

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.

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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).

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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

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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).

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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));

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- (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)).

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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

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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

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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

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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:**

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- (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**

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

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- (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);

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- (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));

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- (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.