

A. Introduction

The Audit Commission ("Audit") conducted a review of the Hong Kong Export Credit Insurance Corporation ("ECIC").

2. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses to its enquiries.

B. Governance structure of the ECIC

3. As stated in paragraph 1.2 of the Director of Audit's Report ("Audit Report"), the ECIC was established in 1966 under the ECIC Ordinance (Cap. 1115). According to paragraphs 2.2 and 2.3, an Advisory Board was established under the ECIC Ordinance to advise the ECIC in the conduct of its business. The Advisory Board is not a governing board of the ECIC and under the ECIC Ordinance, the ECIC shall not be bound by the advice of the Board.

4. To ascertain whether the governance structure of the ECIC, including the role of the Advisory Board, was in line with overseas practice nowadays, the Committee enquired about the governance structure of comparable organisations in overseas countries which performed functions similar to those of the ECIC.

5. In his letter of 12 May 2011 (in *Appendix 15*), the **Secretary for Commerce and Economic Development** provided a table comparing the products and services offered by the ECIC and other export credit agencies ("ECAs") in 10 different countries in the Asia Pacific, Europe and North America, and a description of their governance structure . He also stated that:

- all of the ECAs listed in the table, except for the one in Singapore which had been privatised in 2003, were 100% owned by the respective Governments and were members of the Berne Union which was the leading international organisation of public and private sector providers of export credit and investment insurance;
- the listed ECAs were established in different forms, e.g. as government departments, public corporations, banks or as a publicly listed company. However, none of them had functions which were identical to the ECIC.

All of them offered wider range of products and services (including loans, project financing, investment insurance and banks guarantees) than those of the ECIC;

- the ECA in New Zealand, which performed functions most similar to the ECIC, had an advisory board structure; and
- in view of the more focused services offered by the ECIC, the Commerce and Economic Development Bureau ("CEDB") considered that the present governance structure of the ECIC was appropriate.

6. Notwithstanding the CEDB's view that the ECIC's present governance structure was appropriate, the Committee noted Audit's recommendations in paragraph 2.7 of the Audit Report that there was a need for the Government to regularly review the ECIC's governance and the CEDB's monitoring mechanism. The Committee therefore asked the CEDB:

- how the ECIC's present governance structure could address the issues raised by Audit in paragraph 2.6 of the Audit Report; and
- how the CEDB would proceed with the review of the governance and monitoring mechanism over the ECIC's work and performance, as undertaken by the Secretary for Commerce and Economic Development in paragraph 2.8(a) of the Audit Report.

7. In his letter of 23 May 2011 (in *Appendix 16*), the **Secretary for Commerce and Economic Development** informed the Committee of the actions that had already been taken or were being implemented by the ECIC and the CEDB regarding the issues raised by Audit, based on the existing governance structure of the ECIC, as follows:

Rapid business expansion

- both the CEDB and the Advisory Board of the ECIC would continue to monitor closely the growth of the ECIC's insured business and ensure that the Government's guarantee would remain sufficient for it to carry out its statutory duties effectively. The CEDB noted that with the gradual recovery of the global economy, the increase in demand for the ECIC's services had slowed down significantly;

Role of Advisory Board

- the ECIC was reviewing its guidelines for determining the types of issues (and the timeframe) which should be submitted to the Advisory Board and its committees for advice and would seek the Advisory Board's endorsement on these guidelines upon the completion of the review. Meanwhile, the Advisory Board discussed and agreed at its meeting held on 23 March 2011 on the issues to be submitted to the Advisory Board for information and advice for all meetings scheduled in 2011-2012;

Role of the CEDB

- while the present mechanism already enabled the ECIC to incorporate the Government's views into its annual corporate plan/budget through discussions at the Advisory Board, the CEDB had asked the ECIC to submit its annual corporate plan/budget to the Secretary for Commerce and Economic Development for formal approval from this year onwards after seeking the endorsement of the Advisory Board;

Scope of the ECIC's services under the ECIC Ordinance

- in response to the recommendation in paragraph 4.58 of the Audit Report, the CEDB had sought legal advice which reconfirmed that the services provided by the ECIC were consistent with the true intent, meaning and spirit of section 9(3) of the ECIC Ordinance;

Monitoring of the ECIC's work and performance

- while the CEDB currently did not micro-manage the daily operations of the ECIC, it had recently reviewed the situation and had further stepped up its monitoring by requiring the ECIC to submit the ECIC's annual corporate plan/budget to the Secretary for Commerce and Economic Development for formal approval from this year onwards, after seeking the endorsement of the Advisory Board. As regards the half-yearly housekeeping meeting between the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) and the ECIC, in addition to its business and financial performance, the ECIC also reported regularly on its management and operational matters including internal audit, human resource management, reinsurance arrangement and development plans for new services. The CEDB

would continue to assess through the annual corporate plan/budget and its regular liaison and housekeeping meetings with the ECIC on how effectively the ECIC discharged its public mission; and

Administrative irregularities identified

- in 2009, the ECIC commissioned a consultancy study on the internal control procedures of the ECIC on a number of areas including tendering and disbursement of IT development and consultancy projects. A number of administrative irregularities had been identified. All of the consultant's recommendations to address the irregularities had been implemented in the same year before Audit commenced its audit review on the ECIC. Since then, the ECIC had regularly reviewed its internal control. An internal audit unit was set up in 2010 to audit the work of each division of the ECIC and its plan was to complete a full internal audit within three years. It would submit a report on each division to the Audit Committee (under the Advisory Board) which would, in turn, put forward its recommendations to the full Board for consideration.

8. Regarding his response given in paragraph 2.8(a) of the Audit Report, the **Secretary for Commerce and Economic Development** stated in his letter of 23 May 2011 that the findings on the governance structure and operation of overseas ECAs, which were provided to the Committee in his previous letter, were based on information in websites and documents available to the public. To get a better understanding of the governance and operations of those ECAs, the CEDB would ask the ECIC to write to those ECAs for more information. Upon receipt of additional data from the organisations, the CEDB would further review the governance of the ECIC and report back to the Legislative Council Panel on Commerce and Industry ("CI Panel") on the outcome of the review.

9. In response to the Committee's enquiry about the timetable for completing the review and reporting to the CI Panel, the **Secretary for Commerce and Economic Development** advised, in his letter of 26 May 2011 (in *Appendix 17*), that the CEDB planned to report the outcome of the review of the governance of the ECIC to the CI Panel before the end of 2011.

C. Conclusions and recommendations

10. The Committee notes the above replies of the Secretary for Commerce and Economic Development. Given that the ECIC was established in 1966, the Committee is concerned that its governance structure, as prescribed by the ECIC Ordinance, may not be in line with modern-day practices and requirements. As the CEDB does not micro-manage the daily operations of the ECIC, the Committee considers it all the more important for the Advisory Board to play the role of a governing board to monitor the work and performance of the ECIC as well as oversee its governance. The Committee recommends that the Secretary for Commerce and Economic Development should expeditiously conduct the review of the governance of the ECIC, taking into account the Committee's concerns, and report the outcome to the CI Panel before the end of 2011.

11. The Committee also wishes to be kept informed of the progress and outcome of the review, as well as the progress made in implementing the various recommendations made by Audit.