceeding five years and extended for a further period of not more than five years. A PSLC is valid for a period of 12 months or until the expiry of the related PSL, whichever is the sooner. At present, a PSL is normally issued for a period of two years and is subject to approval for extension. A sample of a PSL for non-franchised public bus services is shown in Appendix B.

### **Audit observations and recommendations**

#### *Application for extension of PSL and PSLC*

2.18 In 2007, there were 16,086 applications for extension of PSL/PSLC (i.e. 56% of the total number of applications handled by the Public Vehicles Unit). It is stated in the application form for extension of PSL/PSLC that a licensee shall submit his application within 4 months and at least 14 days prior to expiry. Audit randomly selected 15 applications for extension of PSL/PSLC for review. The results are shown in Table 3.

**Table 3**  
**Application for extension of PSL/PSLC**

<b>Time of application</b>	<b>Number of applications</b>	<b>Average number of days before/after the expiry of the PSL</b>	<b>Average number of days without a valid PSL/PSLC</b>
(A) Application submitted not less than 14 days prior to the expiry of the PSL/PSLC	4	27 (Range: 15 to 51)	—
(B) Application submitted less than 14 days prior to the expiry of the PSL/PSLC	4	8 (Range: 6 to 13)	1 (Range: 0 to 5)
(C) Application submitted after the expiry of the PSL/PSLC	7	10 (Range: 3 to 20)	21 (Range: 11 to 30)
<b>Total</b>	<b>15</b>		

Source: *Audit analysis of TD records*

2.19 Audit found that 7 (47%) out of the 15 applications were submitted, on average, 10 days after the expiry of the PSL/PSLC. Similar to the vehicle licence, the validity period of the PSL/PSLC commenced from the date of issue. The average period without a valid PSL/PSLC for the 7 applications was 21 days.

2.20 A licensee may apply for extension of PSL within four months before its expiry date. The annual fee of the PSL/PSLC shall be payable on the 14th day before its expiry (Note 8). However, unlike a vehicle licence, no additional fee or penalty for

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**Note 8:** *The annual fees of a PSL and a PSLC are \$396 and \$160 respectively.*

a late application is imposed for the period without a valid PSL/PSLC (Note 9). In February 2008, in response to audit enquiries, the TD said that it is a violation of law if the licensee operates a public service vehicle without a valid PSL/PSLC. The TD will initiate prosecution action against licensees operating without valid PSLs/PSLCs and will explore the feasibility of imposing a penalty on them.

**2.21 Audit considers that the TD needs to implement measures to ensure that the licensees apply for extension of PSL/PSLC before the expiry date, and expedite the processing of applications submitted after the expiry of the PSL/PSLC.**

*Need to strengthen the follow-up procedures for expired licences*

2.22 The Vehicles and Drivers Licensing Integrated Data (VALID) system of the TD generates daily a list of licensees holding expired PSLs/PSLCs. After checking with the manual registers of applications received for extension of PSL/PSLC, the Public Vehicles Unit issues warning letters to the licensees who have not submitted their applications for extension. Upon the issue of the first warning letter, a refraining order is input into the VALID system in respect of the licensee and his vehicle under the PSL system. The refraining order is used to alert the responsible officer to watch out for the relevant licensing matters (such as applications for the renewal of vehicle licence, replacement of vehicle and display of advertisements). A second warning letter is issued if an application is not received 14 days after the issue of the first warning letter.

2.23 In 2007, the TD issued 364 first warning letters and 47 second warning letters (Note 10). Audit selected 30 cases with first warning letters issued in 2007 for review. Audit noted that up to 31 December 2007, two licensees had not submitted their applications for extension of PSL/PSLC. Nevertheless, refraining orders had been input into the VALID system.

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**Note 9:** *For a vehicle licence, if an application is made after the expiry of the licence, the licence is valid from the date of issue and the total fee paid is the licence fee plus an additional fee for each day of the unlicensed period since the expiry date of the previous licence. The additional fee shall not be payable if the Commissioner for Transport is satisfied that the motor vehicle has not been used on a road during the period when it was not licensed, and in such a case the licence shall take effect from the date of issue thereof.*

**Note 10:** *In the first warning letter, the licensee is warned not to operate without a valid PSL/PSLC and to apply for extension immediately if he wants to operate the vehicle. The licensee is also informed that the TD may consider cancelling the PSL/PSLC if no application for extension is received within two weeks from the date of the warning letter. Two weeks after the issue of the first warning letter, the TD issues the second warning letter to remind the licensee again. The licensee is also informed that the TD may consider cancelling the PSL/PSLC if no application for extension is received within one week from the date of the warning letter.*

2.24 Details of the remaining 28 cases with the issue of warning letters are shown in Appendix C. Audit found that:

- (a) the period without a valid PSL/PSLC for 11 (i.e. 39%) cases was more than 30 days;
- (b) a second warning letter had not been issued to the licensee until 63 days after the expiry of the licence;
- (c) the second warning letter to a licensee holding an expired licence for 48 days was issued 19 days after the first warning letter;
- (d) refraining orders were not input into the VALID system in respect of two private buses after the issue of the first warning letters;
- (e) for an application for extension of PSL and PSLC of a public light bus, the follow-up actions of issuing the first warning letter and inputting the refraining order into the VALID system were taken only 210 days after the expiry of the PSL/PSLC; and
- (f) for four licensees, the first warning letters were issued and refraining orders were input into the VALID system (Note 11) by mistake, even though they had submitted their applications 4 to 15 days before the expiry of the PSL/PSLC.

2.25 Copies of all the warning letters were kept in a file for each type of vehicles (Note 12). Of the 364 first warning letters issued to the licensees in 2007, 135 letters were related to the expiry of PSLs and the 229 letters were related to the expiry of PSLCs. The TD did not indicate the number of vehicles involved in the 135 warning letters. Refraining orders were manually input into the VALID system by the staff of the TD licensing office upon the request of the TD Public Vehicles Unit. There were cases without the input of the refraining order after the issue of the first warning letter.

2.26 A central record of information on warning letters and refraining orders of individual licensees facilitates the monitoring and taking of follow-up actions against licensees who have not applied for extension of PSLs/PSLCs in time. **To enhance the effectiveness of the follow-up procedures for expired licences under the PSL system,**

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**Note 11:** *Manual registers are kept to record the receipt of applications. TD staff had to check the computer generated list of expired licences with the manual registers before taking appropriate follow-up action.*

**Note 12:** *Before February 2007, copies of warning letters were individually kept in the subject file of each licensee or vehicle.*

**Audit considers that the TD needs to explore the feasibility of computerising the records of the applications, warning letters and refraining orders.**

2.27 Audit noted that, apart from the issue of warning letters and imposition of refraining orders, these cases were not referred to the TD regional offices and Prosecution Unit for taking enforcement actions to deter the licensees from providing services without valid PSLs/PSLCs. **Audit considers that the TD needs to step up its enforcement action in this regard.**

2.28 **Audit has recommended that the Commissioner for Transport should:**

- (a) **implement measures to ensure that the licensees apply for extension of PSL/PSLC before the expiry date;**
- (b) **expedite the processing of applications submitted after the expiry of the PSL/PSLC;**
- (c) **explore the feasibility of computerising the records of the applications, warning letters and refraining orders; and**
- (d) **step up the enforcement action to deter the licensees from providing services under the PSL system without valid PSLs/PSLCs.**

### **Response from the Administration**

2.29 The **Commissioner for Transport** agrees with the audit recommendations. He has said that the TD will:

- (a) consider measures to ensure that the licensees apply for extension of PSL/PSLC before the expiry date;
- (b) introduce measures to expedite the processing of applications submitted after the expiry of the PSL/PSLC;
- (c) explore the feasibility of computerising the records of the applications, warning letters and refraining orders with a view to strengthening the monitoring of follow-up actions against licensees who have not extended their PSLs/PSLCs in time; and
- (d) step up enforcement action against those licensees, who may provide services without valid PSLs/PSLCs, within resource constraint.

## Management information system

### *Need to improve the management information for monitoring of licensing services*

2.30 Audit noted that the Public Vehicles Unit did not have readily available management information for monitoring the performance of its licensing services. The Unit used manual registers to record the receipt of applications under the PSL system. The computer system did not capture the essential information (such as the dates of applications for extension of PSL/PSLC and applications for providing services with specified route, and the dates of the intended service periods). **In Audit's view, the TD needs to consider computerising its manual records and improve the management information system for monitoring the performance of its licensing services of vehicles under the PSL system.**

### *Need to improve the "Guide to application"*

2.31 To assist applicants to apply for the licensing services, the TD issues "Guide to application" for the various types of applications. Audit noted that the documents required to be submitted to the TD (e.g. past business records) were not included in the "Guide to application" for applying free bus services under the category of contract hire services. The processing of these applications was delayed because the TD had to issue letters asking applicants to provide the required documents. **To expedite the processing of applications, Audit considers that the TD needs to revise the "Guide to application" to include all the documents required to be submitted by the applicants.**

### *Need to issue comprehensive guidelines*

2.32 TD departmental instructions for processing applications under the PSL system, issued in 1998, were not updated. The procedures for processing applications for the endorsement of some services (such as tour services, hotel services and contract hire services) under the PSL system were not included in the departmental instructions.

2.33 Audit noted that the TD intended to issue a handbook covering non-franchised public buses (but not private buses, public light buses and school private light buses) under the PSL system in early 2008. In November 2007, in response to audit enquiries, the TD said that there were operational guidelines for private buses, public light buses and school private light buses in different forms (e.g. questions and answers, and flowchart). **Audit considers that the TD needs to issue a comprehensive set of guidelines for its staff to ensure consistency in the interpretation and enforcement of vehicle licensing conditions under the PSL system.**

## **Audit recommendations**

- 2.34 **Audit has *recommended* that the Commissioner for Transport should:**
- (a) **consider computerising the manual records and improve the management information system for monitoring the performance of the licensing services of vehicles under the PSL system;**
  - (b) **revise the “Guide to application” to include all the documents required to be submitted by the applicants so as to expedite the processing of applications; and**
  - (c) **issue a comprehensive set of guidelines for TD staff to ensure consistency in the interpretation and enforcement of vehicle licensing conditions under the PSL system.**

## **Response from the Administration**

- 2.35 The **Commissioner for Transport** agrees with the audit recommendations. He has said that the TD:
- (a) will consider computerising the existing manual records to provide better management information for monitoring the performance of licensing services of vehicles under the PSL system;
  - (b) is revising the “Guide to application” for contract hire services in line with the audit recommendation; and
  - (c) will review existing guidelines for processing applications to provide different types of services under the PSL system, and provide clear guidance for TD staff in processing applications for providing services and enforcement of vehicle licensing conditions under the PSL system.



## **PART 3: PERFORMANCE MEASUREMENT**

3.1 This PART examines the performance measurement for licensing services of vehicles under the PSL system provided by the Public Vehicles Unit and suggests measures for improvement.

### **Pledged targets for licensing services**

3.2 On its website, the TD sets out four pledged targets for licensing services of vehicles under the PSL system. Pledged targets are set for processing applications for the transfer of ownership of vehicles, replacement of vehicles, extension of PSL for vehicles and display of advertisements on vehicles.

### **Audit observations and recommendations**

#### *Need to review the extent of achieving the pledged targets for licensing services*

3.3 From 1997 to 2006, the TD reported that it had met all the pledged targets for licensing services of vehicles under the PSL system. However, there was no documentary evidence to substantiate the extent of achieving the pledged targets.

3.4 In January 2008, in response to audit enquiries, the TD said that no survey was conducted to assess the extent of achieving the pledged targets. **Audit considers that the TD needs to review regularly the extent of achieving its pledged targets for licensing services of vehicles under the PSL system so as to identify room for improvement.**

#### *Need to improve documentation for measuring application processing time*

3.5 Audit randomly selected 27 applications, processed by the TD during the period from January to September 2007, to review the extent of achieving the pledged targets. Audit found that, for the following 14 (52%) out of 27 applications, the extent of achieving the pledged targets could not be ascertained:

- (a) for the 5 applications for the transfer of ownership of public light bus, the dates of approval were not documented;
- (b) for the 3 applications for the replacement of vehicle of school private light bus, the dates of the approval letters to be signed by the responsible officer were not documented; and

- (c) for the 6 applications for the display of advertisements on public light bus, the dates of informing the applicants by phone to collect the approval letters were not documented.

**In Audit's view, the TD needs to maintain proper management information in respect of the processing of applications for monitoring the performance of licensing services.**

*Need to revise methods for measuring application processing time*

3.6 Measuring and reporting performance results play an important role in enhancing the accountability and transparency of an organisation. The methods adopted by the TD to measure the application processing time for licensing services of vehicles under the PSL system are shown in Appendix D.

3.7 Audit noted that the TD's method for measuring the extent of achieving the target for the applications for the replacement of vehicle of public light bus was unsatisfactory. As the notice informing the applicant to complete the relevant procedures within four months was issued on the date of receipt of the application, the TD considered that the processing of the applications had been completed within the target processing time of five working days.

3.8 To measure the extent of achieving the pledged targets, the time required to complete the processing of the applications should be used. Audit analysed the average time required to complete the processing of the 27 applications mentioned in paragraph 3.5. Details are shown in Appendix E.

3.9 The average processing time of 2.2 working days to complete the processing of the applications for extension of PSL for public light bus, and that of 3.2 working days for the display of advertisements on public light bus, were shorter than the pledged targets of 5 and 7 working days respectively. **Audit considers that the TD needs to review the methods for measuring the processing time and consider revising the pledged targets for licensing services of vehicles under the PSL system, taking into account the processing time for delivering the services.**

*Need to include the target for extension of PSLC*

3.10 The pledged targets for transfer of ownership of public light bus, and replacement of vehicles of public light bus and school private light bus were set in 1994. The pledged targets for processing applications for extension of PSL for public light bus and display of advertisements on public light bus were set in 1996 and 1999 respectively. Audit

noted that, up to 31 December 2007, the TD had not reviewed and revised these pledged targets. In December 2007, in response to audit enquiries, the TD said that the pledged target for extension of PSL for public light bus was also applicable to extension of PSLC for public light bus. **Audit considers that the TD needs to include the target for extension of PSLC for public light bus on its website.**

*Need to include key performance measures in the Controlling Officer's Report*

3.11 In the Controlling Officer's Report (COR) of the TD, there is no key performance target or indicator for licensing services of vehicles under the PSL system. The setting of performance measures (i.e. targets and indicators) helps enhance government performance, transparency and accountability. **Audit considers that the TD needs to consider including performance measures for licensing services of vehicles under the PSL system in TD COR to enhance public accountability.**

*Need to devise more target*

3.12 Other than the pledged targets for public light bus and school private light bus, the TD does not set targets for non-franchised public bus and private bus. In 2007, the number of applications for licensing services of such buses accounted for 51% of the total applications handled by the Public Vehicles Unit. **In Audit's view, the TD needs to consider developing targets for licensing services of such buses so as to monitor the performance of these services.**

3.13 **Audit has recommended that the Commissioner for Transport should:**

- (a) **review regularly the extent of achieving the pledged targets for licensing services of vehicles under the PSL system so as to identify room for improvement;**
- (b) **maintain proper management information in respect of the processing of applications for monitoring the performance of licensing services;**
- (c) **review the methods for measuring the processing time and consider revising the pledged targets for licensing services of vehicles under the PSL system, taking into account the processing time for delivering the services;**
- (d) **include the target for extension of PSLC for public light bus on TD website;**
- (e) **consider including performance measures for licensing services of vehicles under the PSL system in TD COR to enhance public accountability; and**

- (f) **consider developing targets for licensing services of non-franchised public bus and private bus so as to monitor the performance of these services.**

### **Response from the Administration**

3.14 The **Commissioner for Transport** agrees with the audit recommendations. He has said that the TD will:

- (a) conduct regular reviews on the extent of achieving various performance targets for licensing services of vehicles under the PSL system with a view to identifying room for improvement;
- (b) maintain proper management information in respect of the processing of applications for monitoring the performance of licensing services;
- (c) conduct review on the methods for measuring the processing time and revise the pledged targets for licensing services of vehicles under the PSL system where appropriate;
- (d) include the target for extension of PSLC for public light bus on TD website;
- (e) consider including performance measures for licensing services of vehicles under the PSL system in TD COR or on TD website to enhance public accountability;  
and
- (f) examine the feasibility of developing targets for licensing services of non-franchised public bus and private bus so as to monitor the performance of these services.

## **PART 4: ENFORCEMENT ACTION AGAINST UNAUTHORISED SERVICES**

4.1 This PART examines the enforcement actions taken by the TD against operators providing unauthorised services with vehicles under the PSL system and suggests measures for further improvement.

### **Legislative provision**

4.2 Under the Road Traffic Ordinance, a person is forbidden from driving or using a vehicle under the PSL system, and from permitting it to be driven or used, for carrying passengers without a valid PSL. It is an offence to use the vehicle in contravention of the vehicle licensing conditions. Any person not complying with this provision is liable on conviction to a fine of \$5,000 and imprisonment for 3 months. Under the Public Bus Services Ordinance (Cap. 230), a public bus service shall not be operated except under a franchise or unless the service is a type of authorised non-franchised public bus services. Any person not complying with the legal provision is liable on conviction to a fine of \$100,000.

### **Unauthorised services**

4.3 According to the TAC's report of July 2004 on the regulation of non-franchised public bus operation, some PSL operators provided unauthorised services, exploited the licensing conditions or went beyond the scope of operation to provide services deviated from the transport policy. Such activities undermined the financial viability of regular and legitimate transport services and caused traffic and environmental problems. The third party insurance policy for a vehicle might be invalidated if it was used for providing unauthorised services.

4.4 According to the TAC, the provision of services for residents and free bus services was susceptible to abuse by the licensees. These services are non-franchised public bus services. Details are as follows:

- (a) ***Services for residents.*** These services are run or supported by management companies, residents or owners of residential developments for carrying passengers to and from residential estates. The TD's prior approval is required for operating individual routes. The application has to be supported by a contract signed with the user group. The proposed stops, service schedule and bus deployment are subject to the TD's approval; and

- (b) **Free bus services.** These services are a kind of contract hire services to meet ad hoc demand (e.g. shuttle services for property selling activities or shopping mall promotional activities) from the general public. The TD's prior approval is required if an operator provides free bus services with the same origin and destination areas for more than 2 days (either intermittently or consecutively) in a period of 30 days.

## Enforcement action

4.5 The TD Urban Regional Office and New Territories Regional Office are responsible for regulating and monitoring the public transport activities in the districts. The regional offices conduct surveys to confirm the existence and collect evidence of unauthorised services (Note 13).

4.6 For unauthorised services, the TD issues a warning letter asking the licensee to submit a written explanation and cease the unauthorised operation. If there is evidence showing that the unauthorised services may constitute an offence under the Road Traffic Ordinance or the Public Bus Services Ordinance, the TD can initiate summons action and refer the case to the Hong Kong Police Force for prosecution. Alternatively, the TD can hold an inquiry under the Road Traffic Ordinance for any contravention of the licensing conditions under the PSL system. If the case is substantiated, sanctions ranging from suspension to cancellation of the PSL will be imposed. If a licensee does not accept the decision, he may apply for a review of the decision by the Transport Tribunal (Note 14).

## Audit observations and recommendations

### *Offences for common breaches of licensing conditions*

4.7 For an inquiry on a suspected case of unauthorised services, a public officer is appointed by the Commissioner for Transport to investigate the case, conduct hearings and submit a report to the Commissioner on the findings of the investigation. More time is required if the licensee appeals to the Transport Tribunal. Audit analysis of the 78 inquiries and reviews completed from 2004 to 2006 indicated that it took, on average, 17 months to

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**Note 13:** *The Urban Regional Office started to use consultancy services in September 2004 and the New Territories Regional Office in November 2003. The objectives of the consultancy services are to collect operational information of the public transport system, and provide site observation services on traffic conditions and transport operations during public events and emergency incidents.*

**Note 14:** *The functions of the Transport Tribunal are to review the decisions of the Commissioner for Transport in respect of inquiry results and associated sanctions, and applications made under the Road Traffic Ordinance.*

conclude them and impose sanctions on the licensees. For the 35 review cases, it took, on average, 26 months to complete the inquiry by the TD and the review by the Transport Tribunal. Details are shown in Table 4.

**Table 4**  
**Average time for completing the inquiry and review**  
**(2004 to 2006)**

Inquiry/review	Number of inquiry/review	Average time (Note)
Inquiry by a public officer appointed by the Commissioner for Transport	43	10 months (Range: 3 to 24 months)
Review of the decisions of the Commissioner for Transport by the Transport Tribunal	35	26 months (Range: 10 to 40 months)
<b>Total</b>	<b>78</b>	<b>17 months</b> <b>(Range: 3 to 40 months)</b>

*Source: Audit analysis of TD records*

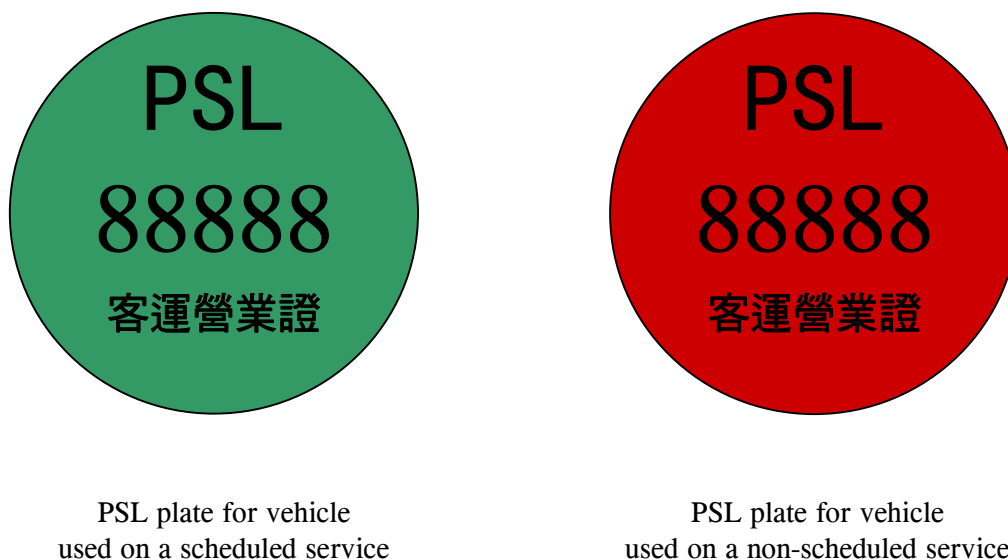
*Note: The processing time is from the date of recommending the case to the Commissioner for Transport for initiating inquiry to the date of completing the inquiry by the Commissioner for Transport, or the date of completing the review by the Transport Tribunal.*

4.8 It takes a long time to conclude an inquiry on unauthorised services under the PSL system. The same enforcement procedures leading to either prosecution or inquiry also apply to minor breaches of licensing conditions. These minor breaches of licensing conditions include:

- (a) not displaying the PSL plates or stipulated service signs. Plates to be displayed at the rear of vehicles under the PSL system are shown in Figure 1; and
- (b) operating services not according to the specified schedule of services.

Figure 1

PSL plates to be displayed at the rear of vehicles



Source: TD records

4.9 According to the TAC's report of July 2004, the enforcement procedures for all these minor breaches of licensing conditions were time-consuming and resource-intensive. The fixed penalty ticketing system was the simplest and least resource-intensive means of enforcement action. The TAC recommended that the TD should streamline the enforcement procedures by turning common breaches of licensing conditions into scheduled offences that were subject to fixed penalty ticketing system under the Road Traffic Ordinance. Audit noted that, up to 31 December 2007, the TD had not implemented the TAC's recommendation. **Audit considers that the TD needs to expedite the implementation of the TAC's recommendation of including offences for minor breaches of licensing conditions under the fixed penalty ticketing system.**

*Imposition of sanctions*

4.10 From 2004 to 2006, the TD conducted 155 inquiries. As at 30 September 2007, 83 (54%) out of the 155 inquiries were completed. Details are shown in Table 5.



Table 5

**Number of completed inquiry and imposition of sanction  
(30 September 2007)**

Result	Number of completed inquiries							
	2004		2005		2006		Total	
Issue of “stern” warning letter	2	(4%)	3	(11%)	—	—	5	(6%)
Imposition of sanction								
(a) Sanction implemented	40	(85%)	14	(54%)	6	(60%)	60	(72%)
(b) Sanction NOT implemented	5	(11%)	9	(35%)	4	(40%)	18	(22%)
<b>Total</b>	<b>47</b>	<b>(100%)</b>	<b>26</b>	<b>(100%)</b>	<b>10</b>	<b>(100%)</b>	<b>83</b>	<b>(100%)</b>

*Source: TD records*

4.11 Audit review of the 83 completed inquiries shown in Table 5 indicated that “stern” warning letters were issued to 5 licensees because they could give satisfactory explanation to the TD on the minor breaches of licensing conditions. Sanctions were implemented on the licensees of 60 inquiries. Sanctions could not be implemented on the licensees of 18 inquiries because they had transferred the ownership of the vehicles to other licensees (Note 15) before the imposition of sanctions, or had not applied for extension of PSL.

**Note 15:** *The PSL of a licensee will be cancelled by the Public Vehicles Unit if the licensee does not have any vehicle operating under the PSL.*

4.12 A licensee, Company A, was involved in five inquiries. Details are shown in Appendix F. During the period of inquiry from December 2003 to May 2006, the TD conducted 25 surveys on the operation of Company A. The surveys indicated that Company A continued the unauthorised operation even though it was being investigated by the TD (Note 16).

4.13 For the first inquiry, on 29 March 2005, the Commissioner for Transport decided to suspend the PSLCs of Company A for operating two buses for 6 months. On 18 April 2005, Company A, with 16 vehicles under its PSL, appealed to the Transport Tribunal against the decision. On 2 November 2006, prior to the confirmation of the decision of the first inquiry by the Transport Tribunal, Company A transferred the ownership of all its vehicles to other licensees. The PSL of Company A was then cancelled as there was no vehicle under its PSL. Consequently, sanctions could not be implemented and the hearings by the Transport Tribunal for the other four inquiries were cancelled.

4.14 Audit analysis of the completed inquiries indicated that the percentage of cases in which sanctions could not be implemented on the licensees had increased substantially, from 11% in 2004 to 40% in 2006 (see Table 5 in para. 4.10). Audit noted that the licensees had transferred the ownership of their vehicles to other licensees prior to the imposition of sanctions to avoid penalties for operating unauthorised services. Audit noted that in 2004, the TAC had expressed concern about the effectiveness of sanctions in deterring operators from contravening the licensing conditions. The TAC recommended that the TD should review the administrative sanctions with particular emphasis on the need to impose heavier penalties on repeated offenders.

4.15 **In view of the significant increase in the percentage of cases in which sanctions could not be implemented on the licensees, Audit considers that, as recommended by the TAC, the TD needs to review the effectiveness of the administrative sanctions with particular emphasis on the need to impose heavier penalties on repeated offenders. The TD also needs to keep track of the performance of licensees and take into account past performance record, including non-compliance with the licensing conditions, when granting additional service endorsements or extension of licences.**

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**Note 16:** *In January 2004, the TD invited Company A's representative to assist in the investigation of the suspected unauthorised services. In March 2004, the TD issued a warning letter requiring Company A to immediately cease the unauthorised services.*

### *Waiting time for hearing appeals*

4.16 The average waiting time for hearing an appeal by the Transport Tribunal increased from 8 months (ranging from 5 to 13 months) in 2005 to 22 months (ranging from 13 to 28 months) in 2007. **In Audit's view, the long waiting time for hearing appeals by the Transport Tribunal is undesirable. Audit considers that the TD needs to find ways to shorten the waiting time for hearing appeals by the Transport Tribunal.**

### *Identification of unauthorised services*

4.17 The TD would conduct surveys to obtain information on unauthorised services upon the receipt of complaints and/or referrals from the general public and public transport operators. The regional offices conducted 469 surveys in 2006 and 2007. Audit review of 20 surveys conducted during this period found that 19 surveys were conducted as a result of complaints by and/or referrals from the general public and public transport operators. One survey was conducted as a result of a site inspection of a new shopping mall.

4.18 Audit noted that 5 (23%) out of 22 applications for providing contract hire services with specified route were submitted after the intended service commencement date, and the periods without approval ranged from 2 to 51 days (see Table 2 in para. 2.7). There is a risk that the licensees, who submitted their applications for providing services with specified route after the intended service commencement date, or submitted the applications for extension of PSL/PSLC after the expiry of licences, had provided unauthorised services without approval or without valid PSLs/PSLCs. **In Audit's view, the TD needs to conduct surveys for identifying unauthorised services, taking into account the number of complaints received and previous surveys conducted. The TD also needs to improve the internal communications among its regional offices and the Public Vehicles Unit, in handling late applications for providing contract hire services with specified route or extension of PSL/PSLC, with a view to finding out whether unauthorised services exist.**

### *Need to improve the management information on unauthorised services*

4.19 From 2005 to 2007, the number of complaints about unauthorised services under the PSL system increased from 196 by 3% to 201. During the same period, the number of surveys conducted by the regional offices increased from 183 by 23% to 226. However, the number of warning letters issued to licensees for the provision of unauthorised services decreased from 1,033 in 2005 by 46% to 561 in 2007. In January 2008, in response to audit enquiries, the TD said that it had streamlined the investigation procedures for conducting inquiries and reduced the number of warning letters issued to licensees. The regional offices took other enforcement actions to deter operators from providing unauthorised services.

4.20 All the complaints received, warning letters issued and surveys conducted by the regional offices were kept in a file for each district. However, the regional offices did not have readily available information on complaints received, warning letters issued and surveys conducted in each district. Data on complaints received, warning letters issued and surveys conducted provide management information for assessing the effectiveness of the enforcement actions. **Audit considers that the TD needs to maintain management information (i.e. complaints received, warning letters issued and surveys conducted) for monitoring the effectiveness of the enforcement actions against unauthorised services.**

4.21 **Audit has recommended that the Commissioner for Transport should:**

- (a) **expedite the implementation of the TAC's recommendation of including offences for minor breaches of licensing conditions under the fixed penalty ticketing system;**
- (b) **review the effectiveness of the administrative sanctions with particular emphasis on the need to impose heavier penalties on repeated offenders, as recommended by the TAC;**
- (c) **keep track of the performance of licensees and take into account past performance record, including non-compliance with the licensing conditions, when granting additional service endorsements or extension of licences;**
- (d) **find ways to shorten the waiting time for hearing appeals by the Transport Tribunal (e.g. increasing the number of members of the Transport Tribunal);**
- (e) **conduct surveys for identifying unauthorised services, taking into account the number of complaints received and previous surveys conducted;**
- (f) **improve the internal communications among the regional offices and the Public Vehicles Unit, in handling late applications for providing contract hire services with specified route or extension of PSL/PSLC, with a view to finding out whether unauthorised services exist; and**
- (g) **maintain management information (i.e. complaints received, warning letters issued and surveys conducted) for monitoring the effectiveness of the enforcement actions against unauthorised services.**

## Response from the Administration

4.22 The **Commissioner for Transport** agrees with the audit recommendations. He has said that:

- (a) the TD will, in consultation with the Department of Justice and the Hong Kong Police Force, further explore the feasibility of implementing the TAC's recommendation of including offences for minor breaches of licensing conditions under the fixed penalty ticketing system;
- (b) the TD has put in place a system to record the penalties imposed on each offender and heavier penalties will be imposed on repeated offenders, in line with the TAC's recommendation;
- (c) the TD will examine the feasibility of keeping track of the performance of licensees and take into account the past performance record when granting additional service endorsements or extension of licences;
- (d) to cope with the increasing caseload, in April 2007, two Chairmen were appointed to the panel of the Transport Tribunal to expedite the handling of appeal cases. It is expected that the waiting time for hearing appeals by the Transport Tribunal will be shortened in 2008;
- (e) the TD will arrange more surveys on suspected unauthorised services, subject to availability of resources;
- (f) the TD will introduce measures to improve the internal communications among the regional offices and the Public Vehicles Unit, in handling late applications for providing contract hire services with specified route or extension of PSL/PSLC, with a view to improving the monitoring of the operation of vehicles under the PSL system; and
- (g) the TD will improve the management information for monitoring the effectiveness of the enforcement actions against unauthorised services.

## **PART 5: VEHICLE EXAMINATION UNDER THE PASSENGER SERVICE LICENCE SYSTEM**

5.1 This PART examines the vehicle examination services provided by the TD for vehicles under the PSL system and suggests measures for further improvement.

### **Vehicle inspection**

5.2 To ensure the safety of vehicles through controlling design requirements and encourage proper maintenance, vehicles under the PSL system are required to undergo a pre-registration examination and an annual examination. Under the Road Traffic Ordinance, the TD can require examination of a motor vehicle at any time to ascertain whether or not the vehicle is roadworthy. The call-up inspections for suspected defective vehicles and spot checks for non-franchised public buses and private buses (Note 17) are as follows:

- (a) ***Call-up inspections.*** Under the Road Traffic Ordinance, if a vehicle is suspected to have mechanical defects, the driver or the registered owner may be ordered to produce the vehicle concerned at a government vehicle examination centre for call-up inspection to ensure that the reported defects, if verified, are rectified to the required standard. All vehicles reported by the Hong Kong Police Force, the general public and other government departments to be defective are liable for call-up inspections. Call-up inspections for vehicles under the PSL system are carried out at the To Kwa Wan Vehicle Examination Centre and the Kowloon Bay Vehicle Examination Centre; and
- (b) ***Spot checks for non-franchised public buses and private buses.*** Spot checks are carried out at the To Kwa Wan Vehicle Examination Centre. The centre selects non-franchised public buses and private buses for spot checks to ensure that they are roadworthy. The vehicles' past examination results will be taken into account in the selection. Generally, non-franchised public buses and private buses which failed in the last annual examination and had more defects will be selected for spot checks.

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**Note 17:** *Both the call-up inspections and spot checks are carried out free of charge. However, if the vehicle fails in the first re-check, a fee is charged for the second re-check.*

## Vehicle examination order

5.3 Vehicle examination orders for call-up inspections and spot checks are sent to the vehicle owners by registered post. It is specified in the order that the purposes of the inspection are to ascertain if the vehicle is roadworthy, accords with the particulars contained in the register of vehicles maintained under the Road Traffic Ordinance, complies with the relevant licensing conditions and the vehicle emission standards. Failure to comply with the vehicle examination order renders the cancellation of the vehicle licence by the TD.

## Follow-up actions for no-show cases

5.4 *Inspection code.* For call-up inspections, once a vehicle is reported to be defective and called up for inspection, an inspection code is input into the VALID system. The inspection code bars major types of vehicle licensing transactions (e.g. transfer of ownership and renewal of vehicle licence) from taking place. The ownership of the vehicle can be transferred only if the new owner agrees to personally comply with the vehicle examination order.

5.5 *Refraining order.* For spot checks, if the vehicle examination order sent by registered post is returned as “unclaimed return to sender”, the licensing office, upon the request of the vehicle examination centre, inputs a refraining order into the VALID system. The TD keeps a watch list for these vehicles. If the registered owners contact the TD licensing office, they are required to:

- (a) produce documentary evidence to prove that their vehicles have passed a vehicle examination; and
- (b) update their addresses with the TD.

5.6 *Cancellation of vehicle licence.* If a registered owner does not produce the vehicle for call-up inspection or spot check, the vehicle licence will be cancelled in accordance with the Road Traffic Ordinance. The TD vehicle inspection office issues a cancellation notice to the registered owner informing him that the cancellation of licence will be effective after 14 days. The registered owner is required to return the vehicle licence and the registration document for cancellation and endorsement respectively. Thereafter, the vehicle can be re-licensed if it passes a vehicle examination.

## Audit observations and recommendations

### *No-show cases for call-up inspections*

5.7 From 2003 to 2007, 595 vehicles under the PSL system (i.e. 189 non-franchised public buses, 400 public light buses and 6 school private light buses) were called up for inspections (Note 18). Of the 595 cases, 127 (i.e. 21%) were no-show cases.

5.8 Audit reviewed 21 no-show cases for call-up inspections during the period from January to September 2007. The vehicle examination orders of 5 cases were withdrawn as a result of the cancellation of referral by the Electrical and Mechanical Services Department after test reports on the liquefied petroleum gas tanks of the vehicles had been submitted. The vehicle examination orders of 14 no-show cases were withdrawn after the registered owners produced documents showing that the vehicles had passed the annual examinations after the dates of the defective reports. The vehicle licences of the remaining 2 no-show cases were cancelled.

5.9 The vehicles of 9 no-show cases passed the annual examination before the scheduled date of the call-up inspection, and the vehicles of 5 no-show cases passed the annual examination before the re-scheduled date of the call-up inspection. However, the vehicle owners of these 14 cases did not attend the call-up inspections on the scheduled and re-scheduled dates. In one no-show case, the registered owner of the vehicle requested to combine the call-up inspection on 28 May 2007 with the annual examination on 8 August 2007. The TD informed him that the vehicle examination order would not be cancelled until the vehicle had passed an examination. In the event, the annual examination was advanced to 13 June 2007 and the call-up inspection was deferred to 18 June 2007 (i.e. 5 days after the annual examination). The vehicle passed the mandatory annual examination for the renewal of vehicle licence.

5.10 Audit notes that a registered owner can book an appointment for annual examination with the TD licensing office up to four months before the licence expiry date. The registered owner can advance the annual examination date, instead of producing his vehicle for the call-up inspection, if the period between the call-up inspection and the annual examination is less than four months. **As both the call-up inspection and the annual examination are conducted by government vehicle examination centres, the TD needs to monitor closely the appointment date of the call-up inspection if the period between such inspection and the annual examination of the vehicle is less than four months, and introduce measures to cancel the call-up inspection after the annual examination of the vehicle.**

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**Note 18:** *As no private bus was reported as defective, there was no call-up inspection for this type of vehicle.*



*No-show cases for spot checks*

5.11 From 2006 to 2007, the TD issued vehicle examination orders to the registered owners of 1,086 selected vehicles (i.e. 1,037 non-franchised public buses and 49 private buses) for spot checks. Of the 1,086 cases, there were 44 (i.e. 4%) no-show cases.

*No-show cases with undelivered vehicle examination orders*

5.12 Of the 44 no-show cases, the vehicle examination orders of 32 cases were returned by the post office. Audit review of these 32 cases found that refraining orders were input into the VALID system for 30 cases. However, no refraining order was input into the system for the other two cases. The ownership of these two vehicles was transferred despite the fact that these vehicles had not been produced for spot checks before the transfer. The new owners were not aware of the obligation to produce the vehicles for spot checks and did not agree to personally comply with the vehicle examination orders. **Audit considers that the TD needs to ensure that follow-up actions, including the input of refraining order and inspection code into the VALID system, are promptly and properly taken for cases where the vehicle examination orders could not be delivered to the registered owners.**

5.13 For the 30 cases mentioned in paragraph 5.12, four vehicles were not produced for spot checks. However, the registered owners produced their vehicles for the annual examinations in order to renew their vehicle licences. Audit noted that the periods between the date of the refraining order and the date of the annual examination of these vehicles ranged from 190 to 305 days, with an average of 245 days. During these periods, the vehicles could have provided services under the PSLs.

5.14 Apart from inputting the refraining orders into the VALID system, no action was taken on the cases where the vehicle examination orders were returned by the post office. The effectiveness of imposing a refraining order is limited if a registered owner is not going to sell or replace his vehicle. Under the Road Traffic (Registration and Licensing of Vehicles) Regulations (Cap. 374 sub. leg. E), the registered owner of a vehicle shall notify the TD of any change of address within 72 hours (Note 19). **To ensure that the non-franchised public buses and private buses are roadworthy, Audit considers that the TD needs to take follow-up action in cases where the vehicle examination orders could not be delivered to the registered owners, encourage registered owners to notify the TD of the changes of addresses and draw their attention to the consequences of not doing so.**

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**Note 19:** *If a vehicle owner fails to comply with the regulation, he commits an offence and is liable to a fine of \$2,000.*

*Need to expedite the cancellation of vehicle licence*

5.15 Of the 10 no-show cases with delivered vehicle examination order for spot checks, the vehicle licences of 9 buses (i.e. 1 private bus and 8 non-franchised public buses) were subsequently cancelled. The cancellation of the licence of the remaining non-franchised public bus was uplifted as the owner could provide satisfactory explanation for not turning up for spot check. The time taken (i.e. from the date the vehicle examination centre requested cancellation of the licence to the date of cancellation) to cancel the vehicle licences of the 9 buses ranged from 7 to 95 days, with an average of 27 days. Details are shown in Table 6.

**Table 6**

**Time taken to cancel the vehicle licence of nine buses  
(January 2006 to September 2007)**

<b>Number of days taken to cancel the licence</b>	<b>Number of buses</b>
1 to 10	1
11 to 20	3
21 to 30	4
95	1
	—
<b>Total</b>	<b>9</b>
	==

*Source: TD records*

5.16 Audit examined the case which took 95 days to cancel the vehicle licence. The vehicle examination centre issued a memo on 28 July 2006 requesting the vehicle inspection office to cancel the licence of the private bus. However, it was only after 84 days (i.e. on 20 October 2006) that the vehicle inspection office issued a letter to the registered owner of the private bus informing him the cancellation of his licence would be effective after 2 weeks (i.e. on 3 November 2006). The registered owner produced the vehicle for spot check 4 days after the cancellation of the vehicle licence. The vehicle passed the spot check and a vehicle licence was issued.

5.17 Cancellation of vehicle licence is an effective enforcement action. Timely enforcement actions could encourage registered owners to comply with the requirements of spot checks. **To enhance the effectiveness of the enforcement action, Audit considers that the TD needs to take prompt action to cancel the licences of vehicles not produced for spot checks.**

*Decrease in the number of vehicles selected for spot checks*

5.18 The objectives of selecting non-franchised public buses and private buses for spot checks are to ensure the safety of passengers and other road users, and to ensure a reliable and high quality public transport system. The standards for spot checks are the same as those for the annual examination.

5.19 Before 2002, about 30 vehicles were selected for spot checks per month. In 2002, in view of the increase in the number of non-franchised public buses and private buses, and the significant increase in the number of such buses involved in accidents from 1989 to 2001, the TD Vehicle Examination Division decided to increase the number of spot checks gradually from 300 vehicles per year (i.e. 25 vehicles per month) to a target of 600 vehicles per year (i.e. 50 vehicles per month). Audit noted that the number of spot checks had reached 50 vehicles per month since 2004.

5.20 Audit review of the call-up list for spot checks indicated that, since August 2007, the number of vehicles called up for spot checks had decreased from 50 to 30 vehicles per month. In January 2008, in response to audit enquiries, the TD said that the number of spot checks was reduced due to heavy workload of the To Kwa Wan Vehicle Examination Centre. In view of the increase in the number of accidents (from 436 in 2001 to 442 in 2007) involving non-franchised public buses and private buses, and the increase in the number of such buses (from 6,713 in 2001 to 7,428 in 2007), it may not be prudent to reduce the number of spot checks for such buses. **Audit considers that the TD needs to review regularly the number of spot checks to be carried out on such buses so that the objectives of ensuring the safety of passengers and other road users, and a reliable and high quality public transport system can be achieved.**

5.21 **Audit has recommended that the Commissioner for Transport should:**

- (a) **monitor closely the appointment date of the call-up inspection if the period between such inspection and the annual examination of the vehicle is less than four months, and introduce measures to cancel the call-up inspection after the annual examination;**

- (b) ensure that follow-up actions, including the input of refraining order and inspection code into the VALID system, are promptly and properly taken for cases where the vehicle examination orders could not be delivered to the registered owners;
- (c) take follow-up action in cases where the vehicle examination orders could not be delivered to the registered owners, encourage registered owners to notify the TD of the changes of addresses and draw their attention to the consequences of not doing so;
- (d) take prompt action to cancel the licences of vehicles not produced for spot checks; and
- (e) review regularly the number of spot checks to be carried out on non-franchised public buses and private buses so that the objectives of ensuring the safety of passengers and other road users, and a reliable and high quality public transport system can be achieved.

### **Response from the Administration**

5.22 The **Commissioner for Transport** agrees with the audit recommendations. He has said that the TD will introduce measures to:

- (a) cancel call-up inspection after the vehicle has passed the annual examination;
- (b) ensure that proper follow-up actions, including the input of refraining order and inspection code into the VALID system, are taken for cases where the vehicle examination order could not be delivered to the registered owner;
- (c) ensure that prompt action is taken to cancel the licences of vehicles not produced for spot checks; and
- (d) conduct regular reviews on the number of spot checks to be carried out on non-franchised public buses and private buses.

**Appendix A**  
(para. 2.3 refers)

**Services provided by vehicles under the passenger service licence system**

<b>Types of vehicles</b>	<b>Types of services</b>	<b>Scheduled services</b>	<b>Non-scheduled services</b>	<b>For hire or reward</b>
Non-franchised public bus	Tours		✓	✓
	Hotels	✓	✓	✓
	Students	✓	✓	✓
	Employees	✓		✓
	International passengers	✓		✓
	Residents	✓		✓
	Multiple transports (Note 1)	✓		✓
	Contract hire (Note 2)	✓	✓	✓
Private bus	Students		✓	✓
	Employees		✓	
	Disabled persons		✓	✓
	Other user groups (Note 3)		✓	
Public light bus	Non-scheduled services provided by red minibus		✓	✓
	Scheduled services provided by green minibus	✓		✓
School private light bus	Students		✓	✓

Source: TD records

*Note 1: A multiple transport service is a service for the carriage of passengers by a public bus service in combination with carriage by another mode or modes of public transport service from one departure point to one destination. A combined fare is paid for the whole journey, single or return, at a place other than at the boarding point of the bus or on the bus.*

*Note 2: All non-franchised public buses with contract hire service endorsements are allowed to provide contract hire services that are ad hoc and non-regular in nature. However, if such services serving the same origin and destination areas for more than 2 days (either intermittently or consecutively) in a period of 30 days, the TD's prior approval is required.*

*Note 3: Other user groups refer to users other than students, employees and disabled persons.*

A passenger service licence for non-franchised public bus services

香港特別行政區政府  
運輸署 *PSL No.*   
TRANSPORT DEPARTMENT  
THE GOVERNMENT OF THE HONG KONG  
SPECIAL ADMINISTRATIVE REGION  
道路交通條例  
ROAD TRAFFIC ORDINANCE  
(香港法例第三七四章)  
(CHAPTER 374)  
道路交通(公共服務車輛)規例  
ROAD TRAFFIC (PUBLIC SERVICE VEHICLES) REGULATIONS  
客運營業證——公共巴士服務  
Passenger Service Licence — Public Bus Service

根據道路交通條例第二十七條及道路交通(公共服務車輛)規例第七條之規定批准  
In accordance with the provisions of Section 27 of the Road Traffic Ordinance and Regulation 7 of the Road Traffic (Public Service Vehicles) Regulations

(姓名) 經營  
(Name) is hereby  
公共巴士服務，所使用之(數目) 輛公共巴士  
authorised to operate a public bus service, by using (No.)  
其登記編號須為此營業證附件內註明者，日期  
public bus(es) of registration mark(s) specified in the Annexure(s) to this licence, for the period  
由 至 止(“有效期”)。  
from to inclusive (“validity period”).

此營業證之簽發及所述車輛之用途均依照此營業證及其附件所訂明之條件規定。  
The issue of this licence and the use of the vehicles mentioned herein are subject to the conditions stipulated below and overleaf and annexed to this licence.

每年之營業證收費乃根據道路交通(公共服務車輛)規例第一附表甲部所註明之收費額並應於此營業證屆滿前之第十四天繳付。  
The annual licence fee in accordance with the fees specified in Part A of the First Schedule to the Road Traffic (Public Service Vehicles) Regulations shall be payable on the 14th day before the expiry of this licence.

豁免事項(如有):  
Exemption (if any):

備註:  
Remarks:

附件 (總頁數共) )  
Annexure(s) (Total Page(s): )

發出日期:  
Date of Issue:

運輸署署長發出  
Issued by Commissioner for Transport

檔號記錄:  
Transaction:

**Appendix B**  
(Cont'd)  
(para. 2.17 refers)

**公共巴士服務的客運營業證簽發條件**

- (一) 此客運營業證乃根據道路交通條例第二十七條及道路交通(公共服務車輛)規例第七條簽發,用以批准該車輛在客運營業證上所指的地區或街道提供公共巴士載客服務。
- (二) 每輛根據客運營業證經營的車輛,必須——
  - (甲) 在該車輛擋風玻璃的左面展示一張由運輸署署長指定格式的證明書;及
  - (乙) 根據道路交通(公共服務車輛)規例第二附表中圖二所指定的形式於車輛後面展示載有客運營業證編號的字牌。
- (三) 根據客運營業證經營的車輛,如有下列情形,則任何人士不得駕駛或使用,或任由或容許他人駕駛或使用該車輛——
  - (甲) 並無展示該證明書或字牌;
  - (乙) 展示該證明書或字牌的方法與以上條件(二)所指定者不符;
  - (丙) 展示任何看似為以上條件(二)所指的證明書或字牌,惟該證明書或字牌——
    - (i) 已損壞,被塗改或破損;或
    - (ii) 與該車輛現有的客運營業證無關;或
    - (iii) 與該車輛無關;或
  - (丁) 展示以上條件(二)所指的證明書,惟該證明書已失效。
- (四) 運輸署署長如有理由相信該已領有有效客運營業證的車輛,曾經或正被用作未獲批准的用途;或該營業證的任何條件或任何有關的法例曾被違反或正被違反,在進行研訊後,可——
  - (甲) 暫時吊銷或取消客運營業證;
  - (乙) 暫時吊銷或取消有關個別車輛的客運營業證;或
  - (丙) 更改客運營業證內下列事項——
    - (i) 行駛路線;
    - (ii) 批准的用途;及
    - (iii) 營業證內所載的車輛數目。
- (五) 如客運營業證被取消、暫時吊銷、更改或修訂時,持證人應於取消、暫時吊銷、更改或修訂生效後七十二小時內將營業證遞交與運輸署署長,由署長視乎情況需要而將營業證取消、扣留或修訂。
- (六) 已繳付的客運營業證及證明書費用,概不退還。
- (七) 客運營業證不得轉讓與他人。

**Conditions for the issue of passenger service licence—Public Bus Service**

- (1) This passenger service licence which is issued in accordance with the provisions of Section 27 of the Road Traffic Ordinance and Regulation 7 of the Road Traffic (Public Service Vehicles) Regulations shall be designated as authorising the use of vehicles specifically for the carriage of passengers by public bus(es) in areas or on roads for the provision of service(s) specified in the licence.
- (2) Every vehicle operated under a passenger service licence shall display—
  - (a) on the left hand half of the vehicle's windscreen in a manner as to be visible from the front of the vehicle a certificate in a form specified by the Commissioner for Transport; and
  - (b) at the rear of the vehicle a plate showing the passenger service licence number in accordance with Figure No. 2 of the Second Schedule to the Road Traffic (Public Service Vehicles) Regulations.
- (3) No person shall drive or use a vehicle operated under a passenger service licence or suffer or permit such a vehicle to be driven or used, if such vehicle—
  - (a) does not display the certificate or plate;
  - (b) displays any such certificate or plate other than in the manner prescribed by Condition (2);
  - (c) displays any certificate or plate purporting to be a certificate or plate referred to in Condition (2) that—
    - (i) is damaged, altered or defaced; or
    - (ii) does not relate to a passenger service licence currently in force in respect of the vehicle; or
    - (iii) does not relate to the vehicle; or
  - (d) displays a certificate referred to in Condition (2) that is invalid.
- (4) If the Commissioner has reason to believe that the vehicle for which a passenger service licence is in force has been issued has been or is being used otherwise than for the purpose of the service authorised by the licence, or any condition of the licence or any provision of the relevant legislation has not been or is not being complied with, he may after conducting an inquiry—
  - (a) suspend or cancel the passenger service licence;
  - (b) suspend or cancel the passenger service licence in respect of particular vehicles; or
  - (c) vary the passenger service licence in respect of—
    - (i) routes;
    - (ii) approved purposes; and
    - (iii) the number of vehicles included in the licence.
- (5) Where a passenger service licence is cancelled, suspended, varied or amended, the licensee shall, within 72 hours after such cancellation, suspension, variation or amendment comes into effect, deliver the passenger service licence to the Commissioner who shall cancel, withhold or amend the passenger service licence as the circumstances require.
- (6) Fees for passenger service licence and certificate are not refundable.
- (7) A passenger service licence shall not be transferable.

Source: TD records

**Appendix C**  
(para. 2.24 refers)

**Period without a valid  
passenger service licence/passenger service licence certificate  
in respect of 28 applications for extension submitted after the expiry date**

<b>Period without a valid PSL/PSLC (Note)</b>	<b>Non-franchised public bus</b>	<b>Private bus</b>	<b>Public light bus</b>	<b>School private light bus</b>	<b>Total</b>
<b>(Days)</b>	<b>(Number)</b>	<b>(Number)</b>	<b>(Number)</b>	<b>(Number)</b>	<b>(Number)</b>
1 to 10	4	—	—	—	4
11 to 20	—	1	3	1	5
21 to 30	7	—	1	—	8
31 to 40	3	1	2	1	7
41 to 50	1	—	1	—	2
51 to 60	—	—	—	—	—
61 to 70	1	—	—	—	1
225	—	—	1	—	1
	—	—	—	—	—
<b>Total</b>	<b>16</b>	<b>2</b>	<b>8</b>	<b>2</b>	<b>28</b>

} 17  
} 11

*Source: TD records*

*Note: Period without a valid PSL/PSLC is calculated from the expiry date of the PSL/PSLC to the date of the TD's approval for extension.*



**Method for measuring the processing time of applications**

<b>Type of application</b>	<b>Pledged target</b> <b>(Working days)</b>	<b>Method</b>
Transfer of ownership of public light bus	5	From the date after the receipt of application to the date of approval
Replacement of vehicle of public light bus	5	From the date after the receipt of application to the date of issuing notice informing the applicant to complete the relevant procedures (i.e. the submission of the registration documents of the replacement vehicle) within four months
Replacement of vehicle of school private light bus	5	From the date after the receipt of application to the date of the approval letter to be signed by the responsible officer
Extension of PSL for public light bus	5	From the date after the receipt of application to the date of payment and collection of the extended PSL by the applicant
Display of advertisements on public light bus	7	From the date after the receipt of application to the date of informing the applicant by phone to collect the approval letter

*Source: TD records*

**Appendix E**  
(para. 3.8 refers)

**Processing time of 27 applications for licensing services  
of vehicles under the passenger service licence system in 2007**

Type of application	Pledged target (Working days)	Number of applications	Average processing time (Note) (Working days)
Transfer of ownership of public light bus	5	6	6.8 (Range: 5 to 10)
Replacement of vehicle of public light bus	5	6	9.7 (Range: 7 to 13)
Replacement of vehicle of school private light bus	5	3	23.3 (Range: 21 to 25)
Extension of PSL for public light bus	5	6	2.2 (Range: 1 to 3)
Display of advertisements on public light bus	7	6	3.2 (Range: 2 to 6)
		—	
	<b>Total</b>	<b>27</b>	
		=	

*Source: Audit analysis of TD records*

*Note: The processing time was from the date after the receipt of application to the date of approval by the responsible officer or, in the absence of such date, the date of approval letter.*

**Five inquiries involving Company A**

<b>Inquiry</b>	<b>Number of surveys</b>	<b>Date of the first and the last surveys</b>	<b>Number of buses</b>	<b>Decision after inquiry</b>		<b>Decision of the Transport Tribunal</b>
				<b>Date</b>	<b>Decision</b>	
1st	12	3 December 2003 and 14 July 2004	4	29 March 2005	Suspension of the PSLCs for operating 2 buses for 6 months	Confirmation of the decision of inquiry on 24 November 2006
2nd	2	7 June 2004 and 14 July 2004	2	6 April 2005	Cancellation of the PSLCs of 2 buses	Cancellation of hearing (Note)
3rd	3	2 September 2004 and 4 September 2004	3	6 April 2005	Cancellation of the PSLCs of 3 buses	Cancellation of hearing (Note)
4th	5	26 November 2004 and 6 April 2005	6	6 March 2006	Cancellation of the PSLCs of 4 buses	Cancellation of hearing (Note)
5th	3	31 March 2005 and 21 April 2005	3	25 May 2006	Cancellation of the PSLCs of 3 buses	Cancellation of hearing (Note)
<b>Total</b>	<b><u>25</u></b>					

*Source: TD records*

*Note: These hearings were cancelled. Company A, without a vehicle under its PSL, was no longer a licensee under the PSL system.*

**Acronyms and abbreviations**

Audit	Audit Commission
COR	Controlling Officer's Report
PSL	Passenger service licence
PSLC	Passenger service licence certificate
TAC	Transport Advisory Committee
TD	Transport Department
VALID	Vehicles and Drivers Licensing Integrated Data