

# **CHAPTER 4**

**Innovation and Technology Bureau  
Innovation and Technology Commission**

**Technology Voucher Programme**

**Audit Commission  
Hong Kong  
10 June 2022**

*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. 78 of the Director of Audit contains 4 Chapters which are available on our website at <https://www.aud.gov.hk>



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# TECHNOLOGY VOUCHER PROGRAMME

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# TECHNOLOGY VOUCHER PROGRAMME

## Executive Summary

1. The Technology Voucher Programme (TVP) was launched in November 2016 under the Innovation and Technology Fund. TVP aims to subsidise eligible local entities in using technological solutions to improve productivity, or facilitate the upgrading or transformation of their business processes. Up to 31 December 2021, 7,075 (55%) of the 12,922 valid TVP applications received had been approved, involving total approved funding of \$1,099.5 million. The Innovation and Technology Commission (ITC), headed by the Commissioner for Innovation and Technology (CIT), is responsible for administering TVP. With effect from 8 June 2021, ITC has appointed the Hong Kong Productivity Council (HKPC) as TVP Secretariat. TVP Committee, comprising members from the Government and the business sector, technology sector and professional services sector, oversees the implementation of TVP and assists ITC in ensuring the proper use of funds. The Audit Commission (Audit) has recently conducted a review of TVP.

### Processing of applications

2. *Need to take timely actions to collect information for processing applications and conduct technical assessments.* For 1,987 (28%) of the 7,075 applications approved in the period from 2017 to 2021, the time elapsed from receipt of applications to completion of vetting and assessments was more than one year. In some cases, the time elapsed could have been shortened if actions had been taken in a more timely manner. For the 25 applications examined by Audit, the case officers had not sought clarifications from the applicants until 1.9 to 9.3 months (averaging 6 months) after the receipt of applications. In 1 of the 25 applications, technical assessment was only conducted 5 months after the case officer had received the applicant's clarification (paras. 2.9 and 2.10).

3. *Applicants not notified of assessment results until long time after project commencements.* Audit examined 155 (4%) of the 3,787 applications approved in 2021 and found that for these applications, the average time elapsed from the dates of project commencement to the dates of notification of assessment results and the

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funding amounts supported was 10.6 months. In 66 (43%) of the 155 applications, the time elapsed was more than one year (para. 2.11).

4. ***Delays in notification of assessment results.*** In 1,225 (53%) of the 2,322 applications submitted to TVP Committee for assessment in 2021, notifications of assessment results were not given within 2 working days after TVP Committee's assessments, contrary to the requirement set out in TVP Manual. The delays ranged from 2 to 7 working days, averaging 5.9 working days. In 2020 (April to December) and 2021, the performance pledge to make available to the applicant the assessment result within 60 working days upon receipt of full information from the applicant was not met for 8% and 1% of the applications respectively (paras. 2.12 and 2.13).

5. ***Need to shorten the time taken for submitting the applications to CIT for approval.*** For the 1,714 applications that were pending submission to CIT for approval as at 31 December 2021, the average time elapsed since the completion of application assessments was 24 days. In 932 (54%) of the applications, the time elapsed was more than 30 days. Audit examined 10 of the 3,787 applications approved by CIT in 2021 and found that for these applications, there was room for improvement in shortening the time elapsed from the completion of assessments by TVP Committee to approval by CIT (paras. 2.18 and 2.19).

### Monitoring of projects

6. ***Delays in project completion.*** As at 31 December 2021, 1,747 TVP projects had been completed with final reports approved. There were delays in the completion of 457 (26%) projects, including 46 (3%) with delays of more than six months, ranging from 6.1 to 17.7 months, averaging 9.9 months. For 25 (54%) of the 46 projects, the required prior approval from TVP Secretariat for the extension in project duration was not obtained (para. 3.3).

7. ***Delays in submission of final reports.*** Up to 31 December 2021, the final reports of 3,218 TVP projects had been due for submission. Final reports of 2,758 (86%) projects had been submitted including 636 (23%) submitted later than the deadline, with delays ranging from 1 day to 13.9 months (averaging 1.7 months). Of the 460 outstanding reports, 180 (39%) had been overdue for more than 6 months (para. 3.8).



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8. ***Increasing number of final reports pending approval.*** The number of final reports pending approval increased significantly by almost 5 times from 176 as at 31 December 2018 to 1,036 as at 31 December 2021. As at 31 December 2021, 76 (8%) of the 1,036 final reports pending approval had already been submitted by the applicants to ITC for more than one year (paras. 3.10 and 3.11).

9. ***Need to shorten the time elapsed from receipt of final reports to approval.*** For the 1,747 final reports approved in the period from 2017 to 2021, the average time elapsed from receipt of the reports to approval was on a rising trend, increasing from 2.6 months in 2017 to 8.6 months in 2021. For 774 (45%) reports, the time elapsed was more than 6 months. For 17 (68%) of the 25 final reports examined by Audit, the case officers sought clarifications from the applicants more than 1 month after the receipt of the final reports (ranging from 1.1 to 5.2 months, averaging 2.7 months). For 12 (48%) of the 25 final reports, the final reports were submitted to TVP Committee for assessments more than 2 months after the case officers had received the applicants' clarifications and supplementary information (ranging from 2.2 to 5 months, averaging 3.5 months) (paras. 3.12 and 3.13).

10. ***Performance pledge on assessing final reports not met.*** In April 2020, ITC set a performance pledge to make available to the applicant the assessment result of the final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant. In 2020 (April to December) and 2021, the performance pledge was not met for 8% and 15% of the final reports assessed respectively (para. 3.15).

11. ***Room for improvement for pre-disbursement site visits.*** With effect from January 2020, the target percentage for conducting pre-disbursement site visits has been reduced from 15% to 10%. In the period from 2019 to 2021, the percentage of projects with anomalies identified through the site visits was high and on an increasing trend, from 29% in 2019 to 63% in 2021. However, the number and percentage of projects for which site visits were conducted decreased significantly from 49 (10%) in 2019 to 8 (2%) in 2021 (para. 3.21).

12. ***Need to increase the number of projects selected for post-disbursement site visits.*** The number of projects with final funds disbursed increased significantly by about 2 times from 206 in 2018-19 to 606 in 2020-21. Despite the significant increase, only 5 projects were selected in each financial year for the post-disbursement

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site visits, representing less than 1 % of projects with final funds disbursed in 2019-20 and 2020-21 (para. 3.26).

13. *Need to conduct post-disbursement site visits in a timely manner.* Applicants are required to keep all assets funded under TVP for at least one year after project completion or termination. However, all the 15 post-disbursement site visits reviewed by Audit were conducted more than one year after the completion of the projects (ranging from 12.7 to 27.4 months, averaging 21.5 months). For 1 of the 15 projects, the site visit was conducted 22.6 months after project completion. The asset funded under TVP was not available for inspection during the site visit (paras. 3.25 and 3.27).

14. *Post-project evaluation reports not submitted by applicants.* Up to 31 December 2021, 2,758 projects had been completed for more than 6 months and their post-project evaluation reports should have been submitted. However, post-project evaluation reports had not been submitted for 1,671 (61%) of the 2,758 projects. Of the 2,758 projects, post-project evaluation report forms were not sent to applicants of 1,094 (40%) projects. Moreover, the forms were not sent to applicants of 1,627 (58%) projects within 6 months, but up to 31 months (averaging 9 months) after project completion (para. 3.34).

### Administrative issues

15. *Need to encourage TVP Committee members to attend committee meetings.* In the period from October 2016 to March 2022, 32 TVP Committee meetings were held. The attendance rates of the non-official members in each meeting ranged from 30% to 88%. Eighteen (74%) of the 24 meetings held in the period from 19 October 2016 to 18 October 2020 (i.e. the last two terms of appointment) and 1 (13%) of the 8 meetings held in the period from 19 October 2020 to 31 March 2022 (i.e. the current term of appointment) had attendance rates below 60% (para. 4.5).

16. *Need to ensure that requirements on declarations of interest are complied with.* In the period from October 2016 to December 2021, of the 32 declarations of interest for first appointment due for submission by TVP Committee members, 23 (72%) were submitted late (the delays ranged from 1 day to 197 days, averaging 24 days). For 13 of the 23 late submissions, the declarations of interest were

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submitted after the members had attended their first TVP Committee meetings. Of the 74 annual declaration of interest forms due for submission by TVP Committee members, 16 (22%) were submitted late (the delays ranged from 2 to 133 days, averaging 39 days) (para. 4.8).

17. ***Need to ensure that requirements stipulated in Financial Circular are complied with.*** In June 2021, ITC directly appointed HKPC as TVP Secretariat with an estimated implementation fee of \$195.4 million for the three-year period commencing June 2021. CIT said that she was satisfied that the appointment did not constitute procurement of service. According to the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government, where the Controlling Officer is satisfied that the engagement of a non-government partner to administer the project does not constitute procurement of service or good and is not subject to the Stores and Procurement Regulations, the relevant considerations and decisions should be clearly and properly recorded. Audit found that there was room for improvement in recording clearly and properly the relevant considerations and decisions on the nature of the partnering arrangement with HKPC. Furthermore, according to the Stores and Procurement Regulations, by encouraging participation through open and fair competition, the Government will be better able to obtain responsive and competitive bids that ensure value for money. As a norm, open bidding should be adopted as far as practicable (paras. 4.16 to 4.18).

18. ***Delay in entering into formal agreement with HKPC.*** HKPC has provided secretariat services for the administration of TVP starting from 4 March 2021. However, the formal agreement was not signed until 23 November 2021, more than 8 months after HKPC began providing the services. To avoid unnecessary disputes, formal agreement should always be signed before commencement of services (paras. 4.21 and 4.22).

### **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 CIT should:**

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### *Processing of applications*

- (a) speed up the vetting and assessments of applications (para. 2.15(a));
- (b) ensure that applicants are notified of the assessment results within two working days after TVP Committee's assessments and within 60 working days upon receipt of all the necessary supporting documents (para. 2.15(b));
- (c) ensure that applications are submitted to CIT for approval in a more timely manner (para. 2.21);

### *Monitoring of projects*

- (d) remind the applicants that TVP Secretariat's prior approval should be obtained for extension of project duration exceeding six months and take follow-up actions on those projects with unreasonable delays in completion (para. 3.5(a) and (b));
- (e) address the issue of delays in submission of final reports by applicants (para. 3.17(a));
- (f) closely monitor the processing of final reports with a view to shortening the time elapsed from the receipt of final reports to approval (para. 3.17(d));
- (g) ensure that the assessment results of the final reports are made available to applicants within 60 working days (para. 3.17(e));
- (h) increase the numbers and percentages of projects selected for both pre-disbursement and post-disbursement site visits as soon as the COVID-19 epidemic situation allows (para. 3.30(b));
- (i) ensure that post-disbursement site visits are conducted in a timely manner (para. 3.30(d));

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- (j) **remind applicants of the requirement to submit post-project evaluation reports six months after project completion (para. 3.36(a));**

### *Administrative issues*

- (k) **encourage non-official TVP Committee members to avoid absences from committee meetings as far as possible (para. 4.12(a));**
- (l) **ensure that declarations of interest are submitted by TVP Committee members in a timely manner (para. 4.12(b));**
- (m) **ensure that, in future, the requirements stipulated in the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government are complied with in government procurements and in partnering arrangements (para. 4.23(a)); and**
- (n) **in future implementation arrangements, ensure that formal agreement between the Government and the non-government party is signed before commencement of services (para. 4.23(b)).**

## Response from the Government

- 20. CIT agrees 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 Innovation and technology are drivers of economic development and competitiveness. They help improve the efficiency and performance of enterprises, which in turn contribute to the sustainable growth of the economy. The Innovation and Technology Fund (ITF) was established by the Government in June 1999 as a statutory fund under the Public Finance Ordinance (Cap. 2) to finance projects that contribute to innovation and technology upgrading and development in manufacturing and services industries in Hong Kong. The Innovation and Technology Commission (ITC), headed by the Commissioner for Innovation and Technology (CIT), is responsible for administering ITF.

1.3 The Technology Voucher Programme (TVP) was launched in November 2016 as a pilot programme under ITF. TVP aims to subsidise eligible local entities in using technological solutions to improve productivity, or facilitate the upgrading or transformation of their business processes. In February 2019, TVP became a regular programme under ITF.

1.4 Since its launch, a series of enhancement measures have been made to TVP. Initially, only small and medium enterprises were eligible for TVP funding. In 2018, the eligibility criteria were expanded to cover non-listed local enterprises. In 2019, the eligibility criteria were further expanded to cover companies incorporated and registered in Hong Kong under the Companies Ordinance (Cap. 622) that were exempted from business registration, and statutory bodies set up in Hong Kong. In 2020, further enhancement measures were made, including an increase in the Government's funding ratio for each TVP project from two-thirds to three-quarters, and an increase in the funding ceiling per applicant from \$400,000 to \$600,000 (see para. 1.6 and Appendix A).

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1.5 In the period from the launch of TVP in November 2016 to 31 December 2021, 16,668 TVP applications were received, of which 12,922 (78%) were valid applications (Note 1). As at 31 December 2021, 9,076 (70%) of the 12,922 applications had been assessed by TVP Committee (see para. 1.11) and 7,075 (55%) had been approved. The total amount of funding approved was \$1,099.5 million, of which \$252.2 million (23%) had been disbursed to the applicants upon project completion and approval of final reports (see Table 1).

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**Note 1:** *The remaining 3,746 (22%) applications comprised 2,637 applications withdrawn before vetting and 1,109 invalid applications identified before vetting.*



Table 1

**Number of TVP applications and amount of funding  
(31 December 2021)**

Year	Applications received	Valid applications	Applications assessed by TVP Committee	Applications approved	Funding approved	Funding disbursed
	(Number)				(\$ million)	
2016 (Note 1)	57	15	—	—	—	—
2017	1,253	577	268	246	31.7	0.4
2018	1,074	703	716	693	98.1	17.0
2019	2,302	1,574	915	813	129.4	63.0
2020	6,310	4,945	1,756	1,536	251.2	88.1
2021	5,672	5,108	5,421	3,787	589.1	83.7
Total	16,668	12,922	9,076	7,075	1,099.5	252.2 (Note 2)

*Source: Audit analysis of ITC records*

*Note 1: TVP was launched in November 2016.*

*Note 2: Apart from initial payments (see Note 2 to Figure 1 in para. 1.12), approved funding was disbursed to applicants upon project completion and final report approval. Hence, the approved funding of \$847.3 million (\$1,099.5 million - \$252.2 million) had not been disbursed, comprising \$599.5 million pending project completion, \$187.8 million pending final report approval and \$60 million due to project termination or withdrawal after approval.*

*Remarks: Up to 30 April 2022, the number of approved applications had increased to 12,299 and the amount of funding approved had increased to \$1,948.3 million.*

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### *Key features of TVP*

1.6 **Eligibility.** The eligibility criteria have been relaxed a number of times since the launch of TVP (see Appendix A). At present, local entities fulfilling the following criteria are eligible to apply for funding under TVP:

- (a) registered in Hong Kong under the Business Registration Ordinance (Cap. 310), or incorporated and registered in Hong Kong under the Companies Ordinance, or established in Hong Kong by relevant ordinances as statutory bodies;
- (b) not being a listed company in Hong Kong, and not a government subvented organisation or subsidiary of any government subvented organisation; and
- (c) with substantive business operation in Hong Kong which is related to the project under application at the time of application.

1.7 **Funding amount and project duration.** TVP funding is provided on a 3 (government):1 (enterprise/organisation) matching basis. Contribution by the applicant must be made in cash, i.e. contribution in kind is not accepted. Each applicant may receive cumulative funding up to \$600,000 for a maximum of six projects. An applicant is only allowed to undertake one TVP project at a time. Each TVP project should normally be completed within 12 months.

1.8 **Scope of funding.** The approved funding can be used to cover the following:

- (a) engagement of technology consultant to provide external consultancy to recommend technological services/solutions to be adopted by the applicant. The consultant must be a local university or research institution, or a company registered in Hong Kong under the Business Registration Ordinance;
- (b) purchase, rental or subscription of customised equipment/hardware, software and technological services or solutions that form an essential part of the project;

- (c) purchase, rental or subscription of off-the-shelf/readily available equipment/hardware, software and technological services or solutions that form an essential part of the project. In general, the costs of such equipment/hardware/software/services or solutions should constitute no more than 50% of the project cost; and
- (d) project auditing for projects with approved funding exceeding \$50,000. The maximum audit fee to be counted towards the total project cost is \$3,000.

Normal business operating costs (e.g. rental of premises, staff salary and other related expenses) will not be funded.

1.9 ***Procurement procedures.*** TVP applicants are required to ensure that all procurements of goods and services are carried out on an open, arm's length and competitive basis in accordance with prudent commercial principles. Procurements of goods and services with an aggregate purchase value not exceeding \$1.4 million are required to be conducted by quotations whereas procurements exceeding \$1.4 million are required to be conducted by way of open tendering.

### ***Administration of TVP***

1.10 ***TVP Secretariat.*** A TVP Team was set up under ITC's Funding Schemes Division, headed by Assistant CIT (Funding Schemes) (Note 2), to act as TVP Secretariat for the administration of TVP (see Appendix B for an extract of the organisation chart of ITC as at 31 January 2022). With effect from 8 June 2021, ITC has appointed the Hong Kong Productivity Council (HKPC) as TVP Secretariat. As at 31 December 2021, TVP Secretariat had an establishment of 109 HKPC staff (including 2 staff on a part-time basis), while TVP Team under ITC had an establishment of 12 staff (Note 3) (including 4 staff on a part-time basis). The responsibilities of TVP Secretariat include:

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**Note 2:** *Assistant CIT (Funding Schemes) is also responsible for the administration of another 12 funding schemes of ITF.*

**Note 3:** *The establishment of TVP team was reduced from 21 in 2020 to 12 in 2021.*

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- (a) receiving applications and providing guidance to applicants in their submission of applications;
- (b) vetting applications and making recommendations to TVP Committee (see para. 1.11) on applications for consideration;
- (c) monitoring the progress and results of approved projects, and making recommendations to TVP Committee on acceptance of final reports;
- (d) arranging disbursements to applicants;
- (e) conducting promotion and publicity activities; and
- (f) maintaining and enhancing the online application system.

Following the appointment of HKPC as TVP Secretariat, vetting and project monitoring (e.g. preparation of funding agreements, processing of change requests, initial payment requests and final reports, conducting site visits and arranging funding disbursements) of applications that were received in July 2020 and thereafter have been handled by HKPC whereas TVP Team under ITC continues to handle applications received before July 2020 and monitor the related projects. TVP Team is also responsible for the formulation of policies and enhancements of TVP, as well as the overall operation of TVP Committee. TVP Team monitors the performance of HKPC as the implementation partner of TVP, through reviewing and approving the annual implementation plans, annual reports and audited accounts, arranging disbursements to applicants via HKPC, and handling enquiries/complaints relating to HKPC's performance.

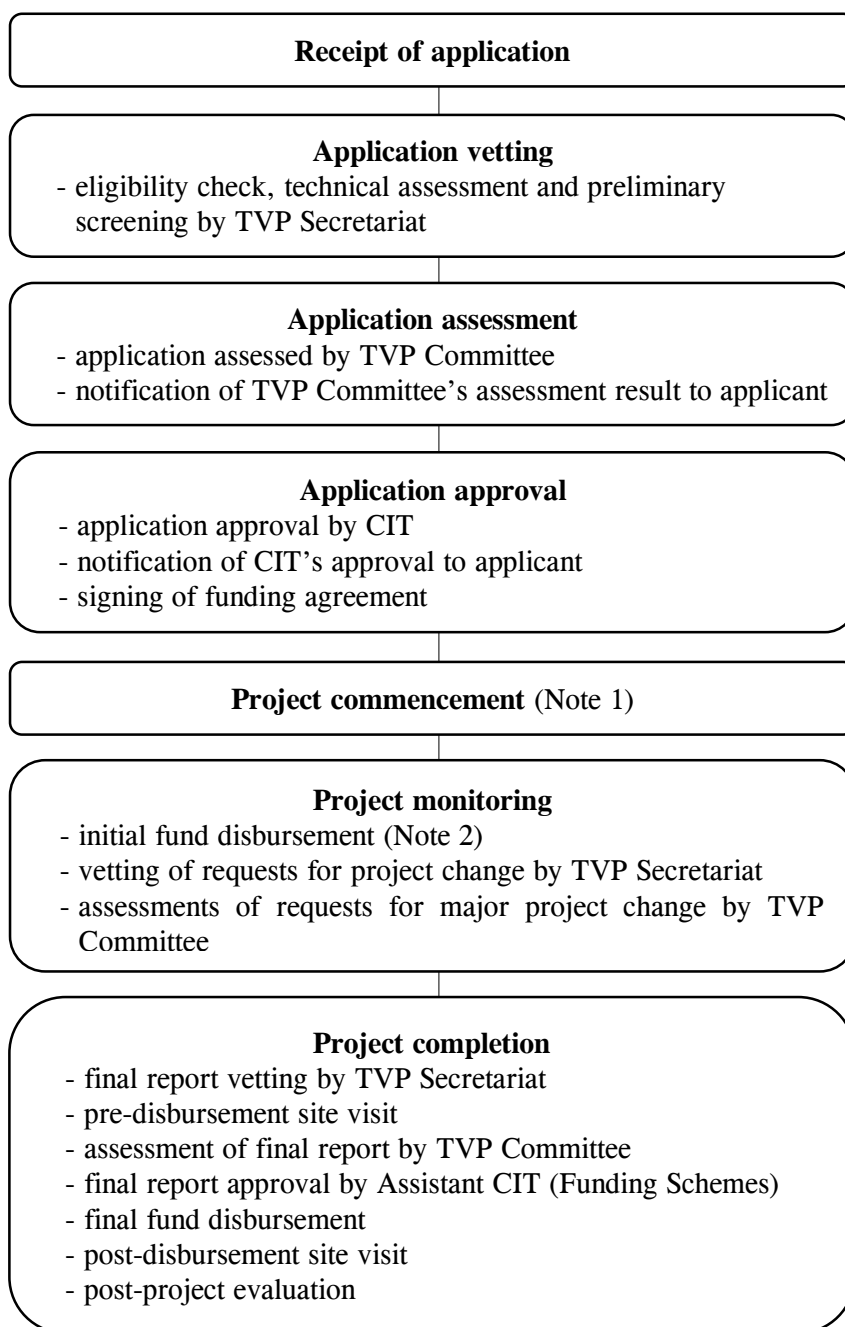
1.11 ***TVP Committee.*** TVP Committee oversees the implementation of TVP and assists ITC in ensuring the proper use of funds. As at 31 December 2021, TVP Committee comprised 3 ex-officio members from the Government and 18 non-official members from the business sector, technology sector and professional services sector. The terms of reference of TVP Committee are:

- (a) to advise on the vetting procedures and assessment criteria for TVP;
- (b) to advise whether TVP applications should be approved, the amount to be granted to each approved project, the terms and conditions for approving funds, and the measures in monitoring the disbursement of funds;
- (c) to evaluate and review the modus operandi and effectiveness of TVP; and
- (d) to advise on any other matters relating to TVP.

1.12 ***Processing of TVP applications and monitoring of TVP projects.*** After vetting by TVP Secretariat, eligible applications will be submitted to TVP Committee for assessments. When the assessments are completed, applicants will be notified of the results. Applicants of partially supported applications will be asked to confirm whether they wish to continue their applications. The applications supported by TVP Committee will then be submitted to CIT for approval. After CIT's approval, TVP Secretariat arranges signing of funding agreements with the applicants, and monitors the progress of the approved projects until project completion. Upon project completion, the applicants are required to submit final reports. After vetting by TVP Secretariat, final reports are assessed by TVP Committee. Final reports supported by TVP Committee will be submitted to Assistant CIT (Funding Schemes) for approval, after which disbursement of funding set out in the approved final report will be arranged. Figure 1 shows an overview of the processing of TVP applications and the monitoring of TVP projects.

**Figure 1**

**Processing of TVP applications and monitoring of TVP projects**



*Source: Audit analysis of ITC records*

*Note 1: With effect from 1 June 2020, applicants have been allowed to start their projects on the day following the submission of applications at the earliest (see para. 2.7).*

*Note 2: An initial payment of up to 25% of the approved funding amount may be made to the successful applicant upon the applicant's request after signing of the funding agreement and compliance with relevant conditions.*

## **Audit review**

1.13 In October 2021, the Audit Commission (Audit) commenced a review of TVP. This audit has focused on the following areas:

- (a) processing of applications (PART 2);
- (b) monitoring of projects (PART 3); and
- (c) 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 the Government**

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

- (a) ITC appreciates the value for money audit review on TVP and is grateful for the observations and recommendations, which will help ITC and HKPC improve the operation of TVP in order to serve the industry more effectively and efficiently. ITC will work closely with HKPC to ensure the early implementation of improvement measures as appropriate;
- (b) with the enhancements introduced in April 2020, there has been nearly a three-fold increase in the number of applications from 2,302 in 2019 to 6,310 in 2020 and 5,672 in 2021, while ITC's establishment in 2019-20 (i.e. 21 staff (reduced to 12 in December 2021), including 4 staff on a part-time basis) could only process about 2,300 applications per year. Since the number of applications in 2020 and 2021 far exceeded ITC's processing capacity, coupled with the adverse impact of coronavirus disease (COVID-19) epidemic on its normal operation, there has been a sizable backlog of TVP applications. Consequently, ITC has not been able to meet in full the performance pledges as well as the timeframes set out in TVP Manual (an internal operation guide of ITC, with timeframes laid down in early 2020 based on the application situation at that time) as identified in the audit report;

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- (c) to expedite the processing of the applications, ITC appointed HKPC as the implementation partner of TVP in June 2021 after reporting the appointment to the Legislative Council in April 2021. With an establishment of 109 staff (including 2 on a part-time basis) and its expertise, HKPC has assisted ITC to complete the processing of all applications (except one case due to its complexity) received up to end-2021 by end-April 2022. The processing of all 2,591 applications received in 2022 (up to April 2022) is under way and expected to be completed progressively by August 2022. By and large, the processing of TVP applications is now back on track and ITC will work together with HKPC to follow up on Audit's recommendations; and
  
- (d) the Secretary for Innovation and Technology fully appreciates the difficulties ITC has been facing following the introduction of the enhancements in April 2020 and the endeavours ITC has made to cope with the situation. He reaffirms his full support for ITC to appoint HKPC as the implementation partner of TVP, which has been instrumental in the clearance of the sizable backlog.

## **Acknowledgement**

1.15 During the audit review, in light of the outbreak of the fifth wave of the COVID-19 epidemic, the Government had implemented various special work arrangements and targeted measures for government employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of ITC during the course of the audit review amid the COVID-19 epidemic.



## **PART 2: PROCESSING OF APPLICATIONS**

2.1 This PART examines the processing of TVP applications, focusing on the following areas:

- (a) vetting and assessments of applications (paras. 2.3 to 2.16); and
- (b) approval of applications (paras. 2.17 to 2.22).

### ***Background***

2.2 TVP applications are accepted all year round and are processed as follows (see para. 1.12 and Figure 1):

- (a) ***Application vetting.*** Upon receipt of applications, TVP Secretariat will carry out checking on the applicants' eligibility and conduct preliminary screening and technical assessment of the proposed technological services/solutions. Where necessary, clarifications or supplementary information will be sought from the applicants;
- (b) ***Application assessments.*** After application vetting, valid applications with TVP Secretariat's recommendation will be submitted to TVP Committee for application assessments based on the following:
  - (i) relevance of the proposed project to the applicant's business;
  - (ii) reasonableness of the budget;
  - (iii) reasonableness of the implementation details; and
  - (iv) past records of the consultants and/or service providers, if known to TVP Secretariat.

## Processing of applications

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TVP Secretariat will notify the applicants of the results in writing after assessments by TVP Committee. Applicants of partially supported applications will be asked to confirm whether they wish to continue their applications with a reduced budget supported by TVP Committee; and

- (c) ***Application approval by CIT.*** Applications supported by TVP Committee will then be submitted to CIT for approval and applicants will be further informed of CIT's decision in writing.

## Vetting and assessments of applications

2.3 ***Outstanding applications.*** In the period from the launch of TVP in November 2016 to December 2021, ITC received 16,668 TVP applications, of which 12,922 were valid applications (see para. 1.5). As at 31 December 2021, of the 12,922 applications, 7,075 were approved, 1,707 were vetted and assessed, 246 were rejected, 48 were withdrawn and 3,846 were outstanding applications (i.e. applications for which vetting and assessments had not been completed). Audit noted that during the period from 31 December 2017 to 31 December 2021, the number of outstanding applications increased significantly from 422 applications as at 31 December 2017 to 3,846 as at 31 December 2021 (see Table 2).

**Table 2**

**Number of outstanding TVP applications  
(November 2016 to December 2021)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Overall</b>
No. of outstanding applications at beginning of period (a)	—	36	422	387	1,100	5,065	—
No. of applications received (b)	57	1,253	1,074	2,302	6,310	5,672	16,668
No. of invalid/rejected/withdrawn applications (c)	21	621	416	776	663	1,543	4,040
No. of applications supported by TVP Committee (d)	0	246	693	813	1,682	5,348	8,782
No. of outstanding applications at end of period (e)=(a)+(b)-(c)-(d)	36	422	387	1,100	5,065	3,846	3,846

*Source: Audit analysis of ITC records*

## Processing of applications

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2.4 Audit examined the 3,846 outstanding applications as at 31 December 2021 (see Table 3) and noted that the applications were received, on average, 4.7 months ago.

**Table 3**

**Ageing analysis of outstanding applications  
(31 December 2021)**

<b>Time elapsed from receipt of applications (Month)</b>	<b>Number of applications</b>
≤ 3	1,227 (32%)
> 3 to ≤ 6	1,329 (35%)
> 6 to ≤ 9	1,050 (27%)
> 9 (Note)	240 (6%)
Total	3,846 (100%)

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 11.8 months.*

2.5 Audit examined the processing status of the 3,846 outstanding applications as at 31 December 2021. The results are summarised in Table 4.

**Table 4**

**Processing status of outstanding applications  
(31 December 2021)**

Processing status	Number of applications	
Vetting not started	2,088	(54%)
Vetting in progress	1,210	(32%)
Vetting completed (to be assessed by TVP Committee)	548	(14%)
Total	3,846	(100%)

*Source: Audit analysis of ITC records*

2.6 In response to Audit’s enquiry, ITC informed Audit in April 2022 that:

- (a) there had been a significant increase in the number of TVP applications received from 2,302 in 2019 to 6,310 in 2020 and 5,672 in 2021 (see Table 1 in para. 1.5), which far exceeded the processing capacity of ITC’s staff. The significant increase was a result of:
  - (i) the overwhelming responses to the various enhancement measures made to TVP in 2020 (see Appendix A); and
  - (ii) the heightened awareness of the need for digital transformation under the new normal of the COVID-19 epidemic; and
- (b) ITC thus appointed HKPC as the implementation partner of TVP in June 2021 to expedite the processing of the applications, riding on their expertise and resources. The processing of TVP applications had been speeded up significantly.

## Processing of applications

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2.7 ***Early commencement of projects.*** To facilitate the early adoption of the technological services or solutions, with effect from 1 June 2020, applicants have been allowed to start their projects on the day following the submission of applications at the earliest. Applicants who decided to commence the projects before receiving the assessment results are required to submit a duly completed declaration to TVP Secretariat no later than 5 working days after the day of project commencement. In the declarations, applicants have to confirm and declare that they fully understand that the applications may or may not be approved by CIT and they may or may not be granted the full amount of funding they applied for in the applications, and that they undertake not to claim compensation from the Government arising from Government's rejection of the application or not granting the funding requested in the application in full or in part. Up to December 2021, in 2,175 applications (17% of the 12,922 valid applications), the applicants had commenced their projects before receiving the assessment results.

2.8 ***Funding request may not be supported in full.*** Audit examined the 3,787 applications approved in 2021 and noted that funding requests were supported in full for 984 (26%) applications and in part for 2,803 (74%) applications (see Table 5). For the applications with funding request supported in part, the average percentage of funding support was 68% of the funding amount requested.

Table 5

**Funding support of TVP applications approved  
(2021)**

<b>Funding support as a percentage of the funding amount requested</b>	<b>Number of applications</b>
< 50% (Note)	409 (11%)
50% to < 75%	1,364 (36%)
75% to < 100%	1,030 (27%)
100%	984 (26%)
Total	3,787 (100%)

Source: *Audit analysis of ITC records*

Note: *The lowest percentage of funding support was 14.5%.*

Remarks: *According to ITC: (a) for prudent use of public resources, it is necessary to review the reasonableness of the budget of each application to decide on an appropriate funding amount; and (b) one of the reasons why full funding was not supported for some applications was that the project costs were considered unreasonably high having regard to projects of similar nature.*

***Long time elapsed from receipt of applications to completion of vetting and assessments***

2.9 *Need to take timely actions to collect information for processing applications and conduct technical assessments.* In the period from 2017 to 2021, 7,075 TVP applications were approved (see Table 1 in para. 1.5). Audit examined the 7,075 approved applications and found that:

- (a) for a large number of applications, the time elapsed from receipt of applications to completion of vetting and assessments was long. For 1,987 (28%) approved applications, the time elapsed was more than one year; and

## Processing of applications

- (b) the average time elapsed increased from 3.4 months for applications approved in 2017 to 11.9 months for those approved in 2021. The increase was particularly significant after 2019. The average time elapsed increased by 43% from 4.7 months in 2019 to 6.7 months in 2020 and increased further by 78% to 11.9 months in 2021 (see Table 6).

**Table 6**

**Time elapsed from receipt of applications to completion of vetting and assessments (2017 to 2021)**

Time elapsed (Month)	Number of applications approved					
	2017	2018	2019	2020	2021	Overall
≤ 3	104	184	126	13	0	427
> 3 to ≤ 6	132	360	520	482	1	1,495
> 6 to ≤ 12	10	149	167	1,039	1,801	3,166
> 12 (Note)	0	0	0	2	1,985	1,987
Total	246	693	813	1,536	3,787	7,075
Average time elapsed (Month)	3.4	4.5	4.7	6.7	11.9	8.9

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 17.9 months.*

According to ITC, the time elapsed increased after 2019 was due to the significant increase in the number of applications (see para. 2.6).

2.10 Audit noted that in some cases, the time elapsed from receipt of applications to completion of vetting and assessments was long and could have been shortened if actions had been taken in a more timely manner. Audit examined 25 applications received during the period from April 2020 to June 2021, and noted that:



- (a) according to TVP Manual issued by ITC, the case officers should seek clarifications from the applicants on matters such as incomplete supporting documents within one month from the dates of receipt of applications. Otherwise, interim replies should be issued. However:
  - (i) the case officers of the 25 applications had not sought clarifications from the applicants until 1.9 to 9.3 months (averaging 6 months) after the receipt of applications; and
  - (ii) in 14 (56%) of the 25 applications, no interim reply had been issued to the applicants; and
- (b) in 1 (4%) of the 25 applications, technical assessment was only conducted 5 months after the case officer had received the applicant's clarification (see Case 1).

### Case 1

#### **Long time elapsed from receipt of application to completion of vetting and assessments (May 2020 to October 2021)**

1. The applicant submitted an application for funding of \$300,000 in May 2020. An interim reply was sent in July 2020 informing the applicant that the application was under assessment. In November 2020 (6 months after the receipt of application), TVP Secretariat sought applicant's clarifications on the application documents. The applicant responded to TVP Secretariat's enquiry in December 2020. In May 2021 (5 months after the receipt of applicant's reply), technical assessment was started to assess the reasonableness of the project costs. The technical assessment was completed about 3 months later in August 2021. In the same month, the application was recommended to TVP Committee for assessment.

2. In September 2021 (16 months after the receipt of application), the application was supported by TVP Committee. In October 2021, CIT approved the application.

#### ***Audit comments***

3. In Audit's view, there is a need for ITC to take earlier actions to obtain the information needed in processing the application and to conduct the technical assessment in a more timely manner.

*Source: Audit analysis of ITC records*

2.11 ***Applicants not notified of assessment results until long time after project commencements.*** Applicants are notified of the assessment results and the funding amounts supported by TVP Committee after the completion of the application assessments. Audit examined 155 (4%) of the 3,787 applications approved in 2021 and found that the average time elapsed from the dates of project commencement to the dates of notification of assessment results and the funding amounts supported was 10.6 months. In 66 (43%) of the 155 applications, the time elapsed was more than one year (see Table 7).

Table 7

**Time elapsed from project commencement to notification of assessment results and funding amounts supported (2021)**

<b>Time elapsed (Month)</b>	<b>Number of applications</b>
≤ 3	5 (3%)
> 3 to ≤ 6	12 (8%)
> 6 to ≤ 12	72 (46%)
> 12 (Note)	66 (43%)
Total	155 (100%)

Source: *Audit analysis of ITC records*

Note: *The longest time elapsed was 16 months.*

Early commencement of projects can help TVP applicants adopt the technological solutions in their business and operation as early as possible. However, the long time elapsed and the fact that applicants were notified of the percentage of funding amounts supported long time after project commencements and incurring of project costs may cause inconvenience to the applicants.

2.12 ***Delays in notification of assessment results.*** According to TVP Manual, applicants should be notified of the application assessment results within 2 working days after TVP Committee had completed the application assessments. Audit examined the 2,322 applications submitted to TVP Committee for assessment in 2021. Audit found that in 1,225 (53%) applications, notifications of assessment results were not given within 2 working days after TVP Committee’s assessments, contrary to the requirement set out in TVP Manual. The delays ranged from 2 to 7 working days, averaging 5.9 working days (see Table 8 and Case 2 in para. 2.19).

## Processing of applications

Table 8

**Delays in notifications of assessment results  
(2021)**

<b>Delay (Working day)</b>	<b>No. of applications</b>
No delay	1,097 (47%)
1	0 (0%)
2	204 (9%)
3	87 (4%)
4	0 (0%)
5	0 (0%)
> 5 (Note)	934 (40%)
Total	2,322 (100%)

Source: *Audit analysis of ITC records*

Note: *The longest delay was 7 days.*

2.13 In January 2020, the Independent Commission Against Corruption (ICAC) issued an assignment report on the administration of TVP. In the report, ICAC recommended that, to minimise corruption risks and enhance transparency, ITC should lay down and publicise performance pledge for processing TVP applications within a reasonable timeframe. In April 2020, in response to the recommendation, ITC set a performance pledge to make available to the applicant the assessment result of an application within 60 working days upon receipt of full information including necessary supporting documents from the applicant. Audit noted that in 2020 (April to December) and 2021, the performance pledge was not met for 8% and 1% of the applications respectively.

2.14 While it is a merit that applicants are allowed to start their projects as early as the day following the submission of applications (see para. 2.7), Audit noted that in a large number of applications, funding requests were not supported in full and the

applicants were notified long time after project commencements and incurring of project costs. Audit considers that ITC needs to take measures to:

- (a) speed up the vetting and assessments of applications, including:
  - (i) seeking clarifications from applicants within one month from the dates of receipt of applications in accordance with TVP Manual; and
  - (ii) conducting technical assessments in a more timely manner; and
- (b) ensure that applicants are notified of the assessment results within two working days after TVP Committee's assessments in accordance with TVP Manual and within 60 working days upon receipt of all the necessary supporting documents in accordance with the performance pledge.

### **Audit recommendations**

2.15 **Audit has *recommended* that CIT should take measures to:**

- (a) **speed up the vetting and assessments of applications, including:**
  - (i) **seeking clarifications from applicants within one month from the dates of receipt of applications in accordance with TVP Manual; and**
  - (ii) **conducting technical assessments in a more timely manner; and**
- (b) **ensure that applicants are notified of the assessment results within two working days after TVP Committee's assessments in accordance with TVP Manual and within 60 working days upon receipt of all the necessary supporting documents in accordance with the performance pledge.**

### Response from the Government

- 2.16 CIT agrees with the audit recommendations. She has said that:
- (a) the increase in the number of applications from 2,302 in 2019 to 6,310 in 2020 and 5,672 in 2021 far exceeded the processing capacity of ITC staff (see para. 1.14(b)). To expedite the processing of applications, ITC appointed HKPC as the implementation partner of TVP in June 2021, riding on their expertise and resources. As at end-April 2022, all applications submitted up to end of 2021 (except one case) had been processed, with another 2,089 applications submitted in 2022 outstanding (i.e. 1,633 under processing by the Secretariat, and 456 vetted applications pending assessments by TVP Committee);
  - (b) ITC will regularly review the timeframes set out in TVP Manual to ensure that they are realistic and reasonable in light of the prevailing circumstances; and
  - (c) ITC will take measures to ensure that the timeframes specified in TVP Manual and the performance pledges will be met.

### Approval of applications

2.17 *Need to shorten the time taken for submitting the applications to CIT for approval.* According to TVP Manual:

- (a) for applications that are supported by TVP Committee for full funding, the applications will be submitted to CIT for approval; and
- (b) for applications that are supported by TVP Committee with conditions (e.g. funding support in part), the applicants will be required to confirm acceptance of funding conditions within three working days after being notified of the assessment results. After receiving the applicants' confirmation, TVP Secretariat will submit the applications to CIT for approval.

2.18 Audit noted that as at 31 December 2021, the application assessments by TVP Committee for 1,714 applications had been completed and were pending submission to CIT for approval. Audit examined the 1,714 applications and noted that the average time elapsed since the completion of application assessments up to 31 December 2021 was 24 days. In 932 (54%) applications, the time elapsed was more than 30 days (see Table 9).

**Table 9**

**Time elapsed since completion of application assessments  
(31 December 2021)**

Time elapsed (Day)	Number of applications
≤ 15	782 (46%)
16 to ≤ 30	0 (0%)
> 30 (Note)	932 (54%)
Total	1,714 (100%)

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 38 days.*

2.19 Audit examined 10 (0.3%) of the 3,787 applications approved by CIT in 2021 and noted that for these applications, there was room for improvement in shortening the time elapsed from the completion of assessments by TVP Committee to approval by CIT. Case 2 is an example.

### Case 2

#### Long time taken by ITC in submitting applications to CIT for approval (September to October 2021)

1. In mid-September 2021, the application was given partial funding support by TVP Committee. The applicant was informed of the assessment result 9 working days later in late September 2021. The applicant confirmed his acceptance of funding conditions 8 working days later in October 2021. The application was submitted to CIT for approval 8 working days (13 calendar days) after receiving the applicant's reply. CIT approved the application on the same day.

#### *Audit comments*

2. In Audit's view, the application should have been submitted to CIT for approval as soon as practicable after receiving the applicant's reply.

*Source: Audit analysis of ITC records*

2.20 Audit considers that ITC needs to take measures to ensure that applications are submitted to CIT for approval in a more timely manner after the applicants confirmed their acceptance of funding conditions.

### Audit recommendation

2.21 **Audit has recommended that CIT should take measures to ensure that applications are submitted to CIT for approval in a more timely manner after the applicants confirmed their acceptance of funding conditions.**

### Response from the Government

2.22 CIT agrees with the audit recommendation. She has said that ITC will set a timeframe in TVP Manual on submission of applications to CIT for approval, and develop management report programmes to monitor the performance.



## **PART 3: MONITORING OF PROJECTS**

3.1 This PART examines issues related to monitoring of TVP projects, focusing on the following areas:

- (a) project implementation (paras. 3.2 to 3.6);
- (b) final report submission and vetting (paras. 3.7 to 3.18);
- (c) site visits (paras. 3.19 to 3.31); and
- (d) post-project evaluation (paras. 3.32 to 3.37).

### **Project implementation**

3.2 According to TVP Guidance Notes for Applications, which form part of the funding agreements:

- (a) TVP projects are required to be carried out strictly in accordance with the funding agreements;
- (b) extension of project duration for more than six months requires prior approval by TVP Secretariat (Note 4); and
- (c) within two months after completion of TVP projects, the applicants should submit final reports and other required documents to TVP Secretariat.

### ***Delays in project completion***

3.3 As at 31 December 2021, 1,747 TVP projects had been completed with final reports approved (see para. 1.12 and Figure 1). Audit examined the 1,747 projects and noted that:

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**Note 4:** *Before 27 February 2019, prior approvals from TVP Secretariat were required for early project completions and all project extensions.*

## Monitoring of projects

- (a) there were delays in the completion of 457 (26%) projects, including 46 (3%) with delays in completion of more than six months, ranging from 6.1 to 17.7 months, averaging 9.9 months (see Table 10); and

**Table 10**

**Delays in project completion  
(31 December 2021)**

<b>Delay (Month)</b>	<b>Number of projects</b>
No delay	1,290 (74%)
≤ 3	217 (12%)
> 3 to ≤ 6	194 (11%)
> 6 to ≤ 12	35 (2%)
> 12 (Note)	11 (1%)
	} 46 (3%)
<b>Total</b>	<b>1,747 (100%)</b>

*Source:* Audit analysis of ITC records

*Note:* The longest delay was 17.7 months.

*Remarks:* Delay in project completion refers to the time elapsed from the planned project completion date stated in the funding agreement to the actual project completion date.

- (b) for 25 (54%) of the 46 projects, the required prior approval from TVP Secretariat for the extension in project duration (see para. 3.2(b)) was not obtained. TVP Secretariat was only aware of the delays in project completion after the applicants submitted the final reports.

3.4 In response to Audit's enquiry, ITC informed Audit in April 2022 that there had been more cases of delay in project completion recently due to the impact of the COVID-19 epidemic affecting the businesses of both the applicants and the selected service providers. For cases where applicants did not obtain prior approval for project extension, currently TVP Secretariat would set out the justifications provided by the

applicants in the final report summaries appended to the papers submitted to TVP Committee (see para. 3.7(d)). Notwithstanding this, Audit considers that ITC needs to:

- (a) take measures to remind the applicants that TVP Secretariat's prior approval should be obtained for extension of project duration exceeding six months; and
- (b) take follow-up actions on those projects with unreasonable delays in completion (e.g. withholding disbursement of funds where circumstances warrant).

### Audit recommendations

3.5 Audit has *recommended* that CIT should:

- (a) **take measures to remind the applicants that TVP Secretariat's prior approval should be obtained for extension of project duration exceeding six months; and**
- (b) **take follow-up actions on those projects with unreasonable delays in completion (e.g. withholding disbursement of funds where circumstances warrant).**

### Response from the Government

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

- (a) ITC and HKPC will issue reminders to the applicants before the project completion dates to remind them of the need to seek TVP Secretariat's prior approval for extension of project duration for more than six months; and
- (b) ITC and HKPC will continue to closely monitor the progress of the projects and consider on a case-by-case basis whether the Government should exercise the right to withhold disbursement of funds where circumstances warrant.

### Final report submission and vetting

- 3.7 According to the funding agreements:
- (a) within two months after completion of TVP projects, the applicants should submit final reports and other required documents (Note 5) to TVP Secretariat for vetting;
  - (b) the final reports shall include a summary of the project expenditure, and a summary and an evaluation of the extent to which the project deliverables have been accomplished and the benefits achieved as set out in the approved applications;
  - (c) where necessary, TVP Secretariat will seek clarifications and supplementary information from the applicants regarding the projects;
  - (d) after the vetting process, TVP Secretariat will submit the final reports to TVP Committee for assessment. Final reports accepted by TVP Committee will be submitted to Assistant CIT (Funding Schemes) for approval; and
  - (e) the final payment of TVP funding will be disbursed to the applicants after Assistant CIT (Funding Schemes)'s approval.

### *Delays in submission of final reports*

3.8 Up to 31 December 2021, 3,218 TVP projects had been completed for two months or more and the final reports of these projects were due for submission. Audit examined the submission of final reports of the 3,218 projects and noted that:

- (a) final reports of 2,758 (86%) projects had been submitted by the applicants. Of these 2,758 reports, 636 (23%) were submitted later than the deadline, with delays ranging from 1 day to 13.9 months (averaging 1.7 months); and

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**Note 5:** *The documents required to be submitted together with the final report include the evidence of project deliverables, the receipts of payment for expenditure items and a statement of income and expenditure for the project (an audited statement of income and expenditure is required for projects with approved funding exceeding \$50,000).*

- (b) final reports of the remaining 460 (14%) projects had not been submitted, with an average overdue period of 5.5 months. Of the 460 outstanding reports, 180 (39%) had been overdue for more than 6 months (see Table 11).

**Table 11**

**Ageing analysis of overdue final reports  
(31 December 2021)**

Overdue period (Month)	Number of projects
≤ 3	164 (36%)
> 3 to ≤ 6	116 (25%)
> 6 to ≤ 12	154 (33%)
> 12 to ≤ 18	25 (5%)
> 18 (i.e. 20.5)	1 (1%)
Total	460 (100%)

*Source: Audit analysis of ITC records*

3.9 In Audit's view, timely submission of final reports and the related documents (see Note 5 to para. 3.7(a)) by applicants is important for ITC's monitoring and evaluation of the extent to which the project deliverables have been accomplished and the benefits achieved as set out in the approved applications (see para. 3.7(b)). If the final reports and the related documents were submitted long after project completion, TVP Secretariat may have difficulties in seeking clarifications and supplementary information from the applicants (see para. 3.7(c)). Audit considers that ITC needs to take measures to address the issue of delays in submission of final reports by applicants.

## Monitoring of projects

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### *Processing of final reports*

3.10 *Increasing number of final reports pending approval.* Audit noted that in the period from 2017 to 2021, the number of final reports pending approval at year-end (see para. 3.7(d)) increased significantly by almost 5 times from 176 as at 31 December 2018 to 1,036 as at 31 December 2021 (see Table 12).

**Table 12**

**Number of final reports pending approval  
(2017 to 2021)**

	Number of final reports					
	2017	2018	2019	2020	2021	Overall
Pending approval at beginning of period (i.e. 1 January) (a)	—	40	176	324	574	—
Received (b)	47	292	610	843	1,009	2,801
Approved (c)	6	153	459	587	542	1,747
Withdrawn (d)	1	3	3	6	5	18
Pending approval at end of period (i.e. 31 December) (e)=(a)+(b)-(c)-(d)	40	176	324	574	1,036	1,036

*Source:* Audit analysis of ITC records

3.11 Audit examined the 1,036 final reports pending approval as at 31 December 2021 and noted that 76 (8%) of the reports had already been submitted by the applicants to ITC for more than one year (see Table 13). According to ITC, the progress of processing final reports had been affected because some efforts were directed to the competing priority of clearing backlog of applications.

Table 13

**Time elapsed since receipt of final reports from applicants  
(31 December 2021)**

Time elapsed (Month)	Number of final reports
$\leq 3$	251 (24%)
$> 3$ to $\leq 6$	210 (20%)
$> 6$ to $\leq 9$	264 (25%)
$> 9$ to $\leq 12$	235 (23%)
$> 12$ to $\leq 15$	60 (6%)
$> 15$ (Note)	16 (2%)
	} 76 (8%)
Total	1,036 (100%)

*Source:* Audit analysis of ITC records

*Note:* The longest time elapsed was 28.4 months.

3.12 ***Need to shorten the time elapsed from receipt of final reports to approval.*** Audit examined the 1,747 final reports approved in the period from 2017 to 2021 and noted that the average time elapsed from receipt of the reports to approval was on a rising trend, increasing from 2.6 months in 2017 to 8.6 months in 2021. For 774 (45%) of the approved final reports, the time elapsed was more than 6 months (see Table 14).

**Table 14**

**Time elapsed from receipt of final reports to approval  
(2017 to 2021)**

Time elapsed (Month)	Number of final reports					
	2017	2018	2019	2020	2021	Overall
≤ 3	3	51	79	57	8	198 (10%)
> 3 to ≤ 6	3	85	288	319	80	775 (45%)
> 6 to ≤ 12	0	17	91	186	400	694 (40%)
> 12 to ≤ 18	0	0	1	21	51	73 (4%)
> 18 (Note)	0	0	0	4	3	7 (1%)
Total	6	153	459	587	542	1,747 (100%)
Average time elapsed (Month)	2.6	4.0	4.7	5.9	8.6	6.2

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 26 months.*

3.13 Audit noted that in many cases, the time elapsed from receipt of final reports to approval was long. According to TVP Manual, the case officers should seek clarifications from the applicants on matters such as incomplete supporting documents within one month from the dates of receipt of final reports. Otherwise, an interim reply should be issued. Audit examined the processing of 25 final reports received in the period from April 2020 to June 2021 and noted that:

- (a) for 17 (68%) final reports, the case officers sought clarifications from the applicants more than 1 month after the receipt of the final reports. The time elapsed ranged from 1.1 to 5.2 months, averaging 2.7 months. For 10 (59%) of the 17 final reports, the case officers did not issue interim replies to the applicants as required; and



- (b) for 12 (48%) final reports, they were submitted to TVP Committee for assessments more than 2 months after the case officers had received the applicants' clarifications and supplementary information. The time elapsed ranged from 2.2 to 5 months (averaging 3.5 months). Case 3 is an example.

According to ITC, the processing of final reports had been affected by the significant increase in the number of TVP applications (see para. 2.6(a)).

**Case 3**

**Long time elapsed from receipt of final reports to approval  
(July 2020 to July 2021)**

1. A TVP project, involving TVP funding of some \$50,000, was completed in July 2020. The applicant submitted the final report in September 2020. In February 2021 (5 months after the receipt of the final report), the case officer sought the applicant's clarifications on the final report and requested the applicant to provide additional information and documents. The applicant provided the requested information and documents in March 2021.

2. In June 2021 (3 months after the receipt of applicant's additional information and documents), TVP Secretariat recommended TVP Committee to accept the final report. In the same month, the final report was accepted by TVP Committee and approved by Assistant CIT (Funding Schemes). In July 2021, final payment was disbursed to the applicant.

***Audit comments***

3. In Audit's view, there is a need for ITC to take earlier actions to seek clarifications and obtain the necessary information and documents in processing the final report. There is also a need for ITC to submit recommendation to TVP Committee in a more timely manner after receiving all information and documents from the applicant.

*Source: Audit analysis of ITC records*

## **Monitoring of projects**

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3.14 As the final payment of TVP funding for a project is disbursed on a reimbursement basis after the final report has been approved, it is important that final reports are processed in a timely manner so that the final payment for completed projects can be disbursed to the applicants as soon as practicable. Audit considers that ITC needs to:

- (a) take measures to ensure that the case officers seek clarifications from the applicants on matters relating to final reports within one month from the dates of receipt of the reports in accordance with TVP Manual;
- (b) endeavour to shorten the time taken to collect all the required information and documents from the applicants for the processing of final reports; and
- (c) closely monitor the processing of final reports with a view to shortening the time elapsed from the receipt of final reports to approval.

### ***Performance pledge on assessing final reports not met***

3.15 In its assignment report issued in January 2020 (see para. 2.13), ICAC recommended ITC to lay down a performance pledge for processing final reports within a reasonable timeframe. In April 2020, in response to ICAC's recommendation, ITC set a performance pledge to make available to the applicant the assessment result of the final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant. Audit noted that in 2020 (April to December) and 2021, the performance pledge was not met for 8% and 15% of the final reports assessed respectively (see Table 15).

Table 15

**Achievements of performance pledge  
in making available assessment results of final reports  
(2020 (April to December) and 2021)**

Period	Number of final reports		
	Performance pledge met (a)	Performance pledge not met (b)	Total (c) = (a) + (b)
2020 (April to December) (Note 1)	159 (92%)	14 (8%) (Note 2)	173 (100%)
2021	425 (85%)	75 (15%) (Note 2)	500 (100%)
Overall	584 (87%)	89 (13%)	673 (100%)

Source: *Audit analysis of ITC records*

Note 1: *The performance pledge was set in April 2020.*

Note 2: *The time taken for ITC to make available to the applicants the assessment results of the final reports ranged from 62 to 110 working days (averaging 79 working days) in 2020 (April to December) and from 61 to 186 working days (averaging 100 working days) in 2021.*

3.16 In Audit’s view, a performance pledge represents the standard of service ITC is committed to achieve. It is important for ITC to meet the performance pledge. Audit considers that ITC needs to take measures to ensure that the assessment results of the final reports of approved TVP projects are made available to applicants within 60 working days as specified in the performance pledge.

## **Audit recommendations**

3.17 **Audit has recommended that CIT should take measures to:**

- (a) **address the issue of delays in submission of final reports by applicants;**

## **Monitoring of projects**

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- (b) **ensure that the case officers seek clarifications from the applicants on matters relating to final reports within one month from the dates of receipt of the reports in accordance with TVP Manual;**
- (c) **shorten the time taken to collect all the required information and documents from the applicants for the processing of final reports;**
- (d) **closely monitor the processing of final reports with a view to shortening the time elapsed from the receipt of final reports to approval; and**
- (e) **ensure that the assessment results of the final reports of approved TVP projects are made available to applicants within 60 working days as specified in the performance pledge.**

## **Response from the Government**

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

- (a) while it should be in the interest of the applicants to submit final reports promptly in order to obtain the final payments, ITC will work with HKPC to explore further measures to remind applicants to submit the final reports in a timely manner; and
- (b) ITC will work with HKPC to develop management report programmes for monitoring the processing time of the final reports so that prompt actions could be taken to meet the timeframes set out in TVP Manual and the performance pledge.

## **Site visits**

### ***Room for improvement for pre-disbursement site visits***

3.19 As part of the final report vetting process, TVP Secretariat conducts site visits to selected applicants' premises prior to making final fund disbursements to the applicants. According to TVP Manual, pre-disbursement site visits are mandatory for TVP applications meeting one or more of the following criteria:

- (a) the applicant and the service provider share the same address;
- (b) the total approved project cost is more than \$400,000; and
- (c) the hardware cost accounts for more than 50% of the total approved project cost.

Other projects may also be selected by the case officers for conducting pre-disbursement site visits on a risk basis.

3.20 During the pre-disbursement site visits, case officers examine the pertinent documents (e.g. quotations, invoices, receipts, auditors' reports and statements of project expenditure) and the project deliverables (e.g. checking the model number and serial number of the equipment, and observing the demonstration of the operation of the system). If anomalies are identified (e.g. original copies of invoices, quotation documents or audit reports not available for checking), the applicants will be required to take follow-up actions as appropriate (e.g. obtaining a written confirmation from the service provider that it has genuinely issued the invoice concerned).

3.21 Prior to 2020, ITC's target percentage for conducting pre-disbursement site visits was set at 15% of completed projects with final reports accepted by TVP Committee. With effect from January 2020, the target has been reduced to 10%. Audit noted that in the period from 2019 to 2021, the percentage of projects with anomalies identified through the site visits was high and on an increasing trend, from 29% in 2019 to 63% in 2021. However, the number and percentage of projects for which site visits were conducted decreased significantly from 49 (10%) in 2019 to 8 (2%) in 2021 (see Table 16).

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**Table 16**

**Pre-disbursement site visits of TVP projects  
(2019 to 2021)**

	<b>2019</b>	<b>2020</b>	<b>2021</b>
No. of projects with final reports accepted by TVP Committee (a)	506	559	500
No. of projects with site visits conducted (b)	49	13	8
Percentage of projects with site visits conducted (c) = (b) ÷ (a) × 100%	10%	2%	2%
No. of projects with anomalies identified through site visits (d)	14	6	5
Percentage of projects with anomalies identified through site visits (e) = (d) ÷ (b) × 100%	29%	46%	63%

*Source: Audit analysis of ITC records*

3.22 In response to Audit's enquiry, ITC informed Audit in January 2022 that due to the COVID-19 epidemic, in the period from February 2020 to October 2021:

- (a) 37 pre-disbursement site visits (17 in 2020 and 20 in 2021) were suspended; and
- (b) pre-disbursement site visits were only conducted when considered absolutely necessary for the assessments of satisfactory completion of the projects.

3.23 Audit also noted that while some projects not meeting the criteria in TVP Manual (see para. 3.19) may be selected by case officers for conducting pre-disbursement site visits on a risk basis (e.g. the applicant was subject to investigation by law enforcement agency), information was not available on:

- (a) the number of projects meeting the criteria in TVP Manual for mandatory pre-disbursement site visits; and
- (b) the number of mandatory site visits actually conducted.

3.24 Given that the percentage of projects with anomalies identified through the pre-disbursement site visits was high and on an increasing trend, Audit considers that ITC needs to ensure that all mandatory site visits are conducted. ITC also needs to increase the number and percentage of projects selected for the site visits as soon as the situation allows taking into account the latest development of the COVID-19 epidemic and consider exploring alternative means of conducting site visits (e.g. by conducting remote video inspection) with a view to ensuring the effectiveness of final report assessments in situations where physical site visits are not feasible.

### ***Post-disbursement site visits***

3.25 According to TVP Guidance Notes for Applications (which form part of the funding agreement), an applicant is required to keep all assets (including equipment, hardware and software) funded under TVP for at least one year after project completion or termination, and shall make such assets available for inspection upon request. Starting from 2018-19, in addition to pre-disbursement site visits, in each financial year, ITC also performed post-disbursement site visits for five randomly selected projects after their project completion and final fund disbursements. The aim of the post-disbursement site visits is to inspect the projects' books and records, and equipment and hardware purchased, focusing on verifying compliance with TVP requirements after project completion.

3.26 ***Need to increase the number of projects selected for post-disbursement site visits.*** During the period from 2018-19 to 2020-21, the number of projects with final funds disbursed increased significantly by about 2 times from 206 in 2018-19 to 606 in 2020-21. Despite the significant increase, only 5 projects were selected in each financial year for the post-disbursement site visits, representing less than 1% of projects with final funds disbursed in 2019-20 and 2020-21 (see Table 17).

## Monitoring of projects

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Table 17

**Post-disbursement site visits of TVP projects  
(2018-19 to 2020-21)**

	2018-19	2019-20	2020-21	Overall
No. of projects with final funds disbursed (a)	206	516	606	1,328
No. of projects with site visits conducted (b)	5	5	5	15
Percentage of projects with site visits conducted (c) = (b) ÷ (a) × 100%	2.43%	0.97%	0.83%	1.13%

Source: Audit analysis of ITC records

3.27 **Need to conduct post-disbursement site visits in a timely manner.** For the 1,328 projects with final fund disbursements made in the period from 2018-19 to 2020-21, ITC has conducted post-disbursement site visits for 15 (1.13%) projects (see Table 17). Audit examined records of site visits for the 15 projects and noted that the visits were not conducted in a timely manner. For all of the 15 projects, site visits were conducted more than one year after the completion of the projects (ranging from 12.7 to 27.4 months, averaging 21.5 months). For 9 (60%) of the 15 projects, site visits were conducted more than one year after the final fund disbursement (ranging from 13.1 to 19.7 months, averaging 15.9 months). As the applicants are not required to keep assets for more than one year after project completion (see para. 3.25), it is undesirable that site visits are not conducted in a timely manner. For instance, in a site visit conducted 22.6 months after project completion (or 18.7 months after the final fund disbursement), the asset funded under TVP (i.e. an IT system) was not available for inspection.

3.28 In response to Audit's enquiry, ITC informed Audit in April 2022 that:

- (a) as specified in TVP Guidance Notes for Applications, the purpose of conducting post-disbursement site visits was for checking books and records that were required to be kept by applicants for seven years;



- (b) ITC would also check whether the deliverables of TVP projects had been kept for at least one year after project completion; and
- (c) ITC would re-visit its working schedule such that the site visits would be conducted at an appropriate time to follow up on the compliance with the relevant requirements.

3.29 According to the funding agreements, applicants are required to keep all equipment, hardware, software and other assets funded by TVP for at least one year after project completion or termination (see para. 3.25). One of the objectives of the post-disbursement site visits is to inspect the equipment and hardware purchased to verify applicants' compliance with TVP requirements. In Audit's view, the post-disbursement site visits would be more effective if conducted in a timely manner. Audit considers that ITC needs to:

- (a) as the number of completed projects with final funds disbursed has increased significantly in recent years, increase the number and percentage of projects selected for post-disbursement site visits as soon as the COVID-19 epidemic situation allows, taking into account the need for social distancing; and
- (b) ensure that post-disbursement site visits are conducted in a timely manner.

### **Audit recommendations**

3.30 **Audit has *recommended* that CIT should:**

- (a) **ensure that all mandatory pre-disbursement site visits are conducted;**
- (b) **increase the numbers and percentages of projects selected for both pre-disbursement and post-disbursement site visits as soon as the COVID-19 epidemic situation allows, taking into account the need for social distancing;**
- (c) **consider exploring alternative means of conducting site visits (e.g. by conducting remote video inspection) with a view to ensuring the**

## **Monitoring of projects**

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**effectiveness of final report assessments in situations where physical site visits are not feasible; and**

- (d) **ensure that post-disbursement site visits are conducted in a timely manner.**

## **Response from the Government**

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

- (a) some of the mandatory pre-disbursement site visits were not conducted in 2020 and 2021 due to the COVID-19 epidemic. ITC will explore with HKPC the use of alternative means (e.g. remote video inspection) for some of the site visits as appropriate;
- (b) ITC will review the number of pre-disbursement site visits regularly to ensure that the target of 10% is reached. ITC would revisit the sample size mechanism with a view to increasing the number of post-disbursement site visits to be conducted; and
- (c) ITC will review the site visit schedule so that post-disbursement site visits will be conducted in a timely manner to follow up on the applicants' compliance with the relevant requirements.

## **Post-project evaluation**

3.32 According to TVP Guidance Notes for Applications (which form part of the funding agreements):

- (a) applicants shall submit post-project evaluation reports to TVP Secretariat six months after project completion; and
- (b) the evaluations cover aspects such as the extent of the projects in achieving business objectives to improve productivity or upgrade/transform their business processes so as to enhance their competitiveness.

Results of the post-project evaluation were regularly reported in TVP Committee meetings and occasionally in the Legislative Council meetings.

### *Post-project evaluation reports not submitted by applicants*

3.33 Although the post-project evaluation report form is available for download on both ITC's and HKPC's websites, ITC has not asked the applicants to download the report form from the websites for completion 6 months after project completion. In practice, ITC sent the post-project evaluation report forms to some applicants for their completion after the final reports of the projects were approved. Consequently, the forms were sent to the applicants much longer than 6 months after project completion because the final reports were approved much longer than 6 months after project completion. Moreover, as at 31 December 2021, of the 1,747 projects with final reports approved, evaluation forms had not yet been sent to 83 (5%) applicants.

3.34 Up to 31 December 2021, 2,758 projects had been completed for more than 6 months and their post-project evaluation reports should have been submitted. The applicants of 1,087 (39%) of the 2,758 projects had submitted post-project evaluation reports while 1,671 (61%) had not. Audit noted that, of the 2,758 projects:

- (a) post-project evaluation report forms were not sent to the applicants of 1,094 (40%) projects; and
- (b) post-project evaluation report forms were not sent to the applicants of 1,627 (58%) projects within 6 months, but up to 31 months (averaging 9 months) after project completion (see Table 18).

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**Table 18**

**Time elapsed from completion of projects to  
sending post-project evaluation report forms to applicants  
(31 December 2021)**

<b>Time elapsed (Month)</b>	<b>Number of projects</b>
≤ 6	37 (2%)
> 6 to ≤ 9	864 (31%)
> 9 to ≤ 12	478 (17%)
> 12 to ≤ 18	260 (9%)
> 18 (Note)	25 (1%)
Subtotal	1,664 (60%)
Post-project evaluation report forms not sent to applicants	1,094 (40%)
Total	2,758 (100%)

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 31 months.*

3.35 In Audit's view, the post-project evaluation reports provide useful information for evaluation of project effectiveness and should be submitted by the applicants in a timely manner. Audit considers that ITC needs to take measures to remind applicants of the requirement to submit post-project evaluation reports six months after project completion. To facilitate applicants in submitting the evaluation reports in a timely manner, ITC also needs to draw the applicants' attention to the availability of the post-project evaluation report forms for download on ITC's and HKPC's websites.

## **Audit recommendations**

- 3.36 **Audit has *recommended* that CIT should:**
- (a) **take measures to remind applicants of the requirement to submit post-project evaluation reports six months after project completion; and**
  - (b) **draw the applicants' attention to the availability of the post-project evaluation report forms for download on ITC's and HKPC's websites.**

## **Response from the Government**

- 3.37 CIT agrees with the audit recommendations.

## **PART 4: ADMINISTRATIVE ISSUES**

4.1 This PART examines administrative issues of TVP, focusing on the following areas:

- (a) governance issues of TVP Committee (paras. 4.2 to 4.13);
- (b) appointment of HKPC as TVP Secretariat (paras. 4.14 to 4.24); and
- (c) performance measurement and reporting (paras. 4.25 to 4.30).

### **Governance issues of Technology Voucher Programme Committee**

#### ***Need to encourage TVP Committee members to attend committee meetings***

4.2 TVP Committee was set up in October 2016 to advise and make recommendations to ITC in steering and overseeing the implementation of TVP (Note 6). The terms of reference of TVP Committee include advising ITC on:

- (a) whether applications for funding should be approved;
- (b) the amount to be granted to each approved project; and
- (c) the terms of conditions for approving funds and the measures in monitoring the fund disbursements.

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**Note 6:** *In response to Audit's enquiry, ITC informed Audit in April 2022 that in addition to attending meetings, TVP Committee members were also required to assess applications by way of circulation of papers. In the period from October 2020 to December 2021, the 19 non-official members processed a total of 31 papers in 14 rounds of circulation.*

4.3 TVP Committee comprises ex-officio members from the Government and non-official members from the business sector, technology sector and professional services sector including those with professional knowledge and experience in enhancing productivity, or upgrading or transforming business processes. The non-official members are appointed by the Government. Each term of appointment is normally two years starting from 19 October and members are eligible for re-appointment.

4.4 According to TVP Committee's meeting rules and procedures, if less than six members (including at least five non-official members plus one ex-officio member from the Government but excluding the Chairman of the meeting) are present, the meeting may continue but decisions should be circulated to all members for endorsement after the meeting. Decisions that are made by circulations must be endorsed by the Chairman, Vice Chairman and majority of TVP Committee members.

4.5 In the period from October 2016 to March 2022, three terms of appointment were involved, namely two terms from 19 October 2016 to 18 October 2020 and the current term starting from 19 October 2020. In the period, 32 TVP Committee meetings were held. Audit examined the attendance of the non-official members at the meetings held in the period and noted that:

- (a) the attendance rates of the non-official members in each meeting ranged from 30% to 88%; and
- (b) 18 (74%) of the 24 meetings held in the period from 19 October 2016 to 18 October 2020 (i.e. the last two terms of appointment) and 1 (13%) of the 8 meetings held in the period from 19 October 2020 to 31 March 2022 (i.e. the current term of appointment (Note 7)) had attendance rates below 60% (see Table 19).

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**Note 7:** *The current term of appointment will end on 18 October 2022.*

**Table 19**

**Attendance rates of non-official members at TVP Committee meetings  
(October 2016 to March 2022)**

Attendance rate	Number of meetings		
	Last two terms of appointment (19 October 2016 to 18 October 2020)	Current term of appointment (19 October 2020 to 31 March 2022)	Overall
≥ 30% to < 40%	3 (12%)	0 (0%)	3 (9%)
≥ 40% to < 50%	3 (12%)	0 (0%)	3 (9%)
≥ 50% to < 60%	12 (50%)	1 (13%)	13 (41%)
≥ 60% to < 70%	2 (9%)	2 (25%)	4 (13%)
≥ 70% (Note)	4 (17%)	5 (62%)	9 (28%)
Total	24 (100%)	8 (100%)	32 (100%)

*Source: Audit analysis of ITC records*

*Note: The highest attendance rate was 88%.*

4.6 Although the attendance rates of non-official members have improved in the current term of appointment, Audit considers that ITC needs to closely monitor the attendance rates and, when necessary, take measures to encourage non-official TVP Committee members to avoid absences from committee meetings as far as possible.



*Need to ensure that requirements on declarations of interest are complied with*

4.7 According to ITC's Guidelines on Declaration of Conflict of Interest by Committee Members of TVP Committee, TVP Committee has adopted a two-tier reporting system for declaration of conflict of interest, as follows:

- (a) TVP Committee members to disclose their general pecuniary interest by submitting a declaration of interest form to TVP Committee at the time of appointment and annually thereafter; and
- (b) TVP Committee members to report on any actual or perceived conflicts of interests as and when they arise:
  - (i) if a member has any actual or potential conflict of interest in any matters under consideration by TVP Committee, he should, as soon as practicable after he has become aware of it, make a declaration to the Chairman (or TVP Committee) prior to the discussion of the item;
  - (ii) when a known direct pecuniary conflict of interest exists, TVP Secretariat may withhold circulation of relevant papers to the member concerned. Where a member is in receipt of a paper for discussion which he knows presents a direct conflict of interest, he should immediately inform TVP Secretariat and return the paper; and
  - (iii) declaration of interest is required when a member is an office-bearer (including the chairman/president, vice-chairman/vice-president, director, advisor and secretary, whether paid or unpaid) or a paid staff of a service provider or contractor of the applicant enterprise if the application is to be approved by TVP Committee.

4.8 In the period from October 2016 to December 2021, Audit found that:

- (a) of the 32 declarations of interest for first appointment due for submission by TVP Committee members:

## **Administrative issues**

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- (i) 23 (72%) were submitted late (the delays ranged from 1 day to 197 days, averaging 24 days);
  - (ii) for 13 (57%) of the 23 late submissions, the declarations of interest were submitted after the members had attended their first TVP Committee meetings. TVP Secretariat had not taken remedial actions to ensure that there was no potential conflict of interests before the meetings; and
  - (iii) on 2 (15%) of the 13 occasions (see para. (ii) above), ITC requested the newly appointed members to complete the declaration of interest forms only after they had attended their first TVP Committee meetings;
- (b) of the 74 annual declaration of interest forms due for submission by TVP Committee members:
- (i) 16 (22%) were submitted late (the delays ranged from 2 to 133 days, averaging 39 days); and
  - (ii) 1 (1%) had not been submitted as at 31 March 2022. Apart from sending a reminder to the member in August 2020, TVP Secretariat had not taken further follow-up actions to chase up the declaration; and
- (c) of the 30 TVP Committee meetings and 40 rounds of circulation in which TVP Committee members made decisions on the acceptance of final reports and support for disbursement of funding to applicants:
- (i) in 1 (3%) of the 30 Committee meetings, a member who endorsed the acceptance of final reports and supported the disbursement of funding in the meeting was a managing partner of the service provider in the project concerned. While the member had declared such information at the time of appointment and in the annual declaration, he had not declared such information at the meeting as required (see para. 4.7(b)(iii)); and

- (ii) in 4 (10%) of the 40 rounds of circulation, 3 members (one of them was involved in 3 rounds) had not made declarations of conflict of interest prior to responding to the circulations as required (see para. 4.7(b)(i)).

4.9 Managing conflict of interest is important to good governance and maintaining public trust in TVP Committee. Audit considers that ITC needs to ensure that declarations of interest are submitted by TVP Committee members in a timely manner. ITC also needs to ensure that the requirements stipulated in ITC's Guidelines on Declaration of Conflict of Interest by Committee Members of TVP Committee are complied with.

***Need to facilitate TVP Committee members  
in their consideration of meeting papers***

4.10 Audit examined the records of the 11 TVP Committee meetings held in 2020 and 2021 and noted that:

- (a) for each of the meetings, the meeting papers were voluminous, ranging from 948 to 2,190 pages; and
- (b) the meeting papers were issued to members only 3 to 7 days (averaging 5.4 days) before the meetings.

4.11 At the TVP Committee meeting held in December 2021, it was agreed that measures would be taken to facilitate members in their consideration of meeting papers, e.g. providing longer period for their response and arranging more frequent meetings to brief members on the applications. Notwithstanding this, in Audit's view, it is important that meeting papers are issued to TVP Committee members as early as practicable to enable them to have sufficient time to consider the papers before the meeting. Audit considers that ITC needs to issue meeting papers to TVP Committee members as early as possible.

**Audit recommendations**

4.12 **Audit has *recommended* that CIT should:**

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- (a) **closely monitor the attendance rates of non-official TVP Committee members and, when necessary, take measures to encourage them to avoid absences from committee meetings as far as possible;**
- (b) **ensure that declarations of interest are submitted by TVP Committee members in a timely manner;**
- (c) **ensure that the requirements stipulated in ITC's Guidelines on Declaration of Conflict of Interest by Committee Members of TVP Committee are complied with; and**
- (d) **issue meeting papers to TVP Committee members as early as possible.**

## **Response from the Government**

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

- (a) in addition to attending meetings, TVP Committee members are also required to process applications via circulation of papers. From October 2020 to March 2022, the 19 non-official members have reviewed 18 rounds of circulation involving 40 papers. Their response rates for each paper ranged from 56% to 94%. ITC is very grateful for members' contribution to TVP Committee's work, especially with the significant increase in the number of applications since 2020;
- (b) in addition to declarations of interest at first appointment and annually, TVP Committee Chairman will invite members to declare their interests at each TVP Committee meeting involving the processing of applications and final reports. To ensure that the declarations are submitted in a timely manner, TVP Secretariat will request the Chairman to remind the members at the TVP Committee meetings if their declarations are still outstanding; and
- (c) to help remind members to declare their interests, TVP Secretariat will check the lists of applicants against members' register of interests or annual declarations and remind the members concerned accordingly.

## **Appointment of Hong Kong Productivity Council as Technology Voucher Programme Secretariat**

4.14 At a meeting of TVP Committee held in July 2020, concerns were expressed on the processing time of applications and final reports. A member suggested that ITC should make reference to other funding schemes to engage third parties to implement TVP. Subsequent to the meeting, ITC studied the options of either outsourcing the administration of TVP through an open tender exercise or appointing HKPC direct. In September 2020, ITC informed the Innovation and Technology Bureau (ITB) that:

- (a) to conduct an open tender exercise, it was estimated that a minimum of 17 weeks would be required, from the preparation of tender documents to the signing of contract with the winning tenderer, before ITC could proceed to hand over the administration of TVP to the winning tenderer. The handover would take another 8 weeks;
- (b) a monthly average of over 730 applications had been received in recent months versus TVP Secretariat's capacity to process a monthly average of 130 applications to be submitted to TVP Committee for consideration. This resulted in a cumulative backlog of over 3,700 applications pending or under assessment by ITC at that time. By the time the outsourcing contract was awarded to the winning tenderer through the open tender exercise, the backlog would increase to over 5,700 applications;
- (c) the conduct of the open tender exercise would draw resources from ITC's already fully stretched manpower, which would lead to even longer processing time of TVP applications;
- (d) HKPC had a long history of providing secretariat services for various government funding programmes under other bureaux/departments;
- (e) with one of its core competence areas as digital transformation and abundant experience accumulated from vetting a huge number of applications of similar nature, ITC considered that HKPC should be fully capable of vetting applications and monitoring approved projects under TVP;

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- (f) HKPC would make some contributions to the implementation of TVP as the implementation partner; and
- (g) taking the above into consideration, ITC recommended directly appointing HKPC as the implementation partner of TVP. ITC acknowledged that in an ideal situation, open tender would be the most open and transparent process. However, the further build-up of backlog and the long processing time would affect the credibility of ITC as well as TVP, and likely give rise to negative publicity. Given HKPC's rich experience in managing government funding schemes and its close working relationship with ITC, ITC considered that the problems of backlog and the processing time of applications could be addressed.

4.15 ITB agreed in principle to outsource the administration of TVP so as to speed up the processing time. It requested ITC to follow the established procedures stipulated in the Stores and Procurement Regulations (SPRs) in the selection process. In December 2020, ITC informed ITB of the progress of outsourcing the administration of TVP as follows:

- (a) ITC had commenced the preparatory work for an open tender exercise and would, at most, be able to award the tender in April or May 2021 and have the winning tenderer to commence processing applications around June 2021;
- (b) there was a very strong demand for TVP with a monthly average of about 700 applications in the second half of 2020. It was estimated that the backlog would be over 8,000 applications by June 2021; and
- (c) ITC had further examined the option of directly appointing HKPC as the implementation partner of TVP from the operational and the policy perspectives. From the operational perspective, with the experience and know-how of HKPC gained from the implementation of another government funding programme, appointing HKPC direct should be able to clear the backlog at a faster pace than the open tender option. From the policy perspective, TVP was consistent with HKPC's mission to enhance the productivity and competitiveness of enterprises. HKPC was also expected to make some contributions to the implementation of the programme.

In the same month, ITB agreed with ITC's recommendation to directly appoint HKPC as the implementation partner of TVP.

4.16 The arrangement of directly appointing HKPC as the implementation partner of TVP was included in the papers issued to the Legislative Council Panel on Commerce and Industry in April 2021 and to the Finance Committee in May 2021, drawing reference to other similar existing arrangements. In June 2021, ITC appointed HKPC as TVP Secretariat (see para. 1.10). The estimated implementation fee for the three-year period commencing June 2021 was \$195.4 million (Note 8). In the period from June to December 2021, HKPC had processed 4,416 applications.

***Need to ensure that requirements stipulated in Financial Circular are complied with in government procurements and in partnering arrangements involving non-governmental entities***

4.17 According to the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government:

- (a) ***Need to preserve a level playing field.*** Bureaux/departments should observe the need to preserve a level playing field in government procurements and in partnering arrangements involving non-governmental entities, by adhering as far as possible to a fair, open and/or competitive selection process;
- (b) ***Government procurements.*** If the project is primarily owned, organised and funded by the Government, and the Controlling Officer needs to procure a service or good from a non-government/private sector partner, the Controlling Officer should generally follow an open, fair and competitive bidding process. If an exception is required, the Controlling Officer should seek separate approval from the Treasury Branch of the Financial Services and the Treasury Bureau (FSTB) in accordance with SPRs; and

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**Note 8:** *According to ITC: (a) the estimated implementation fee of \$195.4 million denotes the ceiling which ITC would provide to HKPC; and (b) the actual disbursement will be made according to the actual expenditure.*

## **Administrative issues**

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- (c) ***Partnering arrangements.*** Where the Controlling Officer is satisfied that the engagement of a non-government partner to administer the project does not constitute procurement of service or good and is not subject to SPRs, the relevant considerations and decisions should be clearly and properly recorded. The Treasury Branch of FSTB should be consulted if in doubt.

4.18 In response to Audit's enquiry on whether the appointment of HKPC to administer TVP complies with the requirements stipulated in the Financial Circular, ITC informed Audit in April 2022 that:

- (a) ITC confirmed that the Controlling Officer (i.e. CIT) was satisfied that the appointment of HKPC did not constitute procurement of service and therefore was not subject to SPRs; and
- (b) relevant considerations and decisions of the Controlling Officer were documented as follows:
- (i) HKPC had a long history of acting and being directly appointed as the implementation partner of various government funding programmes. As in the case of these funding programmes under the purview of the respective bureaux/departments, HKPC had been appointed as the implementation partner for TVP without undergoing the tendering procedures under SPRs;
- (ii) HKPC would make some contributions (Note 9 ) to the implementation of TVP as the implementation partner;
- (iii) from the policy perspective, ITC, as HKPC's housekeeping department, considered that TVP could assist HKPC in pursuing its mission to enhance the productivity and competitiveness of enterprises, particularly the small and medium enterprises; and
- (iv) from the operational perspective, with the experience and know-how gained from the implementation of another government funding programme (which bore a certain degree of similarity to

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**Note 9:** *Audit noted that the contribution was related to the costs of HKPC's renovation of office to accommodate the additional staff members with a budget of \$6.1 million.*



TVP), ITC considered that appointing HKPC as the implementation partner (non-procurement option) would allow clearance of backlog of applications at a faster pace than the open tender option (procurement option).

In Audit's view, there was room for improvement in recording clearly and properly the relevant considerations and decisions on the nature of the partnering arrangement with HKPC (see para. 4.17(c)). Furthermore, according to SPRs, by encouraging participation through open and fair competition, the Government will be better able to obtain responsive and competitive bids that ensure value for money. As a norm, open bidding should be adopted as far as practicable.

4.19 Audit considers that ITC needs to ensure that, in future, the requirements stipulated in the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government are complied with in government procurements and in partnering arrangements, including the engagement of a non-government partner to administer TVP upon the expiry of the current contract with HKPC.

### *Delay in entering into formal agreement with HKPC*

4.20 On 8 June 2021, ITC announced that HKPC had been commissioned to serve as TVP Secretariat. According to the agreement between ITC and HKPC, HKPC shall provide the services in two stages, namely the preparatory stage from 4 March 2021 to 7 June 2021, and the implementation stage from 8 June 2021 onwards.

4.21 In Audit's view, it is important to sign formal service agreement before the commencement of service in order to avoid disputes between the parties concerned. Audit noted that while ITC commissioned HKPC to provide secretariat services for the administration of TVP starting from 4 March 2021, the formal agreement was not signed until 23 November 2021, more than 8 months after HKPC began providing the services.

4.22 To avoid unnecessary disputes, formal agreement should always be signed before commencement of services. Audit considers that in future implementation

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arrangements, ITC needs to ensure that formal agreement between the Government and the non-government party is signed before commencement of services.

### **Audit recommendations**

4.23 **Audit has recommended that CIT should:**

- (a) **ensure that, in future, the requirements stipulated in the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government are complied with in government procurements and in partnering arrangements, including the engagement of a non-government partner to administer TVP upon the expiry of the current contract with HKPC; and**
- (b) **in future implementation arrangements, ensure that formal agreement between the Government and the non-government party is signed before commencement of services.**

### **Response from the Government**

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

- (a) ITC has carefully considered the pros and cons of directly appointing HKPC as the implementation partner of TVP vis-a-vis the alternative of outsourcing the administration of TVP through an open tender exercise. Such considerations had been discussed between ITC and ITB, and are reflected in the internal correspondence. The direct appointment of HKPC was supported by ITB. As ITC has decided to appoint HKPC under the partnering arrangement, SPRs do not apply. Such arrangement has been a common practice among various bureaux/departments for other funding schemes. ITC has also reported the direct appointment of HKPC to the Legislative Council. ITC will continue to ensure that proper records are documented in future pursuant to the requirements stipulated in the Financial Circular; and

- (b) despite a formal agreement had not been signed before HKPC commenced its services, ITC and HKPC had agreed on the key features of the direct appointment, and HKPC obtained the endorsement of its governing body (i.e. its Council) before HKPC commenced the preparatory work in March 2021 in the interest of time. ITC will ensure that for future appointments, the formal agreement would be signed before commencement of service unless there are exceptional circumstances.

## **Performance measurement and reporting**

### ***Need to ensure that accurate performance information is reported on website***

4.25 In April 2020, in response to ICAC’s recommendations (see paras. 2.13 and 3.15), ITC set two new performance pledges, namely:

- (a) ***Assessment result of application.*** To make available to the applicant the assessment result of an application within 60 working days upon receipt of full information including necessary supporting documents from the applicant; and
- (b) ***Assessment result of final report.*** To make available to the applicant the assessment result of a final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant.

4.26 ITC reported on its website that its achievements for 2020 (April to December) in meeting the performance pledges were as follows (see paras. 2.13 and 3.15):

- (a) ***Assessment result of application.*** The performance pledge to make available to the applicant the assessment result of an application within 60 working days upon receipt of full information including necessary supporting documents from the applicant was met for 88% of the applications; and

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- (b) *Assessment result of final report.* The performance pledge to make available to the applicant the assessment result of a final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant was met for 84% of the final reports received.

4.27 Audit found that in compiling the percentages for achievement of performance pledges, ITC incorrectly used calendar days (instead of working days as stipulated in the pledges) in the compilation. If working days had been used, the percentages of meeting the pledges would have been 92% (instead of 88%) of applications (see para 2.13) and 92% (instead of 84%) of final reports (see Table 15 in para. 3.15).

4.28 Performance measurement and reporting is important in providing users of public services with information about the service standards, and in enabling the providers of public services to identify the service quality or areas that should be maintained or improved. Audit considers that ITC needs to take measures to ensure that accurate performance information is reported on its website.

### **Audit recommendation**

4.29 **Audit has *recommended* that CIT should take measures to ensure that accurate performance information is reported on ITC's website.**

### **Response from the Government**

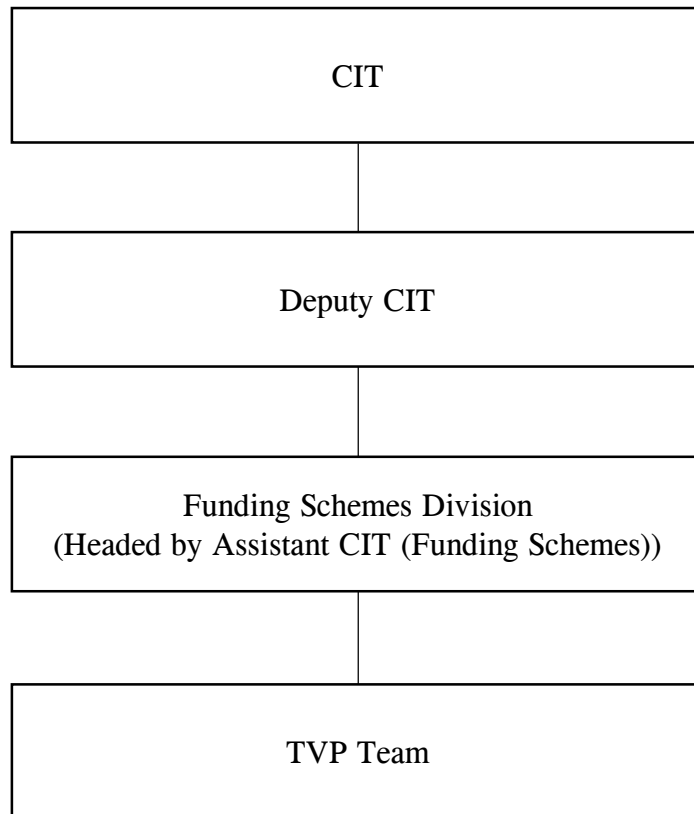
4.30 CIT agrees with the audit recommendation. She has said that ITC will automate the calculation of the achievements of performance pledge to ensure the accuracy of performance information.

**Enhancement measures for Technology Voucher Programme  
(February 2018 to August 2020)**

<b>Date</b>	<b>Enhancement measures</b>
February 2018	Eligibility was relaxed from small and medium enterprises with at least one year of operation to all non-listed enterprises registered in Hong Kong under the Business Registration Ordinance regardless of their size and duration of operation.
February 2019	TVP became a regular programme under ITF. The eligibility was further expanded to cover companies incorporated and registered in Hong Kong under the Companies Ordinance that were exempted from business registration, and statutory bodies set up in Hong Kong (these companies/organisations should not be receiving recurrent Government subventions). The funding ceiling per enterprise/organisation was doubled from \$200,000 to \$400,000, and the maximum number of approved projects was increased from 3 to 4.
December 2019	An initial payment of up to 25% of the approved funding amount might be made to the successful applicant upon the applicant's request after the signing of the funding agreement and compliance with relevant conditions.
April 2020	The Government's funding ratio for each TVP project was raised from two-thirds to three-quarters. The funding ceiling per applicant was increased from \$400,000 to \$600,000 and the maximum number of approved projects was increased from 4 to 6.
June 2020	The requirement for applicants to obtain approval from ITC before commencement of projects was relaxed. All applicants were allowed to start their projects on the day following the submission of the application at the earliest.
August 2020	The restriction pertaining to related entities for TVP was relaxed. Related entities were no longer treated as one single entity for the purpose of calculating the cumulative funding amount.

*Source: Audit analysis of ITC records*

**Innovation and Technology Commission:  
Organisation chart (extract)  
(31 January 2022)**



*Source: Audit analysis of ITC records*

**Acronyms and abbreviations**

Audit	Audit Commission
CIT	Commissioner for Innovation and Technology
FSTB	Financial Services and the Treasury Bureau
HKPC	Hong Kong Productivity Council
ICAC	Independent Commission Against Corruption
ITB	Innovation and Technology Bureau
ITC	Innovation and Technology Commission
ITF	Innovation and Technology Fund
SPRs	Stores and Procurement Regulations
TVP	Technology Voucher Programme