

CHAPTER 2

Labour and Welfare Bureau

<h3>Employees Retraining Board</h3>
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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. 57 of the Director of Audit contains 12 Chapters which are available on our website at <http://www.aud.gov.hk>.

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EMPLOYEES RETRAINING BOARD

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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 The **Employees Retraining Board (ERB)** was established in 1992 as a statutory body under the Employees Retraining Ordinance (ERO — Cap. 423). It is responsible for the administration of the Employees Retraining Fund (ERF) set up under the ERO and the implementation of the Employees Retraining Scheme (ERS). The ERS aims to help the unemployed or those at the risk of unemployment to enhance their employability through the provision of retraining courses and services, and to meet the needs of employers and the economic development of Hong Kong.

1.3 At the initial stage of inception, the ERB's major service targets were displaced workers aged 30 or above. Other service targets included people with disabilities, people recovered from industrial accidents, as well as the elderly. The ERB aimed to help them rebuild their confidence and re-enter the job market. The retraining courses then provided were free of charge. Furthermore, retraining allowances were made available to eligible trainees.

1.4 Owing to the changing structure of the Hong Kong economy, in April 1996, the Government commissioned a consultancy firm to review the ERS. The review findings were published in June 1997. The major recommendation of the review was that the ERS should focus on providing retraining to people aged 30 or above with no more than junior secondary education, so as to help them find jobs and sustain their employment. Based on the review findings, the ERB extended its services to housewives and people with chronic illnesses who intended to re-enter the job market, as well as those eligible in-service workers who wished to enhance their generic skills.

Organisation of the ERB

1.5 The governing body of the ERB is its Board. According to the ERO, the Board shall consist of:

- (a) a Chairman;
- (b) a Vice-Chairman;
- (c) not more than four other members who represent employers;
- (d) not more than four other members who represent employees;
- (e) not more than four other members who are connected with vocational training and retraining, or manpower planning; and
- (f) not more than three other members who are public officers.

The members of the Board shall be appointed by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR — Note 1). As at 30 September 2011, the Board had 16 members, including two public officers, namely the Permanent Secretary for Labour and Welfare and the Commissioner for Labour.

1.6 Under the ERO, the Board is empowered to appoint employees on such terms and conditions of service as it thinks fit. As at 30 September 2011, the ERB had a staff establishment of 205, including an Executive Director (ED) as the chief executive officer who oversaw the day-to-day operation of the ERB. They were organised into four divisions, namely the Training Services Division, Quality Assurance Division, Business Development and Communications Division and Corporate Services Division. An organisation chart of the ERB is at Appendix A.

Note 1: *The authority of the Chief Executive, HKSAR to appoint members of the Board, other than the Chairman and the Vice-Chairman, has been delegated to the Secretary for Labour and Welfare since 2007.*

Funding of the ERB

1.7 Since its establishment in 1992 and up to July 2008, the ERB had received recurrent income based on Employees Retraining Levy charged on employers hiring imported workers. Apart from the levy income, the ERB also had received from the Government the following:

- (a) capital block grants of \$1.6 billion, during its initial years of operation; and
- (b) an annual recurrent subvention of about \$400 million for the period 2001-02 to 2007-08.

With effect from 2008-09, the Government has ceased to provide the ERB with recurrent subvention. As a result, the ERB is no longer a subvented body.

1.8 In July 2008, the Government decided to suspend the collection of the Employees Retraining Levy for a period of five years (up to 31 July 2013). This has resulted in a decrease in the income of the ERB. As at 31 March 2011, the ERB had a fund balance of \$3.5 billion.

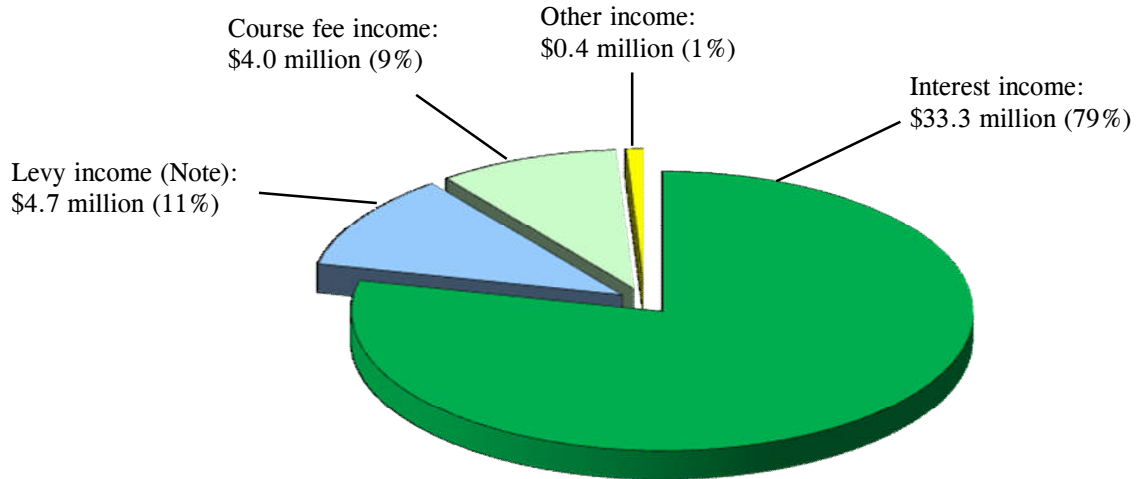
Income and expenditure

1.9 In 2010-11, the ERB's income was \$42.4 million and the expenditure was \$757.4 million (see Figure 1). The deficit for the year was \$715 million.

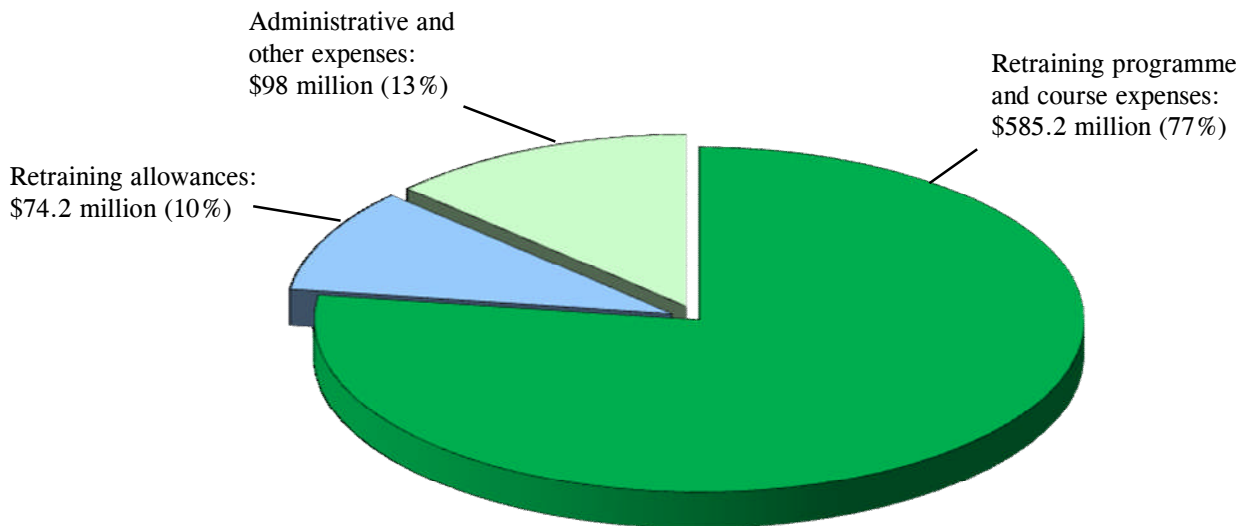
Figure 1

**Income and expenditure of the ERB
(2010-11)**

(A) Income: \$42.4 million



(B) Expenditure: \$757.4 million



Source: ERB records

Note: The levy income represented the receipt of overdue levy.

Memorandum of Administrative Arrangements

1.10 In September 2001, the Government and the ERB entered into a Memorandum of Administrative Arrangements (MAA) to provide a framework for the relationship between the two parties and to set out the responsibilities of each party in detail.

1.11 Under the MAA, the **Labour and Welfare Bureau (LWB — Note 2)** is responsible for ensuring that:

- (a) the ERB's activities accord with relevant public policies and priorities; and
- (b) the ERB's policy objectives are appropriate, and they remain so in the light of changing circumstances.

The LWB may also give policy guidance to the ERB on the policy objectives and scope of the retraining programmes, including guidance to avoid any duplication of activities conducted by other agencies.

Repositioning of the ERB

1.12 In October 2007, the Chief Executive, HKSAR announced in the 2007-08 Policy Address that:

- (a) one of the Government's policy objectives was to expand the retraining programmes to help the grassroots upgrade their skills; and
- (b) the eligibility criteria of the ERB's retraining courses would be relaxed to cover young people aged 15 to 29 and people with education level at sub-degree level or below.

1.13 In December 2007, the ERB submitted a strategic review report to the Government. In March 2009, the report was approved by the Government. Among other recommendations, the report stated that the services of the ERB should be expanded to:

Note 2: *Upon the reorganisation of the Government Secretariat on 1 July 2007, the LWB took over the policy responsibilities for manpower development from the then Education and Manpower Bureau.*

- (a) foster sustainable employment, greater competitiveness and upward mobility for the working population;
- (b) diversify the scope of training courses to cater for new target groups and promotion on self-improvement and life-long learning;
- (c) provide training for the unemployed, skill upgrading courses for the employed, and training courses on generic skills to enhance the overall quality of the workforce;
- (d) promote skills assessment and professional certification to fortify recognition;
- (e) provide clear progression ladder, strengthen articulation of training courses, and enhance quality assurance;
- (f) provide strengthened foundation skills training programmes with courses pitched at Level One to Level Four under the Qualifications Framework (Note 3);
- (g) identify more job opportunities for course graduates by introducing “One-stop Integrated Household Services” and establishing the brand of “Integrated Healthcare Massage Services”, and incubating social enterprises; and
- (h) provide training to the disadvantaged groups.

ERB Guidelines

1.14 The ERB issues a set of Guidelines for its staff to follow in carrying out their work. The areas covered by the Guidelines include:

- (a) processing of course applications by non-eligible and unqualified applicants;
- (b) declarations of conflicts of interest; and
- (c) other administrative matters.

Note 3: *The Qualifications Framework is a seven-level hierarchy of qualifications covering the academic, vocational and continuing education sectors. It aims to help Hong Kong people set clear goals and directions for continuous learning to obtain quality-assured qualifications.*

Audit review

1.15 In 2000, the Audit Commission (Audit) conducted a review of the ERS (Chapter 9, Director of Audit's Report No. 35 of October 2000). Audit noted, among other things, that:

- (a) some trainees did not meet the admission criteria of age and education level for target trainees;
- (b) some retraining courses did not correspond to the demand in the labour market; and
- (c) the performance indicators were inadequate.

The Public Accounts Committee of the Legislative Council considered the Audit Report and included its recommendations in its Report of February 2001. The Administration subsequently implemented the recommendations.

1.16 Audit has recently carried out another review of the ERB with focus on the following areas:

- (a) corporate governance (PART 2);
- (b) administration of training services (PART 3);
- (c) training support services (PART 4);
- (d) human resource management (PART 5);
- (e) financial and administrative issues (PART 6); and
- (f) performance management (PART 7).

1.17 Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Administration and the ERB

1.18 The **Secretary for Labour and Welfare** welcomes this audit review of the ERB. He has said that he is grateful for the useful comments and recommendations that Audit has made in the review. The LWB will take appropriate follow-up actions on the recommendations made to it.

1.19 The ERB also welcomes this audit review, with particular reference to the many useful and constructive recommendations Audit has made. The **ED, ERB** has said that the ERB is committed to implementing the relevant recommendations as appropriate for the objective of continuous service improvement.

Acknowledgement

1.20 Audit would like to acknowledge with gratitude the full cooperation of the staff of the LWB and the ERB during the course of the audit review.

PART 2: CORPORATE GOVERNANCE

2.1 This PART examines the corporate governance issues of the ERB.

Governance structure

2.2 To help discharge its functions, the Board has established the following six functional committees:

- (a) Course and Service Development Committee;
- (b) Course Vetting Committee;
- (c) Quality Assurance and Review Committee;
- (d) Public Relations and Promotion Committee;
- (e) Finance and Administration Committee; and
- (f) Audit Committee.

The Committees provide advice to the ERB and monitor the ERB courses according to their terms of reference. Under the ERO, the Board may appoint non-Board members to serve as members of the Committees.

Provisions in the Memorandum of Administrative Arrangements

2.3 The MAA (see paras. 1.10 and 1.11) setting out the working relationship between the Government and the ERB and the responsibilities of each party was signed in September 2001 between the then Education and Manpower Bureau (on behalf of the Government) and the ERB. The MAA states that both the Government and the ERB may propose amendments to the document.

Audit observations and recommendation

2.4 Since the signing of the MAA in 2001, the environment in which the ERB operates has undergone significant changes. In its strategic review report submitted to the Government in December 2007 (see para. 1.13), the ERB stated that in view of the changes that had occurred, it would revise the existing MAA as soon as possible. However, up to June 2011, the MAA had not been revised. Audit noted that a number of the terms and

provisions in the MAA were outdated and no longer relevant. Examples include the following:

- (a) the office of the Secretary for the Treasury was renamed the Secretary for Financial Services and the Treasury in 2002, yet the MAA still stated that the Secretary for the Treasury was responsible for providing advice on financial matters of the ERB;
- (b) the requirement that the ERB should observe the “no better than” principle (Note 4) was no longer applicable as the principle had been removed by the Government in 2003;
- (c) according to the MAA, the ERB’s principal function was to provide placement-tied retraining courses and services primarily for the unemployed aged 30 or above with no more than lower secondary education. This was no longer true following the policy revision announced by the Government in the 2007-08 Policy Address (see para. 1.12);
- (d) the responsibility for overseeing the operation of the ERB was transferred to the LWB in July 2007, yet the MAA still stated that the Secretary for Education and Manpower was responsible for overseeing the operation of the ERB; and
- (e) the requirement that the ERB should not maintain an operating reserve in excess of 50% of its annual block grant had become irrelevant following the Government’s decision to suspend the annual recurrent funding to the ERB with effect from 2008-09.

Audit recommendation

2.5 Audit has recommended that the Secretary for Labour and Welfare and the ERB should review and revise the MAA as soon as possible to ensure that:

- (a) **the document properly reflects the working relationship between the Government and the ERB and the responsibilities of each party; and**
- (b) **its terms and provisions are up to date.**

Note 4: *Under the “no better than” principle, the terms of service for staff of subvented organisations should not be better than those for comparable staff in the civil service.*

Response from the Administration and the ERB

2.6 The **Secretary for Labour and Welfare** and the ERB agree in principle with the recommendations. The **Secretary** and the **ED, ERB** have said that an MAA is mainly applicable to subvented organisations and given that the ERB no longer receives Government subvention, the MAA may not be the appropriate instrument to set out the relationship between the LWB and the ERB and their respective duties and responsibilities. The LWB will review in conjunction with the ERB the appropriate instrument to set out the relationship between the Government and the ERB and the responsibilities of each party.

Corporate planning

2.7 According to the MAA, the ERB is required to prepare and submit to the Government an Annual Plan for approval. The Annual Plan should outline:

- (a) a strategic plan for the coming three years. The plan should be rolled forward on an annual basis; and
- (b) a programme of proposed activities and estimates of income and expenditure.

Audit observations and recommendations

Strategic plan

2.8 Strategic planning is an important element of corporate governance. It is a process of developing a long-term plan to guide an organisation towards its mission and goals. The salient features of a strategic plan usually include:

- (a) statements of mission, vision and values;
- (b) an analysis of opportunities and threats;
- (c) the development of specific targets (or objectives) to be achieved;
- (d) the development of a set of strategies to achieve the specific targets (or objectives);
- (e) the development of a detailed operational or business plan that provides for resource allocation and timelines of the planned actions; and
- (f) a set of performance measures to monitor the implementation of the strategic and operational plans as they unfold.

2.9 Audit noted that the latest available strategic plan of the ERB was prepared in November 1998 and updated in November 2003. The plan set out the mission, main goals, long-term objectives, strategies and initiatives for the period up to 2004-05. However, since the last update in November 2003, no further action had been taken by the ERB to:

- (a) review and roll forward the strategic plan; and
- (b) report to the Board the progress of implementing the strategies outlined in the plan.

2.10 Audit also noted that the strategic plan did not include:

- (a) statements of vision and values;
- (b) an analysis of opportunities and threats; and
- (c) performance measures to monitor the implementation of the outlined strategies.

Submission of Annual Plan for approval

2.11 According to the MAA, the ERB is required to submit an Annual Plan to the Government for approval. Section 9(2) of the ERO also requires that the ERB should submit its Annual Plan to the Government before a date to be appointed by the Secretary for Labour and Welfare for his approval.

2.12 Audit examination of the ERB records on the submission of the five Annual Plans for 2007-08 to 2011-12 revealed that:

- (a) the Secretary for Labour and Welfare had not appointed any dates for the submission of the Annual Plans; and
- (b) 3 of the 5 Annual Plans were submitted 1 to 13 days before the commencement of the relevant financial years, and were approved by the LWB about 2 to 6 weeks after the commencement of the relevant financial years (see Table 1).

Table 1
Submission and approval of Annual Plans
(2007-08 to 2011-12)

Year of Annual Plan	Date of ERB submission	Date of Government approval
2007-08	27/10/2006	12/12/2006
2008-09	31/3/2008	16/4/2008
2009-10	26/3/2009	21/4/2009
2010-11	19/3/2010	11/5/2010
2011-12	2/3/2011	28/3/2011

Source: LWB and ERB records

2.13 As a good practice, the ERB should have submitted its Annual Plan to the Government promptly, so that the Government could have sufficient time to examine and approve the Plan before the financial year commences.

User surveys and job retention surveys

2.14 According to the MAA, the Annual Plan submitted by the ERB should include the results of user surveys and job retention surveys (Note 5) conducted for full-time placement-tied retraining courses.

2.15 Audit examination of the ERB's Annual Plans for 2007-08 to 2011-12 revealed that while the ERB had carried out user surveys and job retention surveys and reported the results to the Quality Assurance and Review Committee on a regular basis, it had not reported the results in its Annual Plan as required by the MAA.

Note 5: *The job retention survey ascertains the number of trainees who are still in employment six months after successful job placement.*

Audit recommendations

2.16 **Audit has recommended that the Secretary for Labour and Welfare should fix a target deadline for the ERB to submit its Annual Plan for approval in accordance with section 9(2) of the ERO.**

2.17 **Audit has also recommended that the ERB should:**

- (a) **ensure that a strategic plan is prepared and rolled forward on an annual basis according to the MAA;**
- (b) **report the progress of the implementation of the strategic plan to the Board regularly;**
- (c) **submit its Annual Plan to the Government promptly so that the latter can approve the Plan before the financial year commences; and**
- (d) **ensure that the results of user surveys and job retention surveys are included in the Annual Plan according to the MAA.**

Response from the Administration and the ERB

2.18 **The Secretary for Labour and Welfare agrees with the recommendation. He has said that the LWB will discuss with the ERB to set a target date for submission of the Annual Plan.**

2.19 **The ERB agrees with the recommendations. The ED, ERB has said that the ERB will:**

- (a) **prepare a three-year strategic plan in consultation with the Board towards the end of 2011, and ensure that the strategic plan is rolled over on an annual basis. The strategic plan will be submitted to the LWB for approval;**
- (b) **submit to the Board progress reports on the implementation of the strategic plan on an annual basis;**
- (c) **in conjunction with the LWB, set a target date for submission of the Annual Plan to the Government; and**
- (d) **include the results of user opinion surveys and job retention surveys in the Annual Plans.**

Board and Committees

2.20 According to the guidebook “Corporate Governance for Public Bodies — A Basic Framework” (Corporate Governance Framework) issued by the Hong Kong Institute of Certified Public Accountants in 2004, the establishment of functional committees can help provide the checks and balances that are necessary for an effective system of internal control. They can also capitalise on the specific expertise and experience of individual members.

Audit observations and recommendations

Functions of the Finance and Administration Committee (FAC)

2.21 The terms of reference of the FAC state that it is responsible, among other things, to scrutinise and submit to the Board the annual budget and annual financial report. Audit examined the records of the FAC meetings for the period 2006-07 to 2010-11 and noted that the annual budgets for 2008-09, 2009-10 and 2010-11 had not been submitted to the FAC for scrutiny before submission to the Board for endorsement.

Submission of papers to Board/Committees

2.22 According to the Corporate Governance Framework, members of the governing board should ensure that they are provided in good time with all the relevant information on the issues to be discussed at a governing board meeting.

2.23 In November 1999, the Board directed that discussion papers should be dispatched to Board/Committee members at least three working days before a Board/Committee meeting. Audit examined the records of all the 67 Board/Committee meetings held from 2008-09 to 2010-11, and found that for 17 (25%) meetings, Board/Committee discussion papers were issued to members just two working days or less before the meetings.

Minutes of Board/Committee meetings

2.24 It is a good practice that the minutes of Board/Committee meetings are issued to members as soon as possible after each meeting. This would enable members to promptly comment on the minutes or suggest amendments.

2.25 Audit examination of the records of all the 67 Board/Committee meetings held from 2008-09 to 2010-11 revealed that:

- (a) no time target (e.g. number of days after a meeting was held) was set to ensure that draft meeting minutes would be issued in a timely manner; and
- (b) the average time taken for issuing draft minutes to members for comments was 79 days. For 48 (72%) meetings, draft minutes were issued 60 days or more after the meetings.

Management of conflicts of interest

2.26 The ERB operates in an environment where any actual or perceived conflicts of interest can undermine its reputation. In December 1994, the Board decided that:

- (a) a two-tier reporting system for the management of conflicts of interest should be adopted. Under the system, each Board/Committee member is required to submit a declaration form of his general interest, direct or indirect, pecuniary or otherwise, on appointment or reappointment, and thereafter, on an annual basis. If a member has any interest in any matter under consideration at Board/Committee meetings, the member is also required to disclose to the Chairman his interest prior to the discussion of the matter. All cases of declaration of interests should be recorded in the minutes of the meeting; and
- (b) the declarations of interests made by its members would not be made available for public inspection.

2.27 Audit examined the declaration forms submitted for 2007-08 to 2011-12 and noted that, up to June 2011, some members had still not submitted the declaration forms, or the submissions were late (see Table 2).

Table 2
Non-submission and late submission of declaration forms
(June 2011)

Year	Number of declaration forms	
	Not submitted	Submitted late
2007-08	3	6
2008-09	7	2
2009-10	4	2
2010-11	0	6
2011-12	6	1

Source: Audit analysis of ERB records

2.28 In August 2005, the Home Affairs Bureau issued a memorandum to all government bureaux and departments stipulating that all advisory and statutory bodies should make their members' declarations of interests available for public inspection in order to achieve greater transparency. However, the ERB was not informed of this new arrangement and as a result, had not taken actions to make their members' declarations available for public inspection.

Audit recommendations

2.29 **Audit has recommended that the ERB should:**

- (a) **ensure that the FAC is consulted on matters under its terms of reference;**
- (b) **ensure that discussion papers are dispatched to Board/Committee members at least three working days before Board/Committee meetings;**
- (c) **set a target time for the issue of draft minutes after the Board/Committee meetings;**
- (d) **ensure that draft minutes of Board/Committee meetings are issued to members in a timely manner;**

- (e) **take necessary actions to ensure that all Board/Committee members submit their declaration of interest forms in a timely manner; and**
- (f) **consider making Board/Committee members' declarations of interests available for public inspection.**

Response from the ERB

2.30 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB will:

- (a) ensure that the FAC is consulted on all matters falling within its terms of reference;
- (b) ensure that discussion papers are sent to members well in advance of the meetings, and in any case not later than three working days before the meetings;
- (c) ensure that draft minutes of Board/Committee meetings are issued within a period of one month after the meetings; and
- (d) consult the Board on arrangements of making Board/Committee members' declarations of interests available for public inspection after making reference to the practice of other statutory bodies and public organisations.

PART 3: ADMINISTRATION OF TRAINING SERVICES

3.1 This PART examines issues relating to the ERB's administration of its training services.

Types of training courses

3.2 The main function of the ERB is to coordinate, fund and monitor its appointed training bodies (TBs) to provide training services to eligible people (Note 6). In 2010-11, the ERB contracted with 90 TBs to provide about 550 training courses at over 350 training centres. Some 110,000 trainees attended these courses in that year (Note 7). The training courses can be broadly classified into six categories:

- (a) placement-tied job-specific skills courses;
- (b) skills upgrading courses;
- (c) generic skills courses;
- (d) courses for disabled people, people recovered from work injury and occupational diseases, rehabilitated ex-offenders, new arrivals and ethnic minorities;
- (e) courses for non-engaged youths under the Youth Training Programme (YTP); and
- (f) courses under tailor-made programmes for employers.

3.3 About 55% of the training courses are placement-tied courses. Most of them are full-time courses, which mainly cover training for security and property management, household services, healthcare services, hotel and catering, and customer services. The duration of the courses usually ranges from 3 to 10 weeks and the target trainees are the unemployed. These courses are free of charge. Eligible trainees may receive retraining allowances (ranging from \$30 to about \$150 a day) from the ERB.

Note 6: *According to the eligibility criteria laid down by the ERB, its training courses are provided to people who are aged 15 or above with education attainment of sub-degree level or below. People aged 15 or above with education attainment above sub-degree level may apply if they meet the specific conditions laid down by the ERB.*

Note 7: *The Chief Executive, HKSAR has announced in the 2011-12 Policy Address that the ERB will increase the number of training places to 130,000 and provide nearly 900 courses covering about 30 industries.*

3.4 About 45% of the training courses are non-placement-tied courses. They are mainly part-time courses, which cover generic skills training (e.g. basic language training and computer applications) and vocational skills upgrading training. The course duration usually ranges from 2 weeks to 3 months. Both unemployed and in-service workers may apply. Trainees are required to pay course fees. The course fees may be waived or paid at a discount for trainees who are unemployed or have a low income.

Applications from non-eligible applicants and unqualified applicants

3.5 Non-eligible applicants are those applicants who do not meet the eligibility criteria (see Note 6 to para. 3.2). Unqualified applicants are those applicants who do not meet the course requirements, for instance, on academic attainment or working experience. The TBs are required to refer applications they received from non-eligible applicants and unqualified applicants to the ERB for consideration and approval.

Audit observations and recommendations

3.6 According to the ERB Guidelines, consideration would be given to applications from non-eligible applicants and unqualified applicants if any of the following conditions is met, i.e. the applicant:

- (a) has not completed his first degree (only applicable to those non-eligible applicants whose education level is above sub-degree level);
- (b) has been unemployed for six months or longer;
- (c) has resided in Hong Kong for less than seven years;
- (d) is receiving Comprehensive Social Security Assistance;
- (e) is a single parent;
- (f) is a person with disabilities or recovered from industrial accident;
- (g) is a rehabilitated person; or
- (h) is a member of an ethnic minority group.

3.7 Audit selected 20 applications from non-eligible applicants and 20 applications from unqualified applicants made in the period March 2008 to April 2011 for examination and noted that:

- (a) in 5 cases, ERB approvals were given for conditions other than those stated in the ERB Guidelines (e.g. two applications for studying self-employment training courses were approved because the applicants had such retraining needs); and
- (b) in 3 cases, ERB approvals were not given despite the fact that the applicants met at least one of the conditions stipulated in the Guidelines. However, the reasons for not giving approvals were not documented.

Audit recommendations

3.8 **Audit has recommended that the ERB should ensure that:**

- (a) **applications from non-eligible and unqualified applicants are handled according to the ERB Guidelines as far as possible; and**
- (b) **justifications for deviations from the Guidelines are documented.**

Response from the ERB

3.9 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB:

- (a) has revised the guidelines on handling of applications from non-eligible and unqualified applicants to ensure that all applications are processed in accordance with consistent standards; and
- (b) will document the justifications for determination of applications from non-eligible and unqualified applicants.

Follow-up actions on false information provided by applicants

3.10 All applicants are required to declare that the information they provided in their applications is true and correct. The applicants are also informed that if false information is provided, the ERB:

- (a) has the right to recover the course fee and/or the retraining allowance; and
- (b) may refer the case to the relevant government departments for investigation and prosecution, if necessary.

Audit observations and recommendations

3.11 In 2010-11, the ERB identified 41 cases where false information was provided by the applicants. Audit examination of the records of these cases revealed that, up to May 2011:

- (a) in 35 cases, retraining allowances had been provided to the trainees. However, actions to recover the retraining allowances had been taken in only 7 cases;
- (b) in 6 cases, the trainees had paid discounted course fees. However, no action had been taken to recover the underpaid course fees from the trainees; and
- (c) in all the cases, no action had been taken to refer the cases to the relevant government departments for further actions.

3.12 The ERB records further revealed that some trainees had repeatedly provided false information in their applications. In one extreme case, the trainee was found to have given false information four times in the period 2005 to 2008.

Audit recommendations

3.13 **Audit has recommended that the ERB should:**

- (a) **ensure that actions are taken, where appropriate, to recover the training course fee, and the retraining allowances from applicants who provided false information in their applications; and**
- (b) **consider referring blatant cases of applications with false information to relevant government departments for further actions.**

Response from the ERB

3.14 The ERB agrees with the recommendations. The **ED, ERB** has said that:

- (a) the ERB is taking actions to recover the outstanding training course fee and retraining allowances from trainees who provided false information in their applications;
- (b) subject to the advice of the Quality Assurance and Review Committee, the ERB will refer cases involving blatant offenders to the police for criminal investigation; and

- (c) all the cases mentioned in paragraph 3.11 have been processed and recovery actions have been instituted as appropriate.

Approval for classes with low enrolment

3.15 According to the ERB Guidelines, if the enrolment rate of a class is below 65%, the TBs must obtain the ERB's approval prior to the commencement of the class. The application for approval must be submitted at least seven working days prior to the commencement of the class.

Audit observations and recommendations

3.16 For the period 2008-09 to 2010-11, the enrolment rates of 74 classes were below 65% (ranging from 33% to 64%). Audit noted that the ERB approvals for the 74 classes were obtained after the classes had commenced. Further examination of the ERB records revealed that of these 74 classes, the applications for approval of:

- (a) 8 (11%) classes were submitted less than seven working days prior to the commencement of the classes;
- (b) 34 (46%) classes were submitted after the classes had commenced; and
- (c) 32 (43%) classes were submitted after the classes had completed.

Audit recommendations

3.17 **Audit has recommended that the ERB should take effective measures to ensure that the TBs comply with the ERB Guidelines by:**

- (a) **submitting applications for approval for classes with enrolment rate below 65% at least seven working days before the classes commence; and**
- (b) **obtaining approval from the ERB before the classes commence.**

Response from the ERB

3.18 The ERB agrees with the recommendations. The **ED, ERB** has said that:

- (a) the ERB will take necessary measures to ensure compliance of the TBs with the ERB Guidelines, and discuss with the TBs their practical difficulties, if any, in complying with the Guidelines. If necessary, the 65% threshold and the seven-day time limit will be reviewed in the light of the difficulties encountered by the TBs;
- (b) commencement of classes with low enrolment may be beneficial to trainees mainly in terms of reduction in their waiting time for classes; and
- (c) the TBs that failed to comply with the requirement of seeking ERB approval prior to the commencement of classes will be issued with warning letters, which will result in a reduction in the number of training places allocated to them in the ensuing year.

Long waiting time for courses

3.19 Training courses are run by TB training centres in various districts. The centres maintain their own waiting lists of applicants for the training courses. As at 5 May 2011, there were about 10,600 and 15,200 applicants on the waiting lists for full-time courses and part-time courses respectively. Some of these applicants had been on the waiting lists for a number of months (see Tables 3 and 4).

Table 3
Waiting time for full-time courses
(5 May 2011)

Waiting time	Number of applicants
≤ 1 month	4,349 (41%)
> 1 month and ≤ 3 months	3,163 (30%)
> 3 months and ≤ 6 months	1,334 (12%)
> 6 months	1,761 (17%)
Total	10,607 (100%)

Source: Audit analysis of ERB records

Table 4

**Waiting time for part-time courses
(5 May 2011)**

Waiting time	Number of applicants
≤ 1 month	4,097 (27%)
> 1 month and ≤ 3 months	4,168 (27%)
> 3 months and ≤ 6 months	2,707 (18%)
> 6 months	4,232 (28%)
Total	15,204 (100%)

Source: Audit analysis of ERB records

Audit observations and recommendation

3.20 Audit analysis of the ERB records revealed that in some cases, a considerable number of applicants had been on the waiting lists for the same course for a number of months. However, no effective action was taken by the ERB to address the issue. An example is given in Case 1.

Case 1

1. In 2011, 31 training centres were authorised to run classes for a full-time certificate course on post-natal care. Under agreements with the ERB, these training centres were required to enrol 13 to 17 applicants before a class of the course could be held. As at 5 May 2011, 137 applicants applying for this course had been on the waiting lists of these training centres for six months or more.

Audit comments

2. The number of applicants on the waiting lists of individual training centres was not sufficient to meet the minimum class size requirement. However, the grouping of the applicants on the waiting lists of different training centres could enable classes to be held.

3. Audit found that if applicants on the waiting lists of all the training centres in the Kwai Tsing District were pooled together, a class of the required size could have been successfully held. The same applied to the Sai Kung District. The ERB should have played a more active coordinating role by pooling the applicants in the same district together. This could shorten the applicants' waiting time.

Source: Audit analysis of ERB records

Audit recommendation

3.21 **Audit has recommended that the ERB should monitor the training centres' applicant waiting lists and take proactive actions to shorten the waiting time, for example, by pooling applicants on the waiting lists of different training centres in the same district.**

Response from the ERB

3.22 The ERB agrees with the recommendation. The **ED, ERB** has said that the ERB:

- (a) has put in place a range of administrative measures to shorten the waiting time of applicants. They include:
 - (i) allowing trainees to apply for two courses in parallel;
 - (ii) requiring the TBs to upload their class schedules to the ERB website to facilitate applicants to choose suitable classes;

- (iii) capping the number of applicants on the waiting list to 100 per course per centre to avoid over-enrolment; and
 - (iv) expediting the handling of applications for additional training places offered by TBs and class swapping among them;
- (b) is closely monitoring the queuing situations. The TBs have been requested to expedite commencement of classes, and to provide explanations for applicants with waiting time longer than six months; and
- (c) will consider in conjunction with the TBs viable options to further shorten the waiting time of the applicants. Among other things, the ERB will encourage the TBs to flexibly pool the trainees on the waiting list of different training centres within their respective purview to form classes, subject to the agreement of the trainees.

Youth Training Programme

3.23 In May 2008, the Board approved a proposal for the ERB to launch the YTP on a pilot basis for two years from September 2008 to August 2010. The YTP is targeted at the non-engaged youths aged 15 to 20 with a view to providing a safety net to them. During the two-year period, about 2,000 training places would be provided annually.

3.24 In April 2009, the Legislative Council was informed that the YTP would be reviewed two years after implementation. The Council was also informed that more courses would be offered under the YTP in future to provide more options to the non-engaged youths and to enrich the content of the programme.

Audit observations and recommendations

3.25 In June 2010, the ERB informed the Board that the placement services of some of the YTP courses would not be terminated until the end of 2010. The ERB therefore proposed that the review on the YTP should be carried out by the end of 2010. However, no Board approval was sought to extend the YTP beyond the approved completion date of August 2010. Notwithstanding this, the ERB continued to run training classes under the YTP after August 2010. In February 2011, the ERB sought and obtained the approval from the Board to continue the YTP in 2011-12. No covering approval was however sought for the 55 new YTP classes (with about 800 participants) run between September 2010 and March 2011.

Audit recommendations

- 3.26 **Audit has recommended that the ERB should:**
- (a) **obtain covering approval from the Board for the YTP classes held between September 2010 and March 2011; and**
 - (b) **ensure that in future, approval from the Board is obtained for continuing the operation of a programme after the previous approval has lapsed.**

Response from the ERB

- 3.27 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB will:
- (a) seek covering approval from the Board for the YTP classes offered between September 2010 and March 2011 at the Board meeting scheduled for November 2011; and
 - (b) ensure that in future, the approval of the Board is obtained in similar cases.

Tailor-made courses

3.28 An employer with difficulties in recruitment may request the ERB to run a tailor-made course for it by committing to employ at least 80% of the graduates of the course. With effect from June 2009, the signing of a service agreement between the ERB and the employer is required. Apart from spelling out the roles and responsibilities of both parties, the agreement also stipulates:

- (a) the minimum percentage of graduates to be employed by the employer;
- (b) the terms of employment to be offered to the recruits; and
- (c) the liability of the employer to pay the ERB an administrative fee if any one of the above conditions is not complied with.

Audit observations and recommendations

3.29 For the period June 2009 to March 2011, five tailor-made courses were run. Audit reviewed the five service agreements and the employment records of the recruits. Audit found that:

- (a) for three courses, the employment records compiled by the TBs showed that the recruits were required to work longer hours per week than the maximum number of weekly working hours specified in the service agreements;
- (b) for one course, the monthly salary of one of the recruits was less than that stated in the service agreement; and
- (c) the ERB had not taken action on the non-compliances or recovered administrative fees (ranging from \$50,000 to \$100,000 as specified in the agreements) from the employers concerned.

3.30 In response to Audit's enquiry, the ERB informed Audit in September 2011 that discrepancies in the terms of employment in the employment records vis-à-vis those specified in the service agreements might arise due to different interpretations. For example, the working hours specified in the service agreements might be the net working hours exclusive of meal breaks, while the employment records might indicate the working hours inclusive of meal breaks. Nevertheless, the discrepancies might lead to misunderstanding and confusion and are undesirable. The ERB would take action to minimise such discrepancies.

Audit recommendations

3.31 **Audit has recommended that the ERB should take actions to:**

- (a) **ascertain that the employers comply with the terms of the service agreements they entered with the ERB; and**
- (b) **recover administrative fees, if appropriate, from employers who are found to have breached the terms of the service agreements.**

Response from the ERB

3.32 The ERB agrees with the recommendations. The **ED, ERB** has said that:

- (a) the ERB has revised its Guidelines to specify clearly the methodology for reporting of terms of employment by employers and the TBs involved in tailor-made programmes, the procedures for verification of the employment records of the recruits, and the standard proforma to be completed by the TBs;
- (b) the TBs are required to account for any discrepancies in the employment records vis-à-vis the service agreements, and the ERB will follow up with the trainees direct to verify their employment terms if necessary; and

- (c) for employers who have violated the terms of the service agreements without justifiable cause, the ERB will institute recovery actions as appropriate according to the service agreements.

Inspections

3.33 All TBs are required to sign service agreements with the ERB. The service agreements set out the roles and responsibilities of the TBs and the ERB. The agreements also provide the ERB with the right to conduct inspections to monitor the TBs' compliance with the agreement terms and their effectiveness in the delivery of training courses. The ERB carries out three types of inspections, namely On-Site Management Inspections (OSMIs), Surprise Inspections (SIs) and Class Inspections (CIs). In 2010-11, the ERB carried out 991 inspections (Note 8).

Audit observations and recommendations

OSMIs not carried out at some TBs

3.34 According to the Annual Plan approved by the Board, OSMIs are to be carried out for all TBs annually to ascertain whether they have put in place an effective quality assurance mechanism and comply with the procedures promulgated by the ERB in administering training courses.

3.35 In 2010-11, the ERB contracted with 90 TBs to provide training services. Audit found that no OSMIs had been conducted for 23 TBs. According to the ERB, no OSMIs were conducted for these TBs because:

- (a) 15 TBs did not run any ERB classes during the year; and
- (b) the remaining 8 TBs only ran a small number of ERB classes.

However, no documentary evidence was available showing that the decision not to conduct OSMIs at these TBs had been approved by the Board.

Note 8: *The 991 inspections consisted of 67 OSMIs, 535 SIs and 389 CIs.*

Delays in issuing OSMI Reports

3.36 After OSMIs have been conducted, the ERB should issue OSMI Reports to the TBs. Such OSMI Reports should be issued to the TBs as soon as possible after the inspections. This will enable the TBs to take early improvement measures.

3.37 The ERB had not set any time target for the issue of OSMI Reports. Audit examined the records of 10 OSMIs carried out in 2010-11 and noted that the ERB had taken a long time to issue the OSMI Reports, ranging from 60 to 297 days (see Table 5).

Table 5
Time taken to issue OSMI Reports
(2010-11)

Time taken	Number of Reports
≤ 100 days	4
> 100 days and ≤ 200 days	5
> 200 days and ≤ 300 days	1 (Note)
Total	10

Source: Audit analysis of ERB records

Note: For this case, the ERB took 297 days to issue the OSMI Report because the ERB took extra time and efforts in seeking clarifications and explanations from the TB concerned and in deliberating internally the benchmarks to be adopted.

Target number of SIs

3.38 According to the ERB, SIs are carried out at all TBs during the delivery of training courses to validate the accuracy of attendance records kept by the TBs, and to verify if the training courses are delivered according to the programmes. An annual target number of SIs is set out in the Annual Plan. The ERB is required to report the progress of SIs to the Quality Assurance and Review Committee (QARC) periodically.

3.39 Audit reviewed the target numbers of SIs for 2009-10 and 2010-11 and found that the targets were revised in February 2010 and January 2011 respectively (see Table 6), but no record was available showing that prior approval from the Board for the revisions had been sought. Audit considers that target revisions shortly before the end of the financial year might have defeated the purpose of setting the targets in the Annual Plans.

Table 6
Number of Surprise Inspections
(2009-10 and 2010-11)

Year	Target set out in Annual Plan	Revised target (Time of revision)	Actual
2009-10	800	520 (February 2010)	520
2010-11	800	530 (January 2011)	535

Source: Audit analysis of ERB records

3.40 Audit also found that although the actual numbers of SIs carried out in 2009-10 and 2010-11 met the revised targets, they were much less than the annual targets originally stipulated in the Annual Plans (see Table 6).

Slow progress in conducting CIs

3.41 CIs are carried out by education specialists engaged by the ERB to evaluate the teaching skills of trainers hired by the TBs. According to a Three-Year Plan approved by the Board in July 2009, the ERB should conduct one CI for every trainer within three years. The ERB then estimated that 1,050 trainers would be subject to CIs.

3.42 Due to the increase in classes for job-specific skills, up to 31 May 2011, the number of trainers who were subject to CIs increased to 1,570. The ERB informed Audit that a risk-based approach had been adopted for scheduling trainers for CIs. Trainers with less satisfactory performance in previous CIs and those whose performance had been complained of would be accorded a higher priority for CIs. Of the 1,570 trainers, 46 were accorded a high priority.

3.43 Audit examination of the CI records of these 1,570 trainers revealed that up to 31 May 2011:

- (a) CIs had been carried out for 617 (39%) trainers only; and
- (b) of the 46 trainers who had been accorded high priority for CIs, no CIs had been carried out for 7 of them in the past 12 months.

Audit recommendations

3.44 **Audit has recommended that the ERB should:**

- (a) **ensure that OSMIs are carried out at all TBs according to the Annual Plan approved by the Board, and obtain prior approval from the Board for any deviations from the Plan;**
- (b) **set a time target for the issue of OSMI Reports and ensure that the Reports are issued not later than the target time;**
- (c) **ensure that the target number of SIs set out in the Annual Plan are carried out;**
- (d) **obtain the Board's approval as soon as practicable if there is a need to revise the annual target number of SIs;**
- (e) **expedite actions to carry out CIs with a view to ensuring that CIs are carried out according to the Three-Year Plan; and**
- (f) **ensure that CIs are carried out as soon as practicable for trainers on the priority list.**

Response from the ERB

3.45 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB will seek approval of the Board for withholding the conduct of OSMIs for:

- (a) TBs which do not offer any ERB classes during the financial year;
- (b) new TBs which offer only one class during the financial year; and
- (c) new TBs with their second classes ending in February or March of the financial year.

3.46 **The ED, ERB** has also said that:

- (a) with effect from April 2011, the ERB has required OSMI Reports to be issued within two months after the date of inspection. From April to June 2011, the average time taken to issue OSMI Reports was reduced to about 1.5 months after the date of inspection;
- (b) the ERB is committed to meeting the target of 800 SIs planned for 2011-12. In the first quarter, 181 SIs were conducted. It is envisaged that more training courses will be organised in the latter part of 2011-12 and the ERB should be able to accomplish the target. In future, the ERB will report to the Board as early as possible any changes in circumstances that will affect the organisation of training courses and seek its approval for all revisions to the annual SI target; and
- (c) of the 1,050 trainers originally covered by the Three-year Plan approved by the Board in July 2009, only 672 lectured ERB courses from April 2009 to May 2011. CIs have been arranged for 480 of them. CIs will be arranged in 2011-12 for the remaining trainers. The ERB will also carry out CIs for trainers on the priority list as soon as possible.

PART 4: TRAINING SUPPORT SERVICES

4.1 This PART examines training support services provided by the Smart Living Scheme (SLS) and the ERB service centres.

Smart Living Scheme

4.2 The SLS is a scheme under which the ERB provides a platform for referral services to ERB trainees who have graduated from the household and home care services training courses. Under the SLS, 11 Regional Service Centres (RSCs) operated by 10 TBs are set up in five districts. Employers looking for domestic helpers may register their job vacancies at the RSCs. The RSCs would refer suitable job-seekers to the employers for selection and interview. In 2010-11, the total operating expenses of the RSCs was about \$11 million, and they had successfully made some 30,000 referrals to fill 60% of the job vacancies.

Audit observations and recommendations

Undertaking by TBs not to offer similar services

4.3 TBs selected to operate the RSCs are required to sign Engagement Agreements with the ERB. According to the Agreements, the TBs are required to:

- (a) inform the ERB whether they are providing services similar to those provided under the SLS; and
- (b) undertake not to offer similar services without the prior approval of the ERB.

4.4 Audit noted that one RSC operator was providing job referral services, similar to those under the SLS, before it was awarded the RSC operating contract. Contrary to the requirements stipulated in the Engagement Agreement, the RSC operator did not inform the ERB of the services it had been providing.

Unauthorised use of ERB logo and SLS materials

4.5 Audit noted that two TBs which were once RSC operators continued to provide household and home care referral services for job seekers after the expiry of their RSC operating contracts. Despite the fact that they were no longer RSC operators and their services were not provided under the SLS, they continued to use the ERB logo and the materials for promoting SLS referral services to publicise their own referral services. Such

unauthorised use of the ERB logo and SLS materials might have given a wrong impression to the public that these two TBs were still RSC operators providing SLS referral services under the supervision of the ERB.

Duplication of vacancy records

4.6 To facilitate the provision of referral services by the RSCs, the ERB maintains an SLS database to record details of vacancies received from employers. RSC operators are required to ensure that the details of vacancies they input into the system do not duplicate the records already registered.

4.7 Audit examination of the SLS database revealed that, as at 19 May 2011, 104 (2.7%) of the 3,906 vacancies registered in the database were duplicate records. After the ERB was informed of the audit finding in June 2011, the RSC operators concerned had removed the duplicate records from the database.

Audit recommendations

4.8 **Audit has recommended that the ERB should:**

- (a) **ensure that RSC operators which are providing services similar to those under the SLS would properly inform the ERB in accordance with the Engagement Agreement;**
- (b) **take actions to ensure that the ERB logo and materials for promoting SLS referral services are not used by other parties in publicising their own services; and**
- (c) **introduce control mechanism in the SLS database to prevent the input of duplicate vacancy records by RSC operators.**

Response from the ERB

4.9 The ERB agrees with the recommendations. The **ED, ERB** has said that:

- (a) the two TBs concerned have stopped using the ERB logo and materials for unauthorised purposes. The ERB has issued guidelines to the RSC operators to reiterate that such unauthorised use is strictly prohibited. The ERB will check the compliance position once there is a change to the list of RSC operators;

- (b) the ERB has enhanced the control mechanism to prevent input of duplicate vacancy records by RSC operators. The new Smart Living Online System will have functions to guard against input of duplicate vacancy records; and
- (c) the ERB will stringently enforce the requirements stipulated in the Engagement Agreement and issue annual reminders to the RSC operators to remind them of their duties and responsibilities under the Agreement.

Service centres

4.10 In December 1999, the ERB established its first resource centre in Kowloon West. In March 2000, the second resource centre was set up in Kowloon East. A third centre in Tin Shui Wai was planned to become operational by end 2011. In April 2011, these centres were renamed “service centres”. The objectives of setting up these centres were to:

- (a) offer diversified training support services to ERB trainees;
- (b) provide comprehensive information and advice on the ERB courses to the public; and
- (c) provide a full range of facilities and support services to job seekers, including activities and workshops to strengthen their skills, self-esteem, social network and competitive edge.

4.11 The operation of the Kowloon West and Kowloon East Centres was outsourced to two TBs. In 2010-11, the total operating costs of the two centres amounted to \$15 million.

4.12 To set out the roles and responsibilities of the ERB and the TBs for operating the centres, Memoranda of Understanding (MOUs) were signed between the ERB and the TBs. According to the MOUs, the TBs responsible for operating the centres should:

- (a) seek prior approval from the ERB for the programmes and activities (e.g. workshops, seminars and small group activities) to be carried out at the centres;
- (b) submit schedules to the ERB outlining details of the programmes and activities to be carried out; and

- (c) submit monthly reports to the ERB listing out statistics of the programmes and activities carried out.

Audit observations and recommendations

Approved programmes and activities

4.13 Audit examination of the records submitted by the two centres for 2010-11 revealed that:

- (a) of the 871 programmes and activities outlined in the schedules approved by the ERB for the Kowloon West Centre, 132 (15%) had not been carried out. Of the programmes and activities carried out, 180 were not included in the schedules; and
- (b) of the 755 programmes and activities carried out at the Kowloon East Centre, 366 were not included in the schedules.

Attendance rate

4.14 To ensure the delivery of quality services in operating the centres, TBs are required to meet a number of performance targets specified in the MOUs. For 2010-11, each activity carried out at the centres was required to achieve a target average attendance rate of 70%.

4.15 The MOUs had not defined the methodology for calculating the average attendance rate. Audit examination of the attendance records of small group activities submitted by the centres for 2010-11 revealed that:

- (a) the TBs' calculations of attendance rates were based on class sizes different from those specified in the approved schedules; and
- (b) the average attendance rates reported by the two centres for 2010-11 were 75% and 88% respectively. Had they used the class sizes specified in the approved schedules in calculating the attendance rates, the average attendance rates of the two centres would have been lowered to 68% and 78% respectively. The target average attendance rate of 70% for the small group activities was not achieved by one centre.

Audit recommendations

- 4.16 **Audit has recommended that the ERB should:**
- (a) **ensure that service centre operators implement the programmes and activities according to the approved schedules; and**
 - (b) **consider defining the methodology for the calculation of the average attendance rate of activities carried out at the centres.**

Response from the ERB

- 4.17 The ERB agrees with the recommendations. The **ED, ERB** has said that:
- (a) the discrepancies in the number of activities organised by the service centres may be attributable to cancellation, re-scheduling or re-titling of activities by the service centres. Generally speaking, the two service centres were able to achieve the performance targets in relation to organisation of activities as specified in the annual work plans;
 - (b) for better management control, the ERB will issue guidelines to the operators promulgating clearly the procedures to be followed in cancellation, re-scheduling, and swapping of activities, as well as in the organisation of new activities; and
 - (c) with effect from 1 April 2011, the service centres have been required to calculate the attendance rate by using the approved class size.

PART 5: HUMAN RESOURCE MANAGEMENT

5.1 This PART examines issues relating to human resource management.

Power to determine the terms and conditions of service

5.2 According to section 5(2)(b) of the ERO, the Board may appoint such employees as it may determine on such terms and conditions of service as it thinks fit, including the payment of allowances, benefits, gratuities, pensions and remuneration. Clause 9(2)(b) in Schedule 1 of the ERO stipulates that the Board shall not delegate the power to determine matters relating to the remuneration and terms and conditions of appointment or employment of ERB employees.

Audit observations and recommendation

5.3 Audit examination of the ERB records for the period 2006-07 to 2010-11 revealed that, on several occasions, the staff's terms and conditions of service were revised without the Board's approval, contrary to the requirement stipulated in the ERO. Details are as follows:

- (a) during the period 2006-07 to 2010-11, the ERB's pay structure was revised 7 times. Of the 7 revisions, 4 were approved by the Board. Covering approval for the remaining 3 revisions made in 2006-07 and 2007-08 was only obtained from the Board on 25 February 2011;
- (b) no documentary evidence was available showing that the mechanism used for determining the entry pay of supporting staff (e.g. administrative assistants and clerks) had been discussed and approved by the Board; and
- (c) the monthly salary of staff during probation period was a few hundred dollars less than that approved by the Board. The salary was adjusted to the approved level after the probation period.

Audit recommendation

5.4 **Audit has recommended that the ERB should ensure that all the terms and conditions of service of staff, including any changes thereto, are approved by the Board in accordance with the ERO.**

Response from the ERB

- 5.5 The ERB agrees with the recommendation. The **ED, ERB** has said that:
- (a) the ERB will ensure that the Board is consulted on all matters pertaining to the terms and conditions of the employment of staff; and
 - (b) the ERB will seek the covering approval of the Board in November 2011 for the mechanisms used for determining the entry pay of supporting staff and the monthly salary of staff during probation period.

New pay structure

5.6 In 2006, the ERB commissioned a consultant to conduct a review of the appointment and pay system for non-directorate staff. Among other things, the consultant recommended the ERB to adopt a new pay structure for its staff. The Board approved the implementation of the new pay structure with effect from July 2007.

Audit observations and recommendations

5.7 When the Board approved the implementation of the new pay structure, there were 12 staff whose salaries were higher than the maximum pay of their respective ranks under the new pay structure. The Board decided to freeze the salaries of these staff.

5.8 Audit reviewed the ERB records for the period 2007-08 to 2010-11 and found that there were salary increases in 2007, 2008 and 2010. Of the 12 staff, 3 had resigned and 1 had been promoted to a higher rank. As at 30 June 2011, the salaries of 4 of the remaining 8 staff were still higher than the maximum pay of their respective ranks by about 4% to 25%. Audit reviewed the salary records of the 4 staff and found that their salaries were not frozen during the salary revisions in 2007 and 2008.

Audit recommendations

- 5.9 **Audit has recommended that the ERB should:**
- (a) **in line with the Board's decision, freeze the salaries of the four staff whose salaries have exceeded the maximum pay of their respective ranks; and**
 - (b) **take necessary actions to ensure that in future, the decisions of the Board are strictly followed.**

Response from the ERB

- 5.10 The ERB agrees with the recommendations. The **ED, ERB** has said that:
- (a) the salaries of the four staff concerned were frozen in the two recent salary revision exercises in July 2010 and July 2011. The ERB will continue to freeze their salaries until they fall within the range of their respective pay scale; and
 - (b) in future, the ERB will ensure that the decisions of the Board with respect to staff salary and related matters are strictly adhered to.

Review of remunerations of senior executives

5.11 In March 2003, the Government issued a circular setting out the guidelines on review of remunerations of senior executives of government-funded bodies. According to the circular, with effect from 1 April 2003:

- (a) all subvented bodies which receive more than 50% of their operating income from the Government should review their senior staff's number, ranking and remunerations and submit to their responsible Directors of Bureaux annual reports on the review findings. The relevant Directors of Bureaux may, with justifications, approve individual bodies under their purview to submit biennial or triennial review reports;
- (b) the review report should set out the up-to-date position in respect of the number, ranking and remuneration packages of staff at the top three tiers (Note 9), and also explain and justify any changes over the period covered in the report; and
- (c) to enhance transparency, the Director of Bureau will work out with those subvented bodies under his/her purview suitable arrangements for public disclosure of the regular review reports.

Note 9: *Under the current organisation structure of the ERB, the top three-tier senior executives are the ED, the Deputy EDs and the Senior Managers.*

Audit observations and recommendations

5.12 Since the issue of the 2003 circular, the ERB submitted two review reports to the Government covering the periods 2004-05 to 2006-07 and 2004-05 to 2007-08 respectively. Up to June 2011, the Government had not yet worked out with the ERB the suitable arrangement for public disclosure of the review reports.

5.13 Given that the ERB is no longer a subvented body (see para. 1.7), the 2003 circular is not applicable to it. However, with a view to adopting the good governance practice, the ERB should consider following the guidelines set out in the circular.

Audit recommendations

5.14 **Audit has recommended that the ERB should:**

- (a) **review its senior staff's number, ranking and remunerations and submit to the Secretary for Labour and Welfare regular reports on the review findings; and**
- (b) **work out with the Secretary for Labour and Welfare suitable arrangements for public disclosure of the regular review reports.**

Response from the ERB

5.15 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB:

- (a) reviewed its senior management structure when it last recommended the creation of a directorate post in 2009. The remunerations of the senior management are also reviewed in the context of the annual salary review exercise;
- (b) will consider putting in place a system governing such reviews in conjunction with the LWB. The Board will be consulted on the proposed system in due course; and
- (c) will take into account the practices of other statutory bodies and public organisations and seek the views of the LWB on the arrangements for public disclosure of the regular review reports. The Board will be consulted on the proposed disclosure arrangements in due course.

PART 6: FINANCIAL AND ADMINISTRATIVE ISSUES

6.1 This PART examines the ERB's financial and administrative issues.

Administration of the Employees Retraining Fund

6.2 According to section 6 of the ERO, the ERF shall consist of all moneys, including Employees Retraining Levy, grants, loans, fees and interest paid to and received by the ERB. The ERB is responsible for holding the ERF upon trust to administer it in accordance with the objects of the ERO.

Audit observations and recommendations

Bank accounts of the Fund

6.3 The ERO stipulates that the ERB shall open and maintain a bank account in the name of the ERF and pay the moneys of the Fund into the account. It also states that all moneys of the Fund not immediately required to be expended shall be:

- (a) deposited in a bank on fixed or call deposits or in a savings account; or
- (b) invested in such forms of investments approved by the Financial Secretary.

6.4 Audit noted that as at 31 March 2011, the moneys of the ERF amounted to \$3,565 million. These moneys were deposited in 25 bank accounts (see Table 7). However, all the accounts were in the name of the ERB, instead of in the name of the ERF as required by the ERO.

Table 7

**Bank accounts
(31 March 2011)**

Type of account	Number of accounts	Total balance (\$ million)	Percentage
Current	6	2.04	1%
Savings	5	36.45	
7-day fixed deposit	2	39.57	99%
3-month fixed deposit	1	81.57	
6-month fixed deposit	11	3,405.53	
Total	25	3,565.16	100%

Source: ERB records

Maximum period of fixed deposits

6.5 The ERB placed a substantial portion (99% as at 31 March 2011) of the ERF in fixed deposits to earn interest. At a meeting held in June 2009, the FAC predicted that the interest rate might rise by the end of the year. It then decided that for the period June to December of the year, the maximum period of the ERB's fixed deposits should be six months.

6.6 Although the FAC decision in June 2009 only referred to fixed deposits during the period June to December 2009, after December 2009 the ERB has adhered to the decision and rolled over the fixed deposits for periods not longer than six months. No records were available showing that the ERB had reviewed the decision by updating the economic forecast and interest rate prediction.

Balance of funds in 7-day fixed deposits

6.7 Audit examination of the ERB records for the three years 2008-09 to 2010-11 revealed that about \$40 million was kept in 7-day fixed deposits consistently throughout the period. For these three years, the average interest rate of such fixed deposits was about 0.24%.

6.8 Keeping some \$40 million continuously in 7-day fixed deposits for over three years indicated that the ERB did not require the money for meeting short-term liquidity needs. Audit noted that the average interest rate of the ERB's six-month fixed deposits for the same period (i.e. 2008-09 to 2010-11) was about 1.36%, which was more than 5 times of the average interest rate of the 7-day fixed deposits. The money could have been placed in longer term fixed deposits to generate higher interest income.

Audit recommendations

6.9 **Audit has recommended that the ERB should:**

- (a) **consider changing the name of the bank accounts to ERF in accordance with the ERO;**
- (b) **review whether the FAC decision of not placing fixed deposits for periods longer than six months still remains valid;**
- (c) **regularly review the investment strategy taking into account the prevailing economic forecast and interest rate prediction; and**
- (d) **consider reviewing the level of funds kept in 7-day fixed deposits with a view to generating more interest income for the ERF.**

Response from the ERB

6.10 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB:

- (a) will consult the Board on changing the name of the bank accounts to include ERF at its meeting to be held in November 2011;
- (b) will consult the Investment Group of the FAC (which is responsible for advising the ERB on investment strategy) on the periods of fixed deposits and the investment strategy at its forthcoming meeting to be held in November/December 2011. Its advice will be submitted to the FAC for consideration; and
- (c) has taken prompt action to transfer \$20 million from 7-day fixed deposits to longer term fixed deposits. The ERB will further review the scope for transferring more funds in due course.

Inventory management

6.11 As at 31 March 2011, the total value of the ERB's inventory was about \$32 million. The responsibility for safe keeping of the inventory items is shared among the following five Sections as inventory holders:

- (a) the Information Technology (IT) Section, which is responsible for all IT inventory items;
- (b) the Practical Skills Training and Assessment (PSTA) Section (Note 10), which is responsible for the inventory items located in its office in Cheung Sha Wan;
- (c) the Placement Services (PS) Section, which is responsible for the inventory items located in the two ERB service centres (see para. 4.10);
- (d) the Media and External Affairs (MEA) Section, which is responsible for the inventory items for publicity; and
- (e) the Human Resources and Administration (HRA) Section, which is responsible for all inventory items outside the purview of the other Sections mentioned above.

6.12 According to the ERB Guidelines, inventory holders are required to:

- (a) record inventory items with a purchase cost of \$1,000 or above and items prone to loss in the Inventory Record immediately after their purchase. The Record should show the inventory numbers, dates of purchase, descriptions, quantities, unit costs and locations of the items;
- (b) carry out full-scale inventory checks at least once a year and surprise inventory checks periodically; and
- (c) submit in early April of each year a report on inventory checks together with the updated Inventory Record to the Corporate Services Division.

Note 10: *The PSTA Section runs a small office in Cheung Sha Wan for coordinating and administering different practical skills assessments so as to enhance public and employers' confidence in ERB courses and promote employment opportunities for the trainees.*

Audit observations and recommendations

Incorrect/incomplete information in Inventory Record

6.13 Audit reviewed the Inventory Records kept by the five inventory holders as at 31 March 2011 and found that:

- (a) of all the 17 inventory items with purchase costs of \$50,000 or above recorded by the IT Section, the purchase costs of 3 items were overstated by \$5,340 (6.3% of the actual cost) to \$19,000 (24% of the actual cost) because the discounts given by the suppliers were overlooked;
- (b) the information of 143 inventory items recorded by the IT Section was incomplete:
 - (i) the inventory numbers of all these items were not recorded;
 - (ii) the dates of purchase of 43 items were not recorded;
 - (iii) the unit costs of 50 items were not recorded; and
 - (iv) the locations of 54 items (with a total value of \$13,000) were not recorded; and
- (c) all the required information relating to a camera of purchase cost of \$7,700 was not recorded by the MEA Section in its Inventory Record.

Inventory checks

6.14 Audit examined the inventory check records for the period 2009-10 and 2010-11. Audit found that no full-scale inventory checks were carried out by the MEA and HRA Sections in 2009-10.

6.15 Audit also noted that while the ERB Guidelines stipulated that full-scale inventory checks should be carried out annually covering all items, the Guidelines did not specify the frequency and coverage of surprise inventory checks. Audit found that in 2009-10 and 2010-11, not all inventory holders had carried out surprise inventory checks (see Table 8).

Table 8
Surprise inventory checks
(2009-10 and 2010-11)

Inventory holder	Number of surprise inventory checks carried out		Number of items checked	
	2009-10	2010-11	2009-10	2010-11
IT Section	-	-	-	-
HRA Section	-	1	-	11 (2.1%)
PSTA Section	1	1	865 (100%)	888 (100%)
PS Section	-	-	-	-
MEA Section	-	-	-	-

Source: ERB records

Report on inventory checks

6.16 Although inventory holders are required to submit a report on inventory checks to the Corporate Services Division in early April every year, ERB records showed that the reports for 2009-10 and 2010-11 were often submitted late (see Table 9).

Table 9

**Submission of reports on inventory checks
(2009-10 and 2010-11)**

Inventory holder	Submission date	
	2009-10	2010-11
IT Section	27 April 2010	10 February 2011
PSTA Section	31 March 2010	19 April 2011
PS Section	18 May 2010	30 May 2011
MEA Section	— (Note)	6 May 2011
HRA Section	— (Note)	15 April 2011

Source: ERB records

Note: No report was submitted by the MEA Section and HRA Section in 2009-10.

Audit recommendations

6.17 **Audit has recommended that the ERB should:**

- (a) **specify in the ERB Guidelines the frequency and coverage of surprise inventory checks to be carried out by inventory holders; and**
- (b) **ensure that:**
 - (i) **information recorded by inventory holders in the Inventory Record is accurate and complete;**
 - (ii) **full-scale inventory checks are carried out by all inventory holders at least once a year as required by the ERB Guidelines; and**
 - (iii) **reports on inventory checks are submitted in a timely manner.**

Response from the ERB

6.18 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB:

- (a) acknowledges the need to continuously improve its inventory management system and has put in place additional measures to safeguard accurate and complete documentation of procurement and inventory movements;
- (b) will soon issue comprehensive guidelines setting out, among other things, the frequency and coverage of surprise inventory checks and the designated officers responsible for the surprise checks;
- (c) issued a circular in July 2011 to require input of inventory numbers and inventory holders in all payment request forms. The ERB will organise briefing sessions on the systems and procedures for maintaining and checking of inventory for inventory holders and designated officers for surprise checks; and
- (d) has included specific guidelines related to inventory management in the Engagement Agreement for the operators of service centres. The guidelines took effect on 1 April 2011.

Procurement of services

6.19 Audit examination of the ERB records for 2007-08 to 2010-11 revealed that there were areas where improvements could be made.

Audit observations and recommendations

Selecting service centre operator

6.20 In October 2010, the ERB carried out a tender exercise for renewing the operating contract of a service centre. The tender document stipulated that the manager of the centre should have not less than 15 years of experience in social services, of which at least 8 years should be in centre management and project management.

6.21 In December 2010, the Evaluation Panel (Note 11) recommended to the Course and Service Development Committee (CSDC) that the contract be awarded to the current TB which had operated the service centre since its establishment in 2000. The Panel also recommended the acceptance by the CSDC of the TB's proposal to continue hiring the existing centre manager during the contract period.

6.22 The Evaluation Panel informed the CSDC that:

- (a) the existing centre manager had worked in the service centre since 2000 and had extensive local network connection;
- (b) she had 13 years of full-time working experience in social services; and
- (c) hiring her would help maintain the continuity of centre services.

6.23 Audit reviewed the ERB records and found that the information provided by the Evaluation Panel to the CSDC was not entirely correct and complete. The manager actually did not work in the service centre for the period March 2003 to December 2007. Moreover, she only possessed 11 years of full-time and 2 years of part-time working experience in social services up to the commencement of the contract in April 2011.

Procurement of corporate legal services

6.24 In 2008-09 to 2010-11, the ERB's annual expenditure for corporate legal services ranged from about \$268,000 to \$553,000. In August 2007, the ERB carried out a tender exercise for the procurement of corporate legal services. In the prequalification process, the ERB shortlisted 27 law firms.

6.25 However, the ERB only sent tender invitations to 10 of the shortlisted law firms and another firm not on the shortlist. No record was available showing the justifications for:

- (a) not sending tender invitations to the other shortlisted law firms; and
- (b) sending tender invitation to the law firm that was not on the shortlist.

Note 11: *The Evaluation Panel was chaired by a Deputy ED of the ERB. The members comprised a member of the CSDC and three ERB staff.*

Audit recommendations

6.26 **Audit has recommended that the ERB should take effective measures to ensure that:**

- (a) **a contract is not awarded to a tenderer who does not meet the requirements stipulated in the tender document;**
- (b) **information to support the recommendations for award of contracts is complete and accurate; and**
- (c) **tender invitations are only sent to shortlisted potential tenderers.**

Response from the ERB

6.27 The ERB agrees with the recommendations. The **ED, ERB** has said that:

- (a) the requirement to fulfil all the specifications and conditions of the tender document will be strictly enforced for all future tender exercises;
- (b) the ERB will ensure that the information and justifications to support the recommendations for award of contracts are complete and accurate;
- (c) the ERB has drawn up comprehensive guidelines setting out the procedures to be followed in tender exercises, including the issue of tender invitations to potential suppliers on the approved supplier list; and
- (d) the ERB will organise briefing sessions on procurement procedures for all staff regularly.

PART 7: PERFORMANCE MANAGEMENT

7.1 This PART examines issues relating to performance management.

Performance indicators and targets

7.2 The MAA between the Government and the ERB stipulated that:

- (a) in the Annual Plan submitted to the Government, the ERB should propose adequate output and outcome performance pledges as justifications for the resources input which the ERB receives. Such performance pledges should be underpinned by indicators for planning and measuring the progress of the activities undertaken by the ERB; and
- (b) precise target for each performance indicator should be proposed and determined in the Annual Plan, having regard to the actual rates achieved over the past three years and market benchmarks, where available.

Audit observations and recommendations

Adequacy of performance indicators

7.3 Audit noted that the performance indicators and targets in the 2011-12 Annual Plan had been in use since 2003-04 (see Table 10).

Table 10

**Performance indicators and targets in the Annual Plan
(2003-04 to 2011-12)**

Performance indicator	Target
Capacity utilisation rate	85%
Completion rate	80%
Placement rate	70%
Relevancy rate of placement	60%

Source: Audit analysis of ERB records

7.4 Since 2003-04, the ERB has introduced a number of new projects and services (e.g. the introduction of course accreditation, enhancement in research and the launch of the SLS). The estimated expenditures for these new projects and services increased from \$26 million in 2003-04 to \$73.9 million in 2011-12. Despite such significant increase, the ERB has not introduced any new performance indicators in its Annual Plans.

Review of performance targets

7.5 Audit found that in the past three years, the ERB had consistently achieved and exceeded the targets for three performance indicators included in the Annual Plan. For instance, the placement rates of job-specific skills courses (see para. 3.2) for 2008-09 to 2010-11 were about 80%, exceeding the target of 70% (see Table 11). According to good practices in performance management, performance targets should be challenging enough to drive continuous improvement but realistic and achievable. The ERB should consider whether more challenging targets should be set.

Table 11

**Achievement of performance targets
(2008-09 to 2010-11)**

Performance indicator	Target	Actual performance		
		2008-09	2009-10	2010-11
Capacity utilisation rate	85%	93%	92%	90%
Completion rate	80%	93%	91%	92%
Placement rate	70%	81%	80%	82%

Source: Audit analysis of ERB records

Results of relevancy rate of placement not reported to the QARC and the Board

7.6 Relevancy rate of placement measures the percentage of trainees who were placed in jobs relevant to the training they received. This is one of the effectiveness measures set out in the Annual Plan approved by the Board and the LWB. Audit noted that before October 2009, the ERB periodically reported its performance results of relevancy rate of placement to the QARC and the Board. However, since October 2009, the actual relevancy rate of placement had been excluded from the reports submitted to the QARC and the Board. No record was available showing the reasons and authority for not continuing to report the actual relevancy rate.

Audit recommendations

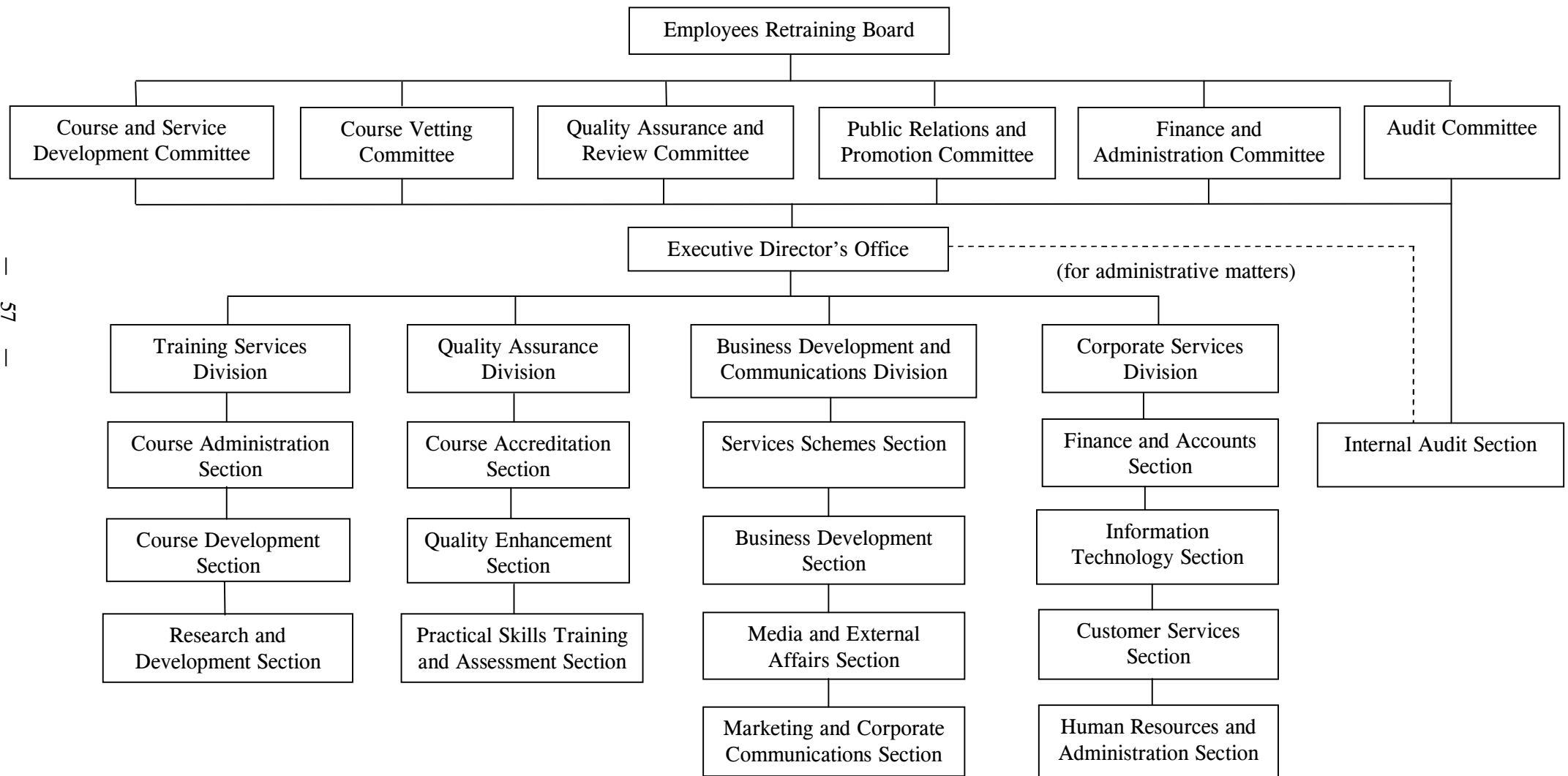
- 7.7 **Audit has recommended that the ERB should:**
- (a) **consider establishing performance indicators and targets for the new projects and services introduced since 2003-04;**
 - (b) **consider setting more challenging targets for all performance indicators having regard to the actual performance achieved over the past years; and**
 - (c) **report the actual attainment of all the performance indicators and targets set out in the Annual Plan to the QARC and the Board.**

Response from the ERB

7.8 The ERB agrees with the recommendations. The **ED, ERB** has said that the ERB will:

- (a) consider introducing other performance indicators like graduation rate, job retention rate, vacancies registered with and filled by the SLS, and membership of service centres;
- (b) consult the TBs on the new performance indicators and seek the endorsement of the QARC and the Board in due course;
- (c) review the performance indicators with a view to setting more challenging targets for the TBs. The ERB will consult the TBs on the revised targets and seek the endorsement of the QARC and the Board in due course; and
- (d) include the results of relevancy rate of placement, which have not been reported since November 2009, in the reports to the QARC and the Board.

**Employees Retraining Board
Organisation chart
(30 September 2011)**



Source: ERB records

Acronyms and abbreviations

Audit	Audit Commission
CI	Class Inspection
Corporate Governance Framework	Corporate Governance for Public Bodies — A Basic Framework
CSDC	Course and Service Development Committee
ED	Executive Director
ERB	Employees Retraining Board
ERF	Employees Retraining Fund
ERO	Employees Retraining Ordinance
ERS	Employees Retraining Scheme
FAC	Finance and Administration Committee
HKSAR	Hong Kong Special Administrative Region
HRA	Human Resources and Administration
IT	Information Technology
LWB	Labour and Welfare Bureau
MAA	Memorandum of Administrative Arrangements
MEA	Media and External Affairs
MOUs	Memoranda of Understanding
OSMI	On-Site Management Inspection
PS	Placement Services

Appendix B
(Cont'd)

PSTA	Practical Skills Training and Assessment
QARC	Quality Assurance and Review Committee
RSC	Regional Service Centre
SI	Surprise Inspection
SLS	Smart Living Scheme
TB	Training body
YTP	Youth Training Programme