



Executive Director 總裁

29 December 2009

Ms Serena Chu  
Public Accounts Committee  
Legislative Council Building,  
8 Jackson Road,  
Central, Hong Kong  
(Your Ref : CB(3)/PAC/R53  
Fax no. : 2537 1204)

Dear Ms Chu,

**The Director of Audit's Report on the  
results of value for money audit (Report No. 53)**

**Hong Kong Productivity Council (HKPC):  
Corporate governance and administrative issues (Chapter 7)**

Please find enclosed the additional information requested by the Public Accounts Committee at the hearings as set out, in seriatim, in your letter of 16 December 2009 as follows -

- (a) the statements of unadjusted differences of the accounts of the Hong Kong Productivity Council ("HKPC") in the past three years (Annex A);
- (b) a list showing the recommendations made by the consultant (Pricewaterhouse Coopers) in its Final Report on Consultancy Service for System Review on Purchasing, Administration and Human Resources Management and the progress made and timetable for implementing the recommendations, as well as the reasons for not implementing certain recommendations (Annex B). We have also taken the liberty to provide the same in respect of the recommendations made by another consultant (AON) in its "Final Report on Staff Performance Appraisal System and

Staff Termination Policy and Procedures” (also in Annex B);

- (c) a brief note on the tendering exercises in commissioning the two consultancy studies in 2006, referred to in paragraph 1.17(b) of the Audit Report (Annex C);
- (d) a copy of the relevant paper (by circulation) and voting records of the Staffing Committee regarding the appointment and the remuneration package of Staff A, referred to in paragraph 3.29 of the Audit Report, together with extract of minutes of the Finance Committee-cum-Council meeting on 31 August 2000 reporting the appointment (Annex D);
- (e) a copy of the relevant paper and minutes of the Staffing Committee held on 2 November 2009 and relevant extract of paper and minutes of the Council meeting held on 17 November 2009 regarding the specific amendments to be made to the Standard Practices (paragraph 3.42(b) of the Audit Report refers), as well as the HKPC’s submission to the Innovation and Technology Commission (ITC) on 23 November 2009 seeking its approval for the amendments and ITC’s letter dated 21 December 2009 giving the necessary approval (Annex E);
- (f) with respect to the request for a copy of the relevant paper and minutes of the Council meeting in June 2009 regarding the approval of an increased rate for contract gratuity for the Executive Director on renewal of contract (referred to in paragraph 3.50 of the Audit Report), please note that ITC will provide the information;
- (g) a copy of the HKPC’s annual audit programme in each year since the Audit Committee’s establishment in October 2005, and the relevant minutes of meetings of the Audit Committee relating to discussion on these audit programmes (Annex F);
- (h) a note on the respective operating costs of the BMM Limited for the provision of building management services to HKPC in 2006-2007, 2007-2008 and 2008-2009 (Annex G);

### Fixed asset management

- (i) a note on the Audit Committee's findings and recommendations relating to the HKPC's fixed asset management; and the actions that had been taken to implement the recommendations (Annex H);
- (j) a note on HKPC's external auditor's findings and recommendations relating to the HKPC's fixed asset management since 2005-2006; as well as the actions that had been taken to implement the recommendations (Annex I). Relevant supporting documents are also enclosed in Annex I;
- (k) a note on the draft management letter issued by the external auditor to the HKPC in 2005-2006, in which the issue of asset management was raised, is attached (Annex J). You will notice that the draft management letter has included HKPC's response to the external auditor;
- (l) a copy of the paper and minutes of the meeting of the Finance Committee (as well as relevant extract of the paper and minutes of the Council meeting) regarding the results of the full-scale stocktake conducted from September to December 2005, referred to in paragraphs 4.3 and 4.4 of the Audit Report (Annex K);
- (m) a note on the revisions that have been made to five internal guidelines in order to implement the consultant's recommendations on fixed asset management is attached (Annex L). A copy each of the five guidelines are also included in Annex L;
- (n) a note on some other measures under our consideration to further improve and strengthen asset management is attached (Annex M);
- (o) a note on the details of the five major duties of the Fixed Asset Manager, who had been appointed in each division since June 2009 to strengthen the safe custody of fixed assets (paragraph 4.11 of the Audit Report refers) is attached (Annex N);
- (p) a note on the HKPC's total value of fixed assets in 2005 is attached (Annex O); and

- (q) a note on the 109 computers which could not be located (referred to in paragraph 4.7(a) of the Audit Report) and whether any of these computers were subsequently located (and the latest number of computers that still could not be located) is attached (Annex P).

Please note that for some of the attached annexes, only English version are provided on the original documents are in English only. We have also removed identifiable personal particulars (i.e. names of individuals) contained in some of the annexes (such as minutes).

Yours sincerely,



(Wilson Fung)  
Executive Director

- c.c. Secretary for Commerce and Economic Development (fax no. 2588 1421)  
Commissioner for Innovation and Technology (fax no. 2730 1771)  
Secretary for Financial Services and the Treasury (fax no. 2147 5239)  
Director of Audit (fax no. 2583 9063)  
Chairman, Hong Kong Productivity Council (fax no. 2865 6108)

**Summary of Major Recommendations on Key Subject Areas**

	<b>Major Issue</b>	<b>Major Recommendation by PwC</b>	<b>Status</b>
<b>A</b>	<b>Performance Appraisal System (PAS)</b>	<p>1. The message of “pay for performance” should be emphasized.</p> <p>2. To drive performance of HKPC, divisions need to have clear targets/ objectives (including non-financial) to achieve and reward should reflect the result.</p> <p>3. Should staff have concerns about the appraisal conducted by their superiors, they can raise the issue to higher level. GM/HA can be the final review person of PAS for GMs below, and ED for those above or having an Executive management team as the final review body.</p> <p>4. The performance objectives set should maintain a balance between qualitative and quantitative targets.</p>	<p>Adopted</p> <p>Adopted</p> <p>Adopted (Adoption with enhancement: Instead of GM/HA, ED is the final review person for all staff)</p> <p>Adopted</p>
<b>B</b>	<b>Training and Staff Development</b>	<p>5. Many companies impose restriction on eligibility of external training sponsorship only to staff completed probation or 1 year of service.</p> <p>6. Lay down the principle that staff is encouraged to attend training and HKPC is willing to provide assistance whenever possible.</p> <p>7. Consider both training need and seniority of staff to set priority for oversea training.</p> <p>8. Develop guidelines on when undertaking is required including:</p> <ul style="list-style-type: none"> <li>- criteria to sign the undertaking</li> <li>- retention period</li> <li>- fees to repay if staff leaves before retention period</li> </ul>	<p>Not adopted (Staff’s caliber and potential is the management’s major consideration when granting approval of training sponsorship. HKPC’s interest is protected because staff received sponsorship of \$5,000 and above are required to remain in employment for 6 months or 1 year.)</p> <p>Adopted</p> <p>Not adopted (Staff’s caliber and potential is the management’s major consideration when granting approval of overseas training.)</p> <p>Adopted</p>

<b>C</b>	<b>Promotion Policy</b>	9. Add policy and procedures on promotion.	Adopted
<b>D</b>	<b>Recruitment, Appointment and Transfer</b>	<p>10. In recruitment, priority is given to internal candidates should all things equal.</p> <p>11. Policy should lay down restriction on internal application e.g. years of service.</p> <p>12. Add guideline on extension of probation, set a maximum period of number for extension of probation.</p> <p>13. Add guidelines and procedures for staff to apply for transfer.</p>	<p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p>
<b>E</b>	<b>Grievance Handling Procedure</b>	<p>14. Staff should raise grievance to immediate supervisor first and then next level manager. If grievance is not satisfactorily settled, staff should raise grievance in writing to GMHA or Senior HR Executive.</p> <p>15. Fine-tune procedures of raising grievances to make all parties understand their roles and responsibilities.</p> <p>16. Spell out timeline of handling grievances.</p> <p>17. Build in a final step/ mechanism for grievance handling to indicate full and final decision.</p>	<p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p>
<b>F</b>	<b>Disciplinary Action</b>	<p>18. Specify authority and responsible party for taking actions: For written warning, disciplinary interview should be conducted by GMs. For termination, HR and representatives of divisions should conduct termination meeting together.</p> <p>19. Add review appeal mechanism: Allow employee's right to appeal against any disciplinary action. Set time frame for handling.</p> <p>20. Provide training to management on judgment and coaching skills.</p>	<p>Adopted</p> <p>Adopted</p> <p>Adopted</p>

<b>G</b>	<b>Termination Policy and Procedure</b>	21. Policy should cover: Resignation, Termination by notice/ pay, Summary dismissal, Retirement and Redundancy.	Adopted
<b>H</b>	<b>Code of Conduct</b>	22. Policy should cover: Ethics and business integrity, Confidentiality, Acceptance of advantages and entertainment/ bribery, Conflict of interest, Outside business/ activity, Declaration of financial interests, Directorship appointment in outside organization.	Adopted
<b>I</b>	<b>Acting Appointment</b>	23. Add form of payment for acting allowance and payment timeframe in policy.  24. Acting allowance is not a common practice in private sector.	Adopted  Adopted (Recommendation adopted for all staff except for staff acting in the capacity of Directorate rank)
<b>J</b>	<b>Participation of Non-Training Staff in Conducting Training Courses for HKPC</b>	25. Reference should be made to the application procedures required for outside employment.  26. The principle for staff working outside normal office hour is they should not affect their normal duties.  27. Need to review rationale for giving staff 75% rate of outside trainer if staff is not using office hour to prepare and conduct training.  28. Elaborate application procedure.	Adopted  Adopted  Not adopted (Upon review, the current practice of granting 75% of the prevailing standard rate payable to outside trainers to staff remains unchanged because: (a) staff could leverage on consultancy experience required during work for sharing with the public, therefore 25% reduction is effected; (b) it is unavoidable that staff will use their consultancy materials for delivering training, therefore 25% reduction is effected.)  Adopted
<b>K</b>	<b>Sick Leave</b>	29. For staff with less than one year of service, a clear guideline on sick leave entitlement and allowance should be developed.  30. It is recommended to tighten the requirement for medical certificate of more than 2 days' sick leave to more than 1 day.	In progress and to be adopted in 2010  Adopted

		<p>31. Sick leave allowance is above legal requirement and also above general market practice that most companies will pay full pay for 120 days after 3 years of service.</p> <p>32. Immediate supervisor or GM should pay attention to staff taking frequent sick days. They may need to talk with staff to see if any help will be needed.</p>	<p>In progress and to be adopted in 2010</p> <p>Adopted</p>
<b>L</b>	<b>Sick Leave for Injury or Occupational Disease</b>	<p>33. Add procedure and guidelines on reporting injury at work including relevant forms and reporting deadline as required by law.</p> <p>34. Sick leave due to work injury should be separated from sick leave as all leave days need to be justified with medical certificate.</p>	<p>In progress and to be adopted in 2010</p> <p>In progress and to be adopted in 2010</p>
<b>M</b>	<b>Annual Leave</b>	<p>35. The accumulation of leave entitlement for the 80% of staff should be reduced to the market norm of 1.5 times annual entitlement. To help staff go through the transition, the reduction can be done by phases, e.g. over a 3 or 5 years period of time.</p>	<p>Adopted</p>
<b>N</b>	<b>No Pay Leave</b>	<p>36. Lay down guidelines on granting no pay leave.</p> <p>37. Review if any compensation or benefits such as gratuity and allowance, etc. need to be adjusted if no-pay leave is more than a certain period (e.g. 1 month).</p>	<p>Adopted</p> <p>In progress and to be adopted in 2010</p>
<b>O</b>	<b>Special Leave</b>	<p>38. Consolidate types of special leave e.g. special leave include jury duty, voluntary services, perform civic duties and take up special assignment for official purposes.</p> <p>39. Honorariums will be received on serving jury duty or performing some voluntary services. If employees are paid to attend these duties, HKPC should consider whether employees should render honorariums received.</p>	<p>Adopted</p> <p>Not adopted (According to the government's practice, public officers serving as jurors are permitted to retain the basic juror's allowance. In HKPC, the number of staff serving as jurors is limited and honorariums are of limited value. Serving as a juror is a civic duty from which HKPC should not deduct</p>



			honorarium.)
<b>P</b>	<b>Maternity Leave</b>	40. Maternity leave allowance in HKPC is above legal requirement.	Not adopted (The current practice remains unchanged since it was long established in accordance with the government's benefits system. Owing to HKPC's historical background, any proposed change is not feasible.)
<b>Q</b>	<b>Subsistence Allowance</b>	41. Elaborate purpose of the allowance. 42. If subsistence allowance is paid when staff work overtime, pre-approval must be obtained on O/T work.	In progress and to be adopted in 2010  In progress and to be adopted in 2010
<b>R</b>	<b>Housing Allowance</b>	43. Instead of declaration, ask staff to provide proof that their spouses are not entitled to similar benefit. 44. HR should review the value of conducting land search or this should be done on random basis or checked by internal audit.	In progress and to be adopted in 2010  In progress and to be adopted in 2010
<b>S</b>	<b>Education Allowance</b>	45. Around 10% of companies provide education allowance for children of staff. It is not a common practice except for expatriate employees.	In progress and to be adopted in 2010
<b>T</b>	<b>Sponsorship of Professional Institutions</b>	46. Promoting corporate image and service is important. Staff joining professional institutions should be encouraged if it is beneficial to business. HKPC may consider supporting more than one membership especially for senior staff. 47. Add one more condition for fee reimbursement - staff can only enroll in Professional Institution which is related to their work and expertise.	Adopted  Adopted
<b>U</b>	<b>Medical Benefits Scheme (MBS)</b>	48. From administrative point of view, it is better to have insurance covered all claims instead of HKPC doing part of it. 49. Free dental coverage is not common market practice.	Adopted  Not adopted (dental coverage is part and parcel of staff's fringe benefits. For staff management reason, HKPC consider that this should be retained. Furthermore, dental care with primary care only accounted for a small portion of the medical expenses

		50. Need benchmark data to determine coverage.	(2%)) Adopted
<b>V</b>	<b>Equal Employment Opportunities</b>	51. Formulate an Equal Employment Policy, covering sex, disability and family status.  52. A designated Equal Opportunity Officer (EEO) to handle related issues.  53. Highlight staff's responsibility and clarify procedures to raise complaint.	In progress and to be adopted in 2010  In progress and to be adopted in 2010  In progress and to be adopted in 2010
<b>W</b>	<b>Data Privacy Policy</b>	54. Policy should also cover: Definition of personal data, Type of employment related personal data, Purpose for HR to collect personal data and manner of collection, Classes of transferees.  55. Prepare Personal Information Collection Statement related to recruitment and employment.  56. Include guidelines on "access to and correct personal data".  57. Emphasize staff's responsibility of providing update personal data.	In progress and to be adopted in 2010  In progress and to be adopted in 2010  In progress and to be adopted in 2010  In progress and to be adopted in 2010
<b>X</b>	<b>Procurement Procedures</b>	58. Purchases from the following situations can be exempted from vendor selection process of the procurement procedure in the Standard Practice. a) purchase from business partners in joint projects b) business partnership on Barter Arrangement in which HKPC exchanges service with an external party without actual payments c) business partnership on income sharing Arrangement d) appointment of external individuals as speakers on partnership agreements e) sub-contracting internal projects/external client projects to internal divisions or HKPC subsidiaries f) purchase from client pre-approved suppliers	Adopted

	<p>g) sole supplier/agent in the market h) technical consideration is over-riding</p> <p>59. Revised the Purchase Requisition (PR) approving limits for DHeads</p> <p>60. Align the approval authority of DHeads with GMs for simplification such that endorsement by BD for the following documents: - recommendation of nominated suppliers for special items; - tender requisitions made with Purchasing Unit; - recommendations on tender evaluation.</p> <p>61. Repeated purchases by the same division to the same supplier are allowed when the two purchases are for different projects and the delivery dates of the two purchases make it impossible to bundle the transactions, or the division is unable to anticipate the second purchase at the time when the first purchase is made.</p> <p>62. Purchase (such as non-tendered EDP items) from nominated suppliers shall be on a rotational basis. Supplier lists should be reviewed and updated regularly.</p> <p>63. Since the purchase requisition has been approved by DHead, the invoice of no variance in the amount could be certified by either the Requisitioning Officers or DHeads.</p> <p>64. Purchases from suppliers specified by the client before the award of the project should be exempted from the supplier selection requirements. If after the award of the project, it is recommended that HKPC should define specific terms in the standard HKPC agreements: (i) granting HKPC the autonomy to purchase items for the project according to HKPC's internal policies and procedures; and (ii) providing the proper written authorization to HKPC should the client require HKPC to purchase from a particular supplier.</p>	<p>Adopted (Adoption with enhancement: As the position of DHead was no longer existed after organization restructure in 2007, instead GMs and PCs approving limits were revised.)</p> <p>Adopted (Adoption with enhancement: As the position of DHead was no longer existed after organization restructure in 2007, GM will be the approval authority instead BD.)</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p>
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		<p>65. HKPC should appoint firms / organizations (instead of individuals) to provide services as much as possible.</p> <p>66. If the engagement of individuals is necessary, the procurement selection process should be followed and HKPC should enhance control when signing Rendering of Services Agreement:          (i) should document clearly the standard of service to be delivered by the individual and the payment terms should be in line with the outputs of the service;          (ii) avoid any “means of control” that may generate a reasonable expectation that HKPC is an employer;          (iii) avoid the provision of tools &amp; equipment;          (iv) avoid any indications of HKPC having the right to demand the exclusive services;          (v) appoint individuals who are performing the service as a business on their own accounts.</p> <p>67. Standard terms &amp; conditions should be incorporated in HKPC standard contracts with suppliers, such as:          (i) The contractor shall indemnify the Council against any loss of or damage ...          (ii) The contractor shall not publish or use any advertising or other publicity material without the prior written consent of the Council.          (iii) The contractor hereby declares its compliance with all relevant legislations and regulations in the provision of goods and services ...</p> <p>68. In order to better manage risk of HKPC, Divisions may consider to pass the contracts to Council Secretary for review.</p>	<p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p>
<p><b>Y</b></p>	<p><b>Tender Procedures</b></p>	<p>69. To facilitate a more efficient purchasing process, it is recommended to increase the tender limit to HK\$500,000 which is aligned with ITF projects for external projects, and the tender limits of HK\$100,000 for internal purchase will remain unchanged.</p>	<p>Adopted</p>

		<p>70. Review whether sufficient time has been given to suppliers to reply to tender invitation.</p> <p>71. Requisitioning Division may contact the invited suppliers to respond to the tender.</p> <p>72. The Requisitioning Division should take a prudent approach in estimating the total purchase value to consider whether tender invitation is required.</p> <p>73. More detailed guidelines on tender scoring should be developed. To balance technical aspect and price, separate assessment of the technicality and price should be performed. The relative weights and score for technicality and price should be pre-set and disclosed to the tenderers.</p> <p>The technical and price proposals should be submitted in separate envelopes to avoid biased by the fee proposals. Proposals that do not meet the mandatory technical specifications should be rejected.</p> <p>74. The policies and process for post-tender negotiation should be well defined. It is recommended that post-tender negotiation should be restricted unless the price quoted by all submitted tenders exceed the budget and it is considered more cost effective to conduct negotiation than to re-tender.</p> <p>75. For tender evaluation, a panel of at least two persons should be required.</p> <p>76. The involvement of an independent member in the panel should be required if the purchase value is substantial, for example, exceeding HK\$1 million, or when the purchase decision may be sensitive.</p>	<p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p>
<b>Z</b>	<b>Administration Procedures</b>	<p>77. When senior staff members are invited to attend functions, there are cases that their spouse or family members are also invited. They should be accompanied by the officer as far as possible.</p>	<p>Adopted</p>

		<p>78. When staff members are allowed to take vacation during business trips, they should not incur additional cost in terms of flight and accommodation. Additional cost should be paid by the staff.</p> <p>79. The coverage of the current standard practice is inadequate for use of mileage earned from official trips. In public sector, the mileage earned can only be used for official trips unless it is to expire in a short period of time.</p> <p>80. Staff members should avoid travelling with spouse or family members on official trips unless it is strictly necessary for official capacity or under special circumstances.</p> <p>81. It is recommended that if the expense of the spouse or family member is to be covered by HKPC, approval from ED is required.</p> <p>82. Divisions responsible for updating the standard practices should review the requirements taking into consideration internal control and operation efficiency.</p> <p>83. The practice of taking digital photos for newly acquired assets should be removed. For fixed asset management, ownership should be well-defined; stocktake procedures should be improved and goods receipt function should be centralized.</p> <p>84. Organization of study mission should be allowed if the total cost, i.e. cost of participants and HKPC staff, is fully covered by the fees paid by participants.</p>	<p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted</p> <p>Adopted with modifications. (Goods receipt function not centralized because of additional manpower implication on one single division. Instead, goods receipt must be witnessed by a staff from a unit other than the requisitioning unit. For high value item, goods receipt will be checked by another division responsible for administration.)</p> <p>Adopted</p>
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	<b>Major Issue</b>	<b>Major Recommendation by AON</b>	<b>Status</b>
<b>A</b>	<b>Performance Appraisal System (PAS)</b>	85. A blended approach, measuring the staff's achievement of qualitative and quantitative results against the goals or targets set, and demonstration of professional competencies, should be adopted.	Adopted
<b>B</b>	<b>Termination Policy and Procedure</b>	86. Formulate a policy on termination of employment contract and guidelines to managers on employment termination practices.	Adopted
		87. Use of "Performance Improvement Plan" by managers to take appropriate actions for sub-standard performers.	Adopted

23/12/2009

**(e) Relevant Council / Committee papers and minutes, together with recent correspondences between HKPC and ITC, seeking approval for the general application of “no double housing benefits rule” in the context of non-accountable allowance for new hire**

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Key Points

- On 2 November 2009, the Staffing Committee endorsed the general disapplication of “no double housing benefits” rule in the context of non-accountable allowance for new hire (paper and extract of draft minutes attached).
- On 17 November 2009, the Council approved the general disapplication (extract of paper and extract of draft minutes attached).
- On 23 November 2009, HKPC wrote to ITC seeking approval of the general disapplication.
- On 21 December 2009, ITC informed HKPC that approval for the general application had been given (on 15 December 2009) and it would be effective from 1 January 2010.

**\*Note by Clerk, PAC: Papers and extract of draft minutes of meetings not attached.**



**(h) A note on the respective operating costs of the BMM Limited for the provision of building management services to HKPC in 2006-07, 2007-08 and 2008-09**

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- The operating costs of the BMM Limited for the provision of building management services to HKPC for the recent three years is as follows -

2006-07	\$6,234,466
2007-08	\$6,326,292
2008-09	\$6,012,712

**(i) A note on the Audit Committee's findings and recommendations relating to the HKPC's fixed asset management; and the actions that had been taken to implement the recommendations**

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Key Points

- Before the Audit Committee was established in October 2005, the Finance Committee followed up on the results of the full stocktake on fixed assets conducted in 2005 (Annex K refers).
- There were several occasions on which the Audit Committee deliberated on HKPC's fixed asset management.

12 October 2006

- On 12 October 2006, the Audit Committee noted the completion of the consultancy study, which included recommendations on fixed asset management.
- At that meeting, the Audit Committee noted the approach of taking forward the consultant's recommendations (such as according priority to improve fixed asset management and not accepting one of the recommendations, i.e. centralizing goods receipt function).
- Details are in the attached extract of paper and minutes of the Audit Committee meeting held on 12 October 2006.

22 June 2007

- On 22 June 2007, the Audit Committee was updated on the progress of implementation of the consultant's recommendations, including those on fixed asset management.
- The Audit Committee noted the progress made.
- Details are in the attached extract of paper and minutes of the Audit Committee meeting held on 22 June 2007.

### 23 March 2009

- On 23 March 2009, in the context of a compliance checking report on fixed asset management submitted to the Audit Committee by the Internal Audit (IA) unit, the Audit Committee noted the findings of the IA unit and the actions taken by HKPC management in respect of two non-compliance cases out of 68 samples surveyed.
- Details are in the attached extract of the paper and minutes of the Audit Committee meeting held on 23 March 2009.

### 15 July 2009

- The HKPC management reported to the Audit Committee on 15 July 2009 the results of the partial stocktake conducted in April 2009.
- Details are in the attached paper and relevant extract of minutes of the Audit Committee meeting held on 15 July 2009. Extract of draft minutes of the Audit Committee meeting on 6 November 2009 are also attached, at which the Audit Committee was updated on this subject.

### 6 November 2009

- On 6 November 2009, in the context of an Internal Audit (IA) report on fixed asset management (related to barcode label and disposal of fixed assets) submitted to the Audit Committee by the IA unit, the Audit Committee noted the findings and the actions taken by the HKPC management.
- Details are in the attached extract of the paper and relevant draft minutes of the Audit Committee meeting held on 6 November 2009.

**\*Note by Clerk, PAC:** *Annex K, extract of papers and minutes of meetings not attached.*

**(j) A note on HKPC's external auditor's findings and recommendations relating to the HKPC's fixed asset management since 2005-2006 as well as the actions that had been taken to implement the recommendation**

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Key Points

- On three occasions (for the years 2005-06, 2006-07 and 2008-09), the external auditor raised observations on fixed assets.
- The observations and our actions taken are summarized below.

2005-06

- The external auditor expressed that no major big issues were observed and no significant weaknesses were noted. However, some audit observations on fixed asset management were discussed: (i) useful life estimation might need to be reviewed; (ii) periodic fixed assets count was recommended.
- Actions taken in respect of the review of useful life estimation and the recommended periodic fixed assets count were as follows :
  - Upon a review, the depreciation life of various fixed assets was stipulated in the Standard Practice A6/1, which was issued on 1 January 2008.
  - Upon a review, periodic full stocktake on a five-year cycle and partial stocktake on a yearly basis were stipulated in the Standard Practice A6/3, which was issued on 1 January 2008.
- There was no record of audit brief or exit meeting but the exit meeting was reported to the Audit Committee on 6 July 2006 (paper and relevant extract of minutes attached).

## 2006-07

- The external auditor expressed that no significant issues were observed or weaknesses noted. However, some audit observations related to fixed assets were mentioned : Depreciation policy for each category of fixed assets should be reviewed to match the estimated useful life of the assets and there should be periodic review and physical inspection of the conditions of the assets to ensure that the assets are properly reflected in the accounts.
- Actions taken in respect of the external auditor's observations were as follows :
  - Upon a review, the depreciation life of various fixed assets was stipulated in the Standard Practice A6/1, which was issued on 1 January 2008.
  - Upon a review, periodic full stocktake on a five-year cycle and partial stocktake on a yearly basis were stipulated in the Standard Practice A6/3, which was issued on 1 January 2008.
  - Random check on 10% of new fixed assets on a monthly basis incorporated as a requirement in the Standard Practice A6/3, which was issued on 1 January 2008. Such random checking on new fixed assets was conducted for the first time since February 2008.
- There was no record of audit brief or exit meeting but the exit meeting was reported to the Audit Committee on 22 June 2007 (paper and relevant extract of minutes attached).

## 2007-08

- The external auditor did not make any observation on fixed asset management.

2008-09

- The external auditor expressed that no significant issues were observed or weaknesses noted. The external auditor noted the result of the partial stocktake conducted in April 2009 and that the HKPC Management would report the result to the Audit Committee. However, the external auditor did not make any recommendation.
- There was no record of audit brief or exit meeting but there was an agenda for the exit meeting held on 3 July 2009, which is attached.
- The exit meeting was reported to the Audit Committee on 15 July 2009 (paper and relevant extract of minutes attached).

**\*Note by Clerk, PAC: *Papers and extract of minutes of meetings not attached.***

**(m) A note on the revisions that have been made to the five internal guidelines in order to implement the consultant's recommendations on fixed asset management**

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Key Points

- Five sets of internal guidelines on fixed asset management were revised and issued on 1 January 2008 (copies of Standard Practices A6/1, A6/2, A6/3, A6/4 and A6/5 are attached).
- The consultant (PwC) made recommendations on fixed asset management covering aspects as follows:
  - well-defining the ownership of fixed assets (in paragraphs 1 & 2 of attached Standard Practice A6/2)
  - improvement on stocktake procedures of fixed assets such as stipulation of an annual cycle for partial stocktake and a five-year cycle for a full stocktake, instead of just requiring partial stocktake and full stocktake be done on a “regular” basis (in paragraph 8 of attached Standard Practice A6/3)
- HKPC Management have also taken the opportunity to amend other Standard Practices related to fixed asset management covering the following aspects :
  - the depreciation life of various fixed assets was stipulated, upon review, in the attached Standard Practice A6/1 (Appendix 1 thereof)
  - the role for managing disposal and transfer of software and information technology equipment was centralized and vested with the internal Management Information Service (MIS) unit in the attached Standard Practice A6/4 (paragraph 2.3 thereof)
  - providing a clearer definition in respect of equipment for the purpose of fixed asset management in Standard Practice A6/5 (paragraph 1 thereof).

## STANDARD PRACTICE

Standard Practice No.:	<u>A6/1</u>
Subject:	<u>Fixed Assets - Definition and Depreciation Lives</u>
Prepared by:	<u>Finance Division</u>
Date issued: (dd/mm/yyyy)	<u>01/01/2008</u>
Supersedes that issued on:	<u>11/10/2004</u>

1. An item purchased under capital budget and with the following three characteristics should be classified as fixed asset-
  - has an estimated useful life of more than 1 year;
  - used in the operating activities of the Council; and
  - the price must be in excess of HK\$2,500. (Note: a unit assembled by different components/parts can be classified as fixed asset if the aggregated amount of all components/parts is over HK\$2,500).

For equipment purchased with project funding, e.g. ITF, different treatment applies. Please refer to Standard Practice A6/5.

### 2. Exemption on Price Rule

In practice, some items are always purchased in bulk with unit price lower than HK\$2,500 and therefore not capitalized. However, in view of the substantial aggregated asset amount and in order to enhance the physical control and effective management on such assets, the following items are to be capitalized as fixed assets, regardless of the price rule mentioned under paragraph 1 above-

- Office furniture (Ref.: paragraph 4a);
  - Computer monitor.
3. The initial costs to be capitalized include the purchase price, delivery and insurance charges, installation and testing costs and training package but exclude maintenance fee.
  4. Fixed assets are classified under the following categories. The estimated depreciation life listed in the following paragraphs is solely for accounting purposes and does not have any direct relevance to the replacement life of the assets. For replacement policy, please refer to the relevant Standard Practices as listed in Appendix 1 of this Standard Practice.
    - a. Office furniture  
Office chair and table, conference chair and table, classroom chair and table, desk, side table, cabinet and drawer, book shelf, etc.

Estimated depreciation life is 10 years.



- b. Office equipment  
Typewriter, fax machine, photocopying machine, etc.  
  
Estimated depreciation life is 5 years.
- c. AV aids and equipment  
Projector, projection screen camera, TV set, VCR, lens, etc.  
  
Estimated depreciation life is 5 years.
- d. Laboratory and other equipment  
Testing and measuring equipment, computer system used in laboratory, etc.  
  
Estimated depreciation life is 5 years.
- e. Motor vehicles  
  
Estimated depreciation life is 6 years.
- f. Leasehold improvement (Non-office)  
Fitting-out and renovation works for functional centre, etc.  
  
Estimated depreciation life is 3 years.
- g. Leasehold improvement (Office)  
Office decoration, standard panels, fan coil unit, etc.  
  
Estimated depreciation life is 10 years.
- h. Computer software and training package  
MS Office, Novell Netware, Win Pen, etc.  
  
Estimated depreciation life is 3 years.
- i. IT equipment  
Server, personal computer, printer, modem, computer monitor, etc.  
  
Estimated depreciation life is 5 years.
- j. HKPC Building  
E&M fittings, drainage and building elements  
  
Estimated depreciation life is 50 years.

Item	Depreciation life (for accounting purpose)	Physical Replacement
Office furniture	10 years	Division to justify request for replacement on its own merit for management's approval
Office equipment	5 years	Same as above
AV aids and equipment	5 years	Same as above
Laboratory and other equipment	5 years	Same as above
Motor vehicles	6 years	Refer to Standard Practice A4
Leasehold improvement (Non-office)	3 years	Division to justify request for replacement on its own merit for management's approval
Leasehold improvement (Office)	10 years	Same as above
Computer, software and training package	3 years	Refer to Standard Practice A7/1
IT equipment	5 years	Refer to Standard Practice A7/1
HKPC Building	50 years	Senior management and Council's approval.

Issued by: Executive Director

Issued to: General Managers & Staff Members

## STANDARD PRACTICE

Standard Practice No.:	<u>A6/2</u>
Subject:	<u>Fixed Assets - Ownership, Role and Responsibilities Over the Recording and Custody</u>
Prepared by:	<u>Finance Division</u>
Date issued: (dd/mm/yyyy)	<u>01/01/2008</u>
Supersedes that issued on:	<u>11/10/2004</u>

In order to ensure an effective control over fixed assets, the asset ownership, role and responsibilities of various parties are defined as follows-

### Ownership of Fixed Assets

1. Division owns the assets that are under their use and control.
2. HAD owns the assets for common use and the assets transferred from other divisions to Corporate, e.g. tables and chairs at conference rooms.

Divisions which manage the venue such as functional centre own the assets located in that venue, e.g. assets at CEPA Centre, Innovation Gallery.

### Role and Responsibilities

3. GMs of owner divisions are responsible for-
  - a. ensuring the safe custody, effective use and proper maintenance of fixed assets under their control;
  - b. making recommendations for transfer and disposal of unwanted fixed assets;
  - c. performing annual random stock take and full stock take once every five years;
  - d. investigating and explaining any discrepancies to FD arising from the fixed asset stock take; and
  - e. for leasehold improvement (categories 4f and 4g in Standard Practice A6/1), given its special nature, owner divisions need not be accounted for its physical custody, but is responsible for notifying FD if there is any addition, renovation or dismantlement for record purpose.
4. FD is responsible for maintaining fixed asset inventory records.
5. Internal Audit is responsible for auditing the fixed asset inventory records of HKPC.

Issued by: Executive Director

Issued to: General Managers & Staff Members

## STANDARD PRACTICE

Standard Practice No.:	A6/3
Subject:	Fixed Assets - Acquisition and Physical Verification, Addition of Project Funded Equipment
Prepared by:	Finance Division
Date issued: (dd/mm/yyyy)	01/01/2008
Supersedes that issued on:	11/10/2004

### Acquisition and Physical Verification

1. When divisions purchase fixed assets, procurement and tendering procedures of capital expenditure should apply in accordance with Standard Practices A1/1 and A1/2.

Please refer Standard Practice A6/5 for acquisition and physical verification of project funded equipment.

2. Upon receiving the approved P.O. for acquisition of fixed assets from division via Purchasing Unit of HAD, FD will check the classification of fixed assets which are predefined by division with reference to the guidelines for definition of fixed assets in Standard Practice A6/1.
3. Once the fixed asset has been delivered to the division and payment process has been completed, the fixed asset inventory record in both Fixed Assets System and Accounting System will be updated by FD.
4. FD will print and issue the barcode label together with the Fixed Assets Coding Control Sheet (AF206) to divisions (for all assets except software) and to MIS (for software only).
5. Division is responsible for affixing all barcode labels on the fixed asset (except software) on site. MIS is responsible for affixing the barcode labels on the software license.
6. In order to maintain an effective fixed asset inventory record and to confirm that the correct barcode label has been affixed properly-
  - a. for all fixed assets (except software), division should complete the Fixed Assets Coding Control Sheet (AF206), sign and return it to FD for filing; and
  - b. for software, MIS should complete the Fixed Assets Coding Control Sheet (AF206), sign and return it to FD for filing.
7. HAD will perform random checking on 10% of new fixed assets on a monthly basis and report via email to GMs of Divisions and copy to FD those new fixed assets which have not affixed the label.

8. Divisions should always exercise control to safeguard its assets. The physical verification procedures should be conducted as follows-

a. Annual Stock Take:

FD will issue fixed asset inventory record list which is prepared on a random sampling basis by its unit cost from all items to divisions for performing the annual stock take. The sample items are selected in accordance with the following criteria-

Unit Cost of Fixed Assets	% of items selected
Up to \$5,000	5%
\$5,001 to \$20,000	25%
\$20,001 to \$100,000	30%
Over \$100,000	30%

b. Full Stock Take Once Every Five Years:

A full stock take will be performed once every five years. This stock take does not include the items 4f, 4g, 4j in Standard Practice A6/1.

9. After the stock take, divisions should return the completed fixed asset inventory record lists to FD and copy to Internal Auditor who may perform additional investigation when necessary.

10. Divisions are responsible for investigating and explaining all discrepancies arising from the stock take exercise to FD. Then, FD will summarize the discrepancies and report to the management.

Addition of Project Funded Equipment

11. When the equipment (purchased and funded by projects) is not required for return to the client and allowable for transfer to HKPC (under relevant project funding guidelines) after project completion, the division should list out the asset items and advise FD to proceed the transfer from "Project Funded Equipment Inventory Record" to "HKPC Fixed Asset Inventory Record" (Refer to Standard Practice A6/5 for management of project funded equipment).

Issued by: Executive Director

Issued to: General Managers & Staff Members

## STANDARD PRACTICE

Standard Practice No.:	A6/4
Subject:	Fixed Assets - Disposal and Transfer
Prepared by:	Human Resources & Administration Division and Finance Division
Date issued: (dd/mm/yyyy)	10/09/2009
Supersedes that issued on:	01/01/2008

### Disposal of Fixed Assets

1. If a division wants to dispose of any fixed asset, it should submit the Form AF202 “Disposal/Transfer of Fixed Assets” to HAD/ FD. The division should fill in details of the assets based on the fixed asset reports issued monthly by FD.
2. Assessment and approval of the disposal of fixed assets referred to paragraph 4 of Standard Practice A6/1 “Fixed Assets – Definition and Depreciation Lives” are set out below.
  - 2.1 For disposal of fixed asset items EXCEPT category 4d (laboratory and other equipment), 4h (computer software and training package) and 4i (IT equipment) –

Division should submit the Form AF202 “Disposal/Transfer of Fixed Assets” with the approval of GM/BD/ED in accordance with the approval authorities set out in paragraph 3 below to HAD. HAD will then inspect and assess whether the fixed asset should be disposed of.

- a. If the fixed asset was damaged and could no longer function, HAD will copy the Form AF202 “Disposal/Transfer of Fixed Assets” to FD for updating the fixed asset inventory record. HAD will arrange with BMM for the disposal and mark the actual date of disposal on the approved Form AF202 “Disposal/Transfer of Fixed Assets” for record.
- b. If the fixed asset could still function, HAD will arrange the fixed asset to be applied by interested divisions for transferring for use, sold to external buyers or donated to charity organizations.
- c. To apply for the transfer of fixed asset for use, interested divisions should submit the Form AF482 “Application Form for Disposed Fixed Assets” on/before the closing date required on the e-mail issued by HAD to GMs regarding the disposal of the fixed asset. If more than one application are received, lots will be drawn by two representatives from HAD and FD. Successful division should submit the Form AF202 “Disposal/Transfer of Fixed Assets” to FD for updating the fixed asset inventory record according to paragraph 5 below.
- d. If there is no application from interested division, external buyers on the Approved Buyers List will be invited by HAD to bid for the fixed asset and the buyer offering the highest price will be awarded. Otherwise, HAD will arrange

the fixed asset to be donated to charity organizations or disposed by BMM.

2.2 For disposal of category 4d (laboratory and other equipment) –

GM of division should inspect and assess whether the fixed asset should be disposed of and submit the Form AF202 “Disposal/Transfer of Fixed Assets” approved by GM/ BD/ ED in accordance with the approval authorities set out in paragraph 3 below to FD.

- a. When the selling price estimated by division prior to disposal of the fixed asset is less than the tender limit as laid down in Standard Practice A1/2 “Tender Procedures”, external buyers on the Approved Buyers List will be invited by division to bid for the fixed asset and the buyer offering the highest price will be awarded.
- b. When the selling price estimated by division prior to disposal of the fixed asset is more than the tender limit as laid down in Standard Practice A1/2 “Tender Procedures”, division should submit tender requisition in writing approved by GM of division to GM/HA and attach the approved Form AF202 “Disposal/Transfer of Fixed Assets”.
- c. If there is no buyer or bidder to buy the fixed asset, division should arrange with BMM for its disposal and mark the actual date of disposal on the approved Form AF202 “Disposal/Transfer of Fixed Assets” for record.

2.3 For items 4h (computer software and training package) and 4i (IT equipment) –

- a. Division cannot initiate disposal of these IT items but to transfer to MIS.
- b. After MIS received the transferred IT items, it will assess its functionality and decide to reallocate to other users or dispose of.
- c. MIS will recycle functioning components for use. For the residual equipment, MIS should submit the Form AF202 “Disposal/Transfer of Fixed Assets” with the approval of GM/IT/ BD/ ED in accordance with the approval authorities set out in paragraph 3 below to FD for updating the fixed asset inventory record. MIS should arrange with BMM for the disposal and mark the actual date of disposal on the approved Form AF202 “Disposal/Transfer of Fixed Assets” for record.

2.4 If the fixed asset is confirmed lost/ missing/ unfound, although no physical disposal can be conducted, division should complete the Form AF202 “Disposal/Transfer of Fixed Assets” with justification and approval of GM/ BD/ ED in accordance with the approval authorities set out in paragraph 3 below to FD. Upon receipt of the approved Form AF202 “Disposal/Transfer of Fixed Assets”, FD will write off the fixed asset from the fixed asset inventory record.

## Approval Authorities

3. Approval authorities for disposing of fixed assets are as follows:

<u>Approval Authorities</u>	<u>Approval Limits</u> (based on written down value prior to disposal)	<u>Fixed Asset Items</u>
GM	Up to HK\$75,000	Division's owned fixed assets except IT equipment
GM/IT	Up to HK\$75,000	IT equipment
BD	Up to HK\$200,000	All fixed assets
ED	Over HK\$200,000	All fixed assets

## Transfer of Fixed Asset

4. If a division (transferor division) wants to transfer any fixed asset to other divisions, division should submit the Form AF202 "Disposal/Transfer of Fixed Assets" approved by GM.
5. 'Transferor' division passes the Form AF202 "Disposal/Transfer of Fixed Assets" to the receiving division (transferee division) for acceptance by the transferee division's GM and submits to FD.
6. FD checks the record and updates the fixed asset inventory record.
7. FD sends a copy of the Form AF202 "Disposal/Transfer of Fixed Assets" with FD's endorsement to the 'Transferee' division for record. Transferee division should arrange the physical transfer with BMM.

Issued by: Executive Director

Issued to: General Managers & Staff Members



## STANDARD PRACTICE

Standard Practice No.:	<u>A6/5</u>
Subject:	<u>Project Funded Equipment</u>
Prepared by:	<u>Finance Division</u>
Date issued: (dd/mm/yyyy)	<u>01/01/2008</u>
Supersedes that issued on:	<u>11/10/2004</u>

1. For equipment purchased with project funding and meet the following criteria, division should notify FD to maintain a divisional project funded equipment inventory record-
  - (i) Government funded project-
    - items defined as equipment of the government funded project, e.g. ITF;
  - (ii) Non-government funded project-
    - a. unit cost higher than HK\$2,500;
    - b. has an estimated useful life of more than one year upon project completion; and
    - c. is not to be returned to client upon project completion.
2. Following the purchasing procedure, division should indicate equipment information in the Vendor Selection Sheet (AF145b).
3. Once the equipment has been delivered to the division and payment process has been completed, FD will update the equipment inventory record.
4. FD will print and issue the barcode label together with the Fixed Assets Coding Control Sheet (AF206) to divisions (for all equipments except software) and to MIS (software only).
5. Division is responsible for affixing all barcode labels on the equipment (except software) on site. MIS is responsible for affixing the barcode labels on the software license.
6. In order to maintain an effective equipment inventory record and to confirm that the correct label has been affixed properly-
  - a. for all equipment (except software), division should complete the Fixed Assets Coding Control Sheet (AF206), sign and return it to FD for filing; and
  - b. for software, MIS should complete the Fixed Assets Coding Control Sheet (AF206), sign and return it to FD for filing.

7. Owner division should take one of the following actions after project completion-
  - a. physical disposal (refer to Standard Practice A6/4);
  - b. transfer to HKPC (refer to Standard Practice A6/3, paragraph 11).
  
8. The stock take process for project funded equipment will be the same as those stated in Standard Practice A6/3, paragraphs 8 to 10.

Issued by: Executive Director

Issued to: General Managers & Staff Members

**(n) A note on some other measures under our consideration to further improve and strengthen asset management**

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- HKPC Management are reviewing our fixed asset management system. We have yet to finalize measures to be taken, which will be submitted to the Council at a later stage for approval.
- Subject to the approval of the Council, HKPC may implement the following measures –
  - (a) for equipment of high-value or high risk of loss or theft (such as mobile phones, e-cameras, notebooks, etc), HKPC Management will consider the feasibility of dispensing with the bar-code altogether and linking our asset record to the unique identification number of each of the items, if available;
  - (b) we will further review and refine the ownership and level of custody responsibility of fixed assets and assign them to the individual staff level as far as practicable with a view to enhancing fixed asset management;
  - (c) we will further review if fixtures (e.g. built-in furniture and IT systems, exhibition display panels, etc.) should be included in the fixed asset control list as they stand virtually no chance of loss or theft; and
  - (d) we will further consider how the effectiveness of annual partial stocktake exercise could be enhanced. Enhancement measures may include, for instance, mandatory annual stocktake for high value items beyond a certain threshold and stocktake on certain selected categories of items as opposed to random sampling during the partial stocktake exercise, etc.
- The HKPC Management may come up with other measures of enhancing fixed asset management and will seek the approval of the Council in due course.

**(o) A note on the details of the five major duties of the  
Fixed Asset Manager**

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- The five major duties of the Fixed Asset Manager appointed in each division since June 2009 are as follow –
  - (i) help ensuring compliance of respective divisions with Standard Practices;
  - (ii) co-ordinating asset stocktake exercises;
  - (iii) ensuring the reporting of asset movement and disposal;
  - (iv) clearing asset movement and disposal; and
  - (v) co-ordinating affixing of barcode labels.

**(q) A note on the 109 computers which could not be located  
(referred to in paragraph 4.7(a) of the Audit Report)**

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Key Points

- Paragraph 4.7(a) of the Audit Report mentioned that 109 computers could not be located.
- Paragraph 4.7(b) of the Audit Report also mentioned that 163 computers could not be traced to the Fixed Asset Register because their barcode labels were peeled off or wrongly affixed.
- We have subsequently tried to match the specifications (such as type, brandname and model) of the 163 computers additionally found with those of the 109 missing computers.
- We have matched 100 computers. The remaining 9 missing computers cannot be matched. This notwithstanding, there remain 63 computers additionally found.