

# **Sustainable Fisheries Development Fund and Sustainable Agricultural Development Fund**

## **Executive Summary**

1. According to the Government, the agriculture and fisheries industries have been facing various challenges, for example, many local farmers have had limited application of modern agro-technology in production and local fishermen have been facing declining fisheries resources. To put the development of the agriculture and fisheries industries on a sustainable path, two funds namely the Sustainable Fisheries Development Fund (SFDF) and the Sustainable Agricultural Development Fund (SADF) were established in 2014 and 2016 respectively. Each fund had a commitment of \$500 million. To facilitate farmers, fishermen and fish farmers to acquire equipment and related materials to improve productivity and enhance sustainability, two subsidiary funding programmes, namely the Farm Improvement Scheme (FIS) and the Equipment Improvement Project (EIP) were set up under the SADF in December 2016 and under the SFDF in December 2017 respectively.

2. The Agriculture, Fisheries and Conservation Department (AFCD) is the department responsible for administering SFDF (including EIP) and SADF (including FIS). Two advisory committees, i.e. the SFDF Advisory Committee and the SADF Advisory Committee, have been set up to advise the Director of Agriculture, Fisheries and Conservation on the administration of SFDF and SADF. Members of the advisory committees are appointed by the Secretary for Food and Health. Day-to-day operations of SFDF and SADF (as well as EIP and FIS) are administered through various sections of AFCD, i.e. the SFDF Secretariat and the SADF Secretariat which carry out duties specific to the operation of SFDF and SADF, and the Funding Schemes Section which handles financial matters. For 2017-18, the expenditures of the two secretariats and the Funding Schemes Section totalled \$6.16 million. As at 28 February 2019:

- (a) 11 SFDF and 7 SADF projects had been approved with an approved funding of \$59 million and \$82 million respectively; and
- (b) 238 FIS projects and 3 EIP projects had been approved with an approved funding of \$6.9 million and \$18.4 million respectively.

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The Audit Commission (Audit) has recently conducted a review of SFDF and SADF.

### Application processing and project monitoring

3. ***Processing of fund applications.*** The SFDF/SADF Secretariat conducts preliminary screening of SFDF/SADF applications and forwards the applications to the relevant units of AFCD for assessment. The relevant advisory committee considers the applications and makes recommendations to the Director of Agriculture, Fisheries and Conservation (para. 2.2):

- (a) ***Long application processing time.*** From 2014 to 2018, the SFDF Secretariat processed 23 SFDF applications. From 2016 to 2018, the SADF Secretariat processed 11 applications. Audit analysed the application processing time (i.e. from the date of submission of an application to the date of approval/rejection) and found that the longest time taken for SFDF applications was 35 months and that for SADF applications was 15 months. In February 2019, AFCD informed Audit that in the last quarter of 2018, it conducted a review of SFDF and SADF (i.e. AFCD review) and made recommendations to improve the administration of SFDF and SADF (including addressing the problem of the long processing time — e.g. through enhancing the supervision of processing applications). AFCD needs to promptly implement the recommendations, and closely monitor the application processing time and take further measures to shorten the processing time where warranted (paras. 2.3, 2.5 and 2.7 to 2.9);
- (b) ***Need to review the EIP application arrangements.*** The EIP provides grants to applicants (i.e. legal entities connected with fisheries industry) for acquiring mechanised fishery equipment and/or materials on behalf of beneficiaries (i.e. individual fishermen and fish farmers). As at 31 December 2018, one EIP project had been approved. Audit found that in the project, individual fishermen had waited 7 months for the approval of the application. If counting from the dates when individual fishermen submitted their applications to the EIP applicant to the date of signing the funding agreement between the EIP applicant and the Government, individual fishermen had waited at least 12 months for the acquisition of the equipment. For FIS (under which applicants may apply directly to AFCD), the waiting time was much shorter. As at 31 December 2018, for the 225 approved FIS applications, individual applicants had waited, on average, less than 60 days for the approval of their applications.

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Furthermore, unlike the EIP applicants, FIS applicants are not required to enter into a funding agreement with the Government (paras. 1.7, 2.10 and 2.11); and

- (c) ***Need to review the administrative charges of EIP projects.*** According to the relevant Financial Circular of the Government, a Controlling Officer has to ensure that administrative charges for a funded government project are reasonable and proportionate to the purpose, scale, nature and circumstances of the particular fund or project. The approved grant for the approved EIP project (see (b) above) was \$7.2 million, which included the EIP applicant's administrative charges of \$1.5 million. The administrative charges amounted to 21% of the approved grant. AFCD needs to keep under review the level of administrative charges imposed by EIP applicants (paras. 2.14 to 2.16).

4. ***Project monitoring.*** SFDF and SADF grantees are required to submit various reports (e.g. progress reports) and financial statements to the secretariats (see para. 2). AFCD staff also conduct inspections on projects (para. 2.19):

- (a) ***Delays in submission of reports and financial statements.*** Audit found that:
  - (i) as at 15 January 2019, in 7 of the 10 SFDF approved projects, there were delays in submission of reports and financial statements, averaging 84 days and 107 days respectively (para. 2.21); and
  - (ii) in the 3 SFDF projects further examined by Audit, of the 13 reports submitted by the grantees, 9 (69%) were resubmitted at least once. As at 14 February 2019, for some of the 13 reports, long time (i.e. the number of days between the date of acceptance of a report for assessment purpose by the SFDF Secretariat and the date of provision of the report by the SFDF Secretariat (after its assessment) to a working group of the SFDF Advisory Committee for review) had been taken for processing the reports. The time taken ranged from 49 to 311 days (para. 2.22); and
- (b) ***Inadequacies in inspections.*** AFCD staff will complete inspection reports after conducting inspections. Audit examined the inspection records of the

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3 SFDF projects (see (a)(ii) above) and found that some recommendations made by AFCD had not been implemented despite that the same recommendations were made to the grantees in previous inspections. There were no records indicating that AFCD had taken measures to ensure satisfactory implementation of the recommendations by the grantees (paras. 2.25 and 2.26).

5. ***Use of funds by grantees.*** According to the funding agreements, grantees have to observe the requirements for the use of grants (para. 2.32):

- (a) ***Need to purchase the mandatory insurances.*** Audit examined the 3 SFDF projects (see para. 4(a)(ii)) and found that in a project, up to 31 January 2019 (34 months after the project commencement date), none of the mandatory insurances (i.e. employees' compensation insurance, public liability insurance and insurance for collateral) had been purchased by the grantee for the project (paras. 2.34 and 2.35); and
- (b) ***Need to observe the procurement requirements.*** In examining the 3 SFDF projects, Audit found that for 6 project items each with a value over \$50,000 but not exceeding \$1.4 million, the requirement of obtaining at least 5 written quotations had not been observed by the grantees (para. 2.37).

## Achievement of fund objectives

6. ***Disbursement of funds to worthwhile projects.*** In seeking approval to set up SFDF and SADF, the Government informed the Finance Committee of the Legislative Council that for planning and budgetary purpose, the estimated cash outflows (i.e. disbursement) of SFDF was \$50 million annually from 2014-15 to 2023-24. For SADF, the planned annual disbursement was \$100 million for 2017-18 and 2018-19, and \$50 million from 2019-20 to 2024-25 (para. 3.4):

- (a) ***Slow pace of fund disbursement.*** Audit found that the actual disbursement of funds amounted to only a small portion of the planned disbursement. For SFDF, in 2014-15 to 2018-19 (up to 31 December 2018), the portion ranged from 0% to 22.6%. For SADF, in 2017-18 and 2018-19 (up to 31 December 2018), the portions were 2.7% and 6.7% respectively (para. 3.6);

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- (b) ***Decreasing number of fund applications.*** Audit noted that the number of fund applications submitted to AFCD had generally decreased over the years: (i) the number of SFDF applications decreased from 15 in 2014 to 3 in 2018; (ii) the number of SADF applications decreased from 20 in 2017 to 13 in 2018; and (iii) the number of applications for FIS decreased from 172 in 2017 to 66 in 2018 (para. 3.9);
  - (c) ***Many fund applications rejected.*** Fund applications were assessed against a set of eligibility criteria, and were considered by the SFDF/SADF Advisory Committee. Audit noted that as at 31 December 2018, 41% of SFDF applications and 12% of SADF applications had been rejected for various reasons (e.g. failure in meeting the fund objectives). The high rejection rates indicated that many proposed projects did not meet the assessment criteria, and that they were not considered to be worthwhile projects. AFCD needs to better help the agricultural/fisheries sectors to devise good proposals of projects worthy of funding support (paras. 3.12, 3.13 and 3.15); and
  - (d) ***Need to take effective measures to increase the number of fund applications.*** In the AFCD review (see para. 3(a)), AFCD concluded that there was a need for improvement in the publicity of funds and in fund applications. Upon enquiry, AFCD informed Audit in February 2019 that specific measures for improving publicity and fund applications had been endorsed by the SFDF Advisory Committee and the SADF Advisory Committee (paras. 3.16 and 3.17).
7. ***Evaluation of project achievements.*** As at 31 December 2018, 2 projects had been completed under SFDF. It was AFCD's requirement that a grantee should submit a final report within 4 months after the completion of a project. Audit noted that, while the 2 projects were completed in January and April 2018 respectively, AFCD had not completed the review of the final reports of the 2 projects as at 31 December 2018. Audit also noted that AFCD records did not indicate that AFCD had any plans for reviewing the overall achievements of SFDF, SADF and their subsidiary programmes (i.e. EIP and FIS) vis-à-vis the overall objective of putting the development of the agriculture and fisheries industries on a sustainable path (paras. 3.20 and 3.22).

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### Governance issues

8. *Members' attendance at meetings.* Two advisory committees and two working groups have been established for administering SFDF and SADF (para. 4.2). Audit noted that:

- (a) *Decreased attendance at committee meetings.* For the SFDF Advisory Committee, the proportion of members attending committee meetings (i.e. the attendance rate) decreased from 79% in 2014 to 63% in 2018. For the SADF Advisory Committee, the attendance rate decreased from 82% in 2016 to 75% in 2018 (para. 4.4); and
- (b) *Need to improve attendance of individual members.* In each of the years between 2014 and 2018, some members (ranging from 1 to 5 members) attended less than half of the meetings of their responsible committees. Of these members, two were re-appointed in 2017 upon completion of their three-year term (i.e. for 2014 to 2017) (paras. 4.6 and 4.10).

9. *Management of potential conflicts of interest.* AFCD adopts a two-tier declaration system for managing committee members' potential conflicts of interest. In the first-tier declaration, the chairman and members shall register in writing their personal interests when they first join the committee, and annually thereafter, to the secretary of the committee (i.e. the SFDF/SADF Secretariat — see para. 2) on standard forms. In the second-tier declaration, members are required to report any conflicts of interest as and when they arise (para. 4.16):

- (a) *Scope for improving first-tier declarations.* Audit reviewed the first-tier declaration forms submitted by committee members from 2014 to 2018 and found that (para. 4.18):
  - (i) *First-tier declarations not made.* Every year, the secretariats of the two funds distributed first-tier declaration forms to committee members for completion. However, the SFDF Secretariat had not done so for 2016. In the event, none of the members of the SFDF Advisory Committee made any first-tier declaration for the year (para. 4.18(a));

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- (ii) ***Outstanding declarations not followed up.*** In 2018, two members of the SFDF Advisory Committee did not complete and return the first-tier declaration forms. However, the SFDF Secretariat did not follow up the non-submission (para. 4.18(b)); and
  - (iii) ***Declarations might not be entirely complete.*** In two cases, committee members might not have provided complete information about their interests in making first-tier declarations, i.e. about the fact that they were chairpersons or director of fisheries organisations (para. 4.18(c)); and
- (b) ***Need to make rulings on interests declared and record in minutes of meetings.*** Under the AFCD's declaration system, the chairman is required to make rulings on conflicts of interest declared by members in meetings, i.e. the chairman needs to decide whether a member disclosing an interest may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting. Audit noted that, in respect of the 23 SFDF Advisory Committee/working group meetings held from 2014 to 2018, there was room for improvement in the documentation of the rulings on interests declared in the minutes of meetings (paras. 4.21 and 4.22), as follows:
- (i) in 7 (30% of 23) meetings, the minutes of meetings did not indicate that the chairmen had made rulings after members making declarations of conflicts of interest (para. 4.22(a)); and
  - (ii) in 3 (13% of 23) meetings, the minutes of meetings indicated that several members had declared conflicts of interest. The chairmen requested members in the meetings to take note of the interests declared by these several members. Nevertheless, the minutes did not indicate that the chairmen had made rulings on the interests declared. The fact that the chairmen only requested members to take note of the interests declared might not be fully in compliance with the requirement of AFCD's declaration system (para. 4.22(b)).
10. ***Other areas for improvement on procedures for meetings.*** In January 2017, the Treasury issued a Fund Management Guide. According to the Guide, members of governing boards/committees should be provided with the agenda and discussion papers of a meeting in good time (normally not less than five working

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days before the meeting), and after each meeting, the minutes should be promptly prepared and circulated for members' comments and agreement (para. 4.25):

- (a) *Need to regularise distribution of papers relating to meetings.* For the 28 meetings of committees and working groups held from 2014 to 2018, Audit found that the agendas (accompanied by discussion papers — hereinafter agendas include discussion papers) and draft minutes were not always distributed in a timely manner. For example, for 3 of the 28 meetings, the agendas were only distributed less than five days before the meetings. In one extreme case, the draft minutes of a working group meeting were distributed 102 days after the meeting. Audit noted that AFCD had not laid down any guidelines on the distribution of agendas and minutes of meetings (paras. 4.26 and 4.27); and
- (b) *Need to record more clearly the results of voting in minutes of meetings.* Audit reviewed the minutes of the 28 meetings and found that, in one committee meeting held in March 2015, the total number of members who voted/abstained from voting in the meeting was less than the number of members who attended the meeting (para. 4.29).

## Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

### *Application processing and project monitoring*

- (a) **promptly implement the recommendations of the AFCD review (paras. 2.17(a) and (d) and 2.38(a) and (c));**
- (b) **closely monitor the application processing time for SFDF and SADF and take further measures to shorten the processing time (para. 2.17(b));**
- (c) **keep under review the need to take further measures to improve the EIP application arrangements (para. 2.17(c));**



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- (d) **consider setting guidelines on administrative charges imposed by EIP project applicants, and keep under review the level of administrative charges (para. 2.17(e) and (f));**
- (e) **closely monitor the timeliness of submission of reports and financial statements by SFDF grantees (para. 2.38(b));**
- (f) **ensure that applicable recommendations for the monitoring of SFDF projects are also implemented for SADF projects (para. 2.38(d));**
- (g) **take immediate measures to rectify the anomalous case in which the grantee has not purchased any of the insurances required by the funding agreement, and ensure that there is no recurrence of such cases in future (para. 2.38(f) and (g));**
- (h) **take measures to ensure that procurements made by grantees comply with the requirements of the funding agreements, and that in circumstances where written quotations cannot be obtained, prior approval from the Director of Agriculture, Fisheries and Conservation for adopting other procurement practices are obtained by grantees (para. 2.38(j));**

### ***Achievement of fund objectives***

- (i) **make better effort to encourage and facilitate the agriculture and fisheries industries to make good use of SADF and SFDF in implementing projects which contribute towards the sustainable development of the industries (para. 3.18(a));**
- (j) **ensure that effective measures are promptly implemented to enhance the publicity of SFDF and SADF, and to facilitate applicants to apply for funding under SFDF and SADF (para. 3.18(b));**
- (k) **expedite the review of the two completed SFDF projects (para. 3.23(a));**
- (l) **consider the need to evaluate the overall achievements of SFDF, SADF and their subsidiary programmes vis-à-vis the overall objective of**

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putting the development of the agriculture and fisheries industries on a sustainable path (para. 3.23(b));

### *Governance issues*

- (m) closely monitor the trend of attendance rates of committee members and take remedial measures as appropriate (para. 4.12);
  - (n) ensure that first-tier declaration forms are always sent to committee members for their completion every year, and take measures to follow up with the members concerned if they have not submitted their first-tier declaration forms (para. 4.23(a) and (b));
  - (o) take measures to facilitate committee members to fully declare their interests (para. 4.23(c));
  - (p) regularly remind the committee chairmen of the need to make rulings on interests declared by members at the meetings, and document the rulings made in the minutes of the meetings so as to enhance transparency and accountability (para. 4.23(d));
  - (q) consider laying down guidelines on the distribution of agendas (and discussion papers) and draft minutes of meetings (para. 4.31(a)); and
  - (r) ensure that proceedings of meetings are accurately and completely recorded in minutes of meetings (para. 4.31(b)).
12. Audit has *recommended* that the Secretary for Food and Health should, in re-appointing members to serve on committees of SFDF and SADF, give due consideration to members' past attendance at meetings, and for members who had difficulties in attending meetings and whose re-appointments are essential, take measures to encourage them to attend meetings in future (para. 4.13).

## Response from the Government

13. The Secretary for Food and Health and the Director of Agriculture, Fisheries and Conservation generally accept the audit recommendations.