

Report No. 57 of the Director of Audit — Chapter 2

EMPLOYEES RETRAINING BOARD

Summary

1. The Employees Retraining Board (ERB) was established in 1992 as a statutory body under the Employees Retraining Ordinance (ERO — Cap. 423) to administer the Employees Retraining Fund (ERF) and implement the Employees Retraining Scheme. The eligibility criteria of the ERB's retraining courses cover people aged 15 or above with education level at sub-degree level or below. The governing body of the ERB is its Board. As at 30 September 2011, the ERB had a staff establishment of 205, including an Executive Director. Up to July 2008, the ERB had received recurrent income based on the Employees Retraining Levy. The collection of the Levy was suspended for five years up to July 2013. For the period 2001-02 to 2007-08, the ERB also received recurrent subvention from the Government. As at 31 March 2011, the ERB had a fund balance of \$3.5 billion. In 2010-11, the ERB's income was \$42.4 million and its expenditure was \$757.4 million. The Audit Commission (Audit) has recently conducted a review of the ERB.

Corporate governance

2. **Governance structure.** In September 2001, the Government and the ERB entered into a Memorandum of Administrative Arrangements (MAA). Since then, the environment in which the ERB operates has undergone significant changes. However, the MAA had not been revised. *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.*

3. **Corporate planning.** The latest available strategic plan of the ERB was prepared in November 1998 and updated in November 2003. No further action had been taken by the ERB to review and roll forward the plan. According to the ERO, the ERB should submit its Annual Plan to the Government before a date to be appointed by the Secretary for Labour and Welfare for approval. Audit examination revealed that: (a) the Secretary for Labour and Welfare had not appointed any dates for the submission of the Annual Plans; and (b) three of the five Annual Plans examined were submitted 1 to 13 days before the commencement of the relevant financial years and were approved about two to six weeks after the commencement of the financial years. *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. Audit has also recommended that the ERB should: (a) ensure that a strategic plan is prepared and rolled*

forward on an annual basis; and (b) submit its Annual Plan to the Government promptly so that the latter can approve the Plan before the financial year commences.

4. ***Board and Committees.*** Audit found that the annual budgets for 2008-09, 2009-10 and 2010-11 had not been submitted to the Finance and Administration Committee (FAC) for scrutiny before submission to the Board for endorsement. The discussion papers of 17 Board/Committee meetings were issued just two working days or less before the meetings, contrary to the Board's direction that they should be issued at least three working days before a meeting. Audit also noted that no time target was set to ensure that draft meeting minutes would be issued in a timely manner. Audit examination of the declaration of interests forms submitted by Board/Committee members of the ERB for 2007-08 to 2011-12 revealed that some members had not submitted the declaration forms as required, or the submissions were late. The ERB had not made their members' declarations available for public inspection. *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 members at least three working days before Board/Committee meetings; (c) set a target time to ensure that draft minutes are issued to members in a timely manner; (d) ensure that all members submit their declaration of interest forms in a timely manner; and (e) consider making members' declarations of interests available for public inspection.*

Administration of training services

5. In 2010-11, the ERB contracted with 90 training bodies (TBs) to provide training services to eligible people. About 550 training courses were organised. Some 110,000 trainees attended these courses.

6. ***Applications from non-eligible applicants and unqualified applicants.*** According to the ERB Guidelines, consideration would be given to applications from non-eligible applicants and unqualified applicants if they meet any of the conditions stated therein. Audit examination of 40 such applications revealed that: (a) in 5 cases, approvals were given for conditions other than those stated in the Guidelines; and (b) in 3 cases, approvals were not given although the applicants met at least one of the conditions. *Audit has recommended that the ERB should ensure that applications from non-eligible and unqualified applicants are handled according to the Guidelines as far as possible.*

7. ***Follow-up actions on false information provided by applicants.*** In 2010-11, the ERB identified 41 cases where false information had been provided by the applicants. Audit found that up to May 2011: (a) actions had only been taken in 7 of 35 cases to recover the retraining allowances provided to trainees; (b) in 6 cases with discounted course fees paid by the trainees, no action had been taken to recover the underpaid course fees; and (c) in all 41 cases, no action had been taken to refer the cases to the relevant government departments for further actions. *Audit has recommended that the ERB should: (a) ensure that actions are taken, where appropriate, to recover the course fee and the retraining allowances from*

applicants who have provided false information; and (b) consider referring blatant cases to relevant government departments for further actions.

8. ***Long waiting time for courses.*** As at 5 May 2011, there were about 10,600 and 15,200 applicants on the waiting lists for full-time and part-time courses respectively. Some applicants had been on the waiting lists for a number of months. Audit found that, for some districts, if applicants on the waiting lists of different training centres in the same district were pooled together, a class of the required size could have been successfully held. *Audit has recommended that the ERB should monitor the training centres' applicant waiting lists and take proactive actions to shorten the waiting time.*

9. ***Tailor-made courses.*** 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. The employer is required to sign a service agreement with the ERB. For the period June 2009 to March 2011, five tailor-made courses were run. Audit found that: (a) for three courses, the recruits were required to work longer hours per week than the maximum number specified in the service agreements; and (b) for one course, the monthly salary of one recruit was less than that stated in the service agreement. *Audit has recommended that the ERB should take actions to ascertain that the employers comply with the terms of the service agreements.*

10. ***Inspections.*** According to the Annual Plan, the ERB should carry out On-Site Management Inspections (OSMIs) for all TBs annually. Audit found that: (a) in 2010-11, no OSMIs had been conducted for 23 TBs; and (b) a long time was taken to issue the OSMI Reports. Furthermore, according to a Three-Year Plan approved by the Board in July 2009, the ERB should conduct one Class Inspection (CI) for every trainer within three years. However, up to 31 May 2011, the number of trainers who were subject to CIs increased to 1,570. Audit found that: (a) CIs had been carried out for 617 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 has recommended that the ERB should: (a) ensure that OSMIs are carried out at all TBs according to the Annual 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) expedite actions to carry out CIs according to the Three-Year Plan; and (d) ensure that CIs are carried out as soon as practicable for trainers on the priority lists.*

Training support services

11. ***Smart Living Scheme.*** The Smart Living Scheme (SLS) provides referral services to ERB trainees who have graduated from the household and home care services training courses. Under the SLS, 11 Regional Services Centres (RSCs) operated by 10 TBs are set up in five districts. Audit found that two TBs which were once RSC operators continued to use the ERB logo and the materials for promoting SLS referral services to publicise their own services. Audit also found that, as at 19 May 2011, 104 of the 3,906 vacancies registered in

the SLS database were duplicate records. *Audit has recommended that the ERB should: (a) ensure that the ERB logo and materials for promoting SLS referral services are not used by other parties in publicising their own services; and (b) introduce control mechanism in the SLS database to prevent the input of duplicate vacancy records.*

12. **Service centres.** The ERB set up two service centres in Kowloon West and Kowloon East respectively. According to the Memoranda of Understanding between the ERB and the TBs, the TBs responsible for operating the centres should seek prior approval from the ERB for the programmes and activities to be carried out at the centres. For 2010-11, 132 approved programmes and activities had not been carried out, and 546 programmes and activities carried out had not been approved. Audit also noted that the class sizes used by the TBs in calculating the attendance rates for small group activities were different from those specified in the approved schedules. Had they used the specified class sizes, one centre did not achieve the target average attendance rate. *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.*

Human resource management

13. **Power to determine the terms and conditions of service.** Audit examination of ERB records for 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 of the ERO. *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.*

14. **New pay structure.** When the Board approved the implementation of a new pay structure with effect from July 2007, it decided to freeze the salaries of 12 staff. Audit reviewed the salary records of 4 of these staff whose salaries as at 30 June 2011 were still higher than the maximum pay of their respective ranks. Audit found that their salaries were not frozen during the salary revisions in 2007 and 2008. *Audit has recommended that the ERB should: (a) freeze the salaries of the four staff; and (b) take necessary actions to ensure that in future, the decisions of the Board are strictly followed.*

15. **Review of remunerations of senior executives.** In March 2003, the Government issued a circular setting out the guidelines on review of remunerations of senior executives of government-funded bodies. Given that the ERB is no longer a subvented body, the circular is not applicable to it. However, with a view to adopting the good governance practice, the ERB should consider following the guidelines. *Audit has recommended that the ERB should review its senior staff's number, ranking and remunerations and submit to the Secretary for Labour and Welfare regular reports on the review findings.*

Financial and administrative issues

16. **Administration of the Employees Retraining Fund.** As at 31 March 2011, the moneys of the ERF were deposited in 25 bank accounts in the name of the ERB, instead of in the name of the ERF as required by the ERO. In 2008-09 to 2010-11, about \$40 million of the ERF was consistently kept in 7-day fixed deposits. This indicated that the ERB did not require this sum of money for meeting short-term liquidity needs. The money could have been placed in longer term fixed deposits to generate higher interest income. *Audit has recommended that the ERB should: (a) consider changing the name of the bank accounts to ERF in accordance with the ERO; and (b) consider reviewing the level of funds kept in 7-day fixed deposits with a view to generating more interest income.*

17. **Inventory management.** As at 31 March 2011, the total value of the ERB's inventory was about \$32 million. Five sections are responsible for safe keeping of their inventory items. Audit found that: (a) in the Inventory Record kept by one section, 3 items with purchase costs of \$50,000 or above were overstated by \$5,340 to \$19,000; (b) the information of 143 inventory items recorded by the same section was incomplete; and (c) contrary to the ERB Guidelines, two sections had not carried out full-scale inventory check in 2009-10 and the reports on inventory checks for 2009-10 and 2010-11 were often submitted late. *Audit has recommended that the ERB should: (a) ensure that information recorded in the Inventory Record is accurate and complete; (b) full-scale inventory checks are carried out by all inventory holders at least once a year; and (c) reports on inventory checks are submitted in a timely manner.*

Performance management

18. **Performance indicators and targets.** Since 2003-04, the ERB has introduced a number of new projects and services. The estimated expenditures for these new projects and services increased from \$26 million in 2003-04 to \$73.9 million in 2011-12. However, the ERB has not introduced any new performance indicators in its Annual Plans. Audit found that, in 2008-09 to 2010-11, the ERB had consistently achieved and exceeded the targets for three performance indicators set out in the Annual Plan. *Audit has recommended that the ERB should: (a) consider establishing performance indicators and targets for new projects and services; and (b) consider setting more challenging targets for all performance indicators having regard to the actual performance achieved over the past years.*

Response from the Secretary for Labour and Welfare and the ERB

19. The Secretary for Labour and Welfare and the ERB agree with the audit recommendations.

November 2011