# CHAPTER 3

# Innovation and Technology Bureau
# Innovation and Technology Commission
# Hong Kong Productivity Council

## Governance and administrative issues of the Hong Kong Productivity Council

**Audit Commission**
**Hong Kong**
**28 October 2019**

*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. 73 of the Director of Audit contains 10 Chapters which are available on our website at https://www.aud.gov.hk

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# GOVERNANCE AND ADMINISTRATIVE ISSUES OF THE HONG KONG PRODUCTIVITY COUNCIL

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# GOVERNANCE AND ADMINISTRATIVE ISSUES OF THE HONG KONG PRODUCTIVITY COUNCIL

## Executive Summary

1. In 1967, the Government established the Hong Kong Productivity Council (HKPC) under the HKPC Ordinance (Cap. 1116) with an aim to improve the productivity, operational efficiency and competitiveness of local industries. The Council is the governing body of HKPC and is supported by four Committees. As at 31 March 2019, HKPC had a total of 640 staff, comprising 245 permanent and 395 contract staff. The Commissioner for Innovation and Technology (CIT) is the Controlling Officer of the subventions granted to HKPC. In 2017-18, HKPC had a total income of $711 million, which included government subventions of $223.3 million. In the same year, HKPC had a total expenditure of $663.7 million. The Audit Commission (Audit) has recently conducted a review of HKPC. The findings are contained in this Audit Report and another one entitled "Provision of consultancy, research and development and training services by the Hong Kong Productivity Council" (Chapter 2 of the Director of Audit's Report No. 73). This Audit Report reviews matters relating to the governance and administrative issues of HKPC.

### Corporate governance and performance reporting

2. ***Need to improve attendance of some members***. While noting that the overall attendance rates of HKPC Council/Committee meetings were not low, Audit examination of the attendance records of Council/Committee members appointed or reappointed during the period from 2014 to 2019 (up to 31 March) revealed that three members had attended less than half of the Council/Committee meetings over their tenures. Audit noted that: (a) one member attended only 9 (45%) of the 20 Council meetings and 3 (43%) of the 7 Business Development Committee meetings; (b) another member attended only 3 (43%) of the 7 Business Development Committee meetings; and (c) there was also a third member who attended only 1 (25%) of the 4 Finance Committee meetings (para. 2.4).

3. ***Late issue of minutes of Council/Committee meetings.*** At a Council meeting held in September 2009, it was decided that the Council Secretariat should: (a) provide members with the draft minutes of Council/Committee meetings within three weeks after the meetings; and (b) provide members with the revised draft minutes (i.e. incorporating proposed amendments to the draft minutes) within two weeks after the issue of the draft minutes. Audit noted that, for 19 (90%) of the 21 Council/Committee meetings held in 2018 and 2019 (up to 31 March), the revised draft minutes were issued more than two weeks after the issue of the draft minutes. The delays ranged from 1 to 29 days, averaging 14 days (paras. 2.6 and 2.7).

4. ***Late submission of declaration of interests by some Council members.*** According to HKPC's Code of Conduct for Council members, members shall disclose and register in writing their personal interest, direct or indirect, pecuniary or otherwise, on first appointment and thereafter annually to the Council Secretariat. Audit examined 24 declaration of interest forms on first appointment and 95 annual declaration of interest forms submitted by Council members from 2015 to 2019 (up to 31 March). Audit found that 12 (13%) of the 95 annual declaration of interest forms were submitted after the required submission dates. The delays ranged from 1 to 55 days, averaging 15 days (paras. 2.9 and 2.10).

5. ***Need to review HKPC's service focus.*** A Consultancy Study was commissioned by HKPC in June 2001 to review its role, management and operation to ensure that they remain relevant and competitive in the context of Hong Kong's economic development. The Consultancy Study was completed in April 2002. The Consultancy Study recommended that: (a) HKPC's main focus over the next five years should be to provide integrated support across value chain of Hong Kong firms' activities. The principal market focus should be innovative and growth oriented manufacturing firms, particularly those in the foundation industries of Hong Kong, together with related services; and (b) the principal geographical focus should be Hong Kong and the Pearl River Delta. HKPC accepted the report in May 2002 and agreed to make reference to the recommendations therein in re-positioning its role, focus and operation. In March 2003, the Government and HKPC entered into a Memorandum of Administrative Arrangements (MAA). The service focus recommended in the 2002 Consultancy Study was incorporated in the provisions of MAA. Audit noted that there was a specific time frame in the recommendation in the 2002 Consultancy Study on HKPC's service focus. The Consultancy Study only recommended HKPC's service focus over the following five years (i.e. up to 2007). MAA was reviewed in 2009 and no change was made to HKPC's service focus. There was no documentary evidence showing that the service focus was considered during the review. Since the

2002 Consultancy Study, HKPC's service focus stated in MAA has not been reviewed to ensure that it remains relevant in the context of Hong Kong's economic development. However, Audit noted that after the Consultancy Study conducted in 2002, there had been changes in Hong Kong's economic development as well as HKPC's strategic themes and service focus (paras. 2.13 to 2.17).

6. ***Performance targets not met.*** According to MAA, HKPC shall propose for CIT's approval a set of performance indicators for measuring the progress of HKPC's activities and submit to CIT a report on its achievements with regard to the performance indicators. Audit examination of the achievements of performance targets in the period from 2014-15 to 2018-19 revealed that: (a) every year, HKPC failed to meet one or more performance targets; and (b) some performance targets were not achieved for three years or more. According to MAA, if HKPC fails to achieve agreed performance targets, HKPC shall provide explanations for such failures to the satisfaction of CIT. However, for the targets on two key performance indicators (KPIs) on "Number of consultancy projects accepted" and "Income from manufacturing support projects", there was no documentary evidence showing that HKPC had provided explanations to CIT for failing to meet these two performance targets in 2017-18 (paras. 2.21, 2.23 and 2.24).

7. ***Need to improve disclosure of KPIs.*** From 2016-17 to 2018-19, 23 KPIs comprising 13 "Core KPIs" and 10 "Other KPIs" were set to assess HKPC's performance. According to HKPC, "Core KPIs" were more meaningful in measuring HKPC performance than "Other KPIs". Audit examined the KPIs disclosed in the Annual Reports and CIT's Controlling Officer's Reports (CORs) for 2016-17 and 2017-18 and noted that of the 23 KPIs, HKPC had not disclosed 11 (48%) KPIs. The 11 KPIs not disclosed in the Annual Reports and the CORs included 9 "Core KPIs" and 2 "Other KPIs". While HKPC disclosed 8 (80%) of the 10 "Other KPIs", only 4 (31%) of the 13 "Core KPIs" were disclosed. Audit also noted that in the HKPC Annual Report, there was only a comparison of current year's performance with that of previous four years. There was no comparison of actual performance against performance targets in the Annual Report (paras. 2.25 and 2.27).

## Human resource management

8. ***Significant difference between staff establishment and strength.*** Audit compared the staff establishment and the staff strength of HKPC as at 30 June 2018 and 30 June 2019 and found that: (a) the total staff strength fell short of the total staff establishment by 131 (18.8%) as at 30 June 2018 and by 123 (17.7%) as at 30 June 2019; (b) as at 30 June 2018 and 30 June 2019, there were significant staff shortfalls for Grade 4 to Grade 8 staff. In particular, there was a shortfall of 33 (18.5%) Grade 4 staff and 109 (45.2%) Grade 5 staff as at 30 June 2019; and (c) as at 30 June 2018 and 30 June 2019, there were significant staff surpluses for Grade 2 and Grade 3 staff (para. 3.3).

9. ***High staff turnover rates.*** Audit examination of HKPC's staff turnover rates for the five years from 2014-15 to 2018-19 revealed that: (a) the overall staff turnover rates were on the high side. The average staff turnover rate was 19.2%, ranging from 17.1% to 22.5%; and (b) the staff turnover rates were particularly high for Grade 3 (17.5% to 28%) and Grade 5 (17.3% to 24.3%) staff. The average staff turnover rates for Grade 3 and Grade 5 staff during the period were over 20%. Audit further analysed the years of service of the 109 staff who left HKPC on a voluntary resignation basis in 2018-19 and found that 46 (42%) of them had served in HKPC for less than two years (paras. 3.5 and 3.6).

10. ***Room for improvement in staff recruitment.*** HKPC recruited 318 staff in 2018-19. Audit reviewed the recruitment records of 100 of the 318 staff and found room for improvement in the following areas (para. 3.15):

(a) ***Shortlisting criteria not set.*** According to HKPC Standard Practices, shortlisting should be based on criteria against the job requirements. However, Audit found that for all the 100 recruitment exercises examined, HKPC did not set any shortlisting criteria (para. 3.15(a));

(b) ***Applications received not properly recorded.*** In all the 100 recruitment exercises examined, Audit noted that applications received had not been recorded in a register nor date-stamped upon receipt. Moreover, information on the number of applications received for each recruitment was not available (para. 3.15(b));

(c) ***Number of candidates shortlisted for interview fewer than required.*** HKPC Standard Practices stipulate that the requisitioning division/branch can shortlist at least three candidates for interview, where applicable and practicable. Audit noted that, for 22 (22%) of the 100 recruitment exercises examined, fewer than three (only 1 or 2) candidates were shortlisted for interview. Documentary evidence was not available showing the justifications for shortlisting fewer than three candidates for interview (para. 3.15(c));

(d) ***Selection Interview Evaluation Forms not properly completed.*** In 52 recruitment exercises, some required information on the Selection Interview Evaluation Forms, such as the ratings and comments on candidates after the interviews, was missing (para. 3.15(d));

(e) ***Appointment of one candidate not meeting the job requirement.*** According to HKPC Standard Practices, for a successful applicant not meeting the basic entry requirements, approval from appropriate authority needs to be sought with full justification. Audit noted that, in one case, one of the job requirements for a Grade 3 post was "Diploma or Degree from disciplines such as computer science or equivalent". However, a candidate who had not attained such qualification was appointed for the post. No justification was provided in approving the appointment of this candidate, who did not meet the job requirement (para. 3.15(e));

(f) ***Need to require staff to refrain from participating in the selection process if a conflict of interest has been declared.*** In four recruitment exercises of Grade 3 and Grade 4 staff, the Selection Panel Chairman, who was the only assessor who decided the ratings of candidates, declared that he was a friend or an ex-colleague of the candidates. However, he continued to sit on the Selection Panel as Selection Panel Chairman (para. 3.15(f)); and

(g) ***A person appointed to a post which he had not applied for.*** There was a case in which a person was offered a Grade 4 post which he had not applied for. Moreover, he had not gone through the shortlisting and interview procedures laid down in HKPC Standard Practices (para. 3.15(g)).

## Procurement and other administrative issues

11. ***Need to improve the quotation process.*** According to HKPC Standard Practices, the Procurement Officers will select prospective suppliers for quotations by rotation from the Registered Suppliers List based on the suppliers' capabilities on products/services. However, Audit found that the Procurement Officers did not select suppliers for quotations by rotation from the Registered Suppliers List. Audit reviewed the transaction records for 56 suppliers in 3 categories of products/services in the period from April 2017 to June 2019 and found that 14 (25%) of the 56 suppliers had never been invited for quotations. Moreover, Audit examined the records of 113 procurements of goods and services in March 2019 with purchase value over $10,000 but not more than $500,000 and found the following areas for improvement (paras. 4.3 and 4.4):

(a) ***No suppliers randomly selected for quotations.*** According to HKPC, with effect from August 2018, the Procurement Officers are required to randomly select one supplier from the Registered Suppliers List for quotations. However, in one procurement, no supplier was randomly selected from the Registered Suppliers List for inviting quotations. Audit also noted that HKPC Standard Practices had not been revised to include the requirement of randomly selecting one supplier from the Registered Suppliers List for quotations (para. 4.4(a)); and

(b) ***No declaration of conflict of interests from procuring staff or approving officer.*** According to HKPC Standard Practices, declaration of conflict of interests is mandatory for staff of the Procurement Unit and approving officers. In 9 (8%) of the 113 procurements examined, four staff were required to declare in each of the 9 procurements. However, in each of the 9 procurements, one staff did not indicate whether he/she had any private interest with the suppliers (para. 4.4(b)).

12. ***Tendering procedures not conducted as required.*** According to HKPC Standard Practices, if split order is suspected, the requisitioning officer is required to justify: (a) why it was unable to anticipate the second purchase at the time when the first purchase was made; or (b) that the repeated orders were made for different projects requiring different delivery dates that made it impossible to bundle the purchases. Audit examination of 125 purchase orders issued in January 2019 revealed that there were two purchase orders issued to the same supplier by the same requisitioning division on the same day (i.e. 24 January 2019) for the purchase of the

same product (i.e. robot arms). The purchase requisitions of these two purchase orders were also raised on the same day (i.e. 5 December 2018). If the two purchase requisitions were bundled, the total estimated purchase value would amount to $631,923, which was over the quotation limit of $500,000, and therefore, tendering procedures needed to be followed. There was no documentary evidence showing that the requisitioning officer was unable to anticipate the second purchase at the time when the first purchase was made and that the different delivery dates had made it impossible to bundle the purchases (paras. 4.5 to 4.8).

13. ***Inactive suppliers in Registered Suppliers List.*** According to HKPC Standard Practices, with effect from October 2018, inactive suppliers who have not responded to any invitation for quotation or tender and have no transaction with HKPC for three consecutive years will be removed from the Registered Suppliers List. However, up to 30 June 2019, there was no readily available information on inactive suppliers on the Registered Suppliers List. Inactive suppliers could not be identified readily from the information kept in the existing computer system (paras. 4.11 and 4.12).

14. ***Need to improve the stocktaking procedures.*** In November 2017, HKPC started to conduct quarterly surprise stocktaking on selected movable and high value fixed assets susceptible to high risk to loss. Up to 30 June 2019, seven surprise stocktaking exercises had been conducted in seven divisions. In each exercise, 5 items susceptible to loss were selected for stocktaking, totalling 35 items selected for the seven exercises. Audit examined the stocktaking reports of the seven surprise stocktaking exercises and found that: (a) the number of fixed asset items selected for surprise stocktaking in each exercise was very small (i.e. 5 items) comparing to the total number of movable and high value fixed asset items (i.e. around 1,030 items); and (b) there were many types of movable and high value fixed assets which were susceptible to high risk to loss, e.g. notepad, digital camera, video recorder, camera lens, etc. However, 33 (94%) of the 35 items selected for surprise stocktaking were notebook computers. The remaining 2 items selected were an IP phone and a mobile phone (para. 4.20).

15. ***Need to improve equipment management.*** According to HKPC Standard Practices, equipment refers to any equipment, machinery or facility installed at HKPC for the purpose of technology development, demonstration or service support to the industry, and with an original purchase value equal to or above $100,000. Audit examined the equipment management records for 2018-19 and found that: (a) an item

of equipment (i.e. Cold Room) received on 26 March 2019 with an original purchase value of $252,000 (i.e. above $100,000) was not included in the list of equipment as at 31 March 2019; (b) 52 (16%) of the 320 items of equipment did not achieve the expected utilisation; and (c) two of the four divisions with equipment under their custody did not achieve the target rate of asset optimisation (paras. 4.23 and 4.24).

16. ***Need to monitor utilisation of company cars.*** As at 31 March 2019, HKPC had four company cars. Three company cars (i.e. Car A, Car B and Car C) were used with car pool driver service (i.e. with drivers) while one company car (i.e. Car D) was available for car on-loan service (i.e. without driver). HKPC does not calculate the utilisation rate of its company cars. Audit examination of the usage records of the four company cars in the period from January to March 2019 revealed that the utilisation of the company car without driver (i.e. Car D) was low. On 36 (60%) of the 60 working days from January to March 2019, Car D was idle for the whole day. Moreover, according to HKPC Standard Practices, the borrower of Car D is required to complete all the related car usage reports after every trip for monitoring purposes. Audit noted that there were no car usage reports of Car D other than the car log book and the car key collection record. Audit compared the records of the car log book with those of the car key collection record in the period from January to March 2019 and found that there were no records in the car log book for 11 (44%) of 25 trips recorded in the key collection record. The total usage hours of Car D could not be ascertained due to the incomplete records in the car log book (paras. 4.26, 4.29 and 4.30).

17. ***Room for improvement on claims of entertainment expenses.*** According to HKPC Standard Practices, the number of staff members involved in an official entertainment should not exceed the number of guests to be entertained. Otherwise, approval from the appropriate authorities is required. Audit examination of the records of 95 claims of entertainment expenses in the period from January to March 2019 revealed that for 15 claims (ranging from $375 to $4,356, averaging $1,272), approvals were obtained on the claims where the number of staff members involved exceeded the number of guests. However, there was no documentary evidence showing the justifications for such approvals in 11 of the 15 claims (para. 4.34).

18. ***Guidelines on official travels outside Hong Kong not complied with.*** Audit found that: (a) according to HKPC Standard Practices on official travels outside Hong Kong, all official travels outside Hong Kong by staff members must be approved by their General Managers/Directors/Executive Director where appropriate through

the submission of travel application before departure. Audit examined 73 applications for official travels outside Hong Kong submitted in the period from November 2018 to March 2019 and found that 9 (12%) of the 73 applications were approved after departure. Such approvals were obtained 1 to 15 days after departure (averaging 6 days). In particular, 2 (22%) of these 9 applications were submitted by staff members after departure; and (b) according to HKPC Standard Practices, if a staff member claims flight awards and the awards are credited to his mileage account, the staff member should declare the awards to the Finance and Procurement Division after the business trip to facilitate planning for the possible use of the awards for corporate functions. Audit examined 20 claims for business travels by air submitted by 13 staff in the period from January to March 2019 and the records for flight award mileage kept by the Finance and Procurement Division. Audit found that for 12 (60%) claims involving 10 (77%) staff, the staff concerned had not declared the flight awards to the Finance and Procurement Division after their business trips. There was no information indicating whether these 10 staff had claimed the mileage from the airlines (paras. 4.37 to 4.40).

## Audit recommendations

19. **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 Executive Director, HKPC should:**

*Corporate governance and performance reporting*

(a) **step up efforts to encourage Council/Committee members' attendance at meetings and issue minutes of meetings to them in a timely manner (para. 2.19(a) and (b));**

(b) **ensure that Council members submit declaration of interest in a timely manner (para. 2.19(c));**

(c) **review the service focus of HKPC stated in MAA and revise it where necessary (para. 2.19(d));**

(d) **provide explanations for failing to achieve the agreed performance targets to the satisfaction of CIT and consider disclosing more KPIs and**

**reporting actual performance against performance targets in the HKPC Annual Report (para. 2.28(a) to (c));**

*Human resource management*

(e) **take effective measures to address the significant staff shortfalls and surpluses for individual staff grades and step up efforts to reduce high staff turnover (para. 3.10(a) and (b));**

(f) **take measures to improve staff recruitment (para. 3.16);**

*Procurement and other administrative issues*

(g) **take measures to improve the quotation process (para. 4.13(a) and (b));**

(h) **ensure that purchases are not split into orders of smaller amounts (para. 4.13(c));**

(i) **consider enhancing the existing computer system to facilitate the identification of inactive suppliers and ensure that they are removed from the Registered Suppliers List in a timely manner (para. 4.13(d) and (e));**

(j) **expand the scope of surprise stocktaking for the quarterly surprise stocktaking exercise (para. 4.42(a));**

(k) **ensure that all equipment items are included in the list of equipment, improve their utilisation rates and take appropriate follow-up action for the divisions which have not achieved the target rate of asset optimisation (para. 4.42(c) to (e));**

(l) **record all trips and closely monitor the utilisation rate of the company cars and review the cost-effectiveness of maintaining the company car with low utilisation rate (para. 4.42(f) and (g));**

(m) **ensure that all claims of entertainment expenses where the number of staff members involved exceeds the number of guests are well justified (para. 4.42(h)); and**

(n) **ensure that applications for official travels outside Hong Kong are submitted by staff members and approved before departure and all staff members declare their flight awards arising from business trips (para. 4.42(i) and (j)).**

## Response from HKPC and the Government

20. The Executive Director, HKPC and CIT agree with the audit recommendations.

# PART 1: INTRODUCTION

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

## *Background*

1.2 In the 1960s, with the predominance of family-owned small operations in the manufacturing sector, the Government saw the need to provide organised facilities to support the further development of Hong Kong industry. In 1967, the Government established the Hong Kong Productivity Council (HKPC) under the HKPC Ordinance (Cap. 1116) with an aim to improve the productivity, operational efficiency and competitiveness of local industries. According to section 4 of the HKPC Ordinance, the functions of HKPC shall be:

(a) to promote the increased productivity of industry in Hong Kong and to encourage the more efficient utilisation of resources therein;

(b) to consider matters affecting productivity of industry in Hong Kong;

(c) to advise the Chief Executive (CE) of the Hong Kong Special Administrative Region concerning the productivity of industry in Hong Kong and measures designed to increase it;

(d) to consult with, co-ordinate and assist the activities of persons or organisations, either in Hong Kong or elsewhere, engaged in the study, development or dissemination of programmes, methods or techniques designed to increase productivity in industry; and

(e) to take on productivity related assignments elsewhere than in Hong Kong subject to the conditions that:

    (i) the work can be carried out without prejudice to the performance by HKPC of the functions referred to in (a) to (d) above; and

(ii) the minimum rate charged by HKPC for the work is sufficient to recover all costs incurred in carrying out that work, which costs shall include direct costs (recurrent and capital) and overhead costs.

## *Consultancy Study of 2002*

1.3 Since the early 1980s, more and more Hong Kong manufacturers had relocated their factories to the Pearl River Delta (PRD) Region and their Hong Kong offices became headquarters for manufacturing support and other higher value-adding activities (e.g. product design, procurement, marketing, quality control, etc.). In June 2001, in the light of the rapidly evolving economic landscape of Hong Kong, HKPC commissioned a Consultancy Study to review its role, management and operation to ensure its effectiveness in fulfilling its public mission and delivering its services to meet the need of its clients and the economy as a whole.

1.4 The Consultancy Study was completed in April 2002. The study recommended that HKPC's future service focus should be on providing integrated support to innovative and growth oriented Hong Kong firms across the value chain. The main sectoral focus should be on manufacturing firms, particularly those in Hong Kong's foundation industries (Note 1), and related service activities. According to the study:

(a) a role in relation to the manufacturing value chain fitted better with HKPC's existing competencies; and

(b) this provided a sharp service focus and ensured that the manufacturing sector, which was vital to Hong Kong's prosperity, was properly supported.

HKPC accepted the recommendations of the study.

**Note 1:** *According to the Consultancy Study, Hong Kong's foundation industries included electronics, machinery and equipment, toys and plastics, textiles and clothing.*

## *Memorandum of Administrative Arrangements with the Government*

1.5 In March 2003, the Government and HKPC entered into a Memorandum of Administrative Arrangements (MAA). MAA provides a framework for the relationship between the Government and HKPC and sets out in detail the responsibilities of each party. Following the recommendations of the 2002 Consultancy Study (see para. 1.4), MAA states that:

(a) the provisions of MAA are founded on the principle that HKPC should have autonomy and flexibility in utilising its funds and resources insofar as it is not inconsistent with the provisions of the HKPC Ordinance;

(b) the service focus of HKPC is to provide integrated support to innovative and growth oriented Hong Kong firms across the value chain, with the sectoral focus on manufacturing, particularly in Hong Kong's foundation industries, and related service activities, and the main geographical focus on Hong Kong and the PRD in Mainland China;

(c) HKPC may keep as reserves any savings from its annual block grant arising from any reasons other than a curtailment or cessation of activity stated in its Annual Programme and Estimates (see para. 1.11), or reduction in remuneration for its staff as a consequence of any civil service's pay adjustment; and

(d) at any one point in time the level of reserves shall not exceed 15% of HKPC's annual block grant in the current financial year. Amount in excess of the limit shall be returned to the Government in the following financial year.

1.6 In June 2009, the Government and HKPC renewed MAA. A number of revisions were made to MAA including, for example, removal of the clause that required HKPC to use part of its subvention obtained from the Government to fund the recurrent operating cost of the Clothing Technology Demonstration

Centre Company Limited (Note 2). However, the salient features mentioned in paragraph 1.5 remained unchanged.

## *Recent initiatives of HKPC*

1.7 In the 2016 Policy Address, CE said that re-industrialisation was a potential new area of economic growth for Hong Kong and announced that HKPC would facilitate industrial upgrading and transformation, enabling enterprises to embrace re-industrialisation and move towards high value-added production. Examples of major initiatives introduced by HKPC in 2017 and 2018 to facilitate the Government's policy direction of re-industrialisation included:

(a) establishing the "Smart Industry One" (see Photograph 1) in August 2017 to showcase the concept and features of the Fourth Industrial Revolution;

(b) establishing the "Inno Space" (see Photograph 2) in October 2017 to provide working space and technical support for start-ups, students and graduates so as to help them develop their innovative ideas into industrial designs; and

(c) launching the "Smart Industry One Consortium" exchange platform in March 2018 to enable the industry to keep abreast of the latest development on smart industry.

**Note 2:** *Clothing Technology Demonstration Centre Company Limited was a subsidiary of HKPC, which served to demonstrate technologies and production systems with a view to improving the efficiency of the textile and garment sectors. The Council (see para. 1.8) decided that the company had completed its mission and the company was wound up in October 2008.*

**Photograph 1**

**Smart Industry One of HKPC**

*Source:* *HKPC records*

**Photograph 2**

**Inno Space of HKPC**

*Source:* *HKPC records*

## *Governance and management*

1.8 The Council is the governing body of HKPC. According to the HKPC Ordinance, the Council shall consist of not more than 23 members appointed by CE (Note 3), comprising a Chairman, 17 persons representing management, labour and professional or academic interests, and not more than five public officers (Note 4). The Council meets three times a year and is supported by four Committees:

(a) ***Audit Committee.*** The responsibilities of this Committee include monitoring and making recommendations to enhance HKPC's healthy corporate governance. As at 31 March 2019, there were seven members in this Committee;

(b) ***Business Development Committee.*** The responsibilities of this Committee include reviewing the business activities of HKPC, exploring new business opportunities, and recommending the three-year strategic plan of HKPC to the Council. As at 31 March 2019, there were eight members in this Committee;

(c) ***Finance Committee.*** The responsibilities of this Committee include monitoring the financial performance of HKPC, making recommendations on HKPC's Three-year Forecast (see para. 1.11) and Annual Programme and Estimates, and the transfer of funds between major heads of expenditure, for consideration by the Council. It also advises the Council on matters relating to HKPC's financial policies and matters that have a significant financial impact on HKPC. As at 31 March 2019, there were eight members in this Committee; and

(d) ***Staffing Committee.*** The responsibilities of this Committee include appointing staff and monitoring the staffing situation. It also advises the Council on human resources development policies and monitors HKPC's

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**Note 3:** *The authority of CE to appoint members of the Council, other than the Chairman, has been delegated to the Secretary for Innovation and Technology.*

**Note 4:** *As at 31 March 2019, the five public officers appointed as Council members were: (a) the Permanent Secretary for Innovation and Technology; (b) the Commissioner for Innovation and Technology; (c) the Director-General of Trade and Industry; (d) the Government Economist; and (e) the Deputy Commissioner for Labour (Labour Administration).*

general terms and conditions of service. As at 31 March 2019, there were ten members in this Committee.

1.9 Under the HKPC Ordinance, the Council is given the power to appoint an Executive Director (ED) to be the chief administrative officer, other officers, servants and agents. As at 31 March 2019, HKPC had a total of 640 staff, comprising 245 permanent and 395 contract staff. The organisation chart of HKPC as at 31 March 2019 is shown at Appendix A.

## *Role of the Commissioner for Innovation and Technology*

1.10 The Commissioner for Innovation and Technology (CIT), who heads the Innovation and Technology Commission (ITC), is the Controlling Officer of the subventions granted to HKPC (see para. 1.15). As the Controlling Officer, CIT is responsible for ensuring that HKPC's activities accord with its objectives and relevant public policies and priorities, and that HKPC's policy objectives are appropriate. CIT may also advise HKPC on the need to review these objectives in the light of changes in the economic environment.

1.11 According to MAA, HKPC is required to submit to CIT annually a Three-year Forecast and an Annual Programme and Estimates. The Three-year Forecast should set out the strategic targets of HKPC, the plans to be adopted in achieving these targets and an assessment of their resource implications. On the other hand, the Annual Programme and Estimates should include proposed activities categorised in different programme areas and estimates of income and expenditure for the forthcoming financial year for the Government's approval.

1.12 Under the HKPC Ordinance, HKPC is also required to submit to the Government within six months after the end of each financial year, for tabling in the Legislative Council:

(a) a report on its activities; and

(b) a copy of its audited accounts.

## *HKPC Standard Practices*

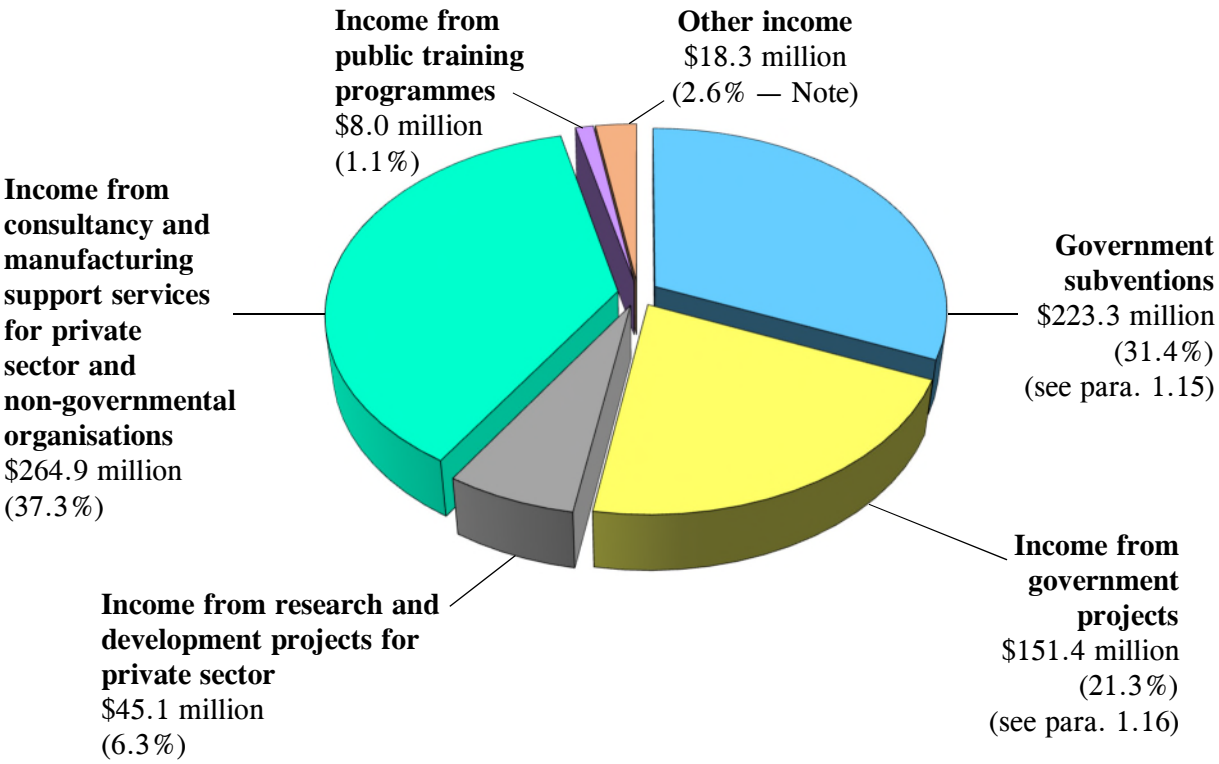
1.13 HKPC has issued a set of HKPC Standard Practices to provide guidance to staff for the proper administration and functioning of HKPC. HKPC Standard Practices stipulate the policies, regulations and procedures governing HKPC's operations (e.g. human resource and procurement management).

## *Income*

1.14 In 2017-18, HKPC had a total income of $711 million. Figure 1 provides an analysis of the sources of income.

**Figure 1**

**Analysis of total income of $711 million of HKPC (2017-18)**




*Source:* *HKPC records*

*Note:* *Other income was mainly income from exhibitions and study missions, interest income and rental income.*

1.15 The Government partly funds the operation of HKPC. In 2017-18, total government subventions received by HKPC amounted to $223.3 million. The subventions comprised the following:

(a) ***Recurrent subvention.*** This is provided to HKPC in the form of a cash-limited annual block grant. In 2017-18, HKPC received a recurrent subvention of $201.9 million from ITC;

(b) ***Subvention in addition to annual block grant.*** To enhance HKPC's services, additional subventions have been provided on top of the annual block grant on a time limited basis. In 2017-18, income recognised from ITC's additional subvention for Inno Space (see para. 1.7(b)) amounted to $5.4 million (Note 5); and

(c) ***Funding to the Automotive Parts and Accessory Systems Research and Development Centre (APAS)*** (Note 6). According to a Funding Agreement entered into between the Government and HKPC in March 2013, the Innovation and Technology Fund (ITF — Note 7) provides financial assistance to support the operation of APAS for the period from 1 April 2006 to 31 March 2021. In 2017-18, HKPC received $16 million from ITF to cover the operating costs of APAS.

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**Note 5:** *ITC's financial provision to HKPC in 2017-18 under the Government's General Revenue Account amounted to $215.9 million, comprising a recurrent subvention of $201.9 million and an additional subvention of $14 million for the Inno Space. Of the $14 million for the Inno Space, HKPC recognised $5.4 million and $8.6 million as its income in 2017-18 and 2018-19 respectively in accordance with its accounting policies.*

**Note 6:** *APAS was initially set up as an independent legal entity. In November 2012, it merged with HKPC and became a division of the Technology Development Branch of HKPC.*

**Note 7:** *ITF was established under the Public Finance Ordinance (Cap. 2) to finance projects that contribute to innovation and technology upgrading in the manufacturing and service industries, as well as those that contribute to the upgrading and development of the manufacturing and service industries.*

1.16 In addition to government subventions, HKPC also received the following income from the Government:

(a) ***Income from government funding schemes.*** These mainly represented ITF funded research and development projects initiated by HKPC. In 2017-18, project funding from ITF amounted to $57.9 million;

(b) ***Consultancy services for government bureaux/departments (B/Ds).*** These mainly represented consultancy services engaged by B/Ds through competitive bidding processes. For example, the Highways Department engaged HKPC to develop a robot system for placement and collection of traffic cones and lanterns in road works (see Photograph 3). In 2017-18, income from consultancy services for B/Ds amounted to $65.7 million; and

(c) ***Secretariat services for government funding schemes*** (Note 8). Services provided by HKPC included planning and organising publicity and promotional activities, receiving and undertaking initial vetting of applications, monitoring the progress of approved projects, and disbursing funds for the funding schemes. In 2017-18, income from secretariat services for government funding schemes amounted to $27.8 million.

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**Note 8:** *In 2017-18, HKPC provided secretariat services for four government funding schemes, namely: (a) Cleaner Production Partnership Programme; (b) Dedicated Fund on Branding, Upgrading and Domestic Sales; (c) Recycling Fund; and (d) Retail Technology Adoption Assistance Scheme for Manpower Demand Management.*

**Photograph 3**

**A consultancy project on robot system engaged by the Highways Department**

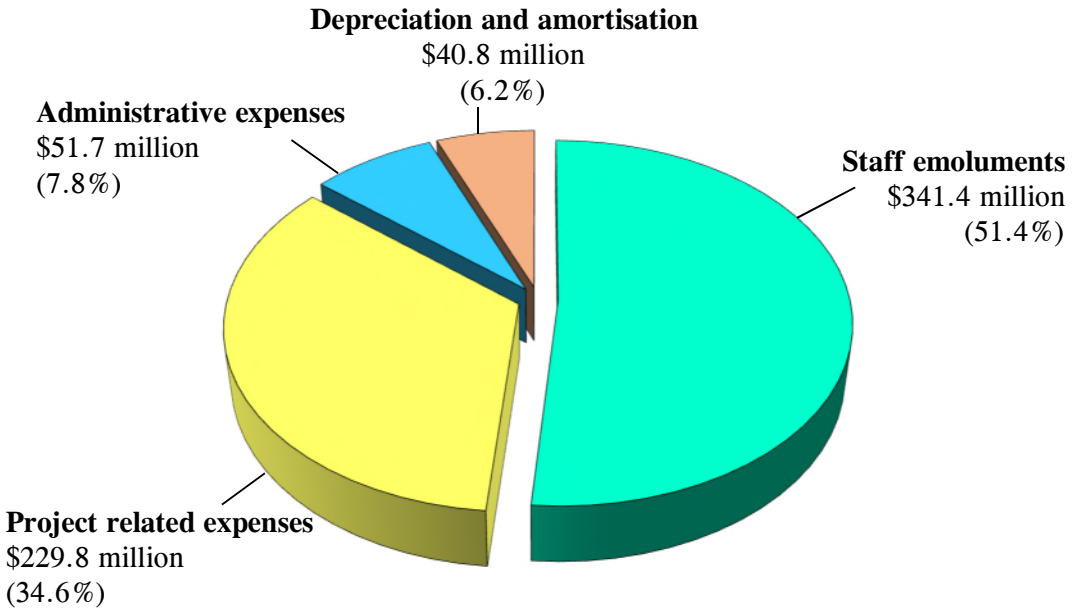
*Source:* *HKPC records*

## *Expenditure*

1.17 In 2017-18, HKPC had a total expenditure of $663.7 million. Figure 2 provides an analysis of the expenditure.

**Figure 2**

**Analysis of total expenditure of $663.7 million of HKPC (2017-18)**




*Source:* *HKPC records*

## Audit review

1.18 In 2009, the Audit Commission (Audit) completed a review of HKPC and reported the results in Chapter 7 and Chapter 8 of the Director of Audit's Report No. 53 of October 2009.

1.19 In March 2019, Audit commenced a review of HKPC. The findings of this audit review are contained in two separate Audit Reports, as follows:

(a) "Governance and administrative issues of the Hong Kong Productivity Council" (the subject matter of this Audit Report); and

(b) "Provision of consultancy, research and development and training services by the Hong Kong Productivity Council" (Chapter 2 of the Director of Audit's Report No. 73).

1.20 This Audit Report focuses on the following areas:

(a) corporate governance and performance reporting (PART 2);

(b) human resource management (PART 3); and

(c) procurement and other administrative issues (PART 4).

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

## General response from HKPC

1.21 ED, HKPC agrees with all the issues raised in the two Audit Reports and accepts the corresponding recommendations. He has said that he greatly appreciates the tremendous efforts made by Audit in conducting the review. The areas covered are comprehensive and the recommendations made are useful and constructive. HKPC attaches great importance to the audit recommendations, and has drawn up a detailed action plan with full consultation to the HKPC Council on it. Follow-up actions have been taken immediately in respect of some of the audit recommendations, whilst further concrete actions have been scheduled to implement the rest.

## General response from the Government

1.22 CIT agrees with the audit recommendations. She has said that:

(a) the Government appreciates the audit review on the administration and operation of HKPC. ITC is grateful for the observations and recommendations, which will help HKPC improve its corporate governance, financial and human resources management, management of consultancy and manufacturing support services, performance measurement and commercialisation of results of research and development projects, as well as provision of training services in order to serve the industry more effectively and efficiently; and

(b) HKPC has informed the Government that it accepts all the recommendations as set out in the two Audit Reports. ITC will work

closely with HKPC to ensure the early implementation of improvement measures as appropriate.

## Acknowledgement

1.23 Audit would like to acknowledge with gratitude the full cooperation of the staff of ITC and HKPC during the course of the audit review.

# PART 2: CORPORATE GOVERNANCE AND PERFORMANCE REPORTING

2.1 This PART examines corporate governance and performance reporting issues, focusing on the following areas:

(a) corporate governance (paras. 2.2 to 2.20); and

(b) performance reporting (paras. 2.21 to 2.29).

## Corporate governance

2.2 The Council is HKPC's governing body, providing strategic leadership in the fulfilment of the organisation's functions. As at 31 March 2019, the Council consisted of 23 members appointed by the CE (see Note 3 to para. 1.8), comprising a Chairman, 17 persons representing management, labour and professional or academic interests and five public officers (see Note 4 to para. 1.8). Council members are non-executive in nature and are appointed for a two-year term. The Council meets three times a year and is supported by four Committees:

(a) Audit Committee;

(b) Business Development Committee;

(c) Finance Committee; and

(d) Staffing Committee (see para. 1.8).

### *Need to improve attendance of some members*

2.3 In the period from 2014 to 2019 (up to 31 March), 88 Council/Committee meetings were held. The attendance rates of these meetings ranged from 72% to 100% (see Table 1).

**Table 1**

**Attendance rates of Council/Committee meetings**
**(2014 to 2019 (up to 31 March))**

| Year | Attendance rate | | | | |
|---|---|---|---|---|---|
| | Council | Audit Committee | Business Development Committee | Finance Committee | Staffing Committee |
| 2014 | 93% | 92% | 78% | 100% | 89% |
| 2015 | 87% | 97% | 81% | 90% | 97% |
| 2016 | 86% | 86% | 72% | 90% | 82% |
| 2017 | 96% | 97% | 95% | 100% | 91% |
| 2018 | 91% | 97% | 100% | 83% | 97% |
| 2019 (up to 31 March) | 87% | 100% | 88% | 75% | 90% |

*Source: Audit analysis of HKPC records*

2.4 While noting that the overall attendance rates of HKPC Council/Committee meetings were not low, Audit examination of the attendance records of Council/Committee members appointed or reappointed during the period from 2014 to 2019 (up to 31 March) revealed that three members had attended less than half of the Council/Committee meetings over their tenures:

(a) one member attended only 9 (45%) of the 20 Council meetings and 3 (43%) of the 7 Business Development Committee meetings;

(b) another member, while having attended all Council meetings held during the period, attended only 3 (43%) of the 7 Business Development Committee meetings; and

(c) there was also a third member who attended only 1 (25%) of the 4 Finance Committee meetings.

2.5 Audit considers that HKPC needs to step up its efforts to encourage members' attendance at meetings. Further measures may include, for example, reminding members of the importance of attending meetings and providing assistance to members who have difficulties in attending meetings where possible.

## *Late issue of minutes of Council/Committee meetings*

2.6 It is important that the minutes of Council/Committee meetings are issued to members as soon as possible after each meeting. This would enable members to comment on the minutes or suggest amendments while their memory of the meeting is still fresh. At a Council meeting held in September 2009, it was decided that the Council Secretariat should:

(a) provide members with the draft minutes of Council/Committee meetings within three weeks after the meetings; and

(b) provide members with the revised draft minutes (i.e. incorporating proposed amendments to the draft minutes) within two weeks after the issue of the draft minutes.

2.7 Audit noted that, for 19 (90%) of the 21 Council/Committee meetings held in 2018 and 2019 (up to 31 March), the revised draft minutes were issued more than two weeks after the issue of the draft minutes. The delays ranged from 1 to 29 days, averaging 14 days.

2.8 According to HKPC, HKPC requested members to provide their proposed amendments to the draft minutes within two weeks. As there were cases where members took two weeks or more to provide their proposed amendments to the draft minutes, it was unrealistic for the Council Secretariat to incorporate the proposed amendments and issue the revised draft minutes within two weeks after the issue of the draft minutes. Audit considers that HKPC needs to encourage members to provide their proposed amendments to the draft minutes as early as possible and issue the minutes of meetings to them in a timely manner.

## *Late submission of declaration of interests by some Council members*

2.9 According to HKPC's Code of Conduct for Council members, HKPC adopts a two-tier reporting system for declaration of interests by members. Under this system, members shall disclose and register in writing their personal interest, direct or indirect, pecuniary or otherwise, on first appointment and thereafter annually to the Council Secretariat. In addition, members must, as soon as practicable after they have become aware of, disclose to the Council Chairman of HKPC their direct personal or pecuniary interest in any matter under consideration by the Council or the Standing Committees prior to their discussion of the matter. All cases of declaration of interests by members shall be recorded in the minutes of meeting.

2.10 Audit examined 24 declaration of interest forms on first appointment and 95 annual declaration of interest forms submitted by Council members from 2015 to 2019 (up to 31 March). Audit found that 12 (13%) of the 95 annual declaration of interest forms were submitted after the required submission dates. The delays ranged from 1 to 55 days, averaging 15 days.

2.11 According to the Code of Conduct for Council members, when a known direct pecuniary interest exists, the Council Secretariat may withhold circulation of relevant papers to the member concerned. However, Audit noted that there was a case where a member submitted his annual declaration of interest form on 27 March 2019 after the deadline of 31 January 2019. Before the member submitted the form, the Staffing Committee papers and Council papers had been circulated to him on 5 March 2019 and 20 March 2019 respectively. On this occasion, there were no potential conflicts of interest. However, the late declaration would have prevented the Council Secretariat from withholding circulation of sensitive information in the relevant papers to that member if he had declared a known direct pecuniary interest. To avoid potential conflicts of interest, Audit considers that HKPC needs to take measures to ensure that Council members submit declaration of interest in a timely manner.

## *Need to review HKPC's service focus*

2.12 In 1967, the Government established HKPC under the HKPC Ordinance to promote increased productivity and the use of more efficient processes throughout Hong Kong's business sectors. The functions of HKPC are set out in paragraph 1.2.

2.13 A Consultancy Study was commissioned by HKPC in June 2001 to review its role, management and operation to ensure that they remain relevant and competitive in the context of Hong Kong's economic development. The Consultancy Study was completed in April 2002. In the Consultancy Study, HKPC's role and focus were reviewed. The consultant took into account HKPC's core competencies and the development of Hong Kong as a World City as elucidated in a report issued by the Commission on Strategic Development in 2000 and stated in the consultancy report that:

(a) a role in relation to the manufacturing value chain fitted better with HKPC's competencies but also presented some opportunities to develop existing and new expertise within a strategic framework;

(b) the most challenging was the integration of support across the value chain, and between Hong Kong and the Mainland; and

(c) HKPC had a unique competitive advantage in this area because no other organisation in the region had the same capacity to integrate service provision functionally and geographically.

2.14 In order to provide a sharp service focus, the Consultancy Study recommended that:

(a) HKPC's main focus over the next five years should be to provide integrated support across value chain of Hong Kong firms' activities. The principal market focus should be innovative and growth oriented manufacturing firms, particularly those in the foundation industries (Note 9) of Hong Kong, together with related services; and

(b) the principal geographical focus should be Hong Kong and PRD.

HKPC accepted the report in May 2002 and agreed to make reference to the recommendations therein in re-positioning its role, focus and operation.

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**Note 9:** *The foundation industries are those industrial sectors which are the main contributors to output and wealth in the manufacturing sector in Hong Kong and the PRD. They include: (a) electronics; (b) machinery and equipment; (c) toys and plastics; (d) textiles; and (e) clothing.*

2.15 In March 2003, the Government and HKPC entered into an MAA. The service focus recommended in the 2002 Consultancy Study was incorporated in the provisions of MAA. MAA stated that the service focus of HKPC was to provide integrated support to innovative and growth oriented Hong Kong firms across the value chain, with the sectoral focus on manufacturing, particularly in Hong Kong's foundation industries, and related service activities, and the main geographical focus on Hong Kong and the PRD in Mainland China.

2.16 Audit noted that there was a specific time frame in the recommendation in the 2002 Consultancy Study on HKPC's service focus. The Consultancy Study only recommended HKPC's service focus over the following five years (i.e. up to 2007). MAA was reviewed in 2009 and no change was made to HKPC's service focus. There was no documentary evidence showing that the service focus was considered during the review. Since the 2002 Consultancy Study, HKPC's service focus stated in MAA has not been reviewed to ensure that it remains relevant in the context of Hong Kong's economic development.

2.17 The economic landscape of Hong Kong has in the past decades changed significantly. This requires HKPC to constantly review its role and service focus to ensure that it catches up with the needs of the industries. Audit noted that after the Consultancy Study conducted in 2002, there had been changes in Hong Kong's economic development as well as HKPC's strategic themes and service focus. Details are as follows:

(a) ***Hong Kong needs to diversify to high value-adding industry sectors.*** In 2013, HKPC conducted the study "Hong Kong Industry Development Strategy – Leveraging Our Strength of Trustworthiness". According to the study report:

(i) the advantages in PRD as a low cost manufacturing base were steadily eroded as a result of increasing operational costs. As a result, the advantages enjoyed by Hong Kong's traditional industries for many years were dwindling; and

(ii) in order to strengthen its engine for economic growth, Hong Kong must diversify to high value-adding industry sectors with high potential, such as Healthcare and Medical Devices, Food Processing, Traditional Chinese Medicine, Elderly Care, Environmental Services,

High Value Logistics, Brand Licensing, Software Testing and Certification, and Creative and Innovative Toy;

(b) ***New strategic themes of HKPC.*** At a Council meeting held on 27 February 2016, the Council discussed HKPC's strategic framework and positioning to better support the formulation of business development initiatives to meet the new and emerging needs of industry. At the meeting, members agreed to pursue a 3-pronged strategy and 10 strategic themes for HKPC in future. The 10 strategic themes were:

(i) sustainability services/products;

(ii) re-industrialisation;

(iii) healthcare solutions;

(iv) novel materials;

(v) testing and compliance;

(vi) smart services/products;

(vii) cyber security;

(viii) business transformation;

(ix) knowledge and innovation management; and

(x) retooling;

The 10 strategic themes covered various industry sectors not limiting to the manufacturing sector;

(c) ***Expansion of HKPC's service focus.*** Audit examined the Three-year Strategic Plans of HKPC approved in the period from 2016 to 2019 and noted that apart from the manufacturing sector, HKPC had expanded its service focus to other industry sectors, such as retail, medical, healthcare, pharmaceutical, Gerontech (Note 10), information technology industries, automotive, aviation, life sciences, transportation and logistics, energy, consumer goods and servicing industries. For example, under the strategic theme of healthcare solutions, market industry study was carried out to examine the market needs and availability of smart healthcare technologies for elderly care. According to HKPC, the market study provided valuable insights into the elderly care sector and facilitated HKPC to expand its service focus to Gerontech to tap this emerging market; and

(d) ***Greater Bay Area.*** According to MAA, the main geographical focus of HKPC is on Hong Kong and the PRD in Mainland China. In 2017, the National Development and Reform Commission, the governments of Guangdong, Hong Kong and Macao signed the Framework Agreement on Deepening Guangdong-Hong Kong-Macao Cooperation in the Development of the Greater Bay Area. The Framework Agreement set out the goals and principles of cooperation and established the key cooperation areas in the development of the Guangdong-Hong Kong-Macao Greater Bay Area, which consisted of Hong Kong, Macao and nine PRD municipalities. The development of Greater Bay Area might have impact on the production base of Hong Kong industry.

2.18 HKPC's service focus stated in MAA has not been reviewed since the 2002 Consultancy Study. Furthermore, there had been changes in Hong Kong's economic development, HKPC's strategic themes and service focus. Audit considers that HKPC needs to review, in collaboration with ITC, the service focus of HKPC stated in MAA and revise MAA on the service focus where necessary.

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**Note 10:** *Gerontech focuses on the application of technology towards elderly-related products and services to enhance the well-being, quality of life, independence and self-reliance of the elderly, and provide support to the families, caregivers, healthcare staff and institutions.*

## Audit recommendations

2.19 **Audit has *recommended* that ED, HKPC should:**

(a) **closely monitor the attendance of members at Council/Committee meetings and step up efforts to encourage members' attendance at meetings;**

(b) **encourage members to provide their proposed amendments to the draft minutes of Council/Committee meetings as early as possible and issue the minutes of meetings to them in a timely manner;**

(c) **take measures to ensure that Council members submit declaration of interest in a timely manner; and**

(d) **in collaboration with ITC, review the service focus of HKPC stated in MAA and revise MAA on the service focus where necessary.**

## Response from HKPC

2.20 ED, HKPC agrees with the audit recommendations. He has said that:

(a) regarding member attendance, HKPC will:

(i) send out the attendance record together with meeting agenda/papers before meetings, with a note to remind members of the importance of attending meetings and encourage their attendance;

(ii) offer the option of attendance by teleconferencing if the member is not physically available for attending the meeting; and

(iii) encourage members who could not attend meetings to provide their views/feedback on the papers in writing prior to the meeting;

(b) HKPC will send reminder to members one week before deadline, and issue a further reminder to members on the day of deadline, stating that the revised

draft minutes will be circulated by incorporating comments received on or before the deadline;

(c) to avoid potential conflict of interest, since July 2019, the Council Secretariat has started to remind members to review if they have any direct/pecuniary interests on matters to be discussed at Council meetings before meeting starts. HKPC will:

(i) issue reminder seven days before the submission deadline, together with individual follow-up calls, to encourage submission of declaration of interest form as early as possible;

(ii) encourage submission of an electronic copy, to be followed by an original signed copy; and

(iii) send further reminder to members on the submission deadline to ensure that the declaration of interest is returned without further delay; and

(d) although the service focus in MAA has not been revised since 2009, the strategic themes and service focus of HKPC were reviewed and updated frequently. The Three-year Strategic Plan is updated every year during the Annual Programme and Estimates exercise. HKPC will review and update the relevant sections of MAA with ITC.

## Performance reporting

2.21 According to MAA:

(a) to ensure that the subventions from the Government are used in a cost-effective manner for the provision of services, HKPC shall propose for CIT's approval a set of performance indicators for measuring the progress of HKPC's activities;

(b) such performance indicators shall fall under but not limited to the following dimensions of performance:

(i) service delivery;

(ii) operating efficiency;

(iii) financial results; and

(iv) effectiveness;

(c) the performance indicators and targets may be reviewed from time to time and amended as agreed in writing by both HKPC and CIT;

(d) HKPC shall submit to CIT a report on its achievements with regard to the performance indicators. These indicators provide important reference for planning and measuring the progress of the activities undertaken by HKPC and for facilitating the assessment and approval of HKPC's Annual Programme and Estimates by the Government; and

(e) if HKPC fails to achieve agreed performance targets, HKPC shall provide explanations for such failures to the satisfaction of CIT.

2.22 Since 2010-11, the annual performance of HKPC has been reported against key performance indicators (KPIs) and targets set in its Annual Programme and Estimates approved by the Council and CIT. In 2018-19, HKPC's performance was reported with reference to 23 KPIs comprising 13 "Core KPIs" and 10 "Other KPIs" covering the areas of service delivery, operating efficiency, financial results and effectiveness.

## *Performance targets not met*

2.23 Audit examination of the achievements of performance targets in the period from 2014-15 to 2018-19 revealed that:

(a) every year, HKPC failed to meet one or more performance targets, although the number of targets not met decreased from 10 in 2014-15 to 1 in 2018-19 (see Table 2); and

**Table 2**

**Number of KPIs where performance targets were not met**
**(2014-15 to 2018-19)**

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|
| No. of KPIs (a) | 30 | 22 | 23 | 23 | 23 |
| No. of KPIs where performance targets were not met (b) | 10 | 5 | 5 | 3 | 1 |
| Percentage of KPIs where performance targets were not met (c)=(b)÷(a)×100% | 33% | 23% | 22% | 13% | 4% |

*Source:* *Audit analysis of HKPC records*

(b) some performance targets were not achieved for three years or more in the five-year period from 2014-15 to 2018-19:

(i) the target on one KPI, i.e. income from training courses, was not achieved in each of the five years;

(ii) the target on two KPIs, namely number of consultancy projects accepted and income from manufacturing support projects, were not achieved in each of the four years from 2014-15 to 2017-18; and

(iii) the target on one KPI, i.e. number of fee-charging training courses launched, was not achieved in each of the three years from 2014-15 to 2016-17 (see Table 3).

**Table 3**

**KPIs where performance targets were not met**
**(2014-15 to 2018-19)**

| KPI | Extent of achievement of performance targets | | | | |
|---|---|---|---|---|---|
| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
| **Core KPI** | | | | | |
| 1. Percentage of business employee hours charged to billable projects | 91% | 107% | 110% | 107% | 103% |
| **Other KPI** | | | | | |
| 2. No. of consultancy projects accepted | 78% | 86% | 93% | 72% | 101% |
| 3. No. of fee-charging training courses launched | 60% | 69% | 90% | 134% | 117% |
| 4. No. of people attended the fee-charging training courses | 52% | 79% | 124% | 207% | 203% |
| 5. Income from consultancy projects | 91% | 103% | 110% | 105% | 106% |
| 6. Income from training courses | 65% | 47% | 53% | 57% | 60% |
| 7. Income from manufacturing support projects | 79% | 69% | 69% | 79% | 115% |
| 8. Income per consultancy project in progress | 86% | 101% | 93% | 107% | 107% |
| 9. No. of new Government funded projects | 80% | N/A (Note) | | | |
| 10. Funding approved for new Government funded projects | 76% | N/A (Note) | | | |

Legend: Performance targets not met

*Source:* *Audit analysis of HKPC records*

*Note:* *These two KPIs were no longer used from 2015-16.*

2.24 According to MAA, if HKPC fails to achieve agreed performance targets, HKPC shall provide explanations for such failures to the satisfaction of CIT. However, for the targets on two KPIs on "Number of consultancy projects accepted" and "Income from manufacturing support projects", there was no documentary evidence showing that HKPC had provided explanations to CIT for failing to meet these two performance targets in 2017-18. As KPIs provide important reference for planning and measuring the progress of the activities undertaken by HKPC, and for facilitating the assessment and approval of HKPC's Annual Programme and Estimates by the Government, Audit considers that HKPC needs to ascertain the reasons for failing to achieve the agreed performance targets and provide explanations for such failures to the satisfaction of CIT as stipulated in MAA.

### *Need to improve disclosure of KPIs*

2.25 From 2016-17 to 2018-19, 23 KPIs comprising 13 "Core KPIs" and 10 "Other KPIs" were set to assess HKPC's performance. According to HKPC, "Core KPIs" were more meaningful in measuring HKPC performance than "Other KPIs". HKPC disclosed some KPIs in its Annual Reports and CIT's Controlling Officer's Reports (CORs). Audit examined the KPIs disclosed in the Annual Reports and CORs for 2016-17 and 2017-18 and noted that of the 23 KPIs, HKPC had not disclosed 11 (48%) KPIs. The 11 KPIs not disclosed in the Annual Reports and CORs included 9 "Core KPIs" and 2 "Other KPIs" (see Table 4). While HKPC disclosed 8 (80%) of the 10 "Other KPIs", only 4 (31%) of the 13 "Core KPIs" were disclosed.

**Table 4**

**KPIs not disclosed in the Annual Report or the COR**

| Dimension of performance | KPI |
|---|---|
| **Core KPI** | |
| Operating efficiency | 1. Percentage of business employee hours charged to billable projects |
| Financial result | 2. Overall income per employee |
| | 3. Total external income |
| Effectiveness | 4. Number of theme-based industry consultation organised |
| | 5. Number of new services and products introduced |
| | 6. Number of patent/licence/royalty |
| | 7. Number of products/technologies commercialised |
| | 8. Percentage of customers giving a score of 7.5 or above out of 10 in terms of productivity gain |
| | 9. Training participants satisfaction index |
| **Other KPI** | |
| Service delivery | 1. Number of fee-charging training courses launched |
| Financial result | 2. Income per consultancy project in progress |

*Source: Audit analysis of HKPC records*

2.26 Audit considers that HKPC needs to consider disclosing more KPIs in the HKPC Annual Report to enhance transparency and accountability, particularly the "Core KPIs".

2.27 Audit also noted that in the HKPC Annual Report, there was only a comparison of current year's performance with that of previous four years. There was no comparison of actual performance against performance targets in the Annual Report. To enhance transparency and accountability, Audit considers that HKPC needs to consider reporting actual performance against performance targets in its Annual Report.

## Audit recommendations

2.28 **Audit has *recommended* that ED, HKPC should:**

(a) **ascertain the reasons for failing to achieve the agreed performance targets and provide explanations for such failures to the satisfaction of CIT as stipulated in MAA;**

(b) **consider disclosing more KPIs in the HKPC Annual Report, particularly the "Core KPIs"; and**

(c) **consider reporting actual performance against performance targets in the HKPC Annual Report.**

## Response from HKPC

2.29 ED, HKPC agrees with the audit recommendations. He has said that HKPC will:

(a) set up, in consultation with ITC, a more formal mechanism for submitting the reasons for shortfalls against KPI targets;

(b) review the KPIs to be disclosed in the HKPC Annual Report with a view to disclosing more "Core KPIs"; and

(c) consider reporting the actual performance against the target performance in the Annual Report.

# PART 3: HUMAN RESOURCE MANAGEMENT

3.1 This PART examines the human resource management, focusing on the following areas:

(a) staff strength and turnover (paras. 3.2 to 3.11); and

(b) staff recruitment (paras. 3.12 to 3.17).

## Staff strength and turnover

3.2 According to HKPC Standard Practices, the total number of headcounts of each division/branch office of HKPC will be capped within the number of headcounts approved in the Annual Programme and Estimates by the Council. As at 30 June 2019, HKPC had nine job grades (see Table 5).

**Table 5**

**Job grades of HKPC**
**(30 June 2019)**

| Level | Grade | Position |
|---|---|---|
| Senior | 9 | ED |
| | 8 | Director |
| | 7 | General Manager |
| | 6 | Deputy General Manager, Senior Consultant, Senior Manager |
| Middle | 5 | Consultant, Manager |
| | 4 | Associate Consultant, Assistant Manager, Senior Engineering/ Laboratory/Technical Officer, Business/System/Security Analyst |
| General | 3 | Cadet Engineer, Engineering/Laboratory/Technical/Business Officer, Assistant Business/Security/System Analyst |
| | 2 | Assistant Engineering/Technical/Business Officer, Assistant Technical Support, Assistant Technician, Building Attendant |
| | 1 | Office/Property Assistant, Driver |

*Source: HKPC records*

## *Significant difference between staff establishment and strength*

3.3 Audit compared the staff establishment and the staff strength of HKPC as at 30 June 2018 and 30 June 2019 and found that:

(a) the total staff strength fell short of the total staff establishment by 131 (18.8%) as at 30 June 2018 and by 123 (17.7%) as at 30 June 2019;

(b) as at 30 June 2018 and 30 June 2019, there were significant staff shortfalls for Grade 4 to Grade 8 staff. In particular:

  (i) there was a shortfall of 51 (29.3%) Grade 4 staff and 99 (41.1%) Grade 5 staff as at 30 June 2018; and

  (ii) there was a shortfall of 33 (18.5%) Grade 4 staff and 109 (45.2%) Grade 5 staff as at 30 June 2019; and

(c) as at 30 June 2018 and 30 June 2019, there were significant staff surpluses for Grade 2 (26 and 15 staff respectively) (Note 11) and Grade 3 (12 and 22 staff respectively) staff (see Tables 6 and 7).

**Note 11:** *The staff establishment of Grade 2 staff was reduced from 107 in 2017-18 to 58 in 2018-19. According to HKPC, the reduction of Grade 2 staff would be achieved through a gradual process and no dismissal or retrenchment would be done.*

**Table 6**

**Staff establishment and strength**
**(30 June 2018)**

| Grade | Staff establishment (2018-19) | Staff strength (30 June 2018) | Surplus/ (shortfall) | |
|---|---|---|---|---|
| | (a) | (b) | (c) = (b)-(a) | (d) = (c) ÷ (a) × 100% |
| | No. | No. | No. | Percentage |
| 9 | 1 | 1 | 0 | 0.0% |
| 8 | 3 | 2 | (1) | (33.3%) |
| 7 | 12 | 7 | (5) | (41.7%) |
| 6 | 66 | 53 | (13) | (19.7%) |
| 5 | 241 | 142 | (99) | (41.1%) |
| 4 | 174 | 123 | (51) | (29.3%) |
| 3 | 133 | 145 | 12 | 9.0% |
| 2 | 58 | 84 | 26 | 44.8% |
| 1 | 7 | 7 | 0 | 0.0% |
| Overall | 695 | 564 | (131) | (18.8%) |

*Source: Audit analysis of HKPC records*

**Table 7**

**Staff establishment and strength**
**(30 June 2019)**

| Grade | Staff establishment (2019-20) | Staff strength (30 June 2019) | Surplus/ (shortfall) | |
|---|---|---|---|---|
| | (a) | (b) | (c) = (b)-(a) | (d) = (c) ÷ (a) × 100% |
| | No. | No. | No. | Percentage |
| 9 | 1 | 1 | 0 | 0.0% |
| 8 | 3 | 2 | (1) | (33.3%) |
| 7 | 12 | 7 | (5) | (41.7%) |
| 6 | 66 | 54 | (12) | (18.2%) |
| 5 | 241 | 132 | (109) | (45.2%) |
| 4 | 178 | 145 | (33) | (18.5%) |
| 3 | 129 | 151 | 22 | 17.1% |
| 2 | 58 | 73 | 15 | 25.9% |
| 1 | 7 | 7 | 0 | 0.0% |
| Overall | 695 | 572 | (123) | (17.7%) |

*Source:* *Audit analysis of HKPC records*

3.4 On various occasions, members of the Staffing Committee raised concern on the significant discrepancy between the staff establishment and the actual strength, especially for Grade 5 staff (i.e. Consultant and Manager). However, Audit noted that the problem of the shortfall of Grade 5 staff had become more serious. The shortfall of Grade 5 staff increased from 99 as at 30 June 2018 to 109 as at 30 June 2019 (see Tables 6 and 7). According to HKPC, Grade 5 staff is the backbone of HKPC's organisation structure to support the core business of consultancy. Audit considers that HKPC needs to take effective measures to address the significant staff shortfalls for some staff grades (especially Consultant and Manager) and the significant staff surpluses for some other staff grades.

## *High staff turnover rates*

3.5 HKPC regularly reports the staff turnover rates (Note 12) to the Staffing Committee and conducts exit surveys with the staff who have left HKPC. Audit examination of HKPC's staff turnover rates for the five years from 2014-15 to 2018-19 revealed that:

(a) the overall staff turnover rates were on the high side. The average staff turnover rate was 19.2%, ranging from 17.1% to 22.5%; and

(b) the staff turnover rates were particularly high for Grade 3 (17.5% to 28%) and Grade 5 (17.3% to 24.3%) staff. The average staff turnover rates for Grade 3 and Grade 5 staff during the period were over 20% (see Table 8).

**Note 12:** *According to HKPC, staff turnover rate is calculated by dividing the number of staff who left HKPC on a voluntary resignation basis by the average number of staff in the year. The staff who left on such grounds as retirement, contract not renewed by HKPC or termination of employment by HKPC are excluded in the calculation.*

**Table 8**

**Analysis of staff turnover rates by grade**
**(2014-15 to 2018-19)**

| Grade | Staff turnover rate | | | | | |
|---|---|---|---|---|---|---|
| | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-19** | **Average** |
| 9 | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| 8 | 0.0% | 0.0% | 0.0% | 50.0% | 0.0% | 10.0% |
| 7 | 21.1% | 21.1% | 0.0% | 23.5% | 12.5% | 15.6% |
| 6 | 11.1% | 11.8% | 14.6% | 25.0% | 11.5% | 14.8% |
| 5 | 20.3% | 17.3% | 21.4% | 24.3% | 20.4% | 20.7% |
| 4 | 23.0% | 15.4% | 15.4% | 19.9% | 18.6% | 18.5% |
| 3 | 19.4% | 20.2% | 17.5% | 28.0% | 21.9% | 21.4% |
| 2 | 18.5% | 17.9% | 17.3% | 14.9% | 20.3% | 17.8% |
| 1 | 0.0% | 10.0% | 0.0% | 12.9% | 0.0% | 4.6% |
| Overall | 19.8% | 17.4% | 17.1% | 22.5% | 19.1% | 19.2% |

*Source: Audit analysis of HKPC records*

3.6 Audit further analysed the years of service of the 109 staff who left HKPC on a voluntary resignation basis in 2018-19 and found that 46 (42%) of them had served in HKPC for less than two years (see Table 9).

**Table 9**

**Analysis of years of service of staff who left HKPC**
**(2018-19)**

| Year of services | Number of staff who left HKPC | |
|---|---|---|
| < 1 year | 27 (25%) | 46 (42%) |
| ≥ 1 to < 2 years | 19 (17%) | |
| ≥ 2 to < 3 years | 11 (10%) | |
| ≥ 3 to < 4 years | 14 (13%) | |
| ≥ 4 years | 38 (35%) | |
| Total | 109 (100%) | |

*Source:* *Audit analysis of HKPC records*

3.7 HKPC conducted exit surveys to ascertain the reasons for departure of the staff having left HKPC. According to the exit surveys for 2014-15 to 2018-19, the main reasons for departure were remuneration and career advancement (see Table 10). During the period, 39.2% to 64% of staff left HKPC due to remuneration or career advancement reasons.

**Table 10**

**Reasons for departure of staff having left HKPC**
**(2014-15 to 2018-19)**

| Reason | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 |
|---|---|---|---|---|---|
| Remuneration/career advancement | 52.8% | 40.6% | 39.2% | 64.0% | 60.6% |
| Job nature/work issues | 34.4% | 34.2% | 37.4% | 15.8% | 20.2% |
| Further study/emigration | 2.4% | 3.6% | 0.0% | 5.0% | 1.0% |
| Miscellaneous reasons (e.g. health issue, family consideration, etc.) | 10.4% | 21.6% | 23.4% | 15.2% | 18.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

*Source: Audit analysis of HKPC records*

3.8 In the period 22 October 2018 to 16 November 2018, HKPC conducted an Employee Opinion Survey. Questionnaires were sent to 640 employees. A total of 532 (83.1%) completed questionnaires were received. It was stated in the survey report that:

(a) HKPC's Employee Satisfaction Index was 79.4%. The Employee Satisfaction Index of employees at Grade 6 or above stood at 87.3%, which was significantly higher than the corresponding figures for Grades 1 to 3 (79%) and Grades 4 to 5 (76.9%);

(b) employees generally perceived that HKPC's performance had yet to catch up with their expectation on all 14 dimensions of performance. In particular, compensation and benefits as well as recognition and reward were the two dimensions which should be given higher priority for improvement; and

(c) 47.4% respondents provided feedback on the desired change at HKPC. Suggestions (such as introducing flexible working hours or home office, more competitive salary, more transparent appraisal system and more promotion opportunities) were provided.

3.9 Audit considers that HKPC needs to step up efforts to reduce high staff turnover, taking into account the results of the exit surveys and the Employee Opinion Survey.

## Audit recommendations

3.10 **Audit has *recommended* that ED, HKPC should:**

(a) **take effective measures to address the significant staff shortfalls for some staff grades (especially Consultant and Manager) and the significant staff surpluses for some other staff grades; and**

(b) **step up efforts to reduce high staff turnover, taking into account the results of the exit surveys and the Employee Opinion Survey.**

## Response from HKPC

3.11 ED, HKPC agrees with the audit recommendations. He has said that:

(a) the staff strength in September 2019 was 603 (compared with 572 in June 2019). The overall vacancy is in reducing trend, 25% reduction as at September 2019 compared with June 2019;

(b) the following actions have been taken since 2019:

(i) enhancing the competitiveness of HKPC's remuneration package;

(ii) posting vacancies internally to encourage potential staff of other Divisions to apply; and

(iii) adopting flexible timing for promotion;

(c) the following actions will continue to be taken:

(i) engaging recruitment agencies for Grade 5 posts and critical posts for enhanced reach-out;

(ii) widening the source and pool of candidates through social media platform, recruitment agencies, recruitment talks in universities and overseas channels; and

(iii) taking effective measure to address the significant staff surpluses for some other staff grades;

(d) HKPC closely monitors the turnover rate, reviews and reports the turnover rate to the Staffing Committee three times a year. The turnover rate in recent years has been on par with market;

(e) keen competition for the scarce supply of technical/niche skill talents in the market has led to high turnover rate of HKPC as it has high portion of technical/business staff;

(f) the 2019 half-year turnover rate was 6.9% with improvement as compared with 9% for the same period in 2018 while market reference from the Hong Kong Institute of Human Resource Management was 13%;

(g) the following actions have been taken recently to retain talents:

(i) contract conversion since 1 July 2019;

(ii) salary review for critical cases;

(iii) introduction of new benefits to be more competitive with market;

(iv) enhanced work practices for staff's welfare;

(v) development programmes for staff's career development; and

(vi) operation process simplification since 2018 and digitalisation in 2019; and

(h) HKPC will continue to review actions required to retain talents including the provision of market competitive remuneration package and follow up with the suggestions from the exit surveys and the Employee Opinion Survey.

## Staff recruitment

3.12 HKPC's recruitment policy aims to recruit the right person for the right job at the right time on the basis of the candidates' qualifications, experience and competencies required for the vacant positions. Vacant positions could be opened up for both internal and external applicants to enhance the competitiveness of the process.

3.13 According to HKPC Standard Practices, the recruitment process is as follows:

(a) ***Requisition.*** A division/branch needs to complete a requisition form for hiring a position in accordance with the manpower requirement plan;

(b) ***Advertising.*** Upon receipt of a completed requisition form from a division/branch, the Human Resources Unit under the Human Resources and Facility Management Division will proceed to recruit the right person internally and externally. The position will be advertised in selected channels;

(c) ***Shortlisting.*** The requisitioning division/branch can shortlist at least three candidates for interview, where applicable and practicable. A Selection Panel should be formed in accordance with the job grade of the vacant position;

(d) ***Interview and selection.*** The Human Resources Unit is responsible for the arrangement of panel interviews with requisitioning division/branch and candidates. A minimum of one interview must be arranged. The Selection Panel should record on the Selection Interview Evaluation Forms the ratings and comments for both successful and unsuccessful candidates after interviews as well as recommendations for appointment, reservation and rejection; and

(e) ***Appointment.*** Upon completion of the interview process, the selected candidate will be recommended to the parties concerned for approval. When the recommendations are approved, the Human Resources Unit will follow up with the successful candidate on the offer of the appointment.

3.14 The approving authorities with regard to the recruitment process stipulated in HKPC Standard Practices are shown in Table 11.

**Table 11**

**Approving authorities with regard to the recruitment process**

| Vacancy level | Staff requisition | Selection Panel representation | Appointment |
|---|---|---|---|
| Grade 4 or below | A Grade 7 staff or Deputy General Manager (Note) | A Grade 6 staff | A Grade 7 staff or Deputy General Manager (Note) |
| Grade 5 | A Grade 7 staff or Deputy General Manager (Note) | A Grade 7 staff or Deputy General Manager (Note) | A Grade 7 staff or Deputy General Manager (Note) |
| Grade 6 | ED | A Grade 8 staff and a Grade 7 staff or Deputy General Manager (Note) | ED |
| Grade 7 | ED | The chairperson of the Selection Panel will be the Staffing Committee Chairman. Its members include at least the ED and one member of the Staffing Committee or one member of the Council, and/or an independent outsider(s) related to the specific areas of expertise. | The Staffing Committee |
| Grade 8 | ED | The composition is subject to the consideration of the Council Chairman and the Staffing Committee Chairman | The Council |

*Source:* *HKPC records*

*Note:* *Deputy General Manager is the approving authority for division/unit without Grade 7 staff only.*

## *Room for improvement in staff recruitment*

3.15 HKPC recruited 318 staff in 2018-19. Audit reviewed the recruitment records of 100 of the 318 staff. The 100 staff comprised staff from eight of the nine job grades. Audit found room for improvement in the following areas:

(a) ***Shortlisting criteria not set.*** According to HKPC Standard Practices, shortlisting should be based on criteria against the job requirements. However, Audit found that for all the 100 recruitment exercises examined, HKPC did not set any shortlisting criteria;

(b) ***Applications received not properly recorded.*** According to the Independent Commission Against Corruption (ICAC) Best Practice Checklist of Staff Administration, all applications received should be recorded in a register or properly date-stamped upon receipt to prevent tampering of applications. In all the 100 recruitment exercises examined, Audit noted that applications received had not been recorded in a register nor date-stamped upon receipt. Moreover, information on the number of applications received for each recruitment was not available. According to HKPC, all unsuccessful applications were disposed of once the posts were filled;

(c) ***Number of candidates shortlisted for interview fewer than required.*** HKPC Standard Practices stipulate that the requisitioning division/ branch can shortlist at least three candidates for interview, where applicable and practicable. Audit noted that, for 22 (22%) of the 100 recruitment exercises examined, fewer than three (only 1 or 2) candidates were shortlisted for interview. Documentary evidence was not available showing the justifications for shortlisting fewer than three candidates for interview;

(d) ***Selection Interview Evaluation Forms not properly completed.*** According to HKPC Standard Practices, the Selection Panel should record on the Selection Interview Evaluation Forms the ratings, comments and recommendations for all candidates. Audit noted that some required information on the Selection Interview Evaluation Forms of 52 of the 100 recruitment exercises was missing:

(i) in 52 exercises, there were a total of 149 Selection Interview Evaluation Forms. The overall ratings were not recorded on 118 (79%) of the 149 Forms;

(ii) in 2 of the 52 exercises, the comments on candidates after the interviews were not recorded by any Selection Panel members in all the 9 Selection Interview Evaluation Forms;

(iii) in 1 of the 52 exercises, 2 of the 5 Selection Panel members did not give ratings against one of the six assessment criteria (i.e. problem solving and rational decision making); and

(iv) in 1 of the 52 exercises, 2 of the 5 Selection Panel members did not sign on the Selection Interview Evaluation Forms;

(e) ***Appointment of one candidate not meeting the job requirement.*** According to HKPC Standard Practices, for a successful applicant not meeting the basic entry requirements, approval from appropriate authority needs to be sought with full justification. Audit noted that, in one case, one of the job requirements for a Grade 3 post was "Diploma or Degree from disciplines such as computer science or equivalent". However, a candidate who had only attained the Foundation Diploma conferred by the Vocational Training Council in 2000 was appointed for the post. The Foundation Diploma course was a one-year course for Secondary Five school leavers to upgrade their generic skills. The Diploma was not the qualification required. No justification was provided in approving the appointment of this candidate, who did not meet the job requirement;

(f) ***Need to require staff to refrain from participating in the selection process if a conflict of interest has been declared.*** According to HKPC Standard Practices:

(i) for recruitment of staff of Grade 4 or below, the Selection Panel should comprise a Grade 6 staff (i.e. Selection Panel Chairman) and a secretary to the Panel (i.e. representative from Human Resources Unit);

(ii) if the recruitment process involves any conflict of interest (e.g. financial and/or personal), the staff members undertaking the recruitment duties, in particular, members of Selection Panels, should declare the conflict of interest to avoid such allegations as favouritism, unfairness, etc.; and

(iii) upon declaration, the Selection Panel Chairman would, in consultation with the Panel and the secretary to the Panel, decide whether the staff member concerned should be excluded or should continue to sit on the Panel.

Audit noted that, in four recruitment exercises of Grade 3 and Grade 4 staff, the Selection Panel Chairman declared that he was a friend or an ex-colleague of the candidates, but he continued to sit on the Selection Panel as Selection Panel Chairman. Because the secretary to the Panel did not give ratings for candidates, the Selection Panel Chairman was the only assessor who decided the ratings of candidates. According to Best Practice Checklist of Staff Administration issued by ICAC, all staff involved in the selection process are required to declare any potential or actual conflict of interest and refrain from participating in the process if a conflict has been declared (e.g. a candidate is his/her relative or personal friend). Audit considers that, to avoid favouritism and unfairness, HKPC needs to require staff involved in the selection process to refrain from participating in the process as far as possible if a conflict of interest has been declared; and

(g) ***A person appointed to a post which he had not applied for.*** Audit noted that there was a case in which a person (Person A) was offered a Grade 4 post which he had not applied for. Moreover, he had not gone through the shortlisting and interview procedures laid down in HKPC Standard Practices (see Case 1).

**Case 1**

**Appointment to a Grade 4 post without going through the shortlisting and interview procedures (October to December 2018)**

1. On 26 November 2018, requisition of a vacant Grade 4 post was raised by a division of HKPC. On 3 December 2018, HKPC put up an advertisement for the post for two weeks up to 17 December 2018. On 14 December 2018, HKPC offered the post to Person A, who had not applied for the post. The number of applications for the post was not available. No applicants for the post were shortlisted for interview.

2. Person A applied for another vacant Grade 2 post (which was two grades junior than the Grade 4 post) in October 2018 and was shortlisted to attend the writing test and first round interview on 13 November 2018 and the final round interview on 23 November 2018. After the final round interview for the Grade 2 post, the Selection Panel considered that Person A was capable of taking up the job duties and met the entry requirements of the Grade 4 vacant post. Therefore, the Selection Panel recommended Person A to fill the post. Person A started his employment as a Grade 4 staff on 19 December 2018.

***Audit comments***

3. According to HKPC Standard Practices, members of Selection Panel should perform thorough analysis and pursue good understanding of candidates' knowledge, skills and competencies against the job requirements of vacant positions during interviews. However, Person A had not been assessed based on the assessment criteria of the Grade 4 post, and had not attended any writing tests or any interviews for the post.

*Source: Audit analysis of HKPC records*

## Audit recommendations

3.16 **Audit has *recommended* that ED, HKPC should:**

(a) **set shortlisting criteria for selecting candidates for interview;**

(b) **properly record all applications received upon receipt to prevent tampering of applications and document the number of applications received for each recruitment;**

(c) **ensure that appropriate number of candidates are shortlisted for interview and document justifications for fewer than required number of candidates shortlisted;**

(d) **ensure that Selection Interview Evaluation Forms are properly completed by all Selection Panel members;**

(e) **ensure that the candidate appointed for a post meets the qualification requirement of the post;**

(f) **require staff involved in the selection process to refrain from participating in the process as far as possible if a conflict of interest has been declared; and**

(g) **review Case 1 regarding the appropriateness of offering a post to a person who has not applied for it, without going through the shortlisting and interview procedures laid down in HKPC Standard Practices.**

## Response from HKPC

3.17 ED, HKPC agrees with the audit recommendations. He has said that:

(a) HKPC will set out shortlisting criteria in writing for selecting candidates for interview;

(b) HKPC will record key information related to the recruitment process (e.g. the number of applicants received and candidates shortlisted);

(c) some posts are technical and niche, and competitive in the market, and therefore difficult to recruit sufficient candidates for interview. HKPC will document reasons for less than required number of candidates shortlisted;

(d) in general, the selection of candidate is based on consensus reached at Selection Panel meetings and hence the missing information would not have impact on the decision. The provision of comments by Selection Panel members is to facilitate HKPC's drafting of the paper circulated to Staffing Committee members for approval and is not mandatory;

(e) HKPC will ensure that information on the Selection Interview Evaluation Forms including rating of assessment criteria, overall ratings and comments made by Selection Panel members are documented on each form, and ensure all Panel members sign on the form;

(f) HKPC will continue to ensure that the candidate appointed for a post meets the qualification requirement of the post and properly document justification for any exceptional cases;

(g) for candidates declared as "friend" by a staff member, the staff member will refrain from participating in the selection interview;

(h) for candidate declared as "ex-colleague" by a staff member and the staff member had direct supervisor and subordinate relationship with the candidate, the General Manager of the post or additional interviewer will be required to participate in the selection interview; and

(i) HKPC will review Case 1 regarding the appropriateness of offering the post to a person who has not applied for it without going through the shortlisting and interview procedures laid down in HKPC Standard Practices.

# PART 4: PROCUREMENT AND OTHER ADMINISTRATIVE ISSUES

4.1 This PART examines HKPC's procurement and other administrative issues, focusing on:

(a) procurement of goods and services (paras. 4.2 to 4.14); and

(b) other administrative issues (paras. 4.15 to 4.43).

## Procurement of goods and services

4.2 According to HKPC Standard Practices:

(a) all purchase requisitions should be approved by the approving authorities;

(b) procurement procedures should be based on the purchase value (see Table 12);

**Table 12**

**Procurement procedures stipulated in HKPC Standard Practices**

| Purchase value | Procurement procedure |
|---|---|
| Not more than $10,000 | Low value purchase:<br>• No purchase order is required<br>• Purchase from the suppliers can be made by staff of divisions |
| Over $10,000 but not more than $500,000 | Purchase by quotations:<br>• Up to $50,000:<br>— Request quotations from at least 3 suppliers<br>• Over $50,000:<br>— Request quotations from at least 5 suppliers<br>• Purchase requisition and purchase order are required<br>• Central procurement by Finance and Procurement Division |
| More than $500,000 | Purchase by tender:<br>• Two-envelope approach and tender will be evaluated by Tender Assessment Panel comprising Technical Assessment Panel and Commercial Assessment Panel<br>• Purchase requisition and purchase order are required |

*Source: HKPC records*

(c) split order by repeated purchase orders to the same supplier by the same requisitioning division for the same project or internal use to circumvent the approval requirements are strictly forbidden; and

(d) staff should make a declaration of conflict of interests if he/she involves in any procurement activities.

## *Need to improve the quotation process*

4.3 ***Suppliers for quotations not selected by rotation.*** For purchase value over $10,000 but not more than $500,000, invitations for quotation are required. According to HKPC Standard Practices, the Procurement Officers will select prospective suppliers for quotations by rotation from the Registered Suppliers List based on the suppliers' capabilities on products/services. However, Audit found that contrary to HKPC Standard Practices, the Procurement Officers did not select suppliers for quotations by rotation from the Registered Suppliers List. According to HKPC, instead of rotation, the Procurement Officers selected the required number of suppliers based on the past performance of the suppliers, e.g. the response rates of the companies in the previous invitations, feedback of users and their knowledge about the companies, etc. However, Audit noted that there was no documentary evidence showing that such considerations had been taken into account and why these considerations justified the deviation from the requirement stipulated in HKPC Standard Practices. Audit reviewed the transaction records for 56 suppliers in 3 categories of products/services in the period from April 2017 to June 2019 and found that 14 (25%) of the 56 suppliers had never been invited for quotations.

4.4 Audit examined the records of 113 procurements of goods and services in March 2019 with purchase value over $10,000 but not more than $500,000 and found the following areas for improvement:

(a) ***No suppliers randomly selected for quotations.*** According to HKPC, with effect from August 2018, in addition to the suppliers selected based on the past performance of the suppliers, the Procurement Officers are required to randomly select one supplier from the Registered Suppliers List for quotations. However, in one procurement, no supplier was randomly selected from the Registered Suppliers List for inviting quotations. Audit also noted that HKPC Standard Practices had not been revised to include the requirement of randomly selecting one supplier from the Registered Suppliers List for quotations; and

(b) ***No declaration of conflict of interests from procuring staff or approving officer.*** According to HKPC Standard Practices, declaration of conflict of interests is mandatory for staff of the Procurement Unit and approving officers. The staff concerned are required to indicate whether they have any private interest, direct or indirect, with the suppliers invited for quotations. Audit found that in 9 (8%) of the 113 procurements examined,

four staff were required to declare in each of the 9 procurements. However, in each of the 9 procurements, one staff did not indicate whether he/she had any private interest with the suppliers. The 9 cases of non-declaration involved 5 staff (some staff were involved in more than one case).

Audit considers that HKPC needs to take measures to ensure that selection of suppliers for quotations and declaration of conflict of interests are made in compliance with the requirements stipulated in HKPC Standard Practices. HKPC also needs to ensure that HKPC Standard Practices are updated in a timely manner to include all requirements relating to procurement.

### *Tendering procedures not conducted as required*

4.5 A purchase requisition must be raised and approved by the appropriate approving authorities (Note 13) for procurement of goods or services. The Procurement Unit should request the required number of quotations for purchases with a total value of over $10,000 and up to $0.5 million. For purchases with a total value over $0.5 million, tendering procedures must be followed. Purchase orders will normally be issued to suppliers at the end of procurement and tendering procedures by HKPC after they are authorised by the appropriate approving authorities (Note 14). According to HKPC Standard Practices:

(a) repeated purchase orders to the same suppliers by the same requisitioning division for the same project to circumvent the approval requirements are strictly forbidden; and

(b) if split order is suspected, the requisitioning officer is required to justify:

(i) why it was unable to anticipate the second purchase at the time when the first purchase was made; or

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**Note 13:** *General Managers, Branch Directors and ED have the approving limits for purchase requisition of up to $0.3 million, up to $1 million and over $1 million respectively.*

**Note 14:** *Manager, Procurement or above, Senior Manager, Procurement or above and Chief Financial Officer can authorise the issue of purchase orders with value up to $0.1 million, up to $0.2 million and over $0.2 million respectively.*

(ii) that the repeated orders were made for different projects requiring different delivery dates that made it impossible to bundle the purchases.

4.6 Audit examination of 125 purchase orders issued in January 2019 revealed that there were two purchase orders (i.e. Purchase order A and Purchase order B) issued to the same supplier by the same requisitioning division on the same day (i.e. 24 January 2019) for the purchase of the same product (i.e. robot arms). The purchase requisitions of these two purchase orders were also raised on the same day (i.e. 5 December 2018) (see Table 13).

**Table 13**

**Suspected split purchase orders**
**(January 2019)**

| Purchase order | Date of requisition | Date of purchase order | Date of delivery | Purchase item | Quantity | Estimated purchase value ($) |
|---|---|---|---|---|---|---|
| A | 5 December 2018 | 24 January 2019 | 13 March 2019 | Robot arm | 1 | 210,641 |
| B | 5 December 2018 | 24 January 2019 | 15 March 2019 | Robot arm | 2 | 421,282 |
| | | | | Total | 3 | 631,923 |

*Source: Audit analysis of HKPC records*

4.7 On 14 December 2018, the Procurement Unit noted that if the two purchase requisitions were bundled, the total estimated purchase value would amount to $631,923, which was over the quotation limit of $500,000, and therefore, tendering procedures needed to be followed. The Procurement Unit requested the requisitioning division to follow tendering procedures for these two purchase requisitions. The requisitioning division replied to the Procurement Unit that the robot arms were purchased for two different projects and therefore should be separated into two purchases. In response to Audit enquiry, HKPC informed Audit in October 2019 that the products purchased were purchased for two different projects with different

applications, which were allowed under HKPC Standard Practices. The procurements by two purchase requests and subsequently two purchase orders in this case were approved by the authorised management, who was also authorised to approve the purchase if the two purchases were combined.

4.8 In Audit's view, the purchase should not have been split into two orders because the two purchase orders were raised on the same day to the same supplier by the same requisitioning division for the purchase of the same product. There was no documentary evidence showing that the requisitioning officer was unable to anticipate the second purchase at the time when the first purchase was made and that the different delivery dates had made it impossible to bundle the purchases.

4.9 Audit considers that HKPC needs to take effective measures to ensure that purchases are not split into orders of smaller amounts so as to circumvent the requirements stipulated in HKPC Standard Practices.

### *Inactive suppliers in Registered Suppliers List*

4.10 HKPC maintains a Registered Suppliers List which is categorised by the types of goods/services the suppliers provide. As at 15 May 2019, there were 251 categories of goods/services with a total of 2,750 suppliers on the Registered Suppliers List. The average number of suppliers in each category of goods/services was 18, ranging from 2 to 225.

4.11 Before October 2018, the annual review on inactive suppliers identified those inactive suppliers who did not have any purchase transaction with HKPC for two consecutive years. The inactive suppliers would be removed from the Registered Suppliers List after HKPC obtained the consent from the suppliers concerned. In October 2018, ICAC completed an Assignment Report on provision of consultancy services. ICAC reviewed the management of Registered Suppliers List and commented that:

(a) the inactive registered suppliers were kept on the Registered Suppliers List and would be invited to bid; and

(b) this practice might create a false impression of sufficient competition in a procurement exercise or could be exploited with a corrupt motive.

To ensure competitive bidding, ICAC recommended that HKPC should review the policy on managing inactive registered suppliers (i.e. removal from the List or suspension from bidding if they had not responded to any invitation for quotation/tender for a specified number of consecutive years). In response to ICAC's recommendation, with effect from October 2018, inactive suppliers who have not responded to any invitation for quotation or tender and have no transaction with HKPC for three consecutive years will be removed from the Registered Suppliers List. In October 2018, HKPC Standard Practices were updated accordingly.

4.12 Audit noted that, since 2016-17, HKPC had kept the manual records on the suppliers' responses to invitations of quotations/tenders. In April 2019, HKPC started to record the suppliers' responses to invitations of quotations/tenders in its computer system used for managing the Registered Suppliers List and for processing procurement of goods and services. However, up to 30 June 2019, there was no readily available information on inactive suppliers on the Registered Suppliers List. Inactive suppliers could not be identified readily from the information kept in the existing computer system. As there are some 2,800 suppliers in the Registered Suppliers List, Audit considers that HKPC needs to consider enhancing the existing computer system to facilitate the identification of inactive suppliers on the Registered Suppliers List. To ensure competitive bidding, HKPC also needs to take measures to ensure that inactive suppliers are removed from the Registered Suppliers List in a timely manner.

## Audit recommendations

4.13 **Audit has *recommended* that ED, HKPC should:**

(a) **take measures to ensure that selection of suppliers for quotations and declaration of conflict of interests are made in compliance with the requirements stipulated in HKPC Standard Practices;**

(b) **ensure that HKPC Standard Practices are updated in a timely manner to include all requirements relating to procurement;**

(c) **take effective measures to ensure that purchases are not split into orders of smaller amounts so as to circumvent the requirements stipulated in HKPC Standard Practices;**

(d) **consider enhancing the existing computer system to facilitate the identification of inactive suppliers on the Registered Suppliers List; and**

(e) **take measures to ensure that inactive suppliers are removed from the Registered Suppliers List in a timely manner.**

## Response from HKPC

4.14 ED, HKPC agrees with the audit recommendations. He has said that:

(a) the recently introduced arrangement of random selection of suppliers already served the same purpose and hence HKPC did not select the suppliers by rotation due to limitation of manpower. HKPC will update the requirement of HKPC Standard Practices to align with the current practice of random selection of suppliers instead of selection by rotation;

(b) an e-form embedded with the function of declaration of conflict of interest has been used for procurement since April 2019. The processing will not be proceeded in the system if the staff concerned does not make declaration. HKPC will continue to adopt the e-form to ensure that conflict of interests is declared by staff;

(c) HKPC will strengthen and reinforce the requirements stipulated in HKPC Standard Practices via communications with all divisions and closely monitor by procurement team. The divisions will report to management for any potential anomalies where appropriate; and

(d) HKPC will consider enhancing the existing computer system, perform an annual review to deactivate the inactive suppliers from the Registered Suppliers List in October 2019, and continue to perform the review on annual basis to deactivate the inactive suppliers.

# Other administrative issues

## *Need to improve the stocktaking procedures*

4.15 According to HKPC Standard Practices on fixed assets, an item purchased (which is not for resale or transfer out as project deliverable) with an estimated useful life of more than one year and acquisition cost in excess of $5,000 should be classified as a fixed asset. An item (irrespective of its estimated useful life and its acquisition cost) purchased as an equipment under the budget for equipment of a Government funded project should be treated as a fixed asset and governed by HKPC Standard Practices on fixed assets. An item purchased to be delivered as a product (or form part of a product) to a client is not classified as fixed asset. As at 31 March 2019, HKPC had 9,353 fixed asset items with a total cost of $635 million and a net book value of $226 million (see Table 14).

**Table 14**

**Analysis of fixed assets by category**
**(31 March 2019)**

| Category | No. of items | Total cost ($ million) | Total net book value ($ million) |
|---|---|---|---|
| HKPC building | 1 (0.0%) | 267.8 (42.2%) | 114.0 (50.6%) |
| Laboratory and other equipment | 2,470 (26.4%) | 184.5 (29.1%) | 43.3 (19.2%) |
| Leasehold improvement (non-office) | 153 (1.6%) | 61.6 (9.7%) | 34.7 (15.4%) |
| Computer software and training package | 1,354 (14.5%) | 43.5 (6.9%) | 6.4 (2.8%) |
| Information technology equipment | 3,108 (33.2%) | 32.6 (5.1%) | 6.2 (2.7%) |
| Leasehold improvement (office) | 87 (0.9%) | 24.8 (3.9%) | 13.2 (5.9%) |
| Office equipment | 756 (8.1%) | 9.2 (1.4%) | 3.5 (1.5%) |
| Audio visual aids and equipment | 385 (4.1%) | 4.8 (0.7%) | 1.5 (0.7%) |
| Motor vehicle | 5 (0.1%) | 3.0 (0.5%) | 1.9 (0.8%) |
| Office furniture | 477 (5.1%) | 3.0 (0.5%) | 0.8 (0.4%) |
| Others (Note) | 557 (6.0%) | 0.0 (0.0%) | 0.0 (0.0%) |
| Total | 9,353 (100.0%) | 634.8 (100.0%) | 225.5 (100.0%) |

*Source:* *Audit analysis of HKPC records*

*Note:* *Other fixed assets were assets purchased under the budget for equipment of projects. The cost of these assets was charged to the project expenditure. When these assets were transferred to HKPC, they were recorded at nil value. These assets were also subject to stocktaking procedures.*

4.16 HKPC adopts a continuous stocktaking approach. One or more divisions will be selected for stocktaking every month. Each division should be selected at least once for stocktaking every two years. According to HKPC, the stocktaking procedures are as follows:

(a) about two to three weeks before the scheduled stocktaking of a selected division, the officer of the Finance and Procurement Division sends the fixed asset register to the Fixed Asset Manager of the division, who then passes the register to the owners for preliminary checking of the existence of the fixed asset items under their custody;

(b) the asset owner informs the Finance and Procurement Division to update the fixed asset records in the system (e.g. records on location and owner of assets);

(c) after updating, the officer of the Finance and Procurement Division verifies the items against the register in the presence of the owner and the Fixed Asset Manager of the division. The officer will check the physical existence and condition of the fixed assets during the stocktaking;

(d) when first acquired, each fixed asset is centrally assigned an asset code (in the form of a barcode) and affixed an identification label by the Finance and Procurement Division. During stocktake, the officer will check if there are any items of fixed assets without barcode. In such cases, the item should be recorded and verified subsequently for its owner;

(e) any missing or damaged items will be arranged for write-off, repair or disposal. The procedures for write-off and disposal are governed by HKPC Standard Practices. If any item is found missing, the case is required to be reported to the General Manager of the division, who shall conduct investigation and decide on the actions to be taken, and seek approval from appropriate approval authorities to write off the assets. For disposal of fixed assets, the responsible staff is required to seek approval from the appropriate approval authorities; and

(f) the Finance and Procurement Division will report the stocktaking results to the management after each stocktake and make impairment if necessary.

4.17 In August 2017, the ICAC completed an Assignment Report on management of assets of HKPC. According to the Report:

(a) while it was understood that there might be an operational need for HKPC to pre-schedule the stocktaking exercises (e.g. to ascertain the availability of the owner), such pre-arrangement did not facilitate detection of irregularities. For example, an unscrupulous officer could pilfer an item for personal use and return it to office only right before the stocktaking was conducted; and

(b) coupled with the fact that the checks were manually conducted by a single officer of the Finance and Procurement Division which was susceptible to human error inadvertently or intentionally, the effectiveness of the stocktaking exercises might be undermined.

4.18 ICAC recommended that HKPC should:

(a) conduct surprise checks on high risk assets (e.g. those easily movable or with high value) to detect and deter malpractices; and

(b) use barcode scanners to assist in conducting physical counts to minimise human error or manipulation.

4.19 In response to ICAC's recommendations, in November 2017, HKPC informed the Audit Committee that:

(a) starting from December 2017, it would conduct quarterly sampling surprise stocktaking on movable and high value fixed assets susceptible to high risk to loss; and

(b) by June 2018, it would procure and install barcode scanner system and use the system to assist fixed asset physical count.

In January 2019, HKPC informed ICAC that since March 2018, the Finance and Procurement Division had started to use a barcode scanner system for fixed asset counting.

4.20 In November 2017, the Finance and Procurement Division started to conduct quarterly surprise stocktaking. Up to 30 June 2019, seven surprise stocktaking exercises had been conducted in seven divisions. In each exercise, 5 items susceptible to loss were selected for stocktaking, totalling 35 items selected for the seven exercises. Audit examined the stocktaking reports of the seven surprise stocktaking exercises and found that:

(a) the number of fixed asset items selected for surprise stocktaking in each exercise was very small (i.e. 5 items) comparing to the total number of movable and high value fixed asset items (i.e. around 1,030 items of notebook computers/notepad, digital camera, camera lens, etc); and

(b) there were many types of movable and high value fixed assets which were susceptible to high risk to loss, e.g. notepad, digital camera, video recorder, camera lens, etc. However, 33 (94%) of the 35 items selected for surprise stocktaking were notebook computers. The remaining two items selected were an IP phone and a mobile phone.

4.21 To follow up on the ICAC recommendations, HKPC agreed to procure and install barcode scanner system and use the system to assist fixed asset physical count by June 2018. However, up to 31 August 2019, the barcode scanner system had not been in use. According to HKPC, it planned to implement the barcode scanner system to assist the physical count of fixed assets after all the existing fixed assets (excluding leasehold improvements) were affixed with the QR barcode labels. As at 28 August 2019, 3,650 (40%) of the 9,048 fixed asset items (excluding leasehold improvements) still had not been affixed with QR barcode labels for implementing the barcode scanner system. In response to Audit's enquiry, HKPC informed Audit in September 2019 that these 3,650 fixed asset items would be affixed with the QR barcode labels by May 2020.

4.22 Audit considers that HKPC needs to expand the scope of surprise stocktaking for the quarterly surprise stocktaking exercise by increasing the number and types of fixed asset items selected. HKPC also needs to expedite the implementation of barcode scanner system to assist in conducting stocktaking exercises.

## *Need to improve equipment management*

4.23 According to HKPC Standard Practices on equipment management:

(a) any obsolete and/or non-effective equipment, machinery or facility will be disposed of in a timely manner in order to ensure effective utilisation of HKPC's resources;

(b) equipment refers to any standalone or an integrated set of equipment, machinery or facility installed at HKPC for the purpose of technology development, demonstration or service support to the industry, and with an original purchase value equal to or above $100,000;

(c) all equipment is classified into four types as follows:

  (i) latest equipment;

  (ii) key equipment;

  (iii) supporting equipment; and

  (iv) common equipment; and

(d) the divisions concerned shall maintain a list of equipment with full justification of the classification. The list shall be reviewed and approved by the respective Branch Directors. The divisions concerned shall prepare a maintenance record containing the type, method and frequency of maintenance and a log sheet/log book recording the actual utilisation for each equipment under the list.

As at 31 March 2019, the total number of equipment items kept by HKPC was 320.

4.24 Audit examined the equipment management records for 2018-19 and found room for improvement as follows:

(a) ***An item of equipment not included in the list of equipment.*** An item of equipment (i.e. Cold Room) received on 26 March 2019 with an original purchase value of $252,000 (i.e. above $100,000) was not included in the list of equipment as at 31 March 2019. In response to Audit enquiry, HKPC informed Audit in October 2019 that there was a slight delay in updating the equipment list. The item was subsequently included in the equipment list as at 30 June 2019 and presented for management review in July 2019;

(b) ***Expected utilisation not achieved.*** In 2018-19, 52 (16%) of the 320 items of equipment did not achieve the expected utilisation (see Table 15); and

**Table 15**

**Analysis of equipment not achieving expected utilisation (2018-19)**

| Type of equipment | Expected utilisation | Total no. of items (a) | Items not achieving expected utilisation | | |
|---|---|---|---|---|---|
| | | | No. (b) | Percentage (c) = (b) ÷ (a) × 100% | Actual utilisation |
| Latest equipment | Utilisation rate ≥ 5% or frequency of usage ≥ 5 times per month | 93 | 18 | 19% | 0% to 4% (Average: 1%) |
| Key equipment | Utilisation rate ≥ 5% or frequency of usage ≥ 5 times per month | 168 | 15 | 9% | 0% to 4% (Average: 1%) or 1 time per month (Note) |
| Supporting equipment | Utilisation rate ≥ 15% or frequency of usage ≥ 10 times per month | 46 | 11 | 24% | 0% to 10% (Average: 4%) |
| Common equipment | Utilisation rate ≥ 30% or frequency of usage ≥ 20 times per month | 13 | 8 | 62% | 6% to 27% (Average: 15%) |
| | Overall | 320 | 52 | 16% | 0% to 27% (Average: 4%) or 1 time per month (Note) |

*Source:* *Audit analysis of HKPC records*

*Note:* *Of the 52 items not achieving expected utilisation, the expected utilisation of one item of key equipment was five times or more per month. However, its actual utilisation was only one time per month.*

(c) ***Two divisions not achieving target rate of asset optimisation.*** The rate of asset optimisation is used as a KPI to measure equipment utilisation. The rate of asset optimisation is the percentage of equipment items which achieved the expected utilisation. A target rate of asset optimisation is set for divisions with equipment. In 2018-19, Audit found that of the four divisions with equipment under their custody, two divisions (i.e. Automotive and Electronics Division and Environmental Management Division) did not achieve the target rate of asset optimisation.

4.25 Audit considers that HKPC needs to ensure that all equipment items are included in the list of equipment. HKPC also needs to take measures to improve the utilisation rates of the equipment items which do not achieve the expected utilisation and dispose of the obsolete and non-effective equipment in a timely manner to ensure effective utilisation of HKPC's resources. Furthermore, HKPC needs to closely monitor the rate of asset optimisation of individual divisions and take appropriate follow-up actions for the divisions which have not achieved the target rate of asset optimisation.

## *Need to monitor utilisation of company cars*

4.26 As at 31 March 2019, HKPC had four company cars (see Table 16). Three company cars (i.e. Car A, Car B and Car C) were used with car pool driver service (i.e. with drivers) while one company car (i.e. Car D) was available for car on-loan service (i.e. without driver). In 2018-19, the operating costs of the four company cars including the staff cost of the three drivers were about $1.2 million.

**Table 16**

**Details of four company cars**
**(31 March 2019)**

| | Car A | Car B | Car C | Car D |
|---|---|---|---|---|
| **Mode of service** | Car pool driver service (i.e. with drivers) | | | Car on-loan service (i.e. without driver) |
| **Seating capacity (excluding driver)** | 6 | 6 | 6 | 4 |
| **Year of acquisition** | 2014 | 2017 | 2018 | 2016 |
| **Acquisition cost** | $708,747 | $650,000 | $776,864 | $414,145 |

*Source: HKPC records*

4.27 According to HKPC Standard Practices, at the end of each journey, the requisitioning staff member who requests the company car with car pool driver service should sign on a car usage form to certify the details such as the destination, purpose, time and duration of the journey, etc. recorded thereon are correct.

4.28 HKPC Standard Practices specify that staff members may request use of the company car with car on-loan service for official purpose on a self-drive basis. The borrower should submit the completed "car on-loan application form" which states the details of service required such as the purpose, destination and duration of booking to the Human Resources and Facility Management Division. The borrower is responsible to complete all the related car usage reports after every trip.

4.29 HKPC does not calculate the utilisation rate of its company cars. Audit examination of the usage records of the four company cars in the period from January to March 2019 revealed that the utilisation of the company car without driver (i.e. Car D) was low. On 36 (60%) of the 60 working days from January to March 2019, Car D was idle for the whole day (see Table 17).

**Table 17**

**Utilisation of company cars**
**(January to March 2019)**

| Company car | Number of working days | | |
|---|---|---|---|
| | Not utilised (a) | Utilised (b) | Total (c) = (a) + (b) |
| A | 7 (12%) | 53 (88%) | 60 (100%) |
| B | 2 (3%) | 58 (97%) | 60 (100%) |
| C | 3 (5%) | 57 (95%) | 60 (100%) |
| D | 36 (60%) | 24 (40%) | 60 (100%) |
| Overall | 48 (20%) | 192 (80%) | 240 (100%) |

*Source: Audit analysis of HKPC records*

4.30 According to HKPC Standard Practices, the borrower of Car D is required to complete all the related car usage reports after every trip for monitoring purposes. Audit noted that there were no car usage reports of Car D other than the car log book (recording the date and time of the trip, name of borrower, and mileage before and after the trip) and the car key collection record (recording the date and time of collecting and returning the key, name of borrower, and mileage before and after the trip). Audit compared the records of the car log book with those of the car key collection record in the period from January to March 2019 and found that there were no records in the car log book for 11 (44%) of 25 trips recorded in the key collection record. The total usage hours of Car D could not be ascertained due to the incomplete records in the car log book.

4.31 Audit considers that HKPC needs to closely monitor the utilisation rate of its company cars and review the cost-effectiveness of maintaining the company car with low utilisation rate. HKPC also needs to ensure that the time and duration of all trips of the company cars are recorded in the car log book.

## *Room for improvement on claims of entertainment expenses*

4.32 According to HKPC Standard Practices, staff members should exercise prudent judgement and economy when entertaining guests for official purposes in order to avoid any public perception of extravagance. When incurring entertainment expenses, staff members are required to follow the rules as follows:

(a) official entertainment should only be carried out on a need basis;

(b) when deciding the format, place and scale of entertainment, the objective of the event, status of the principal guest(s) and the standard of entertainment appropriate to the occasion should be taken into account. As a rule of thumb, lavish official meals must be avoided; and

(c) the budget position must be taken into account each time the official entertainment expenditure is to be incurred.

In 2018-19, the entertainment expenses incurred by HKPC amounted to $604,925.

4.33 HKPC Standard Practices also stipulate the expenditure limits for official meals. The limits ranged from $150 to $700 per head (see Table 18).

**Table 18**

**Limits on entertainment expenses for official meals**

| Grade | Type | Expenditure limit per head ($) |
|---|---|---|
| ED and Grade 8 | Breakfast | 250 |
| | Lunch | 550 |
| | Dinner | 700 |
| Others | Breakfast | 150 |
| | Lunch | 400 |
| | Dinner | 500 |

*Source: HKPC records*

4.34 According to HKPC Standard Practices, the number of staff members involved in an official entertainment should not exceed the number of guests to be entertained. Otherwise, approval from the appropriate authorities is required. Audit examination of the records of 95 claims of entertainment expenses in the period from January to March 2019 revealed that for 15 claims (ranging from $375 to $4,356, $1,272 on average), approvals were obtained on the claims where the number of staff members involved exceeded the number of guests. However, there was no documentary evidence showing the justifications for such approvals in 11 of the 15 claims.

4.35 Audit considers that HKPC needs to ensure that all claims of entertainment expenses where the number of staff members involved exceeds the number of guests are well justified.

## *Guidelines on official travels outside Hong Kong not complied with*

4.36 Expenses on official travels outside Hong Kong for the period from 2016-17 to 2018-19 ranged from $4.4 million to $9.6 million (see Table 19).

**Table 19**

**Expenses on official travels outside Hong Kong**
**(2016-17 to 2018-19)**

| Type of expenses | 2016-17 ($ million) | 2017-18 ($ million) | 2018-19 ($ million) |
|---|---|---|---|
| Air ticket | 2.0 | 2.9 | 1.5 |
| Per Diem Allowance (Note 1) | 0.3 | 0.6 | 0.6 |
| Other related expenses (Note 2) | 7.3 | 5.0 | 2.3 |
| Total | 9.6 | 8.5 | 4.4 |

*Source:* *HKPC records*

*Note 1:* *Per Diem Allowance was granted on a daily basis based on the number of nights spent for the trip. Caps on the official expenses per day were set for covering the cost of meals. Different caps per day would apply to different regions.*

*Note 2:* *Other related expenses would be reimbursed provided that they are incurred for official purposes and directly as a result of an official travel, such as hotel accommodation, transportation fees and long distance duty telephone calls.*

4.37 ***Prior approvals not sought for official travels outside Hong Kong.*** According to HKPC Standard Practices on official travels outside Hong Kong, all official travels outside Hong Kong by staff members must be approved by their General Managers/Directors/ED where appropriate through the submission of travel application before departure. Any travel application made after departure would normally not be entertained unless it is specially approved by their General Managers/Directors/ED. For ED, approval from the Council Chairman is required.

4.38 Audit examined 73 applications for official travels outside Hong Kong submitted in the period from November 2018 to March 2019 and found that 9 (12%) of the 73 applications were approved after departure. Such approvals were obtained 1 to 15 days after departure (averaging 6 days). In particular, 2 (22%) of these 9 applications were submitted by staff members after departure. Audit considers that HKPC needs to ensure that applications for official travels outside Hong Kong are

submitted by staff members and approved by the appropriate approval authorities before departure.

4.39 ***Flight awards not declared.*** According to HKPC Standard Practices, if a staff member claims flight awards and the awards are credited to his mileage account, the staff member should declare the awards to the Finance and Procurement Division after the business trip to facilitate planning for the possible use of the awards for corporate functions. The Finance and Procurement Division regularly sends reminders to all staff to report flight awards claimed after business travel and maintains records for flight award mileage showing the mileage claimed and reported by the staff.

4.40 Audit examined 20 claims for business travels by air submitted by 13 staff in the period from January to March 2019 and the records for flight award mileage kept by the Finance and Procurement Division. Audit found that for 12 (60%) claims involving 10 (77%) staff, the staff concerned had not declared the flight awards to the Finance and Procurement Division after their business trips. There was no information indicating whether these 10 staff had claimed the mileage from the airlines.

4.41 Audit considers that HKPC needs to ensure that all staff members declare their flight awards arising from business trips to facilitate planning for the possible use of the flight awards for corporate functions.

## Audit recommendations

4.42 **Audit has *recommended* that ED, HKPC should:**

(a) **expand the scope of surprise stocktaking for the quarterly surprise stocktaking exercise by increasing the number and types of fixed asset items selected;**

(b) **expedite the implementation of barcode scanner system to assist in conducting stocktaking exercises;**

(c) **ensure that all equipment items are included in the list of equipment;**

(d) **take measures to improve the utilisation rates of the equipment items which do not achieve the expected utilisation and dispose of the obsolete and non-effective equipment in a timely manner to ensure effective utilisation of HKPC's resources;**

(e) **closely monitor the rate of asset optimisation of individual divisions and take appropriate follow-up actions for the divisions which have not achieved the target rate of asset optimisation;**

(f) **closely monitor the utilisation rate of the company cars and review the cost-effectiveness of maintaining the company car with low utilisation rate;**

(g) **ensure that the time and duration of all trips of the company cars are recorded in the car log book;**

(h) **ensure that all claims of entertainment expenses where the number of staff members involved exceeds the number of guests are well justified;**

(i) **ensure that applications for official travels outside Hong Kong are submitted by staff members and approved by the appropriate approval authorities before departure; and**

(j) **ensure that all staff members declare their flight awards arising from business trips to facilitate planning for the possible use of the flight awards for corporate functions.**

## Response from HKPC

4.43 ED, HKPC agrees with the audit recommendations. He has said that:

(a) HKPC will expand the number of fixed assets items selected from 5 to 20 items and include a wider range of fixed assets for the quarterly surprise stocktaking;

(b) HKPC will complete affixing of new barcode labels on all fixed assets by May 2020;

(c) HKPC will remind all staff to include all equipment items into the equipment list for management review in a timely manner;

(d) HKPC will closely monitor utilisation of the equipment and the rate of asset optimisation of individual division through quarterly review meeting, regularly review and dispose of those old or outdated equipment with low utilisation, and enhance promotion of available equipment to relevant institutions and companies;

(e) HKPC will review the utilisation of company cars on a regular basis, and make available to operational divisions the information regarding the availability of the car for loan for business purpose;

(f) a car-on-loan application e-form has been in use to record the usage of the Car D and details such as time, duration and purpose of usage has to be inputted by borrowers. The usage of Car D will continue to be recorded in the car log book which serves as the car usage report. HKPC will conduct monthly checking on the car-on-loan application e-form against car log book record to ensure that information of car usage, e.g. date and time, name of borrower, and mileage before and after the trip etc., is recorded in the car log book by borrower;

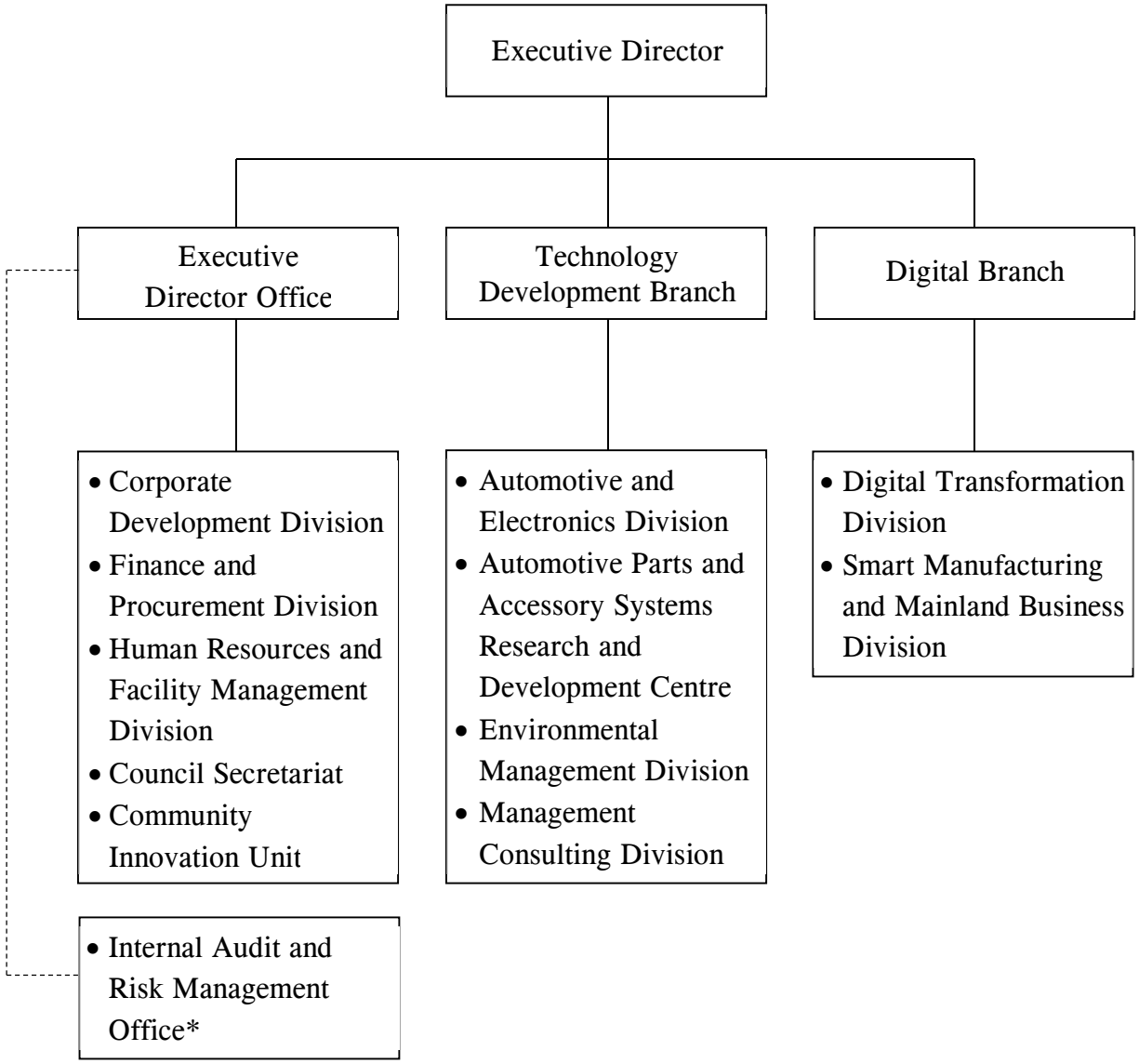
(g) HKPC will update HKPC Standard Practices and remind staff that justifications should be provided when seeking approval for entertainment with the number of staff members exceeding the number of guests;

(h) HKPC will remind staff on a regular basis to comply with the requirements under HKPC Standard Practices to obtain and give prior approval for official travels outside Hong Kong; and

(i) currently HKPC requires staff to declare flight awards only when they have claimed and credited the awards to their mileage account. HKPC will enhance the computer system to require staff members to declare whether any mileage has been claimed from airlines after undertaking all business trips by air travel.

**Appendix A**
(para. 1.9 refers)

**HKPC: Organisation chart (extract)**
**(31 March 2019)**




* Functionally reported to the Audit Committee of HKPC

*Source:* *HKPC records*

## Acronyms and abbreviations

| | |
|---|---|
| APAS | Automotive Parts and Accessory Systems Research and Development Centre |
| Audit | Audit Commission |
| B/D | Government bureau/department |
| CE | Chief Executive |
| CIT | Commissioner for Innovation and Technology |
| COR | Controlling Officer's Report |
| ED | Executive Director |
| HKPC | Hong Kong Productivity Council |
| ICAC | Independent Commission Against Corruption |
| ITC | Innovation and Technology Commission |
| ITF | Innovation and Technology Fund |
| KPI | Key performance indicator |
| MAA | Memorandum of Administrative Arrangements |
| PRD | Pearl River Delta |