

HONG KONG APPLIED SCIENCE AND TECHNOLOGY  
RESEARCH INSTITUTE COMPANY LIMITED  
香港應用科技研究院有限公司



Your Ref.: CB(3)/PAC/R48

12 June 2007

Clerk to Public Accounts Committee  
Legislative Council  
Legislative Council Building  
8 Jackson Road  
Central, Hong Kong

(Attn : Ms Serena CHU)

Dear Ms CHU,

**The Director of Audit's Report on the  
results of value for money audits (Report No. 48)**

**Chapter 2: Administration of Hong Kong Applied Science and  
Technology Research Institute Company Limited (ASTRI)**

Further to my letter of 1 June 2007, I attach at Annex I a list summarizing the similarities and differences of the problems on ASTRI's administration as identified by the Internal Audit of ASTRI and the Audit Commission.

Attached please also find a copy of the ASTRI/Paper 126/2007 (Annex II) referred to in item 8 (Variable pay for the former CEO) of the minutes of the Special Board meeting held on 16 May 2007 as requested vide your letter dated 8 June 2007. We will provide you with the other information required by PAC as soon as possible.

Please note that Annex II is provided on the request of PAC, on the understanding that that it will be used solely for the purposes of the PAC discharging its functions. We would like to request that the confidentiality of the documents be observed and that the information provided will not be published.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Victor Chin", is written over a horizontal line.

(Victor Chin)  
for Chairman  
Board of Directors

c.c. Secretary for Commerce, Industry and Technology  
(Attn: Mr Joseph W P Wong)

Permanent Secretary for Commerce, Industry and Technology (Communications and  
Technology)  
(Attn: Mr Francis Ho)

Commissioner for Innovation and Technology  
(Attn: Mr Anthony S K Wong)

Secretary for Financial Services and the Treasury  
(Attn: Miss Amy Tse)

Director of Audit  
(Attn: Mr Tony Ng)

*\*Note by Clerk, PAC: Annex II not attached.*

**Summary List of Similarities & Differences of the Problems  
on ASTRI's Administration as identified by the ASTRI's Internal Audit and the Audit Commission**

Since early 2004, ASTRI Internal Audit have completed 34 full and 18 follow-up audit projects in accordance with the approved annual internal audit plans. The internal audit objective is to provide independent and reasonable assurance to the Board of Directors that adequate controls are in place to ensure efficient and effective management of the following areas and, where appropriate, to provide recommendations on any improvement opportunities –

- (a) corporate management including risk management (i.e. risk identification, evaluation, monitoring and reporting mechanisms), corporate governance process (i.e. the directing, assessing and accountability reporting activities as facilitated by Management), public relations management (i.e. monitoring of public relations and communication activities and its related expenses);
- (b) commercial contract management including licensing of technology (i.e. licensee's covenant, performance monitoring, reporting requirement and revenue collection), service contract management (i.e. compliance of the procurement and contract management policy and procedures), commercialization management (i.e. follow-up on the ICAC's recommendations and ASTRI Management's agreed actions), contract research (i.e. endorsement and approval of business case, cost estimation and control, price determination);
- (c) R&D project management including project development management (i.e. project selection, submission, budget review, quality management), intellectual property rights management (i.e. IP disclosure and evaluation, patent filing and application, IP reporting and ownership, infringement prevention), third party IP management (i.e. IP license agreement management and compliance);
- (d) information system management including business continuity (i.e. formulation and maintenance of the business continuity plan), confidentiality of information (i.e. identification, protection and disclosure of confidential information), IT security management (i.e. security management and administration, logical assess management, security incidents and reporting, data backup and recovery, etc.), software and development risk controls (i.e. software development life cycle and code protection review);
- (e) human resource management including recruitment management (i.e. compliance of in-house recruitment policy), payroll

management (i.e. staff existence, segregation of duties, policies compliance), overseas duty visits (i.e. authorization, examination and monitoring of overseas duty visits), staff performance review (i.e. setting and communicating expectations, establishing performance dimensions and standards, rating performances and determining variable payments);

- (f) financial management including financial policy operations (i.e. adequacy of financial policy and procedures), entertainment expenses management (i.e. authorization, examination and monitoring of entertainment expenses), budgetary control management (i.e. virement of funds, charging of expenditures to projects, monitoring of actual expenditures against budget) , accounts payable and payment management (i.e. segregation of duties, payment authorization, adequacy of the supporting documents to substantiate the payments, cheque authorization and custody, recording of payables and payments), accounts receivable and revenue management (i.e. control and recognition of revenue, management and collection of overdue accounts, credit and risk control of customers); and
- (g) administrative resource management including fixed assets management (i.e. development of capitalization policy, accountabilities of fixed assets management, completeness of fixed assets register, existence of fixed assets), procurement management (i.e. supplier sourcing and contract, requisition approval, supplier selection, purchase ordering & receiving), equipment utilization and maintenance (i.e. identification of unneeded and little-used equipments, maximization of equipment utilization, equipment calibration and maintenance), consumable management (i.e. classification, purchasing, receiving and recording of consumables), office relocation, industrial health and safety management (i.e. safety policy, planning and monitoring of safety performance).

As shown in (a) to (g) above, the coverage of issues studied by the Audit Commission and ASTRI Internal Audit are not entirely the same. With regard to the findings of the Audit Commission included in the Director of Audit's Report No. 48, the findings of ASTRI Internal Audit are summarized in the ensuing table -

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
1	<b><i>Corporate Governance</i></b>		
	<ul style="list-style-type: none"> <li>• Directors' Attendance at Board/Committee Meetings</li> <li>• Documentation of Committee proceedings</li> <li>• Submission of discussion papers to Board/Committees</li> <li>• Minutes of Board/Committee meetings</li> <li>• Management of conflict of interest</li> </ul>	<p>Attendance of individual Director, Board's documentation, paper submission procedure and register for Director's Non-Disclosure Agreements fell outside the scope of the Internal Audit's review and Internal Audit had not audited these areas.</p> <p>On the other hand, Internal Audit recommended the following controls in February 2004:</p> <p>(a) Formulation of strategic and annual plans</p> <p>(b) Establishment of key performance indicators</p>	<p>N/A</p> <p>ASTRI has implemented the following follow-up actions:</p> <p>(a) A Five-year Plan for ASTRI was formulated in Sept 2004. The Five-Year Plan set out the goals, objectives, strategic actions and financial implication on ASTRI's five-year development for the year 2005-09.</p> <p>(b) A set of approved performance indicators has been incorporated in the</p>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		(c) Publication of annual report.	<p>Five-Year Plan, which is used to measure against and evaluate the annual achievement of each research and development (R&amp;D) group.</p> <p>(c) Management has agreed to the publication of an annual report in principle. As regards the format and timing, Management will devise a proposal for the Board of Directors' consideration.</p>
2	<b><i>Remuneration and Recruitment</i></b>		
	• <b>Pay structures</b>		
	Higher-than-pay-band monthly salary for individual staff	<p>Internal Audit sample checked entry pay against the prevailing pay bands in June 2004 and was not aware of any 'higher-than-pay-band' monthly salary cases.</p> <p>The 'higher-than-pay-band' incidents as identified</p>	N/A

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		by the Audit Commission occurred after the pay band adjustment in September 2004.	
	• <b>Staff recruitment</b>		
	<p>(a) Advertisement for job vacancies</p> <p>(b) Documentation of declaration of interest in staff referral</p> <p>(c) Missing HR representative at selection panel</p>	<p>(a) Internal Audit sample checked 5 cases in July 2004 on placing job vacancies advertisement on local newspaper and noted that such requirement had been complied with.</p> <p>(b) Internal Audit has not audited the documentation of declaration of interest in staff referral.</p> <p>(c) Internal Audit noted in July 2004 HR department's confirmation that its representative had attended the interview in compliance with the requirement set out in the Corporate Governance Manual but had not completed the formality of filling out a</p>	<p>(a) -</p> <p>(b) N/A</p> <p>(c) HR department re-designed a new form to consolidate the comments and remarks of all the panel members in the 4<sup>th</sup> quarter of 2004.</p>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	<p>(d) Some selection panelists of lower pay band than the interviewee</p> <p>(e) Not inviting all qualified candidates for interview</p>	<p>separate candidate assessment form for each interviewer. In that regard, Internal Audit recommended HR department to document its representative's comments and to consolidate all interviewers' comments into one interview panel assessment form.</p> <p>(d) Internal Audit sample checked 5 cases in July 2004 on the ranking of the selection panel against the requirement of the then Corporate Governance Manual and noted that such requirement had been complied with. Apart from the interview for Level 1 staff, there was no such requirement that a staff of lower pay band than the interviewee could not be an interviewer.</p> <p>(e) Internal Audit has not audited whether all qualified candidates were invited for interview. Instead, Internal Audit focused on the pre-screening process conducted by</p>	<p>(d) –</p> <p>(e) N/A</p>



	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		<p>the HR department for further selection by the respective R&amp;D Directors or the Chief Administration Officer (CAO) as required in the Corporate Governance Manual and noted that the requirement of pre-screening and short-listing processes had been complied with.</p>	
	<ul style="list-style-type: none"> <li>• <b>Staff entry pay</b></li> </ul>		
	<p>No documentation of the justification to determine the actual pay offer in some cases</p>	<p>In July 2004, Internal Audit conducted a review on staff entry pay. Instead of examining the documentation of justification, Internal Audit examined the basis of determining the actual pay offer and noted the absence of such basis. Therefore, Internal Audit recommended that there should be an established basis and systematic approach to determine the recommended entry salary.</p>	<p>Having considered Internal Audit's recommendation, Management decided to adopt a regression model for internal reference starting from April 2005. The reference figure together with other factors such as job market, scarcity of specialty and new recruit's previous salary would form a reasonable basis to determine the entry pay of new recruit.</p> <p>Internal Audit noted in June 2005 the</p>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
			implementation of the regression model as an internal reference to determine the new recruit's entry pay.
	<ul style="list-style-type: none"> <li>• <b>Performance-based variable payment</b></li> </ul>		
	<p>(a) Inconsistencies in the percentage of variable payments awarded</p> <p>(b) No documentation recording how the payments were determined</p>	<p>Internal Audit conducted an audit on staff performance review in Sept 2006 and the findings were similar to that of the Audit Commission in April 2007. Both Audit Commission and Internal Audit noted that there had been inconsistencies in awarding variable payment to staff based on their performance rating.</p> <p>Internal Audit in September 2006 recommended Management to establish an objective mechanism to link the percentage of variable payment with performance ratings.</p>	<p>In response to Internal Audit's recommendation, ASTRI issued in March 2007 a guideline to link the variable payment with performance ratings pertaining to the variable payment distribution for 2006-07 .</p> <p>Justification of deviation has been documented and recorded in HR department since April 2007.</p>
	<ul style="list-style-type: none"> <li>• <b>Annual salary adjustment</b></li> </ul>		

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	Lack of the Board's approval for the annual salary adjustment rate and the mechanism for determining the adjustment rates for individual staff	<p>(a) Internal Audit has not examined the Board's approval for the annual salary adjustment rate and the mechanism for determining the adjustment rates for individual staff. Instead, Internal Audit noted in Jan 2005 that source documents such as confirmation of promotion or salary increase had not been sent to the Accounting Manager as a supporting evidence for payroll change.</p> <p>(b) Internal Audit also recommended the following controls as a good practice:</p> <ul style="list-style-type: none"> <li>- verification of staff existence and attendance;</li> <li>- examination of payroll modification; and</li> <li>- elaboration of payroll policy and procedures in relations to the verification and examination procedures.</li> </ul>	<p>(a) Since January 2006, the Accounting Manager has conducted monthly random checking of employee records against "Payroll Summary Report" which serves as a payroll verification mechanism. Internal Audit reviewed the May 2006 "Payroll Summary Report" and noted that Accounting Manager indicated her sampling of 5 employee records by initialing besides the staff name.</p> <p>(b) In response to Internal Audit's recommendation, HR formulated a set of Procedure Manual in January 2006 on the following areas:</p> <ul style="list-style-type: none"> <li>- Employment Administration</li> <li>- Recruiting and Hiring</li> <li>- Employment Benefits</li> <li>- Grade Level Promotion</li> <li>- Job Position</li> </ul>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
			<ul style="list-style-type: none"> <li>- Master Personnel File Maintenance</li> <li>- Annual Goal Setting and Performance Appraisal Training</li> <li>- Training.</li> </ul>
	♦ <b>Staff incentive scheme</b>		
	No documentation on the justifications for setting aside HK\$10 million for making the incentive payment.	Internal Audit has not audited the Board's approval of and justifications on setting aside the HK\$10 million incentive payment.	N/A
	♦ <b>Review of senior staff's remuneration package</b>		
	(a) No review for the CEO's remuneration package in 2004 and ASTRI's top three-tier executives for 2003-04 and 2005-06.	(a) Internal Audit has not audited the remuneration package review conducted by external consultant in June 2004.	(a) N/A
	(b) Less information provided to the public by ASTRI than other NGOs.	(b) Internal Audit also recommended Management to publish annual report to	(b) Management agreed to the publication of an annual report in principle in Jan

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		enhance transparency.	2006. As regards the format and the timing, Management will devise a proposal for the consideration of the Board of Directors.
3	<b><i>Project Management</i></b>		
	<b>♦ Project planning</b>		
	(a) Expected project income was estimated in only four projects	(a) Internal Audit has not examined the estimation of expected project income. Instead, Internal Audit recommended Management in May 2004 to establish a comprehensive marketing/exit strategy plan.	(a) Management accepted Internal Audit's recommendation and issued in Jan 2006 the procedures on key technology initiatives which have addressed similar issues covering market information, customer needs and customer orientation.
	(b) Risk analysis was not conducted	(b) ASTRI's project management policy and procedures did not require documentation of the risk assessment for the proposed R&D projects. Internal Audit recommended Management to make such documentation in	(b) Management agreed with Internal Audit's recommendation and will document the comprehensive risk assessment.

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	<p>(c) The staff cost budget was not accurately stated in three proposals</p> <p>(d) Availability of similar equipment for sharing within ASTRI or with other Innovation and Technology Fund (ITF) recipient organizations was found in only one proposal.</p>	<p>May 2004.</p> <p>(c) Internal Audit examined the staff cost budget of a project proposal and noted that it was reasonably stated. On the other hand, Internal Audit noted in May 2004 that during the formulation of the project proposal in ASTRI, there had been an absence of an internal proposal review panel or similar mechanism as required in the Corporate Governance Manual to enhance the internal process for review and scrutiny of R&amp;D proposals.</p> <p>(d) Internal Audit has not focused on equipment sharing among ITF recipient organizations. Instead, Internal Audit recommended Management in May 2004 to conduct a review on the feasibility of setting up an equipment pool for equipment sharing within ASTRI.</p>	<p>(c) Since October 2004, full project proposals have been vetted by an internal review panel followed by an external review panel. In addition, a Technology Review Panel was established in May 2006 to evaluate new full project proposals.</p> <p>(d) Equipment list of items each costing HK\$50,000 or more has been established since the 3<sup>rd</sup> quarter of 2006.</p>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	♦ <b>Project monitoring</b>		
	<p>(a) No computerized project management information system to record project information</p> <p>(b) Project monthly progress reports were not always submitted in 2005-06 and 2006-07</p> <p>(c) Monthly progress review meetings were not held in April, June, Sept and Dec 2006</p> <p>(d) Lack of information about updated market conditions</p> <p>(e) Information about the impact of the project slippage and follow-up actions taken to make up for the slippage was not always provided</p> <p>(f) Requests for extension of project period were often made towards the</p>	<p>(a) Internal Audit recommended in May 2004 that ASTRI should consider putting in place a project management information system to record and track project information.</p> <p>(b) to (f): There was no requirement of submitting monthly progress reports and holding monthly progress review meetings prior to May 2004. Thus, the Internal Audit exercise in May 2004 did not examine such monthly review meetings and reports, updated market information, project slippage and extension. Instead, Internal Audit noted at that time that the Technical Advisory Panel had yet to be established as required in the Corporate Governance Manual to assist the Technology Committee and the Board to review the progress of the R&amp;D projects.</p>	<p>(a) ASTRI is evaluating the establishment of a centralized system integrating the various management and accounting systems.</p> <p>(b) to (f): The Technology Advisory Committee was established and held its first meeting was held in Dec 2005. Four Domain Advisory Committees were also formed in Aug 2005.</p>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	<p>end of the original project period</p> <p>(g) Belated project annual audited accounts</p>	<p>(g) Internal Audit noted the delay and recommended in 2004 that to ensure timely preparation of the project final account, Management should consider establishing a set of internal completion procedures which define the timeline for closing of project account, the responsibility of the R&amp;D Director in submission of outstanding claims before the deadline and the submission of final report for Technology Committee's review.</p>	<p>(g) Management accepted Internal Audit's recommendation and has reminded relevant staff for submission of all reimbursement claims since Sept 2006.</p> <p>ASTRI is now reviewing the procedures with an aim to expedite the preparation and submission of the audited accounts. For instance, instead of submitting the reports to the ASTRI's Audit Committee (which meets half-yearly) and then the Board of ASTRI (which meets quarterly) for endorsement by Directors at the Committee/Board meeting, consideration may be given to obtain endorsement from the Audit Committee and Board through</p>



	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
			circulation of papers. ASTRI will also introduce measures to speed up the internal processing of the reports.
	♦ <b>Project evaluation</b>		
	<p>(a) Delayed submission of final project reports, final project audited accounts and equipment lists</p> <p>(b) Key information (such as customer feedback on the practical usefulness and benefits of project deliverables) was not always provided in the final project reports</p>	<p>(a) Same as point (g) under project monitoring on page 14 above.</p> <p>(b) Internal Audit has not reviewed customer feedback and benefits of project deliverables.</p>	<p>(a) Same as point (g) under project monitoring on page 14 above.</p> <p>(b) N/A</p>
	♦ <b>Industrial contribution</b>		
	(a) No proper documentation to substantiate the contribution in kind received	(a) Internal Audit has not examined the documentation of in-kind contribution.	(a) N/A

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	(b) Income committed but not honored was counted towards meeting the industry contribution requirement	(b) Internal Audit has not reviewed income committed but not honored. Instead, Internal Audit noted in Nov 2006 that there had been belated billing and revenue collection. In addition, Internal Audit recommended Management to maintain a master list of billing schedule to ensure timely submission of billing request; to establish procedures for accounts receivable collection including the review of aging analysis, the use of reminders, final notice and possible legal actions.	(b) ASTRI established procedures for accounts receivable collection in April 2007.
4	<b>Project Cost Control</b>		
	♦ <b>Control of project costs</b>		
	(a) To implement a computerized manpower information system as soon as practicable	(a) Internal Audit noted in May 2004 that ASTRI had yet to implement a computerized project management information system;	(a) ASTRI is evaluating the establishment of a centralized system integrating the various management and accounting systems.

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	<p>(b) Incorrect charging of project costs</p> <p>(c) Project staff cost charging to the subvention account</p> <p>(d) No accounting policy regarding the charging of performance-based variable payments to the relevant project accounts and the subvention accounts</p>	<p>(b) and (c) Internal Audit noted in Jan 2006 that instructions from the project coordinators to the Accounting department for charging manpower costs had not been supported by sufficient evidence. Therefore, Internal Audit recommended that further supporting documents evidencing the sufficiency of the manpower cost charging should be obtained.</p> <p>(d) Internal Audit has not audited the accounting policy for charging of the performance-based variable payments.</p>	<p>(b) and (c) Management accepted Internal Audit's recommendation and started to implement a staff assignment worksheet system in November 2006 on allocation of manpower costs, and is looking for a computerized time-recording system that could be easily upgraded into a future integrated ERP system.</p> <p>(d) N/A</p>
5	<b><i>Administrative Expenses</i></b>		
	<b>◆ Entertainment expenses</b>		
	(a) Exceeded the annual entertainment	(a) Since there had been no fixed or specific	(a) N/A

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	<p>budget</p> <p>(b) Exceeded cost-per-head spending limits; and</p> <p>(c) Staff outnumbered guests.</p>	<p>budget for entertainment expenses prior to the financial year 2004, Internal Audit has not examined the entertainment budget. Such expenses were charged to the office general expenses account prior to 2004.</p> <p>(b) In the absence of such cost-per-head spending limits prior to May 2004, Internal Audit recommended in April 2004 to establish the guidelines on maximum spending limit per person on each function.</p> <p>(c) In the absence of guidelines on staff-outnumber-guest, Internal Audit recommended in April 2004 to incorporate in the policy that ASTRI's staff should not unreasonably outnumber external guests.</p> <p>Internal Audit in May 2004 also recommended the following controls:</p> <p>- Document business purpose in the</p>	<p>(b) Management accepted Internal Audit's recommendation and established in May 2004 the cost-per-head spending limits.</p> <p>(c) Management accepted Internal Audit's recommendation and established in May 2004 the guideline that ASTRI's staff should not normally outnumber external guests.</p> <p>- The entertainment reimbursement</p>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		<p>entertainment reimbursement form and incorporate in the policy that the participants should include only those people whose presence is necessary for the conduct of the business.</p> <p>- Generate exception reports to highlight those frequent claimants or groups, guests, extravagant events, etc. for rectification and preventive actions if necessary.</p>	<p>form has been revised since July 2005 to require the documentation of business purpose ; further guidelines on entertainment expenditure regarding the conduct of business were formulated and disseminated in May 2007.</p> <p>- Management agreed to the recommendation and will generate such report.</p>
	<p>◆ <b>Overseas duty travels</b></p>		
	<p>(a) Lack of prior approval</p>	<p>(a) With regard to the requirement to obtain proper approval as laid down in the then prevailing guideline in the Corporate Governance Manual, Internal Audit sample checked 10 cases in March 2005 and noted that in all cases approval had been obtained</p>	<p>(a)-</p>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	<p>(b) Application submitted less than the required 10 days in advance</p> <p>(c) Business class travel instead of economy class;</p> <p>(d) The number of participants exceeded the limit of no more than one person for each project team</p>	<p>from the proper authority.</p> <p>(b) Since the "10-day rule" was not yet established during the internal audit conducted in early 2005, Internal Audit did not examine such requirement.</p> <p>(c) Internal Audit sample checked 10 overseas duty visits in early 2005 and did not note any business class travel cases. Nonetheless, Internal Audit recommended Management to establish a duty trip budget tolerance level, i.e., an upper limit for individual trip expenses, which if exceeded would necessitate the Accounting Manger to be notified.</p> <p>(d) Internal Audit has not focused on this requirement.</p> <p>Internal Audit also recommended Management::</p> <ul style="list-style-type: none"> <li>- To compile guidelines for personal trips taken</li> </ul>	<p>(b)N/A</p> <p>(c)Management accepted Internal Audit's recommendation and introduced the guidelines on the rates of subsistence allowance outside Hong Kong in July 2005.</p> <p>(d)N/A</p> <ul style="list-style-type: none"> <li>- Management established the</li> </ul>

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		<p>during duty visits.</p> <ul style="list-style-type: none"> <li>- To ensure the completeness of relevant supporting documents such as the conference outline, detailed meeting schedule and airline itinerary to be attached to the application form to facilitate approval by the appropriate authority.</li> </ul>	<p>guidelines on personal cum business trip in early 2006.</p> <ul style="list-style-type: none"> <li>- Management set up a duty visit portal to facilitate duty visit application and checking on the recommended supporting information in December 2006.</li> </ul>
	<ul style="list-style-type: none"> <li>◆ <b>Procurement of air tickets</b></li> </ul>		
	Bulk purchase of air tickets	In view of the increase in the amount and volume of air tickets purchased by ASTRI from the year 2003 to 2004 and also taking into consideration of the future expansion of ASTRI's operating scale in five years, Internal Audit recommended in March 2005 that a corporate term contract with the travel agents should be negotiated to benefit from the bulk purchase discount.	ASTRI Management conducted a tender exercise in August 2005 but was unable to reach an agreement with the selected agent.

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	♦ <b>Fung shui consultancy fee</b>		
	Fung shui consultancy fee	During a review check for the period October 2005 to April 2006, Internal Audit noted that ASTRI had paid a fee of HK\$80,100 for fung shui consultancy study conducted in October 2005.	In April 2006, the Chairman directed Management to stop such practice of engaging fung shui consultant.
	♦ <b>Low interest income</b>		
	Low interest income	Internal Audit has not focused on interest income. Instead, Internal Audit recommended Management in October 2004: (a) To establish a complete set of written financial and accounting policies.	N/A  (a) In response to Internal Audit's recommendation, Management compiled a complete set of written financial and accounting policies by updating the then prevailing manual and policies on financial and accounting management in the 4 <sup>th</sup> quarter of 2005.



	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		<p>(b) To elaborate on accounting procedures and financial controls</p> <p>(c) To consider full computerization of accounting system.</p> <p>(d) To monitor accounting transactions.</p> <p>(e) To maintain segregation of duties between procurement and accounting functions.</p>	<p>(b) Accounting Procedural Manual has been established and posted on ASTRI's intranet in January 2006.</p> <p>(c) Management has since 2004 continued to improve the computerized accounting system, e.g. computerizing the accounts payable module,.</p> <p>(d) Monthly random checking of records has been conducted by accounting manager to ensure the postings to ledgers are correct and accurate since 2004.</p> <p>(e) Procurement department was established in the 3<sup>rd</sup> quarter of 2005.</p>
6	<b><i>Costs and Achievement of ASTRI</i></b>		
	<b>◆ Cost of ASTRI's operations</b>		

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
	High administrative costs	Internal Audit has not examined the costs of ASTRI's operation.	N/A
	<b>◆ Evaluation of ASTRI's performance</b>		
	(a) Low financial returns  (b) Customers outside Hong Kong  (c) Performance yardsticks	(a) Internal Audit has not examined ASTRI's financial returns.  (b) Internal Audit has not examined the country origin of ASTRI's customers.  (c) Internal Audit has recommended Management in February 2004 to: - publish annual report to enhance transparency of ASTRI;	(a) N/A  (b) N/A  (c) :  - Management has agreed to the publication of an annual report in principle. As regards the format and timing, Management will devise a proposal for the Board of Directors' consideration.

	<b>Audit Commission's Observation</b>	<b>ASTRI Internal Audit's Observation</b>	<b>ASTRI's Follow-up Actions on Internal Audit's Recommendation</b>
		<ul style="list-style-type: none"> <li>- establish a set of performance indicators for assessing and reporting the performance of ASTRI; and</li>   <li>- periodically report to the Board of Directors the performance progress based on the established performance indicators.</li> </ul>	<ul style="list-style-type: none"> <li>- A set of approved performance indicators has been incorporated in the Five-Year Plan, which is used to measure against and evaluate the annual achievement of each R&amp;D group;</li>   <li>- Management regularly reports to the Board on performance indicators since Nov 2004.</li> </ul>