

EMPLOYEES RETRAINING BOARD

Executive Summary

1. In 1992, the Employees Retraining Board (ERB) was established as a statutory body under the Employees Retraining Ordinance (ERO — Cap. 423). Under ERO, the functions of ERB are, inter alia, to consider the provision, administration and availability of retraining courses and supplementary retraining programmes intended or designed for the benefit of eligible employees in adjusting to changes in the employment market by acquiring new or enhanced vocational skills, and to engage the services of training bodies for the purpose of providing or conducting retraining courses. Since December 2007, ERB has extended its scope of service targets to include people aged 15 or above with education attainment at sub-degree level or below. The governing body of ERB is its Board. ERB has established six Committees and an Investment Group to carry out different functions. As at 31 December 2019, ERB had 195 permanent staff and 60 contract and temporary staff. In 2018-19, ERB's income was \$637.3 million and the expenditure was \$949.3 million. The Audit Commission (Audit) has recently conducted a review of ERB.

Management of training services

2. ***Decreasing number of young trainees admitted to ERB courses.*** Audit noted that in the period from 2014-15 to 2018-19: (a) the percentages of young trainees aged 15 to 29 admitted to ERB training courses among all trainees were not high (ranging from 8.4% to 12.2%); (b) the number and percentage of such young trainees decreased from 13,423 (12.2%) in 2014-15 to 10,695 (8.4%) in 2018-19; and (c) the number of trainees admitted under youth training courses was low, ranging from 374 to 508, averaging 441, and decreased by 19% from 508 in 2014-15 to 412 in 2018-19 (paras. 2.5 and 2.6).

3. ***Decreasing number of ethnic minorities admitted to ERB courses.*** Audit analysed the utilisation of planned places of courses for special targets for the years 2014-15 to 2018-19 and noted that: (a) the number of admitted trainees of ethnic minorities was low, decreasing from 374 in 2014-15 to 225 in 2018-19; (b) the utilisation of planned places of courses for ethnic minorities decreased from 47% in 2014-15 to 28% in 2018-19; and (c) despite the fact that less than half of the planned

Executive Summary

places were utilised and the decrease in the number of admitted trainees of ethnic minorities, the number of planned places had not been adjusted (para. 2.8).

4. ***Need to review the retraining allowances for placement-tied courses.*** For placement-tied courses with duration of seven days or more, trainees are eligible for retraining allowances if their attendance rates reach 80% or more. The retraining allowances per day for different categories of courses and different trainees ranged from \$30 to \$153.8. Audit noted that no review on the existing rates of retraining allowances had been conducted for over 10 years since April 2009. In view of the decreasing number of young trainees admitted to ERB training courses, ERB needs to review the existing rates of retraining allowances (paras. 2.10, 2.12 and 2.13).

5. ***Room for improvement in new course development.*** Audit examined 16 of the 274 new courses approved in the period from 2014-15 to 2018-19 and noted that: (a) the information regarding the availability of similar courses in the market and the competitiveness of the proposed courses in comparison with those existing in the market was not included in the course proposals and the papers submitted to the Course and Service Development Committee; and (b) there was inconsistency in proposals for courses developed by ERB and training bodies. Training bodies were required to state the number of classes proposed, but such information was not required for courses developed by ERB (para. 2.16).

6. ***Some training courses not suspended although no classes were held for many years.*** According to the ERB Guidelines, training courses for general trainees will be considered for suspension if no class has been held continuously for three years. Audit found that of the 36 courses with no classes held for three years from 2014-15 to 2016-17, the Course Management Working Group approved not to suspend 34 (94%) of the courses. However, for 2 (6%) of the 36 courses, there was no evidence showing that the Course Management Working Group approved not to suspend them. Audit also noted that the Course and Service Development Committee and Course Vetting Committee were not provided with information on the course suspension (paras. 2.18, 2.21 and 2.22).

7. ***Long waiting times of courses for some applicants.*** Training courses are held at the training centres of training bodies in various districts. Each training centre maintains its own waiting lists of applicants for the training courses. As at 31 December 2019, there were 52,659 applicants on the waiting lists (comprising

Executive Summary

10,661 applicants for placement-tied courses and 41,998 applicants for non-placement-tied courses). Audit found that: (a) of the 10,661 applicants for placement-tied courses, 2,172 (20%) had been on the waiting lists for more than four months (i.e. the waiting time specified in the performance pledge); and (b) of the remaining 41,998 applicants for non-placement-tied courses, 14,526 (35%) had been on the waiting lists for more than five months (i.e. the waiting time specified in the performance pledge) (para. 2.27).

8. ***Some training courses did not meet targets on key performance indicators (KPIs).*** Audit analysed the performance of KPIs for the period from 2014-15 to 2018-19 and noted that some training courses did not meet the performance targets: (a) of the 2,525 training courses held during the period, 336 (13.3%) did not meet the target capacity utilisation rate of 85%; (b) of the 2,516 training courses with classes completed during the period, 230 (9.1%) did not meet the target attendance rate of 80%; (c) graduation rate has been set as a KPI since 2015-16. Of the 2,020 training courses with classes completed in the period from 2015-16 to 2018-19, 159 (7.9%) did not meet the target graduation rate of 80%; and (d) of the 744 placement-tied courses for general trainees, persons with disabilities and persons recovered from work injuries, and youth training courses, 52 (7%) did not meet the target placement rate of 70%. Of the 118 placement-tied courses for ethnic minorities, rehabilitated ex-offenders and new arrivals, 31 (26.3%) did not meet the target placement rate of 50% (paras. 2.33 to 2.37).

9. ***Some training courses did not meet targets on reference indicators.*** Audit analysed the performance of reference indicators for the period from 2014-15 to 2018-19 and noted that some training courses did not meet the performance targets and the overall retention rate decreased: (a) of the 825 applicable placement-tied courses, 602 (73%) did not meet the target relevancy rate to training of 60%; (b) of the 190 placement-tied courses aiming at full-time employment in the period from 2015-16 to 2018-19, 60 (32%) did not meet the target continuous employment rate of 60%; and (c) the overall retention rate for placement-tied courses decreased from 64% in 2014-15 to 61% in 2018-19 (paras. 2.40 to 2.43).

Quality assurance

10. ***Annual audits not performed according to ERB Guidelines.*** According to the ERB Guidelines, if a training body obtained Group 1 rating in the on-site annual

Executive Summary

audits performed by ERB in the last two consecutive years, the training body will be allowed to undertake self-evaluation for one year. Audit noted that, of the 367 annual audits conducted in the period from 2014-15 to 2018-19, 127 (35%) were self-evaluations. However, of these 127 self-evaluations, 60 (47%) self-evaluations were performed by training bodies which did not obtain Group 1 rating in the on-site annual audits performed by ERB in the last two consecutive years (paras. 3.3 and 3.4).

11. ***Class surprise inspections not conducted for some training centres.*** According to the ERB quality assurance guidelines, training centres where ERB courses have been held will be selected for class surprise inspections at least once a year. However, Audit noted that for every year in the period from 2016-17 to 2018-19, two training centres were not inspected as required (paras. 3.7 and 3.8).

12. ***Need to improve course-end assessments.*** Audit reviewed the results of 50 assessment observations on course-end assessments conducted by ERB in the period from 2015-16 to 2018-19 and noted that there were non-compliances with assessment guidelines in 10 assessment observations. Audit found room for improvement in the follow-up actions taken by ERB on their results of assessment observations (para. 3.11). Examples are as follows:

- (a) ***Foundation Certificate in Dim Sum Cook Training Course.*** According to the guidelines on course-end assessments, candidates should complete the assessment within the time allowed. For the Foundation Certificate in Dim Sum Cook Training Course held in 2017-18, ERB found that trainees were allowed to prepare the custard stuffing prior to the commencement of the assessments. ERB subsequently found that the assessor had let trainees prepare the stuffing prior to the commencement of the assessments since June 2015 involving 5 classes. No re-assessments were conducted for the trainees involved (para. 3.11(a)); and
- (b) ***Certificate in Health Worker Training Course.*** According to the assessment observation report, the practical skills assessment for the Certificate in Health Worker Training Course held in 2015-16 was not conducted in accordance with the ERB Guidelines as follows:
 - (i) nasotracheal suction skills were not tested for a trainee;
 - (ii) the assessor allowed a trainee to verbally spell out the procedures of wound cleansing;
 - (iii) the assessor did not verify the accuracy in the test of medicine

Executive Summary

distribution for two trainees; and (iv) taking correct volume of liquid medicine was not tested. No inspections were conducted to follow up whether improvement measures had been taken (para. 3.11(b)).

13. ***Decreasing number and percentage of accredited training courses.*** Audit reviewed the training courses with enrolled trainees and analysed the percentages among those courses that were accredited by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications. Audit found that in the period from 2014-15 to 2018-19: (a) the number of accredited courses decreased from 469 to 308; and (b) the percentage of accredited courses among courses with enrolled trainees decreased from 95% to 58% (para. 3.18).

Training support services

14. ***Few tenders received for operation of Service Centre and Service Spots.*** ERB procured the services for operation of the Service Centre and the Service Spots by restricted tendering. Invitations for tender were issued to the prospective service providers which fulfilled the prescribed requirements and conditions of the tender exercises for the operation of the Service Centre and the Service Spots as approved by the Course and Service Development Committee of ERB. Audit examination of the tender exercises for the operation of the Service Centre (Tin Shui Wai) and the Service Spots conducted in the period from 2011 to 2019 revealed that the responses from the service providers were lukewarm in the period from 2015 to 2019 (paras. 4.5 and 4.6):

- (a) ***Service Centre (Tin Shui Wai).*** In 2011, ten tenders (including only five conforming tenders) were received in response to the 95 invitations for tender issued for the operation of the Service Centre (Tin Shui Wai). In 2015, in response to the 96 invitations for tender issued, only two tenders were received. Of these two tenders, only the tender from the incumbent service provider was a conforming tender. In response to the 51 invitations for tender issued in 2019, only one tender, which was a conforming tender, was received from the incumbent service provider (para. 4.6(a));
- (b) ***Service Spots (Kwai Tsing and Tsuen Wan).*** In response to the 19 invitations for tender issued for the operation of the Service Spots (Kwai Tsing and Tsuen Wan) in 2015, five tenders (including only one conforming tender) were received. In 2019, in response to the 13 invitations for tender

Executive Summary

issued, only one tender, which was a conforming tender, was received from the incumbent service provider (para. 4.6(b));

- (c) ***Service Spots (Kowloon West)***. In 2017, of the 35 invitations for tender issued for the operation of the Service Spots (Kowloon West), only two tenders (both were conforming tenders) were received (para. 4.6(c)); and
- (d) ***Service Spots (Kowloon East)***. In 2018, of the 21 invitations for tender issued for the operation of the Service Spots (Kowloon East), only one tender, which was a conforming tender, was received (para. 4.6(d)).

15. ***Need to endeavour to improve performance of the operators of Smart Living Scheme***. Service targets are set out in the engagement agreements signed between ERB and the operators for the operation of Smart Living – Regional Service Centres under the Smart Living Scheme. Audit examination of the achievement of the overall annual service targets of the Smart Living Scheme for the period from 2014-15 to 2018-19 revealed that: (a) the overall annual service target on the number of vacancies registered was not met for all five years; (b) the overall annual service target on the number of vacancies filled was not met for 2016-17 and 2018-19; and (c) except for 2017-18, the overall annual service target on the number of helpers placed was not met for the other four years. Audit further examined the achievement of the annual service targets and required annual composite performance scores by individual Smart Living – Regional Service Centres for the period from 2014-15 to 2018-19. Audit found that the annual service targets on the number of vacancies registered, vacancies filled and helpers placed were not met by 5 to 10, 4 to 7 and 4 to 8 Smart Living – Regional Service Centres respectively. For 2 to 5 Smart Living – Regional Service Centres, the required annual composite performance score of 90 was not met (paras. 4.13, 4.15 and 4.16).

16. ***Need to closely monitor the performance of operators of Smart Living Scheme***. According to the Operation Guidelines for the Smart Living Scheme, if an operator has a composite performance score below 80 for two quarters within a year, ERB may consider terminating the agreement unless the operator improves and achieves at least 80 marks in the following month upon written request. Audit examined the scores of the operators of the eight Smart Living – Regional Service Centres for the first two quarters of 2019-20 and noted that three operators had a score below 80: (a) Operator A scored 67 and 68 in the first and the second quarter respectively; (b) Operator B scored 69 and 67 in the first and the second quarter

Executive Summary

respectively; and (c) Operator C scored 75 and 67 in the first and the second quarter respectively. These three operators achieved none of the three service targets in both the first and the second quarters of 2019-20 (paras. 4.19 and 4.20).

17. ***Some service requirements in respect of KPIs of Smart Baby Care Scheme not met.*** According to the engagement agreements signed between ERB and the operator for the operation of the Smart Baby Care Scheme, service requirements are set out in the agreement in respect of six KPIs and in the event that the KPI performance is not achieved, ERB may regard it as a fundamental breach. Audit analysed the achievement of service requirements in the period from 2016-17 to 2018-19 and found that service requirements were not met for two KPIs: (a) the service requirement on the number of vacancies registered was not met in all the three years during the period; and (b) the service requirement on the satisfaction rate of employers on the services of fresh graduates was not met in 2016-17 (paras. 4.25 and 4.27).

Corporate governance and administrative issues

18. ***Late circulation of agendas of Board/Committee meetings.*** Audit examined the records of the 129 Board/Committee meetings conducted during the period from 2014-15 to 2018-19 and found that 14 (10.9%) of the 129 meeting agendas were circulated to members less than one week before the meetings as required by the ERB Guidelines. The delays ranged from 1 to 3 days (averaging 2 days) (para. 5.4).

19. ***Late issue of minutes of Board/Committee meetings.*** In 2011, ERB said that it would ensure that draft minutes of Board/Committee meetings would be issued within one month after the meetings. Audit noted that the ERB Guidelines had not stipulated a time target. Audit examined the records of draft minutes of the Board/Committee meetings conducted during the period from 2014-15 to 2018-19 and found that 10 (7.8%) of the 129 draft minutes were not issued within one month after the meetings. The delays ranged from 1 to 10 days, averaging 4 days (paras. 5.5 and 5.6).

20. ***Need to enhance procedures of making declarations of interests by Board/Committee members.*** According to the ERB Guidelines, members (including the Board Chairman, Board/Committee members and co-opted members of the

Executive Summary

Committees) should submit written declarations of interests to the Executive Office of ERB at the time of their appointments or re-appointments. Audit examined the records of declaration of interest for the period from 2015-16 to 2019-20 and noted the following issues (paras. 5.10 and 5.11):

- (a) ***Requests for declarations of interests not issued in a timely manner.*** ERB sent the requests to Board members on average 74 days, ranging from 22 to 228 days, subsequent to the Board appointments or re-appointments. For non-Board co-opted members of the Committees, the requests were made on average 57 days, ranging from 2 to 196 days, after their appointments. Of the 118 meetings held in the period from 2015-16 to 2019-20 (up to 31 October 2019), 31 (26.3%) were held before the submission deadlines of the declarations of interests (para. 5.11(a)); and
- (b) ***Late submission of declarations of interests.*** Of the 92 declarations submitted by Board/Committee members for the period from 2015-16 to 2019-20, 17 (18.5%) were submitted after the submission deadlines stipulated by ERB. The delays ranged from 1 to 160 days, averaging 43 days (para. 5.11(b)).

21. ***Need to keep in view the increase in staff turnover rate.*** As at 31 October 2019, the staff establishment and staff strength of ERB were 268 staff and 252 staff respectively. Audit examined the annual staff turnover rates for the period from 2014-15 to 2018-19 and found that the rate decreased from 8.3% in 2014-15 to 5.4% in 2017-18 but increased significantly to 10.4% in 2018-19 (paras. 5.15 and 5.16).

22. ***Need to enhance the review on senior staff remuneration.*** According to the Memorandum of Administrative Arrangements, ERB should at each interval of not more than three years, submit a review report to the Secretary for Labour and Welfare on the review of the top three tiers of staff remuneration packages to ensure that such senior staff remuneration packages are appropriate. Audit examined the latest senior staff remuneration review report and noted that ERB only included cash remuneration in the review report. Non-cash benefits and retirement benefits, which were also part of the staff remuneration packages, were not reported (paras. 5.18 and 5.20).

Executive Summary

23. ***Need to monitor the financial condition of ERB.*** In February 2014, the Government injected a sum of \$15 billion into the Employees Retraining Fund (ERF) primarily as seed money for generating investment income to finance the services and operation of ERB on a long-term basis. Audit examined the financial condition of ERB in the period from 2014-15 to 2018-19 and noted that: (a) ERB incurred a deficit every year, ranging from \$142 million to \$401 million (averaging \$296 million); and (b) the balance of ERF decreased by \$1,478 million (9%) from \$16,280 million as at 1 April 2014 to \$14,802 million as at 31 March 2019. According to the estimation made by ERB, the balance of ERF would further decrease to \$8,330 million in February 2026 (paras. 5.26 to 5.28).

24. ***Majority of recoverable financial incentives could not be recovered.*** To encourage enrolment and provide assistance to persons in need, ERB provides financial incentives in the form of retraining allowances and course fee reduction for trainees attending placement-tied courses and non-placement-tied courses respectively. ERB would recover the financial incentives from trainees of non-placement-tied courses who failed to achieve 80% attendance rate and trainees who are found to have provided false information. Audit found room for improvement in recovering of financial incentives, as follows (paras. 5.32 and 5.33):

- (a) ***Need to explore effective measures to encourage attendance and deter provision of false information.*** In the period from 2014-15 to 2018-19, the amount of recoverable financial incentives written off was \$12 million, ranging from \$2.2 million to \$2.6 million each year. According to ERB's estimation, about 70% of recoverable financial incentives were subsequently written off. The failure to recover the majority of financial incentives indicated that the effectiveness of encouraging attendance and deterring the provision of false information was doubtful (paras. 5.34 and 5.35);
- (b) ***Need to rationalise the follow-up actions taken by ERB.*** Three Sections of ERB, namely the Finance & Accounts Section, the Course Administration Section and the Quality Enhancement Section were responsible for taking actions to recover the financial incentives provided to trainees. Audit noted that there were differences among the follow-up actions taken by the three Sections (para. 5.36); and
- (c) ***Need to step up efforts to refer cases of provision of false information to law enforcement authorities.*** Provision of false information dishonestly

Executive Summary

could amount to an offence under ERO and the Theft Ordinance (Cap. 210). Audit examined ERB's records in the period from 2014-15 to 2018-19 and noted that it did not refer any cases of provision of false information to law enforcement authorities for legal actions. Although the ERB Guidelines stipulated that ERB would refer the suspected fraud cases to relevant authorities for possible legal actions when warranted, as of March 2020, no such case was spotted by ERB (para. 5.38).

25. *Need to improve the inventory check procedures.* According to ERB's Guidelines on Stores Management, inventory checks (including full-scale inventory check and surprise inventory check) were conducted by the inventory holders or their designated officers. Such practice lacked independence and was not conducive to effective inventory control (paras. 5.43 and 5.44).

Audit recommendations

26. **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, ERB should:**

Management of training services

- (a) **step up efforts to improve the popularity of training services for young people (para. 2.23(b));**
- (b) **step up efforts to enhance the attractiveness of training services for ethnic minorities (para. 2.23(d));**
- (c) **review the existing rates of retraining allowances (para. 2.23(e));**
- (d) **provide in the course proposals and the papers submitted to the Course and Service Development Committee information regarding the competitiveness of proposed courses, and rationalise the information requirements for the proposals of courses developed by ERB and those developed by training bodies (para. 2.23(f) and (g));**

Executive Summary

- (e) ensure that courses are suspended according to the ERB Guidelines (para. 2.23(h));
- (f) shorten the waiting times before the applicants can commence training (para. 2.29);
- (g) continue to monitor the performance of training courses on various KPIs and reference indicators (para. 2.45(a));

Quality assurance

- (h) ensure that on-site annual audits and self-evaluations are conducted according to the ERB Guidelines (para. 3.13(a));
- (i) ensure that class surprise inspections are conducted for training centres according to the ERB Guidelines (para. 3.13(c));
- (j) ensure that the course-end assessments are conducted by training bodies in accordance with the ERB Guidelines (para. 3.13(d));
- (k) consider whether remedial actions are necessary for those trainees who have passed the assessment but the assessment has not been conducted according to the ERB Guidelines (para. 3.13(f));
- (l) increase the number of accredited training courses (para. 3.20);

Training support services

- (m) enhance competition in the tender exercises for operation of the Service Centre and the Service Spots (para. 4.9);
- (n) improve the performance of the operators of the Smart Living Scheme (para. 4.30(a));
- (o) enhance the popularity of the Smart Baby Care Scheme and improve the performance of the operator (para. 4.30(c));

Executive Summary

Corporate governance and administrative issues

- (p) circulate the meeting agendas to Board/Committee members in a timely manner and set a time target for the issue of draft meeting minutes (para. 5.12(a) and (b));
- (q) enhance procedures of making declarations of interests by Board/Committee members (para. 5.12(e));
- (r) keep in view the staff turnover rate and explore feasible measures to address the issue if the high turnover rate persists (para. 5.21(a));
- (s) include non-cash and retirement benefits in the senior staff remuneration review report (para. 5.21(b));
- (t) in collaboration with the Labour and Welfare Bureau, monitor the financial condition of ERB (para. 5.29);
- (u) explore other effective measures to encourage trainees to achieve a high attendance rate and to deter them from providing false information (para. 5.39); and
- (v) consider improving the inventory check procedures and enhance the effectiveness of the checks as far as practicable (para. 5.45(b)).

Response from ERB and the Government

27. The Executive Director, ERB agrees with the audit recommendations. The Secretary for Labour and Welfare has said that the Labour and Welfare Bureau will take appropriate follow-up actions on the audit recommendations relating to the Labour and Welfare Bureau and will provide the necessary support for ERB to implement the proposed improvement measures.