



審計署署長
香港灣仔
告士打道七號
入境事務大樓
二十六樓

Director of Audit
26th Floor
Immigration Tower
7 Gloucester Road
Wanchai, Hong Kong

圖文傳真 Facsimile : 2583 9063

電話 Telephone : 2829 4200

7 April 2016

The President of the Legislative Council,
Legislative Council Complex,
Hong Kong.

Sir,

In accordance with the paper tabled in the Provisional Legislative Council on 11 February 1998 on the Scope of Government Audit in the Hong Kong Special Administrative Region — ‘Value for Money Audits’, I have the honour to submit my Report No. 66 on the results of value for money audits completed in accordance with the value for money audit guidelines laid down in the paper. These guidelines are also attached.

Yours faithfully,

David Sun

CONTENTS

The Director of Audit's Report No. 66 contains the following chapters:

Chapter	Subject
1	Efforts of the Rating and Valuation Department in safeguarding revenue on rates and government rent
2	Fresh food wholesale markets
3	Retrofitting of barrier-free access facilities for grade-separated walkways
4	Admission schemes for talent, investors and workers
5	Hong Kong Academy for Performing Arts
6	Monitoring of safe operation of lifts and escalators
7	Dedicated Fund on Branding, Upgrading and Domestic Sales
8	Procurement and inventory management of ICT products and services

VALUE FOR MONEY AUDIT GUIDELINES

Value for money audit

Value for money audit is an examination into the economy, efficiency and effectiveness with which any bureau of the Government Secretariat, department, agency, other public body, public office, or audited organisation has discharged its functions. Value for money audit is carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and have been accepted by the Administration.

2. The guidelines are:

- firstly, the Director of Audit should have great freedom in presenting his reports to the Legislative Council. He may draw attention to any circumstance which comes to his knowledge in the course of audit, and point out its financial implications. Subject to the guidelines, he will not comment on policy decisions of the Executive and Legislative Councils, save from the point of view of their effect on the public purse;
- secondly, in the event that the Director of Audit, during the course of carrying out an examination into the implementation of policy objectives, reasonably believes that at the time policy objectives were set and decisions made there may have been a lack of sufficient, relevant and reliable financial and other data available upon which to set such policy objectives or to make such decisions, and that critical underlying assumptions may not have been made explicit, he may carry out an investigation as to whether that belief is well founded. If it appears to be so, he should bring the matter to the attention of the Legislative Council with a view to further inquiry by the Public Accounts Committee. As such an investigation may involve consideration of the methods by which policy objectives have been sought, the Director should, in his report to the Legislative Council on the matter in question, not make any judgement on the issue, but rather present facts upon which the Public Accounts Committee may make inquiry;
- thirdly, the Director of Audit may also consider as to whether policy objectives have been determined, and policy decisions taken, with appropriate authority;

- fourthly, he may also consider whether there are satisfactory arrangements for considering alternative options in the implementation of policy, including the identification, selection and evaluation of such options;
- fifthly, he may also consider as to whether established policy aims and objectives have been clearly set out; whether subsequent decisions on the implementation of policy are consistent with the approved aims and objectives, and have been taken with proper authority at the appropriate level; and whether the resultant instructions to staff accord with the approved policy aims and decisions and are clearly understood by those concerned;
- sixthly, he may also consider as to whether there is conflict or potential conflict between different policy aims or objectives, or between the means chosen to implement them;
- seventhly, he may also consider how far, and how effectively, policy aims and objectives have been translated into operational targets and measures of performance and whether the costs of alternative levels of service and other relevant factors have been considered, and are reviewed as costs change; and
- finally, he may also be entitled to exercise the powers given to him under section 9 of the Audit Ordinance (Cap. 122).

3. The Director of Audit is not entitled to question the merits of the policy objectives of any bureau of the Government Secretariat, department, agency, other public body, public office, or audited organisation in respect of which an examination is being carried out or, subject to the guidelines, the methods by which such policy objectives have been sought, but he may question the economy, efficiency and effectiveness of the means used to achieve them.

4. Value for money audit is conducted in accordance with a programme of work which is determined annually by the Director of Audit. The procedure of the Public Accounts Committee provides that the Committee shall hold informal consultations with the Director of Audit from time to time, so that the Committee can suggest fruitful areas for value for money audit by the Director of Audit.

CHAPTER 1

**Rating and Valuation Department
Buildings Department
Home Affairs Department
Lands Department**

**Efforts of the Rating and Valuation
Department in safeguarding revenue
on rates and government rent**

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

EFFORTS OF THE RATING AND VALUATION DEPARTMENT IN SAFEGUARDING REVENUE ON RATES AND GOVERNMENT RENT

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1 – 1.11
Audit review	1.12 – 1.13
General response from the Government	1.14 – 1.15
Acknowledgement	1.16
PART 2: GENERAL REVALUATIONS	2.1
General Revaluation purpose and process	2.2 – 2.4
Collection of rental information	2.5 – 2.15
Audit recommendations	2.16
Response from the Government	2.17

	Paragraph
PART 3: INTERIM VALUATIONS	3.1
Interim valuation procedures	3.2 – 3.5
Interim valuations of altered properties	3.6 – 3.25
Interim valuations of advertising signs	3.26 – 3.32
Timeliness of interim valuations	3.33 – 3.39
Audit recommendations	3.40 – 3.41
Response from the Government	3.42 – 3.43
PART 4: RATES EXEMPTION FOR RURAL PROPERTIES	4.1
Exemption from assessment to rates for village houses within designated village areas	4.2 – 4.9
Exemption from payment of rates for village houses outside designated village areas	4.10 – 4.19
Exemption from assessment to rates for agricultural land and buildings	4.20 – 4.21
Audit recommendations	4.22 – 4.24
Response from the Government	4.25 – 4.28
PART 5: COLLECTION OF RATES AND GOVERNMENT RENT	5.1
Collection and recovery of rates and government rent	5.2 – 5.7
Audit recommendations	5.8
Response from the Government	5.9 – 5.10

Appendices	Page
A : Properties exempted from assessment to rates	80
B : Properties exempted from payment of rates	81
C : Rating and Valuation Department: Organisation chart (31 December 2015)	82
D : Analysis of 105 designated village areas by districts (31 December 2015)	83
E : Major steps in processing applications for exemption from payment of rates	84
F : Key dates of 14 bona vacantia cases (30 September 2015)	85
G : Acronyms and abbreviations	86

EFFORTS OF THE RATING AND VALUATION DEPARTMENT IN SAFEGUARDING REVENUE ON RATES AND GOVERNMENT RENT

Executive Summary

1. The Rating and Valuation Department (RVD) is responsible for the assessment and collection of rates under the Rating Ordinance (Cap. 116) and government rent under the Government Rent (Assessment and Collection) Ordinance (Cap. 515). Currently, rates and government rent are respectively charged at 5% and 3% of the rateable value which is the estimated annual rental value of a property. For the assessment and collection of rates and government rent under the Ordinances, the RVD maintains records of all properties that have been assessed to rates and those liable for assessment to government rent in a Valuation List and a Government Rent Roll respectively, which are updated through General Revaluations (GRs), interim valuations and deletions. The RVD conducts GRs annually to bring the rateable values of all properties up to date to reflect changes in market rental values. It may also at any time make interim valuations of newly-built properties and properties which have undergone structural alterations, and make deletions to remove properties which have ceased to be liable for assessment to rates/government rent. As at 1 April 2015, the Valuation List contained 2.43 million assessments with a total rateable value of \$608.6 billion and the Government Rent Roll contained 1.89 million assessments with a total rateable value of \$354.1 billion. For 2014-15, the RVD collected rates of \$22.3 billion and government rent of \$9.3 billion. The Audit Commission (Audit) has recently conducted a review to examine the RVD's efforts in safeguarding revenue on rates and government rent.

General Revaluations

2. The RVD collects rental information for GR purposes mainly by issuing some 307,700 requisition forms (Form R1As) each year to selected properties requiring owners/occupiers concerned to provide rental information. The RVD also obtains rental information from about 51,100 Form CR109s lodged by landlords of

Executive Summary

domestic properties under the Landlord and Tenant (Consolidation) Ordinance (Cap. 7) and some 47,700 copies of stamped tenancy agreements from the Inland Revenue Department each year. After analysis and adjustment in accordance with the law, the reported rental information is used to assess the rateable values of properties in the Valuation List based on computer-assisted mass appraisal techniques (paras. 2.3, 2.5 and 2.6).

3. ***Need to monitor the accuracy of rental information furnished in Form RIAs.*** After completion of each GR, the RVD conducts a rental verification exercise by selecting some 240 cases to ascertain the accuracy of information furnished in Form RIAs. For the GRs from 2010-11 to 2015-16, the average in-order rate was only 71%. Discrepancies were found in 28% of the sampled cases. For example, three property owners had provided inaccurate rental information for three to four years. The inaccurate rental information furnished in Form RIAs could undermine the accuracy of rateable values generated in the GRs and warrants management attention. Audit also notes that the RVD only selected ratepayers of multiple properties for rental verification purposes. To improve the monitoring of reported rental information, the RVD needs to consider using stratified sampling to divide ratepayers into multiple-property and single-property sub-groups for conducting the rental verification exercises (paras. 2.7, 2.8 and 2.10).

4. ***Need to step up follow-up actions on non-compliance with Form RIA submission requirements.*** Of some 307,700 Form RIAs issued for each annual GR from 2010-11 to 2015-16, about 56,400 (18%) ratepayers failed to complete and return the Form RIAs. While the RVD had taken prosecution actions on or issued warning letters for some of the non-returned cases, the number of ratepayers who had failed to file Form RIAs for three years consecutively increased by 22% from 6,100 in the 2010-11 GR to 7,417 in the 2015-16 GR (para. 2.9).

5. ***Need to improve the cost-effectiveness of obtaining rental information on subdivided properties for GR purposes.*** In 2012, the RVD introduced a new Form RIA requiring ratepayers to report (in addition to rental information) whether their properties had been subdivided or combined (i.e. structural alterations that might affect their rateable values). For the GR of 2013-14, the RVD issued

Executive Summary

3,189 Form R1As to all ratepayers in 116 buildings which were found by the Buildings Department (BD) to have 800 subdivided properties. However, of 2,244 Form R1As returned, only 44 reported rental and subdivided unit information, suggesting that ratepayers may not be forthcoming in disclosing information on their subdivided properties. The RVD had not conducted similar exercises in subsequent GRs as it was considered not cost-effective to issue Form R1As to all ratepayers in buildings with subdivided properties. In Audit's view, the RVD can improve the cost-effectiveness of obtaining rental information on subdivided properties for GR purposes by targeting those identified by the BD (paras. 2.12 to 2.15).

Interim valuations

6. The RVD makes use of information from other departments to identify properties that may require interim valuations, including occupation permits issued by the BD for new buildings, and alteration and addition works of buildings notified by the BD. The RVD also gathers information on altered properties by site inspections and Form R1As. According to the RVD, the fact that a property or structure is unauthorised does not affect its liability for assessment to rates. Likewise, the assessment to and/or the payment of rates for these unauthorised building works (UBWs) does not imply that they have legal status. In making interim valuations in accordance with the Rating Ordinance, the RVD cannot recover retrospectively the rates for more than 24 months (paras. 3.3, 3.5, 3.7 and 3.8).

Need to strengthen interim valuations of assessable UBWs

7. *Notification arrangements of assessable UBWs.* In November 2000, the then Secretary for the Treasury endorsed the proposal of a Task Force set up under the then Planning and Lands Bureau not to collect rates from new or re-erected illegal rooftop structures on the basis that prompt action would be taken by the BD to clear such structures. In 2001-02, the BD agreed to notify the RVD of its planned enforcement actions against illegal rooftop structures on single-staircase buildings by copying to the RVD removal orders and compliance letters issued to owners/occupiers concerned. In 2004, the BD agreed to the RVD's request for copies of removal orders and compliance letters pertaining to other types of UBWs (such as subdivided units) which were assessable to rates (paras. 3.10 to 3.12).

Executive Summary

8. *Need to improve the instructions for RVD staff on following up removal notifications of un-assessed UBWs.* Subsequent to the agreed notification arrangements with the BD, the RVD issued departmental instructions in 2002 and 2005 (currently still in force) stipulating, among other things, that RVD staff should not take further actions on un-assessed illegal rooftop structures and UBWs respectively which were subjected to the BD's removal notifications. According to the RVD, under the established rating principles, a property which was transient in nature would not be assessed to rates and the issue of a removal order signified the determination of clearance of the targeted illegal structure soonest possible. The departmental instructions were premised on the requirement of the removal orders that illegal rooftop structures/UBWs should be removed within one to three months and thus their existence would be too transient to satisfy the rateability requirement. However, Audit found that there were deficiencies in the RVD's instructions on follow-up actions on removal notifications of assessable UBWs, as follows:

- (a) there was no documentary evidence to indicate that before issuing the 2005 departmental instruction, the RVD had ascertained from the BD whether UBWs issued with removal orders could be removed shortly; and
- (b) Audit analysis of 54,637 cases with removal orders for assessable types of UBWs issued by the BD from 2001 to 2015 revealed that 16,304 (30%) had not been complied with as at 31 December 2015. In particular, 10,192 cases had remained outstanding for two years or more after the issue of removal orders, indicating that the RVD's presumption that UBWs would be demolished soon after the issue of removal orders was not always valid (paras. 3.13 to 3.15).

9. *Need to extend the coverage of the notification arrangements of assessable UBWs.* Under the agreed notification arrangements, the BD had not provided the RVD with information on assessable types of actionable UBWs without removal orders issued. According to the BD's database, from 2001 to 2015, removal orders had not been issued for 59,032 cases found with assessable types of actionable UBWs. As shown in paragraph 8(b) above, actions to demolish UBWs with removal orders issued could take a long time, not to mention those without statutory removal orders issued. Given the 24-month time-bar in recovering rates, there is a risk of loss of rates revenue if the rateable values of properties with assessable UBWs are not reassessed in a timely manner. Based on the RVD's records, the rateable values of properties with assessable subdivided units could

Executive Summary

increase by 5% to 217% (averaging 58%) upon reassessments (paras. 3.17, 3.18 and 3.20).

10. *Need to improve the instructions for BD staff in copying removal notifications of assessable UBWs to the RVD.* For the 2004 agreed notification arrangements of UBWs, two instructions were issued, one for advertising signs and the other for UBWs in general. For advertising signs, BD staff concerned were required to copy removal orders and any consequential compliance letters to the RVD. For UBWs in general, BD staff concerned were required to copy compliance letters and letters of withdrawal of removal orders to the RVD. However, there was no laid-down requirement to copy removal orders to the RVD. Based on Audit's test check of 85 removal orders selected from the BD's database, only 7 (8%) were copied to the RVD and it appeared that the RVD was not informed of the existence of most of the removal orders (paras. 3.21 and 3.22).

Need to step up efforts in identifying un-assessed advertising signs for interim valuations

11. The Rating Ordinance provides that all advertising signs can be considered for assessment to rates either as separate properties or additional values to be included in the properties on which they are erected. As at April 2015, there were 9,368 separately assessed advertising signs with a total rateable value of \$1.8 billion. In December 2015, Audit conducted a survey of large-sized advertising signs affixed externally to buildings in selected streets of six districts and found that 41 (41%) of the 100 selected advertising signs had not been assessed to rates (paras. 3.26, 3.30 and 3.31).

Need to enhance the monitoring of timeliness of interim valuations

12. From April 2014 to September 2015, the RVD completed 30,693 new interim valuations. However, Audit found that 46 interim valuations involving rates of mainly village houses were not completed within the 24-month time-bar, resulting in a loss of revenue. For 32 of the 46 interim valuations, the relevant documents required for initiating interim valuations were received by the RVD, on average, 104 months after their effective dates of interim valuations. There is a need to take

Executive Summary

measures to prevent recurrence of similar problems. The RVD also needs to enhance the monitoring of timeliness of interim valuations and regularly provide the Financial Services and the Treasury Bureau with information on all revenue loss cases (paras. 3.35, 3.36 and 3.39).

Rates exemption for rural properties

13. The Rating Ordinance provides two forms of rates exemptions for specific types of rural properties. One is exemption from assessment to rates for New Territories village houses within designated village areas (DVAs), and for agricultural land and buildings. The other is exemption from payment of rates for certain village houses outside DVAs and occupied by indigenous villagers. The exemptions are granted on the condition that the owners/occupiers comply with prescribed criteria (paras. 1.8, 4.2, 4.10 and 4.20).

14. *Need to put in place compliance checking of rates-exempted village houses within DVAs.* As at 31 December 2015, there were 105 DVAs covering some 16,460 houses in 140 villages. The Rating Ordinance provides that any rates-exempted village houses within DVAs shall comply with the prescribed size, height and type criteria (such as not more than three storeys). Audit notes that the RVD has not put in place compliance checking of village houses in DVAs to ensure that they meet the prescribed criteria. Audit's site inspections of two DVAs revealed that 58 village houses therein had four or five storeys. Audit examination of the RVD's government rent records of 228 houses in 12 selected villages within nine DVAs also revealed that 18 houses had been assessed as 4-storey or 5-storey buildings for government rent purposes. While these village houses did not comply with the prescribed 3-storey criterion, the RVD had not taken actions to cancel their exemptions from assessment to rates (paras. 4.3 to 4.6 and 4.9).

15. *Need to enhance the compliance checking of rates-exempted village houses outside DVAs.* The Director of Home Affairs is delegated with the authority to grant exemption from payment of rates to certain village houses outside DVAs, which are occupied by indigenous villagers. As at December 2015, some 19,000 eligible villagers involving 25,000 units in village houses situated in nine districts had been granted such rates exemption. The existing policy is that the exempted village houses shall comply with the same prescribed criteria as those for village houses within DVAs, and should not contain any UBWs. To monitor their

Executive Summary

compliance with the rates exemption eligibility criteria, the Home Affairs Department (HAD) has sought the assistance of eight relevant District Lands Offices (DLOs) of the Lands Department (LandsD) to identify village houses containing UBWs by conducting document checks against their UBWs records and field inspections. Audit has found that:

- (a) some of the document checks and field inspections were not conducted in a timely manner. For example, of the 270 field inspections requested by the HAD from June 2014 to June 2015, 22 (8%) were still outstanding as at December 2015; and
- (b) there is a need to consider stepping up the field inspections as the inspection results suggest a high incidence of ineligible cases. For example, a sample check of the inspection results revealed that in 120 inspections, 48 (40%) rates-exempted houses were found having UBWs (paras. 4.10 to 4.12, 4.14, 4.18 and 4.19).

16. *Need to obtain information from the LandsD on unauthorised change of use of agricultural land and buildings for identifying ineligible rates-exempted cases.* In 2015, the RVD and the LandsD agreed that the DLOs would notify the RVD of the re-entry/vesting cases, cancellation of re-entry/vesting cases and cases of unauthorised structures on agricultural land demolished. However, the notification arrangement does not cover unauthorised structure cases for which the LandsD has issued warning letters. Audit review of three such cases of unauthorised structures on agricultural land revealed that the structures were mainly used for storage purposes, indicating that the use of the agricultural land concerned had changed. However, two of the three cases were still exempted from assessment to rates (para. 4.21).

Collection of rates and government rent

17. As at 30 September 2015, the total amount of outstanding rates and government rent was \$172 million, representing 0.5% of the annual amount demanded of about \$33 billion. An ageing analysis of the outstanding rates and government rent shows that \$54 million (31%) had been outstanding for two years or more (para. 5.5).

Executive Summary

18. *Need to consider taking re-entry or vesting action for long outstanding arrears cases with charging orders registered.* In a sample check of nine arrears cases, Audit found that in one case, the defaulter had owed rates and government rent since 2007 for 16 properties against which the RVD obtained charging orders to protect the Government's legal interest in May 2010. In December 2015, after more than five years of unsuccessful attempts to demand payment, the RVD referred the 16 properties to the LandsD to consider taking re-entry or vesting action, at which time the amount in default had increased to \$1 million (para. 5.6).

19. *Need to expedite actions to deal with bona vacantia cases.* The Companies Ordinance (Cap. 622) provides that, where a company is dissolved, the property vested in the company immediately before its dissolution is vested in the Government as bona vacantia. As at 30 September 2015, there were 14 bona vacantia cases of outstanding rates and/or government rent amounting to \$1.3 million. The relevant properties were vested in the Government from 1997 to 2010. For 10 cases, the RVD took 7.5 years or more to refer them to the LandsD for taking possession of the defaulting companies' properties (para. 5.7).

Audit recommendations

20. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Commissioner of Rating and Valuation should:**

GRs

- (a) **take measures to improve the accuracy of rental information furnished in Form R1As for GRs and closely monitor the situation (para. 2.16(a));**
- (b) **step up follow-up actions on repeated cases of non-compliance with Form R1A submission requirements, such as taking prosecution actions in warranted cases and issuing advisory letters in non-prosecuted cases (para. 2.16(c));**
- (c) **seek the assistance of the BD to improve the cost-effectiveness of obtaining rental information on subdivided properties for GR purposes (para. 2.16(e));**

Executive Summary

Interim valuations

- (d) review the 2005 departmental instruction with a view to strengthening the procedures for using UBWs information obtained from the BD for rating assessment purposes (para. 3.40(a));
- (e) seek the assistance of the BD in extending the scope of the notification arrangements of assessable UBWs to cover those without removal orders issued (para. 3.40(b));
- (f) step up efforts in identifying un-assessed advertising signs for interim valuations (para. 3.40(d));
- (g) for the 32 cases of late interim valuations, take measures to prevent recurrence of similar problems (para. 3.40(f));

Rates exemption for rural properties

- (h) put in place compliance checking of rates exemption eligibility of the village houses in DVAs (para. 4.22(a));
- (i) review the government rent records of the village houses within DVAs to see if there are ineligible cases of rates exemption and take prompt actions to revoke their rates exemption (para. 4.22(c));
- (j) seek the assistance of the LandsD in providing information on unauthorised change of use of agricultural land and buildings identified in the course of its enforcement work for taking timely actions on ineligible rates-exempted cases (para. 4.22(e)); and

Collection of rates and government rent

- (k) remind staff concerned to refer long outstanding arrears cases with charging orders registered to the LandsD for consideration of taking re-entry or vesting actions in a timely manner and take prompt actions on bona vacantia cases (para. 5.8).

Executive Summary

21. **Audit has *recommended* that the Director of Buildings should share with the RVD all UBWs information required for rating assessment purposes (para. 3.41).**

22. **Audit has *recommended* that the Director of Home Affairs should consider stepping up the field inspections of rates-exempted village houses (para. 4.23(b)).**

23. **Audit has *recommended* that the Director of Lands should remind the eight DLOs to complete the document checks and field inspections of rates-exempted village houses requested by the HAD in a timely manner (para. 4.24(a)(i)).**

Response from the Government

24. **The Government generally agrees with the audit recommendations.**

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Rating and Valuation Department (RVD) is responsible for the assessment and collection of rates under the Rating Ordinance (Cap. 116) and government rent under the Government Rent (Assessment and Collection) Ordinance (Cap. 515 — hereinafter referred to as the Rent Ordinance).

1.3 **Rates.** Rates are a tax on the occupation of landed property. The revenue collected forms part of the Government's general revenue. The main features of the rating system are as follows:

- (a) **Basis of charge.** Rates are charged at a percentage (currently at 5% — Note 1) of the rateable value which is the estimated annual rental value of a property at a designated valuation reference date (Note 2), assuming that the property was then vacant and to let;
- (b) **Liability for assessment.** Generally, properties in all parts of Hong Kong are liable to be assessed to rates under the Rating Ordinance;
- (c) **Basis of assessment.** Rateable value is an estimated annual rental value of a property on the basis that the tenant undertakes to pay all usual tenant's rates and taxes, whilst the landlord undertakes to pay the government rent, the costs of repairs and insurance, and any other expenses necessary to maintain the property to a state to command that

Note 1: *The percentage charge which is determined by the Legislative Council has remained unchanged since April 1999.*

Note 2: *Since 1999, the designated valuation reference date has been 1 October preceding the start of the financial year concerned. For example, the designated valuation reference date for 2014-15 is 1 October 2013.*

Introduction

rent. In assessing the rateable value, reference is made to other open market rents agreed at or around the date of valuation, for similar properties in the locality, with due adjustments to reflect any differences in size, location, facilities, standards of finish and management (see para. 1.6); and

- (d) ***Parties responsible for payment.*** Both the owner and the occupier are liable for payment of rates. In the absence of any agreement to the contrary, liability of rates rests with the occupier.

1.4 ***Government rent under the Rent Ordinance.*** Land in Hong Kong is normally held by way of a government lease under which government rent is payable. The revenue collected from government rent is also part of the Government's general revenue. The administration of government rent under the Rent Ordinance is as follows:

- (a) ***Basis of charge.*** Government rent is charged at 3% of the rateable value of the property situated on the leased land and is adjusted in step with any subsequent changes in the rateable value;
- (b) ***Liability for assessment.*** Generally, the following types of properties are liable for government rent:
 - (i) properties with land leases in the New Territories and New Kowloon (north of Boundary Street) granted before the coming into force of the Sino-British Joint Declaration on 27 May 1985. Such leases expired on 27 June 1997 and have been extended by section 6 of the New Territories Leases (Extension) Ordinance (Cap. 150);
 - (ii) properties with land leases granted, or surrendered and regranted since 27 May 1985; and
 - (iii) properties with non-renewable land leases which expired on or after 27 May 1985 and which have been extended by way of lease extension;

- (c) ***Basis of assessment.*** The basis of assessment of the rateable value for government rent purposes is the same as that for rates (see para. 1.3(c)); and
- (d) ***Parties responsible for payment.*** The owner of the property is liable for government rent. Where an individual property in the building erected on the land has been assessed to rates, government rent may be demanded from the owner or the ratepayer of the property. If a person who pays the government rent is not the owner, the government rent paid is a debt due to the person by the owner unless there is an express agreement between the owner and the person requiring otherwise.

1.5 ***Government rent under other ordinances.*** Apart from government rent payable under the Rent Ordinance, government rent is also payable for properties under other ordinances. These include properties located in urban area held under leases (irrespective of whether renewable or non-renewable) that were granted before 27 May 1985 and are still running on the original term or have been renewed under the Government Leases Ordinance (Cap. 40). For land leases running on the original term, the government rent payable is the amount stated in the land leases. For land leases renewed under the Government Leases Ordinance, the government rent is charged at 3% of the rateable value of the property as at the date of renewal until the property is redeveloped when the rateable value will be reassessed. The Lands Department (LandsD) is responsible for the collection of such government rent (Note 3).

1.6 ***Assessment of rates and government rent.*** The RVD maintains records of all properties that have been assessed to rates and those liable for assessment to government rent under the Rent Ordinance in a Valuation List and a Government Rent Roll respectively. The RVD updates the Valuation List and the Government Rent Roll through General Revaluations (GRs), interim valuations and deletions, as follows:

Note 3: *In general, the LandsD issues demand notes to government rent payers once every six months for rent exceeding \$100 per annum and once every five years for rent of \$100 or less per annum. The LandsD issues about 210,000 demand notes for the properties/lots liable to government rent under its purview in May and November each year. This audit review focuses on the work of the RVD in safeguarding revenue on rates and government rent (see para. 1.13). Government rent collected by the LandsD is not covered in this review.*

Introduction

- (a) **GRs.** The RVD conducts GRs annually to bring rateable values up to date to reflect changes in market rental values. The purpose of a GR of all properties is to redistribute the total rates liability fairly amongst ratepayers according to the prevailing rental levels of the properties they occupy. A new Valuation List and a new Government Rent Roll containing the descriptions and new rateable values of all assessed properties are prepared. To provide an equitable basis of assessing government rent for properties subject to both rates and government rent, the preparation of a new Government Rent Roll and a new Valuation List is synchronised each year; and
- (b) **Interim valuations and deletions.** The RVD may at any time make an interim valuation of a property which is not included in the Valuation List/Government Rent Roll and is liable for assessment to rates/government rent. This applies mainly to newly-built properties or properties which have undergone structural alterations. The RVD also makes deletions to remove properties which have ceased to be liable for assessment to rates/government rent. Where structural alterations of a property affect its rental value (e.g. splitting or combining of units), the assessment of the property is revised by deleting the existing rateable value and undertaking an interim valuation of the altered property. Any rates demand on interim valuations cannot be recovered retrospectively for more than 24 months (see para. 3.5).

1.7 **Number of assessments.** In 2014-15, there were 28,000 new assessments added to and 12,000 assessments deleted from the Valuation List, and 23,000 new assessments added to and 8,000 assessments deleted from the Government Rent Roll. As at 1 April 2015, the Valuation List contained 2.43 million assessments (for 1.8 million domestic properties and 0.63 million non-domestic properties) with a total rateable value of \$608.6 billion (a year-on-year increase of 7.9%), and the Government Rent Roll contained 1.89 million assessments with a total rateable value of \$354.1 billion (a year-on-year increase of 8.3%). The difference between the number of assessments in the Valuation List and that in the Government Rent Roll is mainly attributed to:

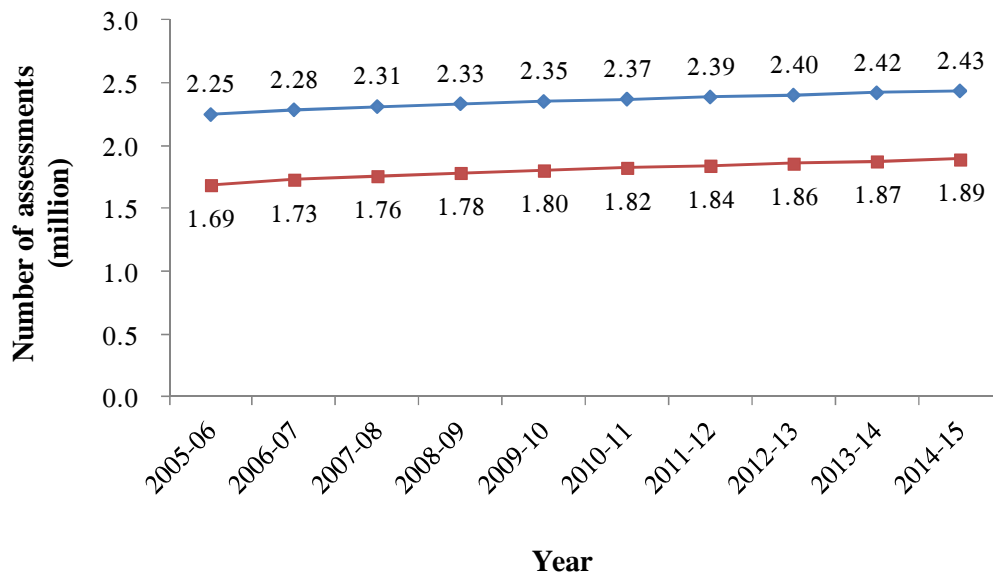
- (a) the difference in the numbers of exemption cases under the Rating Ordinance and the Rent Ordinance (see paras. 1.8 and 1.9); and

- (b) about 210,000 properties/lots liable to government rent administered by the LandsD are not included in the Government Rent Roll (see Note 3 to para. 1.5). Some lots may contain a number of units each subject to a separate rating assessment.

The numbers of assessments in the Valuation List and the Government Rent Roll from 2005-06 to 2014-15 are shown in Figure 1.

Figure 1

Numbers of assessments in the Valuation List and the Government Rent Roll (2005-06 to 2014-15)



Legend: ◆ Assessments in the Valuation List at year end
■ Assessments in the Government Rent Roll at year end

Source: RVD records

Introduction

1.8 **Rates exemptions.** The Rating Ordinance provides two forms of rates exemptions for specific types of properties. One is exemption from assessment to rates, whereby no assessment will appear in the Valuation List. The other is exemption from payment of rates, whereby an assessment is included in the Valuation List but the property is exempted from payment of rates. The general rationale of granting rates exemptions can be divided into a number of broad categories, including social (e.g. cemeteries and crematoria), administrative (e.g. properties below a prescribed rateable value), political (e.g. properties occupied by consulates and the military) and historical (e.g. certain village houses in the New Territories) factors. Types of properties exempted from assessment to rates and from payment of rates are shown at Appendices A and B respectively.

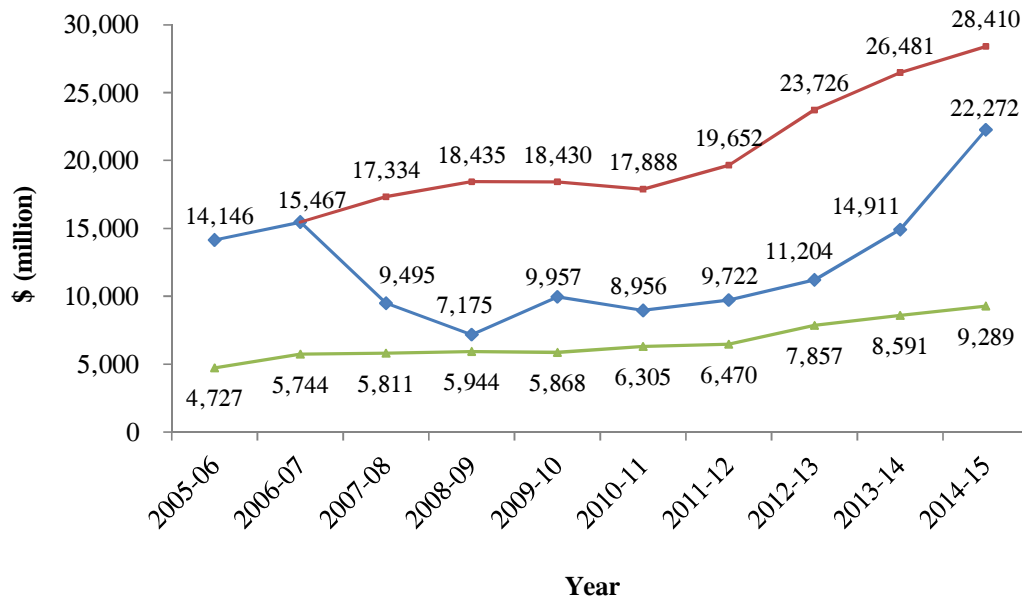
1.9 **Government rent exemption.** The Rent Ordinance also provides for exemption of properties from liability to pay government rent. An indigenous villager or his lawful successor in the male line (or tso, or tong) who (or which) has continuously owned an old schedule lot, village lot, small house or other rural holding since 30 June 1984, or small house or resite house granted after that date is entitled to exemption from liability to pay government rent.

1.10 **Collection of rates and government rent.** The RVD is also responsible for issuing demand notes and maintaining accounts for rates and government rent for all properties included in the Valuation List and the Government Rent Roll. Rates and government rent are payable quarterly in advance. Where a property is liable to both rates and government rent, a combined demand note is issued. For 2014-15, the revenue collected from rates under the Rating Ordinance and government rent under the Rent Ordinance was \$22.3 billion and \$9.3 billion respectively (Note 4). The revenue collected from rates and government rent during 2005-06 to 2014-15 is shown in Figure 2.

Note 4: For 2014-15, the revenue from government rent collected by the LandsD was \$0.8 billion (see para. 1.5).

Figure 2

**Revenue collected from rates and government rent
(2005-06 to 2014-15)**



Legend:
◆ Actual revenue from rates
■ Revenue that would have been collectible from rates if no rates concessions had been given (see remarks)
▲ Revenue from government rent

Source: RVD records

Remarks: Rates concessions were given to ratepayers during 2007-08 to 2014-15. The revenue forgone ranged from \$6 billion to \$13 billion each year.

1.11 As at 31 March 2015, the RVD had an establishment of 861 staff, including 652 staff responsible for the “Statutory Valuation and Assessments” and “Collection and Billing of Rates and Government Rent” programmes. For 2015-16, the total estimated expenditure for the two programmes is \$389.4 million. An organisation chart of the RVD is at Appendix C.

Audit review

1.12 In 2003, the Audit Commission (Audit) completed a review of “Rating and Valuation Department’s assessment of rates and government rent”, the results were included in Chapter 2 of the Director of Audit’s Report No. 40 of March 2003. In 2009, Audit completed another review of “Assessment and collection of rates and government rent” and the results were included in Chapter 2 of the Director of Audit’s Report No. 53 of October 2009. Audit identified in the two reviews some improvement areas in the RVD’s assessment and collection of rates and government rent. The RVD has taken appropriate follow-up actions to address the issues.

1.13 In October 2015, Audit commenced a review to examine the RVD’s efforts in safeguarding revenue on rates and government rent. The review has focused on the following areas:

- (a) GRs (PART 2);
- (b) interim valuations (PART 3);
- (c) rates exemption for rural properties (PART 4); and
- (d) collection of rates and government rent (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the Government

1.14 The Secretary for Financial Services and the Treasury appreciates Audit’s efforts in conducting a thorough audit on the RVD’s work and putting forward constructive recommendations to improve revenue assessment and collection, including those concerning the timeliness of interim valuations of altered properties such as unauthorised building works (UBWs) and the verification of eligibility of village houses within designated village areas (DVAs) for rates exemption. He has said that:

- (a) in recent years, the RVD has to cope with significant growth in number of assessments on new properties (an average of about 20,500 new additions a year) due to the buoyant property market and to conduct the annual GRs covering some 4.3 million property assessments (2.4 million for rates and 1.9 million for government rent) within five months. The scale and complexity of the RVD's assessment work should not be understated;
- (b) other than rating and rent assessment, the RVD has been making strenuous efforts to enhance transparency and translate its database into user-friendly data, by providing valuation and property information services such as maintaining a property information online system. The RVD has developed and nursed the Sales of First-hand Residential Properties Electronic Platform before handing it over to the Sales of First-hand Residential Properties Authority; and
- (c) a number of audit recommendations would have to compete for departmental resources against other more pressing priorities crucial to the delivery of the core business of the RVD. The implementation of such recommendations should be subject to review of work priorities.

1.15 The Commissioner of Rating and Valuation generally agrees with the audit recommendations.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the RVD, the Buildings Department (BD), the Home Affairs Department (HAD) and the LandsD during the course of the audit review.

PART 2: GENERAL REVALUATIONS

2.1 This PART examines the GRs conducted by the RVD.

General Revaluation purpose and process

2.2 According to the Rating Ordinance, the rateable value of a property is the estimated annual rental value in the open market. Rental values change over time. The purpose of a GR of all properties is to redistribute the total rates liability fairly amongst ratepayers according to the prevailing rental levels of the properties they occupy. Since 1999, GRs have been conducted annually to review and update the rateable values in the Valuation List based on an analysis of the actual rental information as at 1 October of each year (the designated valuation reference date) and to prepare a new Valuation List which will take effect on 1 April of the following year (Note 5). The basis of ascertaining the rateable values in the Rent Ordinance is the same as that in the Rating Ordinance. To provide an equitable basis of assessing government rent payable for properties subject to both rates and government rent, the preparation of a new Government Rent Roll and a new Valuation List is synchronised and the designated valuation reference dates for both are the same.

2.3 A GR is comprised of the following four main stages:

- (a) ***Collection of rental information.*** The Commissioner of Rating and Valuation is empowered by the Rating Ordinance to require owners and occupiers to provide rental particulars and such other information as he may specify. In August each year, the RVD issues requisition forms (Form R1As) in bulk to selected properties. Ratepayers are required to complete and return these forms within 21 days (Note 6). Reminders are

Note 5: *The GR year used in this Audit Report refers to the year of the new Valuation List taking effect.*

Note 6: *Any person who knowingly makes a false statement or refuses to furnish the particulars requested is guilty of an offence and shall be liable on conviction to a maximum fine of \$25,000 or \$10,000 respectively. In addition, the offender is liable to a fine of three times the amount of undercharged rates/government rent.*

issued for all outstanding Form R1As. Audit has found room for improvement in the collection of rental information (see details in paras. 2.5 to 2.16);

- (b) ***Analysis of rental information.*** The reported rent must be adjusted to accord with the basis of ascertaining the rateable values specified by law. For example, rates, management fee and air-conditioning charge should not be included. Rent is also adjusted to account for the difference in time between the rent commencement date and the valuation reference date, and to reflect any rent-free periods. Rents arising from related parties' lettings or which are substantially below or above market levels are excluded from the analysis as outliers;

- (c) ***Review of rateable values.*** To enable valuation staff to systematically assess a large number of properties within a short time frame, the RVD has used computer-assisted mass appraisal techniques for assessing properties that are similar in valuation characteristics such as residential flats, offices and industrial properties. The salient features of this approach are set out below:
 - (i) a typical property unit within a building is selected as the reference assessment. A mathematical equation between the reference assessment and each of the other units in the building is then established with regard to the attributes affecting the unit's rental value. The mathematical equation reflects differences in qualitative and quantitative factors (e.g. view, floor level and floor area) between the reference assessment and the assessment concerned. The rateable value of the reference assessment is determined through valuation models specified in multiple regression analysis (Note 7). The values of other units in the building are generated automatically by the computer based on the established mathematical equations; and

Note 7: *Regression analysis is a statistical technique to predict rateable values by analysing the effects of property attributes and characteristics (e.g. floor area, location, building age and lift access) on property values.*

General Revaluations

- (ii) the computer-generated rateable values are reviewed by the RVD's professional valuation staff to ensure that they can be supported by the rental evidence and are reasonable and correct estimates of the open market rental values as at 1 October. To enhance the accuracy and consistency of valuations, the RVD has an on-going Rolling Programme to constantly review and update the valuation characteristics and the relativity of assessments within the same building as well as between buildings.

Properties which are special in nature (such as hotels, cinemas and public utilities) are reviewed and assessed manually by other methods of valuation; and

- (d) ***Preparation and declaration of the Valuation List and the Government Rent Roll.*** Upon completion of the revaluation exercise, a new Valuation List and a new Government Rent Roll are prepared for the Commissioner of Rating and Valuation to make a declaration that they contain a true account of the addresses, descriptions and rateable values of all the properties included therein. The declaration is usually done in March for the new Valuation List and the new Government Rent Roll to take effect on 1 April. Any person who is aggrieved by an entry in the Valuation List/Government Rent Roll may serve a proposal on the Commissioner before 1 June for alteration of the Valuation List/Government Rent Roll.

Post-GR statistical audit

2.4 After completion of each GR, a statistical audit is conducted by the RVD's Internal Audit Unit at a macro level to confirm that the new rateable values are reasonable, correct and consistent as at the valuation reference date, and that the required standard of relative equity both between and within groups of assessments has been achieved. The Internal Audit Unit uses the following ratio analyses for assessing the valuation accuracy:

- (a) **Mean ratio of Rateable Value to Rent (RV/Rent ratio).** Based on the “Standard on Ratio Studies” issued by the International Association of Assessing Officers (Note 8), the RVD has adopted the mean RV/Rent ratio for assessing its valuation performance. This is an overall ratio obtained from the average of the RV/Rent ratios for the individual properties selected for the post-GR statistical audit (Note 9). According to the International Association of Assessing Officers, a mean ratio between 0.9 and 1.1 is considered acceptable given that there may be uncontrollable sampling errors and the limiting conditions that may constrain the degree of accuracy. Any ratio below or above this range implies that the rateable values are under-valued or over-valued. For the GRs of 2010-11 to 2015-16, the mean RV/Rent ratios were within the acceptable limits, i.e. ranging from 0.91 to 0.92 (Note 10); and
- (b) **Rental evidence ratio.** This ratio is used to assess the adequacy of rental information obtained during the GR. It is derived by dividing the number of properties without rental information with the number of properties with rental information. A higher ratio indicates a lower level of adequacy of rental information obtained. Over the past six years, the rental evidence ratios showed improvement, i.e. decreasing from 25 for the GR of 2010-11 to 23 for the GR of 2015-16 (Note 11).

Note 8: *The Association is a professional membership organisation of government assessment officials and others interested in the administration of the property tax. Its assessment standards represent a consensus in the assessing profession.*

Note 9: *For example, for the 2015-16 GR, rental information of 94,420 properties was selected for the post-GR statistical audit. The overall mean RV/Rent ratio was the sum of RV/Rent ratios of the 94,420 properties divided by 94,420.*

Note 10: *As reported in the 2009 audit review (see para. 1.12), the mean RV/Rent ratios for the GRs of 2005-06 to 2009-10 ranged from 0.83 to 0.94.*

Note 11: *As reported in the 2009 audit review (see para. 1.12), the rental evidence ratios for the GRs of 2005-06 to 2009-10 ranged from 25 to 32.*

Collection of rental information

2.5 The RVD collects rental information for GR purposes from a number of sources but mainly by issuing Form R1As to selected properties (Note 12). The selection is based on an analysis of the results of previous years' returned Form R1As. For example, all reported cases of leased properties with tenancies expired are included in the selection and all reported cases of owner-occupied properties over the past five years are excluded from the selection. In general, properties from various property groups (Note 13) are randomly selected for the issue of Form R1As (Note 14). An analysis of Form R1As issued and returned, and rental information obtained for the GRs from 2010-11 to 2015-16 is shown in Table 1.

Note 12: *In addition to the bulk issue of Form R1As during the GR period, the RVD also issues Form R1As as and when considered necessary (e.g. upon the expiry of leases as recorded in the RVD's computer system, based on letting records in the Land Registry or submitted for e-stamping via the Inland Revenue Department's computer system). From the 2010-11 GR to the 2015-16 GR, some 142,000 to 155,000 Form R1As were issued each year on such basis.*

Note 13: *The RVD has categorised the properties into 18 groups (e.g. small flat, large flat and ground floor shop).*

Note 14: *For example, for the 2015-16 GR, 7 of every 20 village houses were randomly selected for the issue of Form R1As.*

Table 1

**Analysis of Form R1As issued/returned and rental information obtained
(2010-11 GR to 2015-16 GR)**

GR year	Number of Form R1As		Return rate (Note 2) $(c) = \frac{(b)}{(a)} \times 100\%$	Property with rental information obtained (Note 3)	
	Issued (a)	Returned (Note 1) (b)		Number (d)	As percentage of Form R1As issued $(e) = \frac{(d)}{(a)} \times 100\%$
2010-11	300,532	244,689	81.4%	118,739	39.5%
2011-12	326,405	266,214	81.6%	127,167	39.0%
2012-13	310,321	257,271	82.9%	122,352	39.4%
2013-14	296,373	241,738	81.6%	124,030	41.8%
2014-15	316,752	258,581	81.6%	139,907	44.2%
2015-16	296,098	239,564	80.9%	136,671	46.2%
Average	307,747 (Note 4)	251,343	81.7%	128,144	41.6%

Source: RVD records

Note 1: According to the RVD, on average about 5.3% of Form R1As received were submitted from ratepayers by electronic means.

Note 2: As reported in the 2009 audit review (see para. 1.12), the return rates of Form R1As for the GRs of 2005-06 to 2009-10 ranged from 79% to 83%.

Note 3: The number of properties with rental information obtained is less than the number of Form R1As received because no rental information is reported in returns for owner-occupied or vacant properties.

Note 4: On average 197,748 (64%) of the 307,747 Form R1As issued were related to domestic properties and 109,999 (36%) were related to non-domestic properties.

General Revaluations

2.6 Besides Form R1As, the RVD also obtains rental information from the following sources:

- (a) ***Form CR109s collected by the RVD.*** Under the Landlord and Tenant (Consolidation) Ordinance (Cap. 7), the landlord of a domestic property shall lodge with the RVD a Form CR109 in respect of any new letting or renewal agreement for endorsement. The rental information required to be provided in Form CR109 is largely the same as that in Form R1A. As such, properties with Form CR109s received will be excluded from the selection for issue of Form R1As to avoid duplication; and

- (b) ***Stamped tenancy agreements.*** The Stamp Duty Ordinance (Cap. 117) requires executed tenancy agreements to be stamped by the Stamp Office of the Inland Revenue Department (IRD). With the assistance of the IRD, the RVD obtains rental information as follows:
 - (i) an RVD staff takes photocopies of some tenancy agreements at the Stamp Office before the IRD returns them to the stamp duty applicants. According to the RVD, tenancy agreements of major non-domestic properties (such as shops, offices and factories) are copied, as domestic rental information can be obtained through Form CR109s. The IRD also makes copies of some tenancy agreements for its use. Such copies are passed to the RVD. The RVD then extracts useful rental data from the tenancy agreement copies; and

 - (ii) for an applicant using the IRD's e-stamping service via the Internet, after completing the stamping process, he is provided with a link to the RVD's website for submitting Form CR109 (for domestic properties) or Form R1A (for non-domestic properties) electronically (Note 15). The RVD will issue Form R1As in respect of those e-stamping cases (Note 16) that have no records of submission of Form CR109s or Form R1As.

Note 15: *The stamping applications submitted for the IRD's e-stamping do not contain sufficient rental information for the RVD's GR purposes.*

Note 16: *From the 2010-11 GR to the 2015-16 GR, the IRD notified the RVD of 77,310 to 131,784 e-stamping cases each year.*

Rental information obtained from the above two sources for the GRs of 2010-11 to 2015-16 is shown in Table 2.

Table 2
Numbers of Form CR109s
and stamped tenancy agreements collected
(2010-11 GR to 2015-16 GR)

GR year	Number of Form CR109s (Note 1)	Number of stamped tenancy agreements		
		Provided by the IRD (Note 2) (a)	Copied by the RVD (Note 3) (b)	Total (c) = (a) + (b)
2010-11	49,992	21,015	18,099	39,114
2011-12	50,596	23,696	24,640	48,336
2012-13	52,070	23,352	22,781	46,133
2013-14	50,838	24,775	23,583	48,358
2014-15	51,672	27,843	23,806	51,649
2015-16	51,300	26,450	26,187	52,637
Average	51,078	24,522	23,183	47,705

Source: RVD records

Note 1: All were related to domestic properties (see para. 2.6(a)).

Note 2: According to the RVD, most of the stamped tenancy agreements provided by the IRD were related to domestic properties.

Note 3: Most of them were related to non-domestic properties (see para. 2.6(b)(i)).

General Revaluations

Need to monitor the accuracy of rental information furnished in Form R1As

2.7 After completion of each GR, the GR Division conducts a rental verification exercise to ascertain the accuracy of information furnished in Form R1As on a sample basis. For the GRs from 2010-11 to 2015-16, some 240 properties for which Form R1As had been received were selected each year for issuing letters requiring the ratepayers concerned to supply supporting documents for their furnished rental information (such as copies of tenancy agreements and rent receipts). The results of the six rental verification exercises are shown in Table 3.

Table 3
Results of rental verification exercises
(2010-11 GR to 2015-16 GR)

Item	GR year						Average
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	
(a) Number of cases selected (Note 1)	240	240	240	240	243	240	241
(b) Number of cases found in order	174	195	173	146	161	181	172
(c) In-order rate $\frac{(b)}{(a)} \times 100\%$	73%	81%	72%	61%	66%	75%	71%
(d) Number of cases with discrepancies	56	44	67	94	82	59	67
(e) Total number of discrepancies (Note 2)	68	54	106	127	99	76	88

Source: RVD records

Note 1: All selected ratepayers provided the requested information for verification except for the 2010-11 GR having 10 non-returned cases and the 2011-12 GR having one non-returned case (i.e. the 11 non-returned cases accounted for about 1% of the 1,443 sampled cases over the six years).

Note 2: Some cases have more than one discrepancy. Examples of discrepancies are incorrect rental information and lease period, and unreported rental based on tenants' turnover and rent-free period.

2.8 Audit notes that as the RVD only selected ratepayers of multiple properties for rental verification purposes (Note 17), the in-order rates might not provide a complete picture of the accuracy of rental information obtained in Form R1As. Moreover, the average in-order rate of only 71% shown in Item (c) of Table 3 in paragraph 2.7 warrants management attention as the discrepancies found in 28% of the sampled cases (the remaining 1% being non-returned cases) suggest that the accuracy of rateable values generated in the GRs could be undermined by inaccurate rental information furnished in Form R1As. In Audit's view, the RVD needs to closely monitor the situation and take measures to improve the accuracy of rental information furnished in Form R1As. To improve the monitoring of reported rental information, the RVD also needs to consider using stratified sampling to divide ratepayers into multiple-property and single-property sub-groups for conducting the rental verification exercises. This would enable single-property ratepayers to be included. Different sample sizes can be applied to the different sub-groups according to their characteristics and risks.

Need to step up follow-up actions on non-compliance with Form R1A submission requirements

2.9 Form R1As are statutory returns essential for obtaining rental information for GR purposes. Of some 307,700 Form R1As issued for each annual GR from 2010-11 to 2015-16 (see Table 1 in para. 2.5), about 56,400 (18%) ratepayers failed to complete and return the Form R1As (see Table 4). The RVD had taken prosecution actions on or issued warning letters for some of the non-returned cases. However, as shown in Table 4, the number of ratepayers who had failed to file Form R1As for three years consecutively (Note 18) was on the increase (i.e. by 22% from 6,100 in the 2010-11 GR to 7,417 in the 2015-16 GR), calling for more stringent enforcement actions.

Note 17: *The rental verification exercise was introduced by the RVD in 2004 in response to the recommendation of the 2003 audit review (see para. 1.12) to assess the risk of under-reporting of rental information. According to the RVD, due to resource constraints, the exercise was not conducted from 2005 to 2007. In 2008, the RVD resumed the rental verification exercise in response to the recommendation of the Independent Commission Against Corruption to address the higher risk of under-reporting of rental information by ratepayers of multiple properties from the corruption prevention perspective.*

Note 18: *As mentioned in paragraph 2.5, when selecting properties for issuing Form R1As during GRs, the RVD would make reference to the results of previous years' returned Form R1As. In this connection, the RVD has compiled statistics on ratepayers who have failed to file Form R1As for three years consecutively.*

General Revaluations

Table 4

**Number of non-returned Form R1As,
repeated non-return cases and prosecutions
(2010-11 GR to 2015-16 GR)**

GR year	Number of non-returned Form R1As (a)	Ratepayers who failed to file Form R1As for three years		Number of prosecutions
		Number (b)	Percentage (c) = $\frac{(b)}{(a)} \times 100\%$	
2010-11	55,843	6,100	10.9%	18
2011-12	60,191	4,674	7.8%	37
2012-13	53,050	5,597	10.6%	44
2013-14	54,635	6,160	11.3%	52
2014-15	58,171	7,120	12.2%	52
2015-16	56,534	7,417	13.1%	52
Average	56,404	6,178	11.0%	43

Source: RVD records

2.10 As shown in Item (d) of Table 3 in paragraph 2.7, on average 67 (28%) of some 240 cases each year were found to have provided incorrect rental information in Form R1As during the rental verification exercises from the 2010-11 GR to the 2015-16 GR. The follow-up actions taken by the RVD on these non-compliance cases included issuing advisory letters on a selected basis (focusing on cases with multiple discrepancies and those with frequent discrepancies) and reminding the major property owners of their statutory duty in providing accurate rental information at Customer Liaison Meetings. However, no prosecution action has been taken since the resumption of the rental verification exercise in 2008. In February 2016, in response to Audit's enquiry, the RVD said that there was no evidence to show that the ratepayers concerned were knowingly making false statements on the Form R1As. However, Audit noted that during the five years from the 2010-11 GR to the 2014-15 GR, three property owners had provided

inaccurate rental information for three to four years. In Audit's view, the RVD needs to consider taking more stringent enforcement actions in warranted cases.

Need to explore the feasibility of developing paperless solutions for capturing rental information for stamped tenancy agreements for GRs

2.11 For the 2010-11 GR to the 2015-16 GR, the number of stamped tenancy agreements copied by the RVD increased from 18,099, by 45%, to 26,187 (see Table 2 in para. 2.6). Given the large number of tenancy agreements required to be copied each year, there is merit to consider using scanners instead of photocopiers to reduce the use of paper for green management purposes and to save storage space (Note 19). In Audit's view, the RVD needs to explore, in consultation with the Office of the Government Chief Information Officer, the feasibility of developing paperless solutions for capturing rental information for stamped tenancy agreements for GR purposes.

Required property alteration information not reported in Form R1As

2.12 In 2012, the RVD introduced a new Form R1A (Note 20) requiring ratepayers to report (in addition to rental information) whether their properties had been subdivided or combined (i.e. structural alterations that might affect their rateable values — see para. 3.6). In this connection, in March 2012, the RVD requested the BD to provide information on subdivided properties identified during its large-scale operations to facilitate the issue of Form R1As more specifically. The BD provided the RVD with a list of 116 buildings which were found in 2011 to have 800 subdivided properties. The BD also informed the RVD that another 339 buildings would be inspected in its large-scale operations in 2012. In September 2012, the RVD tried to obtain a comprehensive list of subdivided properties identified in all large-scale operations but was informed by the BD that such a list was not available.

Note 19: *This is in line with the Government's "Digital 21 Strategy" of proactively adopting paperless solutions for handling government records to cut costs, save storage space, enable tracking, facilitate information sharing and protect the environment.*

Note 20: *The new Form R1As are currently still in force.*

General Revaluations

2.13 For the GR of 2013-14, the RVD issued 3,189 new Form R1As to all ratepayers (except those with Form R1As issued in the preceding 12 months) in the 116 buildings. In only 44 of the 2,244 (70% of the total issued) Form R1As received, the ratepayers concerned reported rental and subdivided unit information to enable the RVD to revise their rateable values (which were increased by 15% to 180%, averaging 69%). Apparently, ratepayers of 756 of the 800 subdivided properties found by the BD had failed to return Form R1As or report in their Form R1As the subdivided property status. However, the RVD had not sought the BD's assistance to identify them for taking follow-up actions with the ratepayers concerned. Moreover, for the GRs of 2014-15 and onwards, the RVD had not obtained subdivided property information from the BD for conducting similar bulk issue of Form R1As.

2.14 Upon enquiry, the RVD informed Audit in December 2015 that the bulk issue of Form R1As for the 116 buildings with subdivided units was a pilot study. As the vast majority of the leased subdivided properties reported had rental history, which were already covered by the normal bulk issue/periodic issue of Form R1As (see Note 12 to para. 2.5), the RVD considered it not cost-effective to issue additional Form R1As for all properties of the 339 buildings inspected by the BD in 2012 (see para. 2.12) for the GR of 2014-15. In Audit's view, the RVD can improve the cost-effectiveness of obtaining rental information on subdivided properties for GR purposes by targeting those identified by the BD.

2.15 As a test check on the accuracy of subdivided property information reported in Form R1As, Audit reviewed 10 Form R1As returned from subdivided properties with removal orders issued by the BD (see para. 3.17). Audit found that in eight cases, the ratepayers reported in Form R1As that their properties were not subdivided. For the remaining two cases, the ratepayers did not indicate whether their properties were subdivided or not. The test results suggest that the ratepayers may not be forthcoming in disclosing information on their subdivided properties. The subdivided property information of the BD can help the RVD detect the omission or under-reporting of subdivided property information in Form R1As.

Audit recommendations

2.16 **Audit has *recommended* that the Commissioner of Rating and Valuation should:**

- (a) **take measures to improve the accuracy of rental information furnished in Form R1As for GRs and closely monitor the situation;**
- (b) **consider using stratified sampling for different ratepayer groups for conducting the rental verification exercises to improve the monitoring of reported rental information;**
- (c) **step up follow-up actions on repeated cases of non-compliance with Form R1A submission requirements, such as taking prosecution actions in warranted cases and issuing advisory letters in non-prosecuted cases;**
- (d) **explore, in consultation with the Government Chief Information Officer, the feasibility of developing paperless solutions for capturing rental information for stamped tenancy agreements for GR purposes;**
- (e) **seek the assistance of the BD to improve the cost-effectiveness of obtaining rental information on subdivided properties for GR purposes by targeting those identified by the BD; and**
- (f) **make use of the information obtained from the BD mentioned in (e) above to identify ratepayers of subdivided properties who have under-reported subdivided property information in their Form R1As (such as those mentioned in para. 2.15) for taking necessary follow-up actions.**

Response from the Government

2.17 The Commissioner of Rating and Valuation generally agrees with the audit recommendations. He has said that:

- (a) collecting rental information is one of the core businesses of the RVD in conducting the annual GRs. The RVD has always accorded high priority to this aspect, and has already engaged over 40 contract staff during peak season each year in processing the rental information collected; and
- (b) implementing the audit recommendation of stepping up follow-up actions on repeated cases of non-compliance with Form R1A submission requirements (see para. 2.16(c)) will have considerable resource implications. The RVD will consider taking more stringent enforcement actions subject to availability of resources.

PART 3: INTERIM VALUATIONS

3.1 This PART examines the issues relating to interim valuations, focusing on the following areas:

- (a) interim valuations of altered properties (paras. 3.6 to 3.25);
- (b) interim valuations of advertising signs (paras. 3.26 to 3.32); and
- (c) timeliness of interim valuations (paras. 3.33 to 3.39).

Interim valuation procedures

3.2 According to the Rating Ordinance and the Rent Ordinance, the Commissioner of Rating and Valuation may at any time make an interim valuation of a property which is not included in the Valuation List/Government Rent Roll and is liable for assessment to rates/government rent. There are a number of reasons why a property may not be included in the Valuation List/Government Rent Roll and the more common ones are described below:

- (a) ***New property.*** The property forms part of a new building not yet assessed to rates/government rent;
- (b) ***Altered property.*** There have been structural alterations to the property thus giving rise to grounds for the deletion of the previous valuation from the Valuation List/Government Rent Roll and interim valuation of the property taking into account the structural alterations. Similar deletion and interim valuation are required when a property has been divided into two or more separate properties which should be separately assessed or conversely two or more properties have been combined and should now be assessed as one. This is applicable to all (domestic and non-domestic) properties. The deletion and interim valuation usually take effect from the same date; and

Interim valuations

- (c) *Formerly exempted property.* The property was formerly exempted from assessment to rates/government rent but due to a change in its eligibility for exemption, it has become liable to assessment.

3.3 The RVD makes use of information from other departments to identify properties that may require interim valuations, including:

- (a) occupation permits issued by the BD for new buildings;
- (b) notifications of lettings in Housing Authority estates;
- (c) completion certificates issued by the Director of Housing in respect of Home Ownership Scheme flats;
- (d) compliance certificates for New Territories “Exempted houses” (Note 21) issued by the LandsD; and
- (e) alteration and addition works of buildings notified by the BD.

3.4 The RVD is required to serve a notice on the owner or occupier of the property subject to an interim valuation specifying the effective date of the interim valuation. The owner or occupier concerned may within 28 days raise objections to the interim valuation by submitting a specified form to the RVD.

Note 21: *Exempted houses are those granted exemption by the Director of Lands from the requirement of submitting building plans to the Building Authority for approval in accordance with the Buildings Ordinance (Application to the New Territories) Ordinance (Cap. 121).*

3.5 Section 29(1) of the Rating Ordinance provides that any rates due on an interim valuation shall be payable from the date when the interim valuation became effective (Note 22), or 24 months before the date of the issue of the first demand note, whichever is the later. This means that the RVD cannot recover retrospectively the rates for more than 24 months. For government rent, the Rent Ordinance does not specify any time-bar for recovering government rent. Government rent due on an interim valuation is payable from the effective date of the interim valuation.

Interim valuations of altered properties

3.6 For properties which have undergone structural alterations, their rating/rent assessments in the Valuation List and/or Government Rent Roll may have to be revised based on their latest physical situation. According to the RVD, structural alterations that can be occupied for beneficial use such as storage and habitation are generally assessable. Common types of assessable structures include the following:

- (a) structures on rooftop or flat roof (see an example in Photograph 1), in lane/yard or on canopy;
- (b) projections of shop fronts or signs (see para. 3.26); and
- (c) alterations inside buildings such as alterations/additions to wall/floor (e.g. splitting and combining of units), basement excavation and change of use.

Note 22: *Generally, for properties in a newly constructed building, the effective date of an interim valuation is:*

- (a) *for domestic properties, 90 days from the issue of the relevant document (whichever is applicable): occupation permit, certificate of compliance, consent to assign or consent to lease; or*
- (b) *for non-domestic properties, 180 days from the issue of the relevant document (see (a) above), or the date of first occupation, whichever is the earlier.*

For other properties, the effective date of an interim valuation is the date of first occupation.

Photograph 1

An example of assessable structures on podium flat roof



Source: *BD records*

3.7 Rates are a tax on occupation. According to the RVD, the fact that a property or structure is unauthorised does not affect its liability for assessment to rates. Likewise, the assessment to and/or the payment of rates for these UBWs does not imply that they have legal status, nor does it confer any legal sanction or authorisation on them.

3.8 The RVD gathers information on alterations of properties from the following main sources:

- (a) **Site inspections.** RVD staff conduct site inspections in connection with interim valuations of new properties or handling of objections to rating assessments. During such inspections, RVD staff may notice physical alterations to properties in the vicinity;
- (b) **Form RIAs.** Ratepayers are required to indicate in Form RIAs whether their properties have been subdivided into separate units or combined with other properties (see para. 2.12); and

- (c) ***Information provided by the BD.*** Under the Buildings Ordinance (Cap. 123), all building works (except certain exempted works) require the Building Authority's prior approval of plans and consent for commencement. Otherwise, they are unauthorised and subject to enforcement actions by the BD. Through enforcement of the Buildings Ordinance, the BD has captured information of both the approved building works and UBWs.

Notification arrangements of approved building works

3.9 The RVD and the BD have established notification arrangements of approved building works for rates and government rent assessment purposes as follows:

- (a) by way of Practice Notes issued by the BD, Authorised Persons and Registered Structural Engineers are required to submit an additional set of record plan for completed new building works, and alteration and addition works for the BD's onward transmission to the RVD; and
- (b) internal instructions of the BD require its staff (responsible for processing building professional's certificate of completion of new building works, and alteration and addition works) to copy the occupation permit for new building works, and the BD's acknowledgement letter of receipt of the completion certificate for alteration and addition works to the RVD.

Need to strengthen interim valuations of assessable UBWs

3.10 ***Policy decision of not collecting rates from new or re-erected illegal rooftop structures.*** Starting from 2001-02, the RVD and the BD have established notification arrangements for UBWs. In January 2001, the then Planning and Lands Bureau (Note 23) consulted the Legislative Council Panel on Planning, Lands and Works on measures to tackle UBWs including illegal rooftop structures. The Panel was informed that a Task Force (set up in February 2000 under the Bureau to

Note 23: *The planning and lands policy portfolio is now under the purview of the Development Bureau.*

Interim valuations

review policies and enforcement actions on building safety and preventive maintenance) had proposed among other things that:

- (a) illegal rooftop structures on single-staircase buildings should be cleared as a priority to remove their risk as potential “fire-traps”;
- (b) efforts must be made to clear new illegal rooftop structures upon construction and before, or soonest possible after, occupation, and to abort attempts at re-erection; and
- (c) as part of the package of measures to tackle UBWs, rates should not be collected from new or re-erected illegal rooftop structures so as to avoid leading to some misunderstanding over the status of illegal rooftop structures.

Having considered that the new or re-erected illegal rooftop structures would be cleared or prevented under the prompt actions to be taken by the BD at that time, the then Secretary for the Treasury (Note 24) endorsed the proposal to cease collecting rates from new or re-erected illegal rooftop structures in November 2000.

3.11 *Notification of removal of illegal rooftop structures on single-staircase buildings.* In August 2001, pursuant to the Task Force’s proposal, the BD sought the RVD’s assistance in identifying new or re-erected illegal rooftop structures on single-staircase buildings for taking prompt enforcement actions. Under the agreed arrangements of 2001-02, the RVD would report to the BD any suspected structures identified in the course of rating valuations or site inspections while the BD would notify the RVD of its planned enforcement actions at various stages by copying to the RVD the following documents:

- (a) demolition/removal orders issued to owners/occupiers under section 24 of the Buildings Ordinance; and
- (b) compliance letters issued to owners/occupiers confirming that the illegal rooftop structures had been satisfactorily removed.

Note 24: *Since 2002, the Secretary for Financial Services and the Treasury has taken over the policy portfolio of the Secretary for the Treasury.*

These documents would facilitate the RVD's review of the rateable values of properties with illegal rooftop structures removed to avoid overcharging of rates.

3.12 *Notification of removal of other types of assessable UBWs.* In 2004 after discussions through emails, the BD agreed to the RVD's request for copies of removal orders and compliance letters pertaining to other types of assessable UBWs (see para. 3.6) in a manner similar to the arrangements for illegal rooftop structures on single-staircase buildings. The purpose was to facilitate the RVD's review of the rateable values of properties with UBWs removed.

3.13 *The RVD's instructions for staff on following up removal notifications of assessable UBWs.* Subsequent to the agreed notification arrangements of assessable UBWs with the BD, the RVD issued the following instructions to its staff setting out the procedures when dealing with rating assessments of assessable UBWs upon receipt of the BD's removal notifications:

- (a) the 2002 departmental instruction stipulated that:
 - (i) a check should be made to ascertain whether the subject illegal rooftop structure had been assessed to rates;
 - (ii) if the illegal rooftop structure had been assessed, the subject officers should closely monitor the progress of the case and take deletion or deletion and interim valuation action (see para. 3.2(b)) upon receiving information from the BD or the ratepayer that the illegal rooftop structure had been removed; and
 - (iii) if the illegal rooftop structure had not been assessed, the case should be treated as no further action required; and
- (b) similar to the 2002 version, the 2005 departmental instruction (which is currently still in force) covering both illegal rooftop structures and other types of assessable UBWs also stipulated that RVD staff should not take any further action on un-assessed illegal rooftop structures/UBWs subjected to the BD's removal orders.

Interim valuations

3.14 *Audit enquiry.* In its memorandum to the RVD in December 2000, the then Planning and Lands Bureau had pointed out that it had never been its intention to cease collecting rates from existing illegal rooftop structures or to grant any exemption status to them. Its aim was to stop new erections or re-erections as soon as identified. However, the 2002 departmental instruction had not reminded RVD staff to check if the un-assessed illegal rooftop structure in paragraph 3.13(a)(iii) was a new or re-erected case before treating the case as no further action required. Moreover, there was no documentary evidence to indicate that before issuing the 2005 departmental instruction, the RVD had ascertained from the BD whether UBWs issued with removal orders could be removed shortly (see para. 3.15(b)). In February and March 2016, in response to Audit's enquiries, the RVD said that:

- (a) the 2002 departmental instruction stated that “the existing departmental practice/guidelines concerning treatment of other types of UBWs remain unchanged and should continue to be followed”. Under the established rating principles, a property which was transient in nature would not be assessed to rates;
- (b) the issue of a removal order signified the determination of clearance of the targeted illegal structure soonest possible, just like other new or re-erected cases. It was not justified to spend resources to assess the illegal structures which would be removed shortly;
- (c) following the rationale of the Task Force's decision, making assessments of illegal structures subject to removal orders would give the false impression to the occupiers that the Government was not keen on enforcing the orders and thus encouraging the occupiers not to remove the illegal structures;
- (d) the RVD was well aware that it had never been the then Planning and Lands Bureau's policy intention to cease collecting rates from existing illegal rooftop structures or to grant any exemption status to them. In subsequent communications with the then Planning and Lands Bureau in 2003, the RVD clearly spelt out that there was no plan to cease collecting rates from other UBWs. Indeed, the RVD had not ceased collecting rates from existing illegal rooftop structures/UBWs already assessed to rates (including the new and re-erected illegal rooftop structures identified with removal orders issued by the BD) until their removal. For illegal rooftop structures/UBWs not yet assessed to rates, the RVD had reminded its staff in both the 2002 (on illegal rooftop structure alone) and the 2005

(covering other UBWs) departmental instructions that in considering whether to rate un-assessed illegal rooftop structures/UBWs, the existing departmental practice should continue to be adopted. As a matter of fact, the RVD had reflected the value of UBWs (including illegal rooftop structures) in some 14,000 interim valuations since 2000; and

- (e) apart from proper implementation of policy objectives, the RVD abided by the Rating Ordinance as well as the established rating principles under common law in raising assessments to rates. Premised on the requirement of removal orders for the illegal rooftop structures/UBWs to be removed within one to three months, their existence would be too transient to satisfy the rateability requirement under the established rating principles. This was the underlying reason why the RVD had no objection to the Task Force's proposal to cease collecting rates from new or re-erected illegal rooftop structures. Hence, along the same spirit of not assessing transient structures, the above departmental instructions also stipulated that RVD staff should not take any further action on un-assessed illegal rooftop structures/UBWs subjected to the BD's removal notifications.

3.15 *Need to improve the instructions for RVD staff on following up removal notifications of un-assessed UBWs.* The above review shows that the notification arrangements of UBWs were developed with the primary objective to prevent the overcharging of rates for properties with UBWs removed. As far as assessment of rates is concerned, Audit has found that the RVD's instructions to staff upon receipt of copies of removal orders under the notification arrangements have the following deficiencies:

- (a) there was no documentary evidence to indicate that before issuing the 2005 departmental instruction, the RVD had ascertained from the BD whether UBWs issued with removal orders could be removed shortly; and
- (b) the RVD's presumption that after the issue of removal orders, the illegal rooftop structures/UBWs would be demolished soon (see para. 3.14(b) and (e)) also turned out to be not always valid as evidenced below:

Interim valuations

- (i) of 54,637 cases with removal orders issued from 2001 to 2015 (see para. 3.17), 16,304 (30%) had not been complied with as at 31 December 2015. In particular, 10,192 (62% of the 16,304 cases) had remained outstanding for two years or more after the issue of removal orders; and
- (ii) Audit review of three illegal rooftop structure cases (see Table 5) revealed that only one of the illegal rooftop structures was demolished within four months after the issue of the removal order. The other two cases had remained outstanding for over two years.

Table 5

**Audit review of three illegal rooftop structure cases
(December 2015)**

Case	Date of removal orders	Particulars
A	9 July 2010	The illegal rooftop structure was demolished on 14 October 2010 (within four months after the issue of the removal order).
B	9 July 2010	Up to December 2015 (after 5.5 years), the illegal rooftop structure had not yet been demolished. As the rateable value of the property concerned was not reassessed upon receipt of the removal order (per the 2005 departmental instruction — see para. 3.13(b)), recovery of additional rates for 3.5 years (from July 2010 to December 2013) from the ratepayer had become time-barred.
C	26 April 2013	Up to December 2015 (after more than 2.5 years), the illegal rooftop structure had not yet been demolished. As the rateable value of the property concerned was not reassessed upon receipt of the removal order (for the same reason as Case B above), recovery of additional rates for nine months (from April to December 2013) from the ratepayer had become time-barred.

Source: BD and RVD records

3.16 In Audit's view, the RVD needs to review the 2005 departmental instruction on rating assessment of UBWs with a view to strengthening the procedures for using UBWs information obtained from the BD for rating assessment purposes to prevent loss of rates revenue.

3.17 *Audit analysis of the BD's database on UBWs of assessable types as defined by the RVD.* To assess the adequacy of the present notification arrangements of assessable UBWs for rating and government rent assessment purposes, Audit obtained from the BD an extract of its UBWs database as at 31 December 2015 for review (Note 25). According to the BD's database, from 2001 (the commencement of the notification arrangements) to 2015, there were 54,637 UBWs cases of the assessable types as defined by the RVD (see para. 3.6) to which removal orders had been issued. In addition, there were 59,032 cases of assessable types of UBWs without removal orders issued (see Table 6 — Note 26). Of the 54,637 cases with removal orders issued, 16,304 (30%) had not been complied with as at 31 December 2015. Ageing analysis of the 16,304 cases shows that 10,192 (62%) had remained outstanding for two years or more after the issue of removal orders (see Table 7).

Note 25: *The BD's database only records confirmed cases of UBWs which have been classified as actionable by the BD, such as those with imminent dangers or new UBWs. The BD's enforcement procedures include issuing removal orders for actionable UBWs cases, and issuing advisory letters for non-actionable UBWs cases (i.e. those not recorded in the database).*

Note 26: *In Chapter 1 of the Director of Audit's Report No. 64 of April 2015, Audit expressed concern over the long time taken by the BD to issue removal orders for actionable UBWs.*

Interim valuations

Table 6

**Analysis of assessable types of UBWs cases from 2001 to 2015
(31 December 2015)**

UBWs	Number of cases with removal orders issued (Note 1)	Number of cases without removal orders issued (Note 2)
Rooftop structure	20,782	29,912
Flat roof structure	16,789	18,136
Structure in lane/yard	6,942	9,125
Subdivided unit	1,563	747
Advertising sign	2,879	267
Structure on canopy	3,719	45
Basement excavation	153	496
Shop front structure	1,724	0
Building alterations (change of use)	86	304
Total	54,637	59,032

Source: Audit analysis of BD records

Note 1: For cases with removal orders covering more than one item or one type of UBWs each, they have been categorised according to the major UBWs indicated in the BD's database to avoid double counting of the number of cases.

Note 2: For cases involving more than one item or one type of UBWs each, they have been categorised according to the major UBWs indicated in the BD's database to avoid double counting of the number of cases. According to the BD, a case may duplicate with another case due to the constraints of the database.

Remarks: For properties with UBWs of assessable types as defined by the RVD, their rateable values might be revised after the assessments made by the RVD.

Table 7

**Ageing analysis of outstanding cases with removal orders
issued from 2001 to 2015
(31 December 2015)**

UBWs	Number of cases outstanding				
	Less than 2 years	2 years to less than 5 years	5 years to less than 10 years	10 years or more	Total
Rooftop structure	1,909	2,123	715	97	4,844
Flat roof structure	2,495	3,061	1,012	117	6,685
Structure in lane/yard	932	792	627	42	2,393
Subdivided unit	190	681	14	4	889
Advertising sign	456	134	92	2	684
Structure on canopy	110	64	258	47	479
Basement excavation	12	5	16	2	35
Shop front structure	3	13	242	2	260
Building alterations (change of use)	5	7	23	0	35
Overall	6,112 (38%)	6,880 (42%)	2,999 (18%)	313 (2%)	16,304 (Note) (100%)

10,192 (62%)

Source: Audit analysis of BD records

Note: Of the 16,304 cases, 3,337 had removal orders covering more than one type of UBWs. There was no indication in the BD's database whether these 3,337 orders had been partially complied with. An ageing analysis of the remaining 12,967 orders (covering only one item or one type of UBWs) showed that 7,877 (61%) were outstanding for two years or more.

Interim valuations

3.18 *Need to extend the coverage of the notification arrangements of assessable UBWs.* Under the agreed notification arrangements, the BD had not provided the RVD with information on the 59,032 cases of assessable UBWs without removal orders issued (see Table 6 in para. 3.17). There is a risk that the RVD may not have reviewed the rateable values of these 59,032 cases unless information on these cases has been received from other sources (see para. 3.8(a) and (b)). As a test check, Audit selected from the BD's 2010 to 2015 records 1,000 cases with UBWs which fell within four assessable types (Note 27) for checking against the RVD's computerised assessment records. As shown in Table 8, Audit found that for 451 (45%) of the 1,000 selected cases with assessable types of UBWs, the RVD computer records had assessment information about the UBWs concerned. For the remaining 549 (55%) cases, there was no similar assessment information about the UBWs in the RVD's computer records, suggesting that these cases might not have been reviewed by the RVD.

Note 27: *The test check did not cover the other five types of assessable UBWs (advertising sign, structure on canopy, basement excavation, shop front structure and building alterations (change of use)) because according to the RVD, relevant information was not specifically captured in any structured fields in its computer system for such UBWs. RVD staff might record such information in the general remark field in the computer system for quick reference when necessary.*

Table 8

**Assessable types of UBWs in the BD's database
for which the RVD's assessment information was not found
(31 December 2015)**

UBWs	Number of cases		
	UBWs with the RVD's assessment information found	UBWs for which the RVD's assessment information not found	Total
Rooftop structure	108 (35%)	202 (65%)	310
Flat roof structure	181 (62%)	109 (38%)	290
Structure in lane/yard	144 (60%)	96 (40%)	240
Subdivided unit	18 (11%)	142 (89%)	160
Overall	451 (45%)	549 (55%) (Note 1)	1,000 (Note 2)

Source: Audit analysis of BD and RVD records

Note 1: Of the 549 cases, 275 (50%) were issued with removal orders and 274 (50%) were not issued with removal orders.

Note 2: Of the 1,000 selected cases, 550 (55%) were issued with removal orders and 450 (45%) were not issued with removal orders.

3.19 In February 2016, Audit provided the property addresses, rating assessment numbers, removal order/case reference numbers and types of assessable UBWs involved in the 1,000 cases mentioned in paragraph 3.18 to the RVD for confirming whether rating assessments had been made for the UBWs concerned. In February and March 2016, the RVD informed Audit that:

- (a) more details of the UBWs involved in the 1,000 cases would be required before it could confirm whether rating assessments had been made for the UBWs concerned;

Interim valuations

- (b) a sample check of some of the 1,000 cases revealed that the BD had classified certain items (such as prefabricated mobile storage cabinets, trellises and retractable canvas awnings on rooftop, flat roof and lane/yard) as actionable UBWs, which were not regarded as rateable improvement under the established rating principles. Therefore, not all UBWs in the BD's records were rateable items in the RVD's context and no such information would be in the RVD's computer records; and
- (c) for UBWs on the rooftop, flat roof and lane/yard, an analysis of reassessed cases completed in recent years showed that the average increase in rateable values was less than 5% (Note 28).

3.20 Audit notes the RVD's comments that not all UBWs in the BD's records are rateable items. However, in Audit's view, there is still a need to seek the BD's assistance in extending the scope of the present notification arrangements to cover assessable UBWs without removal orders issued (i.e. including those non-actionable cases with advisory letters issued — see Note 25 to para. 3.17) so that rating reassessments in warranted cases, such as those involving a higher rateable value, can be conducted in a timely manner. This is because as shown in paragraph 3.17, of the 54,637 cases with removal orders issued from 2001 to 2015, 16,304 (30%) had not been complied with as at 31 December 2015. In particular, 10,192 (62%) of the 16,304 cases had remained outstanding for two years or more. This suggests that actions to demolish UBWs with statutory removal orders issued could take a long time, not to mention those without statutory removal orders issued. Given the 24-month time-bar in recovering rates (see para. 3.5), there is a risk of loss of rates revenue if the rateable values of properties with assessable UBWs are not reassessed in a timely manner. Based on the rating assessment records of 312 subdivided properties provided by the RVD in December 2015, Audit noted that the rateable values of properties with assessable subdivided units could increase by 5% to 217% (averaging 58%) upon reassessments.

Note 28: *The RVD's analysis was based on a comparison of (a) the additional rateable values of rooftops without UBWs to a sample of host properties with (b) the additional rateable values of rooftops with UBWs to another sample of host properties, to arrive at an average percentage increase in rateable value due to UBWs on rooftops. Similar comparisons were made for other sample groups of properties with flat roofs and lanes/yards and with and without UBWs therein. Taken together, an overall average increase in rateable value of less than 5% due to UBWs on rooftops, flat roofs and lanes/yards was obtained.*

3.21 *Need to improve the instructions for BD staff in copying removal notifications of assessable UBWs to the RVD.* Over the years, there have been changes in the operation sections of the BD responsible for handling different types of UBWs. Subsequent to the agreed notification arrangements of illegal rooftop structures on single-staircase buildings in August 2001 (see para. 3.11), the relevant operation section of the BD incorporated in its guidelines for staff a requirement that all removal orders of illegal rooftop structures on single-staircase buildings as well as any consequential compliance letters should be copied to the RVD. As for the 2004 agreed notification arrangements of other UBWs (see para. 3.12), two instructions were issued, one for advertising signs and the other for UBWs in general. For advertising signs, BD staff concerned were required to copy both removal orders and any consequential compliance letters to the RVD. For UBWs in general, BD staff concerned were required to copy compliance letters and letters of withdrawal of removal orders to the RVD. However, there was no laid-down requirement to copy removal orders to the RVD. According to BD records, the instruction concerning UBWs in general was abolished in February 2014. Due to the inconsistencies in the BD's instructions, there is a risk that removal orders for some assessable UBWs may not always be copied to the RVD (see para. 3.22).

3.22 *Removal orders not always copied to the RVD.* Based on a test check of 85 removal orders selected from the BD's database in January and February 2016, Audit found that only 7 (8%) of them were copied to the RVD (see Table 9). The failure to provide the RVD with the agreed UBWs information has rendered the notification arrangements ineffective. In late February 2016, the BD drew Audit's attention to its memorandum of January 2016 to the RVD, advising that:

- (a) the notification arrangements of UBWs established since 2002 had not been fully put into practice over the years; and
- (b) in view of the fact that the RVD's website had advised property owners that they should inform the RVD of changes in layout of their properties and the RVD could revise the rateable values of their properties accordingly, the BD had decided to cease the UBWs notification arrangements.

However, Audit notes that the RVD's message on its website is advisory in nature as it is not a requisition for particulars in a specified form (see para. 2.3(a)). As highlighted in paragraphs 3.11 to 3.20 (particularly Table 8 in para. 3.18), UBWs information kept by the BD is essential for the RVD to take timely action to reassess the rateable values of altered properties to prevent loss of revenue. In Audit's view, the BD needs to revisit the January 2016 decision and share with the RVD all UBWs information required for rating assessment purposes.

Table 9

Number of removal orders copied to the RVD

UBWs	Number of removal orders	
	Selected from the BD's database for checking	Copied to the RVD
Rooftop structure	20	3
Flat roof structure	20	3
Structure in lane/yard	20	1
Subdivided unit	25	0
Total	85	7

Source: Audit analysis of BD records

Implementation of the 2000-01 policy decision of not collecting rates from new or re-erected illegal rooftop structures

3.23 The policy decision to cease collecting rates from new or re-erected illegal rooftop structures was made in 2000-01 in light of the Task Force's proposal to clear new illegal rooftop structures upon construction and before, or soonest possible after, occupation, and to abort attempts at re-erection (para. 3.10). The RVD and the BD have not compiled statistics on the time taken to demolish new or re-erected illegal rooftop structures. As shown in Tables 6 and 7 in paragraph 3.17, of the 20,782 cases with removal orders issued for illegal rooftop structures from 2001 to 2015, 4,844 (23%) had not been complied with as at 31 December 2015. A total of 2,935 (2,123 plus 715 plus 97, i.e. 61%) had remained outstanding for two years or more. Audit's case review in paragraph 3.15(b)(ii) also indicates that actions to demolish illegal rooftop structures with removal orders issued could take a long time. In light of the audit findings, Audit enquired the RVD and the BD on the need to review the implementation of the 2000-01 policy decision in consultation with the Development Bureau and the Financial Services and the Treasury Bureau (FSTB).

3.24 In March 2016, the RVD informed Audit that:

- (a) the RVD did not see the need to review the implementation of the 2000-01 policy decision on not collecting rates from new or re-erected illegal rooftop structures in view of the explanations given in paragraph 3.14(d) and (e); and
- (b) with hindsight, however, and as revealed in paragraph 3.15(b), not all removal orders were complied with timely as intended. The RVD agreed to review the departmental instruction on the treatment of the UBWs (other than newly or re-erected illegal rooftop structures) subject to removal orders, which might have attained certain degree of permanence. That said, given limited resources, the RVD would bear in mind the need to exercise prudence in discharging its duties in a cost-effective way.

3.25 In March 2016, the FSTB also informed Audit that:

- (a) regarding illegal rooftop structures, under the established rating principles, a property which was transient in nature would not be assessed to rates. Indeed, according to the RVD's 2005 departmental instruction, there was a clear reference which reminded staff that it was necessary to ascertain whether an illegal rooftop structure so identified was a new erection or a re-erection before embarking on raising an interim assessment on the un-assessed illegal rooftop structure;
- (b) regarding UBWs, what the 2005 departmental instruction had brought into effect was that the established rating principles for transient properties be applied to other UBWs similarly subject to the BD's enforcement. In a way, the 2005 departmental instruction thus sought to ensure consistent application of the same rating principles;
- (c) the FSTB noted from Audit's finding that the RVD's presumption that UBWs with removal orders issued would be demolished soon had turned out not to be always valid (see para. 3.15(b)), and hence would suggest the RVD putting in place some form of bring up system to keep track of those existing UBWs with removal orders issued but not yet demolished such that timely interim valuations would be made before the 24-month time-bar; and

Interim valuations

- (d) in relation to the above, the FSTB did not see the need for the RVD to review the implementation of the 2000-01 policy decision on not collecting rates from new or re-erected illegal rooftop structures. Rather, the question was how the RVD could, in collaboration with the BD, keep track of the issuance of removal orders and demolition of the UBWs concerned for timely interim valuations.

Interim valuations of advertising signs

3.26 Section 9 of the Rating Ordinance provides that all advertising signs can be considered for assessment to rates as follows:

- (a) where the right to use land for exhibiting advertisements is let, that right is assessable as a separate property and its rateable value shall include the value of the structure or sign; and
- (b) where an advertisement is displayed but is not let (e.g. it is erected by the occupier), the rateable value of the property on which it is erected (i.e. the host property) will include an additional value due to the advertisement.

3.27 Many street signs are of small size advertising the name, or type of business carried on, or product sold in respect of a street shop in a building. The RVD's assessment practice is that their values are deemed to have been included in the rateable values of the host properties. Where the size of a sign is so large and its value is substantial in comparison to that of the host property, an additional value will be included in the host property. The following signs are normally assessed to rates either separately or as addition to the rateable values of the host properties:

- (a) advertisement signs which are erected on top or side roof or attached to, or painted on building walls;
- (b) video walls; and
- (c) signs designed in the form of stand-alone light boxes or light panels. These are usually located in groups in the internal common areas or affixed to the external walls of shopping malls/office blocks.

3.28 As most advertising signs are erected after the buildings concerned are certified for occupation, they are normally not covered by an occupation permit issued under the Buildings Ordinance. The effective date of an interim valuation of an advertising sign shall be the earliest time at which any structure or sign is erected in exercise of the advertising right or any advertisement is exhibited in pursuance of such right.

Identification of un-assessed advertising signs

3.29 The RVD usually identifies un-assessed advertising signs for interim valuations through the following means:

- (a) the monthly return of alteration and addition cases from the BD (see para. 3.3(e));
- (b) notifications of tenancies for advertising signs on government properties;
- (c) site inspections of new buildings for interim valuation purposes during which RVD staff may notice any assessable signs in the vicinity; and
- (d) site inspections of existing buildings on which new signs are reported to have been erected.

In 2006, 2007 and 2011, the RVD employed temporary staff to conduct special exercises for identifying un-assessed advertising signs. According to the RVD, all three special exercises covered urban areas because of higher concentration of such signs in these areas.

3.30 According to RVD records, as at April 2015, there were 9,368 separately assessed advertising signs with a total rateable value of \$1.8 billion, of which 8,390 (90%) assessed signs had a rateable value of less than \$120,000 each. Of these 9,368 assessed signs, 5,283 (56%) were affixed externally to buildings and 4,085 (44%) were installed inside buildings. The rates chargeable totalled \$89.2 million in 2015-16.

Interim valuations

3.31 In December 2015, Audit conducted a survey in selected streets (Note 29) of six districts to assess the adequacy of the RVD's work in identifying un-assessed advertising signs for interim valuations. The survey focused on large-sized advertising signs which were affixed externally to buildings and without visible host properties (i.e. those signs that were likely to be separately assessable to facilitate checking against the RVD's assessment records). A total of 100 such types of signs were identified for checking against the RVD's assessment records to ascertain whether they had been assessed. The results are summarised in Table 10.

Table 10
Survey results of advertising signs in six districts
(December 2015)

District	Number of advertising signs		
	Assessed to rates	Not assessed to rates	Total
Wanchai	14 (56%)	11 (44%)	25
Causeway Bay	18 (95%)	1 (5%)	19
Mong Kok	8 (57%)	6 (43%)	14
Yau Ma Tei	13 (81%)	3 (19%)	16
Tuen Mun	3 (50%)	3 (50%)	6
Yuen Long	3 (15%)	17 (85%)	20
Overall	59 (59%)	41 (41%)	100

Source: Audit survey

3.32 While the un-assessed rates (ranging from 5% to 85%) are not a statistically representative estimate of all the un-assessed advertising signs in the six districts, they show that there is a need for the RVD to step up efforts in identifying un-assessed advertising signs in districts with higher un-assessed rates

Note 29: *The survey covered sections of selected streets (four to five for each district) where many advertising signs had been erected.*

such as Yuen Long, Tuen Mun and Wanchai. In February 2016, in response to Audit's enquiry, the RVD said that the estimated rateable values of the 41 un-assessed cases (see Table 10 in para. 3.31) ranged from \$5,040 to \$318,000 (averaging \$65,950). Given the lapse of time since the last special exercise in 2011, there is merit to conduct another special exercise covering both the urban areas and the New Territories to speed up the identification of un-assessed advertising signs.

Timeliness of interim valuations

3.33 The RVD has set a performance target in its Controlling Officer's Report to measure the timeliness of interim valuations of new properties, i.e. notifying the ratepayer and/or rent payer of the rateable value of a new property within eight months from the date when rates and/or government rent first become payable for 85% of the interim valuations. According to the RVD's Controlling Officer's Reports, the target was met from 2010-11 to 2014-15 with 86% to 92% of interim valuations completed within eight months.

3.34 For those interim valuations that take longer than eight months, there is a need to monitor their progress to ensure that they would be completed before the 24-month time-bar to prevent loss of rates revenue (see para. 3.5). In this connection, the RVD has regularly compiled statistics on interim valuations that remained outstanding for more than 18 months for the attention of its senior management. The RVD has also put in place spot checks on valuation work conducted by its staff. Every six months, the designated supervisors will select at least one interim valuation case from each valuation team for checking to ensure that there are no omissions and unnecessary delays.

Need to improve the monitoring of interim valuations not completed within the 24-month time-bar on retrospective recovery of rates

3.35 According to RVD records, as at September 2015, there were 1,614 new interim valuations which had been outstanding for more than 18 months. However, the RVD had not further analysed these outstanding cases to highlight those which had failed to meet the 24-month time-bar requirement for the recovery of rates. From April 2014 to September 2015, the RVD completed 30,693 new interim valuations. Audit found that 994 (3%) of the 30,693 interim valuations had taken more than 24 months to complete (counting from the effective dates of interim

Interim valuations

valuations) comprising 20 interim valuations for rates, 26 interim valuations for both rates and government rent, and 948 interim valuations for government rent only. For the 46 interim valuations involving rates of mainly village houses, there was a loss of revenue as the RVD could not raise retrospectively rates demand for more than 24 months (Note 30).

3.36 In February 2016, the RVD informed Audit that for 32 of the 46 interim valuations, the relevant documents required for initiating interim valuations were received after their effective dates of interim valuations (i.e. the dates of first occupation of the relevant properties — see Note 22 to para. 3.5). Audit noted that the relevant documents of the 32 interim valuations were received by the RVD, on average, 104 months after their effective dates of interim valuations. In Audit's view, the RVD needs to take measures to prevent recurrence of similar problems. As for the remaining 14 interim valuations which the RVD had taken more than 24 months to complete, an ageing analysis is shown in Table 11. The RVD needs to enhance the monitoring of outstanding interim valuation cases by highlighting all cases which have not met the 24-month time-bar requirement in view of the revenue loss implication (see Note 30 to para. 3.35).

Note 30: *Audit estimated that the revenue loss of the 46 interim valuations could amount to \$1 million, before taking into account the rates concessions given to ratepayers over the years. Nevertheless, Audit also noted that the position had improved in comparison with that reported in the 2003 audit review (see para. 1.12), when 2,252 interim valuations were found to have failed to meet the 24-month time-bar with an estimated revenue loss of \$12.7 million.*

Table 11

**Ageing analysis of the 14 interim valuations completed
between April 2014 and September 2015**

Number of months from effective date of interim valuations to date of issue of the first demand note	Number of assessments		
	Rates only	Rates and government rent	Total
More than 24 to 60	1	7	8
More than 120	1	5	6
Overall	2	12	14

Source: Audit analysis of RVD records

3.37 Audit further examination focused on those cases which had taken more than 24 months to complete from April 2014 to January 2016. Of the 20 selected cases, Audit noted room for improvement in two cases (Cases D and E).

Case D

Delays in making interim valuations on two village houses

1. In October 1996, the RVD received an application for rates exemption of two village houses. As rating assessments for the two village houses had not been made at that time, the application was not processed. The RVD had not taken follow-up actions until September 2012 when RVD staff found the two village houses during their field inspection work.

2. In February and March 2013, the RVD requested the LandsD to provide relevant documents (such as letters of compliance and certificates of exemption). Interim valuations of the two village houses were finally completed in May 2015 and their total rateable values were assessed to be \$610,000.

3. The demand for payment of government rent was effective from 29 January 1999 (as village houses in the New Territories only became liable for government rent in June 1997 when the New Territories Leases (Extension) Ordinance (see para. 1.4(b)(i)) came into effect. Subsequently, government rent exemption was granted (see para. 1.9) to the owners from June 1997 to 28 January 1999). However, due to the 24-month time-bar in recovering rates, the demand for payment of rates raised in May 2015 was only effective from June 2013 and rates prior to June 2013 were irrecoverable.

Source: RVD records

Case E

Delays in making interim valuation on changed use of an industrial building

1. In October 2012, the BD notified the RVD of the completion of the conversion works of an industrial building for commercial uses. On 11 December 2012, the RVD issued a requisition form requiring the owner to provide particulars of the converted building. The completed requisition form was received on 31 December 2012.

2. In May 2014 and September 2015, the RVD conducted site inspections of the building. The interim valuation of the building was completed in January 2016 with the rateable value increased from \$1,614,000, by 10%, to \$1,776,720. In the demand note issued to the owner, the RVD could only demand payment of the revised rates effective from January 2014 instead of October 2012. The loss of revenue due to the 15-month time lag in implementing the revised rates was about \$9,200.

Source: RVD records

3.38 Although the RVD has laid down instructions requiring the input of relevant information/documents of properties into the RVD's computer system for monitoring purposes, these instructions had not been strictly followed in both Cases D and E. As a result, the delayed actions had gone unnoticed. In Audit's view, the RVD needs to take measures to prevent recurrence of similar problems.

3.39 In response to the recommendation of the 2003 audit review (see para. 1.12), the RVD has agreed to inform the FSTB of outstanding interim valuations which are at risk of not meeting the 24-month time-bar, including information about revenue loss. In 2004, the RVD informed Audit that it had devised a mechanism to inform the FSTB of newly-built properties which were at risk of not meeting the 24-month time-bar but no such new cases had been identified. However, up to the date of this Audit Report, the RVD could not produce records that such statistics had been compiled for 2005 to 2015. Audit also noted that the RVD had not informed the FSTB of the revenue loss for the 46 interim valuations which were unable to meet the 24-month time-bar requirement (see para. 3.35). In February 2016, in response to Audit's enquiry, the RVD said that the FSTB was not informed because the 46 interim valuations were not related to newly-built properties (e.g. cancellation of rates exemption and change of use

Interim valuations

cases). As the FSTB oversees the Government's revenue and financial control, Audit considers that the RVD needs to regularly provide the FSTB with information on all revenue loss cases irrespective of whether they are related to newly-built properties.

Audit recommendations

3.40 Audit has *recommended* that the Commissioner of Rating and Valuation should:

Interim valuations of altered properties

- (a) review the 2005 departmental instruction on rating assessment of UBWs with a view to strengthening the procedures for using UBWs information obtained from the BD for rating assessment purposes to prevent loss of rates revenue;
- (b) seek the assistance of the BD in extending the scope of the notification arrangements of assessable UBWs to cover those without removal orders issued;
- (c) conduct a review of un-assessed UBWs cases due to the 2005 departmental instruction (such as the two cases of illegal rooftop structures mentioned in Table 5 in para. 3.15(b)(ii)) and make interim valuations where appropriate;

Interim valuations of advertising signs

- (d) step up efforts in identifying un-assessed advertising signs for interim valuations;
- (e) consider conducting a special exercise covering both the urban areas and the New Territories to speed up the identification of un-assessed advertising signs;

Timeliness of interim valuations

- (f) for the late notifications of the 32 interim valuations as mentioned in paragraph 3.36, take measures to prevent recurrence of similar problems;
- (g) enhance the monitoring of outstanding interim valuation cases by highlighting all cases which have not met the 24-month time-bar requirement;
- (h) put in place control measures to ensure that all relevant information/documents of properties requiring interim valuations are input into the RVD's computer system for monitoring the progress of follow-up actions; and
- (i) regularly provide the FSTB with information on:
 - (i) interim valuation cases at risk of not meeting the 24-month time-bar; and
 - (ii) revenue loss for all interim valuation cases which have not met the 24-month time-bar.

3.41 Audit has *recommended* that the Director of Buildings should share with the RVD all UBWs information required for rating assessment purposes.

Response from the Government

3.42 The Commissioner of Rating and Valuation generally agrees with the audit recommendations in paragraph 3.40. He has said that:

Interim valuations of altered properties

- (a) implementation of the recommendations in paragraph 3.40(a) to (c) should be subject to a review of work priorities;

Interim valuations

- (b) not all the BD's actionable UBWs are assessable UBWs from the RVD's valuation perspective. The RVD is concerned that having a full list of UBWs may compromise the RVD's efficiency because the checking may not be productive and it is an unnecessary digression from the RVD's own assessment;

Interim valuations of advertising signs

- (c) of the 9,368 separately assessed advertising signs (see para. 3.30), 978 (10%) were high-value signs with a total rateable value of \$1.6 billion. The remaining 8,390 (90%) assessed signs, each with a rateable value not exceeding \$120,000, had a total rateable value of \$0.2 billion. In other words, the amount of rates involved was some \$10 million, which was just about 0.04% of the total rates revenue for 2015-16;
- (d) among those 41 un-assessed cases in Table 10 in paragraph 3.31, the estimated rateable value of 35 advertising signs would be less than \$120,000 each. Action is being taken to assess these signs to rates separately or together with the host properties as appropriate;
- (e) the RVD will continue to conduct surveys of identifying un-assessed advertising signs and give priority to cases involving a higher rateable value;

Timeliness of interim valuations

- (f) during the period from April 2014 to September 2015, the RVD had completed 30,693 new interim valuations (see para. 3.35) generating an annual rates and government rent revenue at \$747 million for 2015-16. The 46 cases which had not met the 24-month time-bar requirement (see Note 30 to para. 3.35) only represented 0.15% of all the cases completed during the same period;

- (g) the RVD will no doubt liaise with the authority to enhance the notification arrangement with a view to shortening the lead time in raising assessment on any rateable occupations, in case an interim valuation is triggered from the issue of relevant documents from the relevant authority. However, in rural areas, the occupation of property may go unnoticed and might have been in existence for some time before the owner takes action to apply for a proper permit of occupation. An earlier occupation date will only be revealed by the owner or occupier upon site inspection or through other formal means of data collection during interim valuation process;
- (h) regarding Cases D and E mentioned in paragraph 3.37, the RVD will exercise caution in handling interim valuations for rates to prevent recurrence of similar incidents; and
- (i) the RVD will, in consultation with the FSTB, assess the need to provide the FSTB with the information on relevant interim valuation cases which have not met the 24-month time-bar.

3.43 The Director of Buildings has said that:

- (a) the BD notes the audit recommendations on the sharing of information on UBWs with the RVD as mentioned in paragraphs 2.16(e) and 3.41;
- (b) while the notification arrangements for UBWs between the BD and the RVD were put in place in 2002, the BD ceased such arrangements in January 2016. Apart from the reasons quoted in paragraph 3.22, the BD was concerned about possible privacy implications of such notification arrangements, especially in cases where removal orders have not yet been issued and registered in the Land Registry, as the UBWs information is not yet in the public domain;

Interim valuations

- (c) based on the BD's operational experience, information on removal orders (i.e. the name of the property owner, address, descriptions of the UBWs) would not be sufficient in meeting the RVD's needs and the RVD would require further details of the UBWs, such as copies of plans, photos and inspection reports by the BD. As the BD's manpower is already in full stretch owing to the need to handle the large number of UBWs in Hong Kong and in view of the fact that the BD issues tens of thousands of removal orders every year, the BD would have serious difficulty in coping with the workload if it is to retrieve and pass to the RVD all information needed by the latter for all UBWs identified; and

- (d) in light of the above concerns, the BD would need to further consider the feasibility of taking forward the audit recommendations involving the sharing of information on UBWs with the RVD, especially information on UBWs without removal orders issued.

PART 4: RATES EXEMPTION FOR RURAL PROPERTIES

4.1 This PART examines the administration of rates exemption for rural properties, focusing on the following areas:

- (a) exemption from assessment to rates for village houses within DVAs (paras. 4.2 to 4.9);
- (b) exemption from payment of rates for village houses outside DVAs (paras. 4.10 to 4.19); and
- (c) exemption from assessment to rates for agricultural land and buildings (paras. 4.20 to 4.21).

Exemption from assessment to rates for village houses within designated village areas

4.2 *Village houses within DVAs exempted from assessment to rates.* Section 36(1)(c) of the Rating Ordinance provides that any village houses within the areas of the New Territories as designated by the Chief Executive of the Hong Kong Special Administrative Region are exempted from assessment to rates (see para. (c) in Appendix A). Such areas are called DVAs. For village houses inside DVAs, the exemption applies irrespective of whether or not they are occupied or owned by indigenous villagers. The DVAs designated are typically:

- (a) the old core areas of the traditional villages;
- (b) the traditional settlements of New Territories residents who are primarily engaged in farming activities;
- (c) “wai” or “tsuens” where non-indigenous residents seldom live in; and
- (d) villages with virtually no commercial activities.

Rates exemption for rural properties

4.3 *Eligibility for exemption from assessment to rates.* According to section 36(1)(c) of the Rating Ordinance and Part 1 of the Schedule of the Buildings Ordinance (Application to the New Territories) Ordinance (Cap. 121), to be qualified for exemption from assessment to rates, a village house within a DVA has to comply with the prescribed size, height and type criteria, which are summarised as follows:

- (a) it will be a building of not more than three storeys and:
 - (i) has a roofed-over area not exceeding 65.03 square metres and does not exceed 8.23 metres in height; or
 - (ii) has a roofed-over area not exceeding 92.90 square metres, does not exceed 7.62 metres in height and complies with certain standard plans; or
- (b) it is a pre-war dwelling house (i.e. built before 16 August 1945), irrespective of size and height, which is of the type normally built for New Territories residents.

4.4 *Designation of DVAs.* The Chief Executive has delegated his authority to designate DVAs to the Financial Secretary, the Secretary for Financial Services and the Treasury and the Permanent Secretary for Financial Services and the Treasury (Treasury). In practice, DVAs are designated by the Permanent Secretary for Financial Services and the Treasury (Treasury). As at 31 December 2015, there were 105 DVAs covering some 16,460 houses in 140 villages. An analysis of DVAs by districts is shown at Appendix D.

Need to put in place compliance checking of rates-exempted village houses in DVAs

4.5 Audit notes that the RVD has not put in place compliance checking of village houses in DVAs to ensure that they meet the prescribed size, height and type criteria as stipulated in the Rating Ordinance. At an inter-departmental meeting on

rates exemption (Note 31) held in July 2007, the RVD stated that due to resource limitation, there was no programme to examine whether village houses in DVAs met the eligibility criteria as stipulated in the Rating Ordinance. The HAD raised concern that while the eligibility criteria of exemption from payment of rates for village houses outside DVAs were largely based on the same criteria as those for village houses within DVAs, villagers might feel confused when such provisions had never been enforced within DVAs.

4.6 Audit shares the concern raised by the HAD. Audit notes that the HAD has sought the assistance of the LandsD to carry out checks on the compliance with the eligibility criteria by rates-exempted houses outside DVAs (see para. 4.12). As a test check on the compliance with the eligibility criteria by rates-exempted houses in DVAs, in December 2015, Audit conducted site inspections in two DVAs. The inspections focused on the prescribed 3-storey criterion (see para. 4.3(a)) which could be observed externally without taking measurements. A total of 58 village houses were found with four or five storeys (see Table 12). Apparently, they did not comply with the prescribed 3-storey criterion as stipulated in the Rating Ordinance. In Audit's view, the RVD needs to put in place compliance checking of rates exemption eligibility of the village houses in DVAs and take prompt actions to revoke the exemption of those that no longer meet the eligibility criteria. In this connection, the RVD may seek the assistance of the BD and the LandsD in providing information on ineligible cases detected in the course of their enforcement work.

Note 31: *The meeting was chaired by an Assistant Director of Home Affairs with representatives from the Department of Justice, the HAD, the LandsD and the RVD to discuss matters relating to the exemption from payment of rates for village houses outside DVAs (see para. 4.10).*

Rates exemption for rural properties

Table 12

**Results of Audit's site inspections in two DVAs
(December 2015)**

DVA location	Number of 4-storey or 5-storey village houses found
DVA1, Yuen Long (Note 1)	23
DVA2, Yuen Long (Note 2)	35
Total	58

Source: Audit's site inspections in December 2015

Note 1: The DVA covers some 483 houses in two villages.

Note 2: The DVA covers some 1,342 houses in seven villages.

Remarks: Audit's site inspections covered only parts of the villages within the DVAs.

Need to take actions on village houses not meeting eligibility criteria found during rent assessments

4.7 According to the Rent Ordinance, government rent is payable from 28 June 1997 for land leases in the New Territories extended by the New Territories Leases (Extension) Ordinance. With the exception of those eligible for government rent exemption under section 4 of the Rent Ordinance (see para. 1.9), it is necessary for the RVD to assess all rural properties, including village houses in DVAs, to government rent. As at January 2016, the RVD had completed interim valuations of properties in 44,811 (99.6%) of 45,000 un-assessed rural lots in the New Territories for government rent assessment (Note 32).

Note 32: *According to the RVD, of the remaining 189 (0.4%) lots to be assessed, 104 were either bare land or had temporary structures, and 85 were located in remote areas and only had old village houses.*

4.8 For the interim valuations of village houses, the RVD would issue requisition forms to the owners/occupiers to obtain particulars and information of the un-assessed village houses. RVD staff would also conduct site visits and collect data on the physical attributes of the un-assessed houses. In the course of interim valuations of village houses in DVAs, RVD staff could have observed whether they complied with the rates exemption criteria as stipulated in the Rating Ordinance.

4.9 To assess the RVD's follow-up actions on non-compliance with the rates exemption criteria found in the above-mentioned interim valuations, Audit examined the RVD's government rent records of 228 houses in 12 selected villages within nine DVAs. According to RVD records, 18 of the 228 houses were found to be 4-storey or 5-storey buildings (Note 33). For government rent purposes, their rateable values (ranging from \$46,680 to \$236,400 in the 2015-16 GR) had already been assessed during the period from 1997 to 2009 as 4-storey or 5-storey village houses (see Table 13). While these 18 houses did not comply with the prescribed 3-storey criterion, the RVD had not taken actions to cancel their exemptions from assessment to rates. Given the 24-month time-bar for backdating purposes, rates for some 4 to 16 years had become irrecoverable for these 18 houses. In Audit's view, the RVD needs to take prompt actions to review the government rent records of the village houses within DVAs to see if there are similar ineligible cases and take prompt actions to revoke their rates exemption. The RVD also needs to put in place control mechanism to prevent recurrence of similar problems.

Note 33: *Of the 18 village houses, 5 were among the 58 village houses found with four or five storeys in Audit's inspections mentioned in paragraph 4.6. All the 18 village houses were not pre-war dwelling houses and were subject to the prescribed size, height and type criteria (see para. 4.3(b)).*

Rates exemption for rural properties

Table 13

Rates-exempted village houses in 12 selected villages found not complying with the prescribed 3-storey criterion since the dates of assessment to government rent (December 2015)

Village	Number of houses in government rent records	House not complying with prescribed 3-storey criterion	
		Number	Date of assessment to government rent
A	28	1	1997
B	42	4	1999 to 2009
C	28	2	1997
D	17	1	1997
E	43	7	1997 to 2000
F	16	3	1997 and 1998
Other six villages	54	0	—
Overall	228	18	1997 to 2009

Source: RVD records

Exemption from payment of rates for village houses outside designated village areas

4.10 According to section 36(3) of the Rating Ordinance, the Chief Executive may exempt individual properties from payment of rates (see para. 2 in Appendix B). Following a review of the policy of granting exemption to village houses outside DVAs by the Executive Council in 1992, the prescribed eligibility criteria for exemption from payment of rates are that the village houses:

Rates exemption for rural properties

- (a) are occupied (or vacant and intended to be occupied) by indigenous villagers or their immediate family members (Note 34) for domestic purposes;
- (b) comply with the prescribed criteria on size, height and type as those for village houses within DVAs (see para. 4.3(a)); and
- (c) should not contain any illegal structures/extensions (i.e. UBWs).

The spirit is to provide exemptions to genuine indigenous villagers residing in traditional village houses in the New Territories. The Chief Executive has delegated to the Director of Home Affairs the authority to grant exemption to such village houses.

4.11 Applications for exemption from payment of rates for village houses outside DVAs have to be made to the HAD. The major steps in processing the applications, which also involve the LandsD and the RVD, are shown at Appendix E. From 2010-11 to 2014-15, the HAD approved, on average, 450 applications each year. As at December 2015, some 19,000 eligible villagers involving 25,000 units in village houses situated in nine districts (Note 35) had been granted rates exemption. The rates exempted in 2014-15 amounted to \$89 million.

Monitoring of compliance with eligibility criteria

4.12 To monitor the compliance with the rates exemption eligibility criteria for village houses outside DVAs, the HAD has sought the assistance of the LandsD to carry out the following checks for identifying village houses containing UBWs:

Note 34: *Immediate family members include spouses, children, parents, brothers, sisters, grandparents, parents-in-law and/or grandparents-in-law. Exemption will be granted to an eligible applicant for one village house only.*

Note 35: *The nine districts were the Islands, Kwai Tsing, North, Sai Kung, Shatin, Tai Po, Tsuen Wan, Tuen Mun and Yuen Long.*

Rates exemption for rural properties

- (a) **Document checks (Note 36).** Every four months, the HAD provides an image of its database of approved rates-exempted cases to the LandsD for checking with the UBWs records maintained by eight District Lands Offices (Note 37 — DLOs) to identify any exempted village houses which have been detected by the DLOs to have UBWs during their routine work; and
- (b) **Field inspections (Note 38).** Every six months, the HAD randomly selects 90 approved rates-exempted cases (10 from each of the nine districts — see Note 35 to para. 4.11) and passes them to the eight responsible DLOs for conducting field inspections to ascertain whether they contain UBWs.

If UBWs are detected in the rates-exempted village houses, the HAD will revoke their rates exemption and ask the villagers concerned to remove the UBWs. The HAD will grant rates exemption again for the village houses upon the LandsD's confirmation that the UBWs are cleared.

4.13 During the five-year period from 2010-11 to 2014-15, a total of 638 exemption cases (averaging 127 cases each year) were revoked by the HAD due to detection of UBWs in the village houses concerned. From 1 April 2015 to 30 November 2015, 135 cases were also revoked for the same reason.

Note 36: *The document checks have been put in place since July 2006 in response to the recommendations made by the Office of The Ombudsman in its direct investigation report "Enforcement Action on Unauthorised Building Works in New Territories Exempted Houses" issued in 2004.*

Note 37: *The eight DLOs are responsible for managing land matters of the nine districts where the village houses mentioned in paragraph 4.11 are located.*

Note 38: *The field inspections have been put in place since April 1998 with the purpose to detect any abuse of the self-declaration system which has been adopted since October 1997. Under the self-declaration system, applicants are asked to declare that the village houses under application for rates exemption are free from UBWs.*

Need to improve document checks

4.14 ***Outstanding document checks.*** During April 2014 to August 2015, the HAD requested the eight DLOs to conduct five rounds of document checks on approved rates-exempted cases. Audit examination of the check results received by the HAD revealed that as at December 2015, 11 (28%) of 40 requested document checks were still outstanding (see Table 14). As the document checks are instrumental in identifying ineligible rates-exempted cases to prevent loss of revenue, the LandsD needs to remind the eight DLOs to complete the document checks requested by the HAD in a timely manner.

Table 14

**Outstanding document checks on approved rates-exempted cases
(December 2015)**

Month of commencement of check	Number of outstanding document checks
April 2014	2
August 2014	1
December 2014	1
April 2015	3
August 2015	4
Total	11

Source: HAD records

Remarks: Of the eight DLOs, one had three outstanding document checks, another one had two outstanding document checks and the remaining six had one outstanding document check each.

4.15 ***Crucial information not provided.*** Audit examined 20 rates-exempted cases in which the village houses concerned had been found to have UBWs in the August 2015 round of document check. For five cases, the DLO concerned did not specify in its check results the floors on which the UBWs were detected. In the absence of such crucial information, the HAD was unable to ascertain whether the UBWs were related to the approved exemption cases. Despite repeated reminders

Rates exemption for rural properties

issued by the HAD, as at January 2016, the DLO concerned had not yet provided the HAD with the required information. In Audit's view, the LandsD needs to remind the eight DLOs to provide the HAD with sufficient details of their document check results for taking prompt follow-up actions on the ineligible rates-exempted cases.

4.16 *Late notification of village houses containing UBWs.* Audit sample checked 20 cases of revoked rates exemption due to UBWs found in the village houses concerned. For two cases (Cases F and G), the HAD was notified of the non-compliance several years after the UBWs had been detected (see Table 15). In Audit's view, the LandsD needs to ascertain the reasons for the late notification and take appropriate improvement measures.

Table 15

Late notification of village houses containing UBWs

Case	Date of detecting UBWs by the DLO	Date of notifying the HAD by the DLO	Delay in notifying the HAD (Note)
F	10 December 1998	3 September 2014	8 years
G	16 August 2011	18 February 2015	3.5 years

Source: Audit analysis of HAD records

Note: The delay period was determined by comparing the date of notifying the HAD and the date of detecting UBWs or the launch of document checks in July 2006 (see Note 36 to para. 4.12(a)), whichever is later.

4.17 *Need to review the practice of setting the effective date of revocation of rates exemption status.* Under the present practice, the HAD sets the effective date of revocation of rates exemption based on the date of notification by the DLOs instead of the date of detection of the UBWs by the DLOs. The delay in notifying the HAD has therefore resulted in revenue loss of 3.5 and 8 years of rates for

Cases G and F respectively (Note 39). In Audit's view, the HAD needs to review the justifications of setting the effective date of revocation of rates exemption based on the date of notification by the DLOs, which could result in loss of rates revenue, and seek legal advice where necessary.

Need to enhance field inspections

4.18 ***Outstanding field inspections.*** From June 2014 to June 2015, the HAD requested the eight DLOs to conduct three rounds of half-yearly field inspections on a total of 270 approved rates-exempted cases. Audit examination of the inspection results received by the HAD revealed that as at December 2015, 22 (8%) of the 270 requested field inspections were still outstanding. As the half-yearly field inspections are instrumental in identifying ineligible rates-exempted cases to prevent loss of revenue, the LandsD needs to remind the eight DLOs to complete the field inspections requested by the HAD in a timely manner.

4.19 ***Need to step up field inspections.*** The half-yearly field inspections of 90 exemption cases (see para. 4.12(b)) through the DLOs were introduced in 1998 when the number of exemption cases was around 1,000. Over the years, the number of exemption cases had increased by 18 times to 19,000. As a result, the extent of field inspections of the approved exemption cases had decreased from 18% to 1% a year. On the other hand, the number of exemption revocation cases due to detection of UBWs averaged 127 a year during 2010-11 to 2014-15 (see para. 4.13), suggesting a high incidence of ineligible cases. While the HAD had not maintained separate statistics on the exemption revocation cases as a result of field inspections, Audit scrutiny of the inspection results of 120 rates-exempted village houses revealed that 48 (40%) of them had been found having UBWs. Audit's site inspections conducted in December 2015 in three villages also found 11 rates-exempted houses with suspected UBWs (Note 40). In view of the high

Note 39: *Village houses exempted from payment of rates have been assessed to rates. No interim valuation is required upon revocation of their exemption status. As such, the 24-month time-bar on recovering rates under section 29(1) of the Rating Ordinance (see para. 3.5) does not apply in these cases.*

Note 40: *Audit's site inspections covered only parts of the selected villages focusing on whether the rates-exempted village houses had an enclosed balcony or enclosed rooftop (i.e. two types of UBWs which could be observed externally without taking measurements) and did not take into account other types of UBWs.*

Rates exemption for rural properties

incidence of ineligible cases, the HAD, in consultation with the LandsD, needs to consider stepping up the field inspections of rates-exempted village houses. In addition, the HAD may consider seeking the assistance of the BD in providing information on village houses with UBWs detected in the course of its enforcement work.

Exemption from assessment to rates for agricultural land and buildings

4.20 Section 36(1)(a) of the Rating Ordinance provides that agricultural land and buildings thereon used in connection with such land are exempted from assessment to rates (see para. (a) in Appendix A). Such exempted land and buildings are mostly situated in the New Territories. Changes from agricultural use to other uses need planning permissions. In many cases, modifications to the original land grants are also required. The RVD needs to track such changes and assess those land and buildings no longer used for agricultural purposes to rates. In this connection, the RVD has set up the following mechanisms for collecting relevant information from the Planning Department and the LandsD:

- (a) ***Planning approval.*** The New Territories Division of the RVD obtains decisions on planning applications delivered at the monthly meetings of the Metro Planning Committee and the Rural New Town Planning Committee (Note 41); and
- (b) ***Modification of land grant.*** Monthly returns of modification of Tenancies and Short Term Waivers issued by the LandsD are received from the relevant New Territories DLOs.

RVD staff also identify any converted use of agricultural land and buildings in their routine inspections.

Note 41: *The two committees were set up under the Town Planning Board, which are mainly responsible for the systematic preparation of plans in the districts under their purview. Each committee comprises the Chairperson (the Director of Planning), the Vice-chairman (a non-official member), four other official members and 13 other non-official members. All members are appointed by the Chief Executive from the members of the Town Planning Board.*

4.21 *Need to obtain further information on unauthorised change of use of agricultural land and buildings from the LandsD.* The LandsD is responsible for taking enforcement actions against unauthorised structures on agricultural land. Between 2010 and 2014, the LandsD identified some 600 to 800 unauthorised structures on agricultural land each year. In 2015, the RVD and the LandsD agreed that the DLOs would notify the RVD of the re-entry/vesting cases, cancellation of re-entry/vesting cases and cases of unauthorised structures on agricultural land demolished. However, the notification arrangement does not cover unauthorised structure cases to which the LandsD has issued warning letters. As a test check to assess the adequacy of the RVD’s work in tracking change of use of agricultural land, Audit reviewed three cases of unauthorised structures on agricultural land (Cases H to J), to which the LandsD had issued warning letters (see Table 16). Audit’s site inspections in February 2016 noted that these structures were mainly used for storage purposes indicating that the use of the agricultural land concerned had changed. However, according to RVD records as at February 2016, only in one case (Case H) that the RVD had made the interim valuation. The agricultural land of the other two cases (Cases I and J) was still exempted from assessment to rates. In Audit’s view, the LandsD’s enforcement information would help the RVD identify those agricultural land and buildings which have become ineligible for rates exemption due to change of use. The RVD needs to seek the LandsD’s assistance in this regard for taking timely actions on ineligible rates-exempted cases.

Table 16

**Unauthorised structures on agricultural land
(February 2016)**

Case	Location	Estimated area (Square metre)	Date of issue of warning letters by the LandsD	Exemption from assessment to rates
H	Yuen Long	2,070	4 June 2014	No
I	Yuen Long	5,050	20 August 2014	Yes
J	Yuen Long	1,240	17 September 2015	Yes

Source: LandsD records

Remarks: The areas of Cases H to J were estimated through the LandsD’s GeoInfo Map service and covered a number of land lots each.

Audit recommendations

4.22 **Audit has recommended that the Commissioner of Rating and Valuation should:**

Exemption from assessment to rates for village houses within DVAs

- (a) **put in place compliance checking of rates exemption eligibility of the village houses in DVAs and seek the assistance of the BD and the LandsD to provide information on ineligible cases detected in the course of their enforcement work;**
- (b) **revoke the rates exemption of village houses that no longer meet the prescribed eligibility criteria laid down in the Rating Ordinance (including the 58 village houses mentioned in para. 4.6);**
- (c) **review the government rent records of the village houses within DVAs to see if there are ineligible cases of rates exemption (similar to the 18 village houses mentioned in para. 4.9) and take prompt actions to revoke their rates exemption;**
- (d) **put in place control mechanism to ensure that follow-up actions on ineligible rates-exempted cases found in the course of government rent assessments are promptly taken; and**

Exemption from assessment to rates for agricultural land and buildings

- (e) **seek the assistance of the LandsD in providing information (such as advisory and warning letters issued) on unauthorised change of use of agricultural land and buildings identified in the course of its enforcement work for taking timely actions on ineligible rates-exempted cases.**

- 4.23 **Audit has *recommended* that the Director of Home Affairs should:**
- (a) **conduct a review of the justifications of setting the effective date of revocation of rates exemption based on the date of notification by the DLOs and seek legal advice where necessary;**
 - (b) **in consultation with the Director of Lands, consider stepping up the field inspections of rates-exempted village houses; and**
 - (c) **consider seeking the assistance of the BD in providing information on village houses with UBWs detected in the course of its enforcement work.**
- 4.24 **Audit has *recommended* that the Director of Lands should:**
- (a) **remind the eight DLOs to:**
 - (i) **complete the document checks and field inspections of rates-exempted village houses requested by the HAD in a timely manner; and**
 - (ii) **provide the HAD with sufficient details of their document check results for taking prompt follow-up actions on the ineligible rates-exempted cases; and**
 - (b) **ascertain the reasons for the late notification of the HAD concerning two village houses found with UBWs (mentioned in para. 4.16) and take appropriate improvement measures.**

Response from the Government

4.25 The Commissioner of Rating and Valuation generally agrees with the audit recommendations in paragraph 4.22. He has said that putting in place compliance checking of village houses within DVAs will have significant resource implications because the exercise will involve inspection of some 15,000 village houses in 105 DVAs. It is only pragmatic for the RVD to take the relevant action in a phased manner in view of the actual resource constraints and various competing priorities.

4.26 The Director of Home Affairs agrees with the audit recommendations in paragraph 4.23. She has said that:

- (a) in considering whether the effective date of revocation of rates exemption should be based on the date of the DLOs' detection of UBWs instead of the date of notification by the DLOs, a relevant consideration is whether the DLOs can expedite their issue of notifications to the HAD and in turn the applicants (which will obviate the need for the proposed change) and, in case of a significant time gap between the two dates, whether it is reasonable to shift the burden to the applicant who might not have been informed of the DLOs' detection results. Nevertheless, the HAD will review the existing arrangement in conjunction with the LandsD and seek legal advice as necessary; and
- (b) the LandsD had indicated to the HAD in 2006 and 2007 that the DLOs could only conduct field inspections for 180 cases per year due to stringent staff resources. The HAD needs to consult the LandsD whether it could devote the manpower required for conducting more frequent inspections.

4.27 The Director of Lands has said that:

- (a) the LandsD will take appropriate actions to follow up on the audit recommendations in paragraph 4.24; and

- (b) for the two cases with late notification cited in paragraph 4.16, the delay was due to misunderstanding by the relevant DLO that only those cases reaching a certain stage of lease enforcement action should be included in the notification to the HAD. The LandsD will remind all DLOs of the prevailing guidelines.

4.28 The Director of Buildings has said that:

- (a) there has all along been clear demarcation of duties among relevant departments on matters relating to village houses. The BD is only responsible for enforcing the Buildings Ordinance as far as it applies to village houses, while rates-related matters are handled by the RVD, the LandsD and the HAD. The public and relevant stakeholders in the New Territories are well aware of the duties of the relevant departments; and
- (b) under the circumstances and given the BD's concerns on sharing of information on UBWs as mentioned in paragraph 3.43, the BD would need to further consider the feasibility of taking forward audit recommendations involving the sharing of information on UBWs in village houses with the RVD and the HAD as suggested in paragraphs 4.22(a) and 4.23(c).

PART 5: COLLECTION OF RATES AND GOVERNMENT RENT

5.1 This PART examines the collection of rates and government rent by the RVD.

Collection and recovery of rates and government rent

5.2 *Payment of rates and government rent.* Rates and government rent assessed by an interim valuation shall be payable on or before a date specified in the RVD's demand note. Thereafter, rates and government rent shall be payable quarterly in advance in the first month of each quarter (i.e. January, April, July and October).

5.3 *Surcharge.* Where rates and government rent are in default, the RVD imposes a 5% surcharge immediately after the due date. If any amount remains unpaid on the expiry of six months from the due date, the RVD imposes a further surcharge of 10% on the total unpaid amount.

5.4 *Recovery of arrears.* Any rates and government rent in default, together with any surcharges, shall be recoverable as a debt due to the Government. The RVD institutes recovery proceedings in the Small Claims Tribunal (for arrears not exceeding \$50,000) or the District Court (for arrears exceeding \$50,000) with the assistance of the Department of Justice. If a judgement debt exceeding \$10,000 is not settled, the RVD may refer the case to the Department of Justice to consider registration of a charging order on the defaulter's property which can only be sold after the judgement debt has been satisfied. In warranted circumstances, the RVD will consider applying for an order for sale of the charged property and use the sale

Collection of rates and government rent

proceeds to satisfy the judgement debt. Where government rent is involved, the RVD will consider referring the case to the Director of Lands for considering taking re-entry or vesting action (Note 42).

5.5 **Outstanding rates and government rent.** As at 30 September 2015, the total amount of outstanding rates and government rent was \$172 million, representing 0.5% of the annual amount demanded of about \$33 billion. An ageing analysis of the outstanding rates and government rent shows that \$54 million (31%) had been outstanding for two years or more (see Table 17). In 2014-15, the amount of irrecoverable rates and government rent written off totalled \$0.63 million.

Table 17

**Ageing analysis of outstanding rates and government rent
(30 September 2015)**

Number of years past due date of demand note	Amount outstanding (\$ million)
Less than 1 year	92 (54%)
1 year to less than 2 years	26 (15%)
2 years or more	54 (31%)
Total	172 (100%) (Note)

Source: RVD records

Note: The outstanding amount of \$172 million included five accounts which had an outstanding amount of more than \$1 million each.

Note 42: Section 14(2) of the Rent Ordinance provides that the Director of Lands may take proceedings to re-enter land if the government rent for the land or any surcharges thereon remain unpaid. Section 36 also provides that the Government has a right of re-entry of a lot in an applicable lease and a right to vest an undivided share in a lot in The Financial Secretary Incorporated if the lessee, owner or other person liable fails to pay the government rent. The Rating Ordinance does not have similar provisions for recovering unpaid rates.

Need to improve follow-up actions on arrears cases

5.6 *Need to consider taking re-entry or vesting action for long outstanding arrears cases with charging orders registered.* Audit selected nine arrears cases which had been outstanding for two years or more for examination. Audit found that in one case, the defaulter had owed rates and government rent since 2007 for 16 properties against which the RVD obtained charging orders to protect the Government's legal interest in May 2010. Notwithstanding the RVD's subsequent actions to demand payment (including submitting fresh legal claims to the Small Claims Tribunal for the new arrears and issuing warning letters), the efforts were to no avail. Meanwhile, due to the defaulter's continued occupation of the 16 properties without making any payments, the amount of outstanding rates and government rent continued to increase, i.e. up to \$1 million as at December 2015. In December 2015 (i.e. more than five years after the charging orders had been obtained), the RVD referred all the 16 properties to the LandsD to consider taking re-entry or vesting action. In Audit's view, the RVD needs to remind staff concerned to refer the long outstanding arrears cases with charging orders registered to the LandsD for consideration of taking re-entry or vesting actions in a timely manner.

5.7 *Need to expedite actions to deal with bona vacantia cases.* Section 752 of the Companies Ordinance (Cap. 622) provides that, where a company is dissolved, the property vested in the company immediately before its dissolution is vested in the Government as bona vacantia. According to RVD records, as at 30 September 2015, there were 14 bona vacantia cases (i.e. the defaulters of rates and government rent were dissolved companies). The total amount of outstanding rates and/or government rent of the 14 cases was \$1.3 million. Audit noted that:

- (a) for 10 cases, the RVD took 7.5 years or more to refer them to the LandsD for taking possession of the defaulting companies' properties; and
- (b) the properties of the 14 cases were vested in the Government from 1997 to 2010 (see Appendix F). Up to 30 September 2015, the LandsD had taken possession of properties in nine cases.

In Audit's view, the RVD and the LandsD need to take prompt actions on bona vacantia cases.

Audit recommendations

5.8 Audit has *recommended* that the Commissioner of Rating and Valuation should:

- (a) remind staff concerned to refer the long outstanding arrears cases with charging orders registered to the LandsD for consideration of taking re-entry or vesting actions in a timely manner; and**
- (b) in conjunction with the Director of Lands, take prompt actions on bona vacantia cases.**

Response from the Government

5.9 The Commissioner of Rating and Valuation generally agrees with the audit recommendations. He has said that:

- (a) of the five accounts which had an outstanding amount of more than \$1 million each as at September 2015 (see Note to Table 17 in para. 5.5), three had been settled in November and December 2015;**
- (b) according to legal advice, in general a charging order can provide adequate protection to the interest of the Government. With the limited resources available, the RVD has been according priority to protecting the Government's interest by speeding up legal actions on arrears cases, including application of charging orders for the judgments obtained;**
- (c) for the case mentioned in paragraph 5.6:
 - (i) the RVD had been taking steady follow-up actions after the charging order action in 2010. In addition to those mentioned in paragraph 5.6, from 2012 to 2014, the RVD had been in dialogue with the defaulter on settlement of the arrears of all the outstanding accounts. The case had been monitored closely by the subject officers;****

Collection of rates and government rent

- (ii) as a further step to press the defaulter for early settlement, the RVD referred the case to the LandsD in December 2015 for issuance of two rounds of warning letters for re-entry/vesting actions against the properties under section 7 of the Government Rights (Re-entry and Vesting Remedies) Ordinance (Cap. 126). The LandsD issued the first round of warning letter in January 2016; and
- (iii) given limited resources and in view of the above-mentioned legal advice, the RVD considers that adequate and timely arrears recovery actions have been taken on the case. Nonetheless, the RVD will consider referring arrears cases with charging orders to the LandsD earlier where warranted; and
- (d) with a view to further facilitating the LandsD in taking action on bona vacantia cases, the RVD will remind the staff concerned to refer them to the LandsD for follow-up action as soon as practicable.

5.10 The Director of Lands has said that:

- (a) for arrears cases where charging orders are registered:
 - (i) re-entry or vesting action may be taken if there is a breach of covenant in the relevant land lease. Land lease usually contains a covenant for payment of government rent, but there may not be any covenant for payment of rates by the lessee;
 - (ii) it is the LandsD's understanding that the RVD had previously obtained legal advice from the Department of Justice that re-entry action should be taken only as a last resort, after exhausting all other means of recovery. For consistency and clarity of practice, it would be useful if the RVD, in consultation with the Department of Justice, would consider drawing up guidelines or criteria as to when re-entry or vesting action would be appropriate; and
 - (iii) the LandsD believes that the RVD will consider taking actions for orders for sale as an alternative to re-entry or vesting action;

Collection of rates and government rent

- (b) the Government may not be in a position to take possession or dispose of the bona vacantia properties under certain circumstances, such as the following:
 - (i) the properties are subject to mortgage and the mortgagee has taken possession of the properties; or
 - (ii) the properties are subject to mortgage or charging orders and the amount of indebtedness is substantial or cannot be ascertained; and

- (c) in the case where the LandsD may take possession and dispose of the property to a new owner, the new owner of the property would not be liable for the outstanding rates/government rent that were payable by the company before its dissolution, as he/she was not the owner of the property during the relevant period. While the LandsD's work of taking possession of bona vacantia properties may not achieve the purpose of recovering outstanding rates and/or government rent thereof, the LandsD will continue to work with the RVD to take appropriate actions on bona vacantia cases.

Properties exempted from assessment to rates

Section 36(1) of the Rating Ordinance provides that the following properties are exempted from assessment to rates:

- (a) agricultural land and buildings;
- (b) New Territories dwelling houses occupied in connection with agricultural land or agricultural operations;
- (c) New Territories village houses within designated areas, complying with the prescribed size, height and type criteria (see para. 4.3);
- (d) properties built for the purpose of public religious worship and used wholly or mainly for such purpose;
- (e) cemeteries and crematoria;
- (f) properties owned and occupied for public purposes by the Government, the Legislative Council Commission or the Financial Secretary Incorporated;
- (g) properties owned by the Government and occupied as dwellings by public officers by virtue of their employment;
- (h) properties owned by the Housing Authority and occupied for public purposes by the Government;
- (i) military land;
- (j) certain resited village houses in the New Territories;
- (k) properties occupied for domestic purposes in cottage areas or temporary housing areas; and
- (l) properties of which the rateable value would not exceed the prescribed amount (currently at \$3,000).

Source: RVD records

Properties exempted from payment of rates

1. Section 36(2) of the Rating Ordinance provides that the Chief Executive-in-Council may declare any class of properties to be exempted from payment of rates. The Rating (Miscellaneous Exemptions) Order (Cap. 116A) specifies that the following classes of properties are exempted from payment of rates:

- (a) all properties, or parts thereof, used wholly or mainly for public religious worship, other than those exempt from assessment under section 36(1)(d) (see Appendix A);
- (b) all properties, or parts thereof, occupied for public purposes by or on behalf of the Government or the Financial Secretary Incorporated other than those exempt from assessment under section 36(1)(f) or (h); and
- (c) all properties, or parts thereof, held by the Government and occupied or to be occupied as dwellings by public officers by virtue of their employment other than those exempt from assessment under section 36(1)(g).

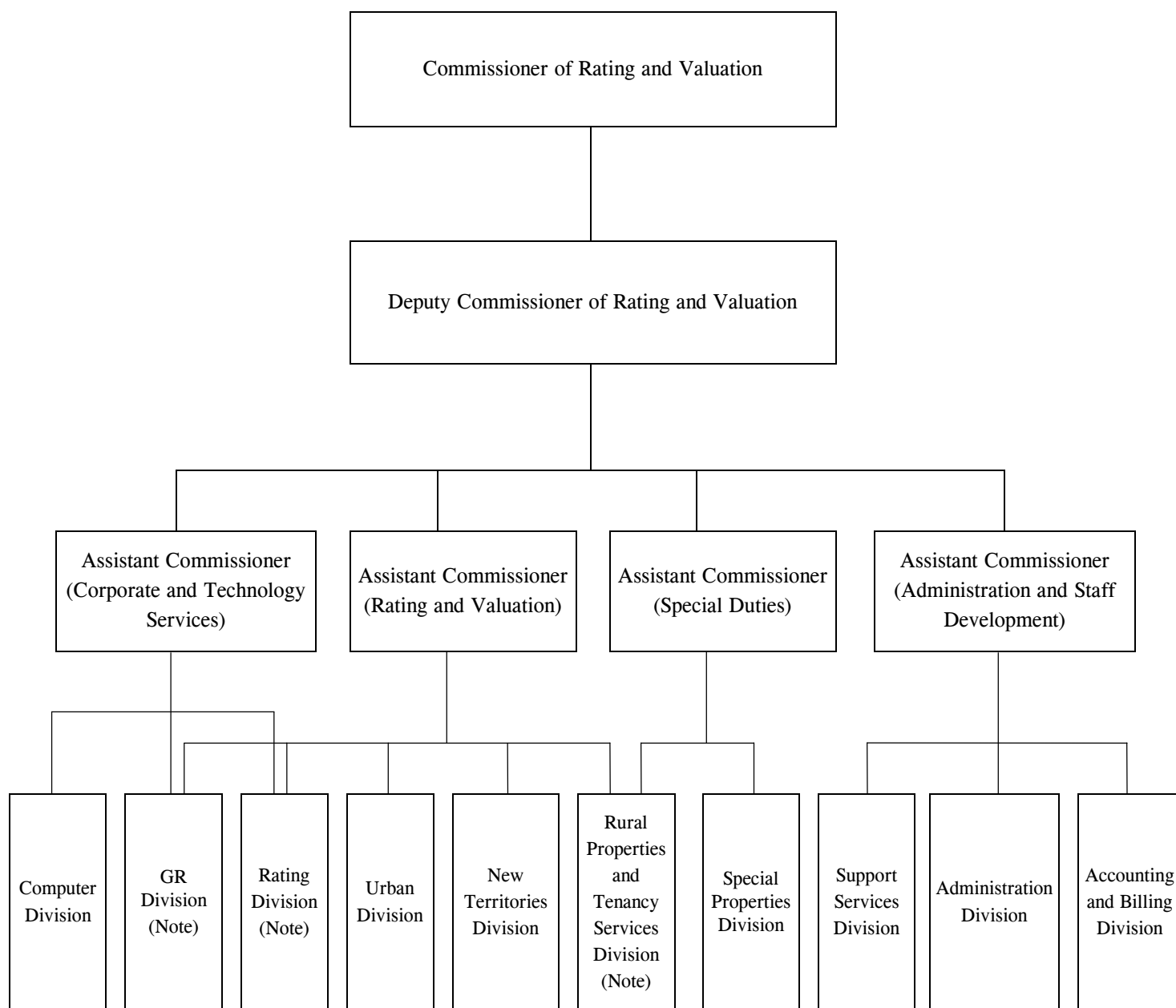
2. Section 36(3) of the Rating Ordinance provides that the Chief Executive of the Hong Kong Special Administrative Region may exempt any property or part of any property from payment of rates, wholly or in part. This exemption provision is limited to particular properties, and not classes of properties. For example, this provision is used for the exemption of:

- (a) consular properties and residences of accredited consular officers; and
- (b) certain village houses situated outside the designated village areas in the New Territories and occupied by an indigenous villager.

The Chief Executive has delegated his authority under this provision to different public officers. For example, the Director of Home Affairs is authorised to approve exemptions from payment of rates to village houses situated outside the designated village areas in the New Territories.

Source: RVD records

**Rating and Valuation Department
Organisation chart
(31 December 2015)**



Source: RVD records

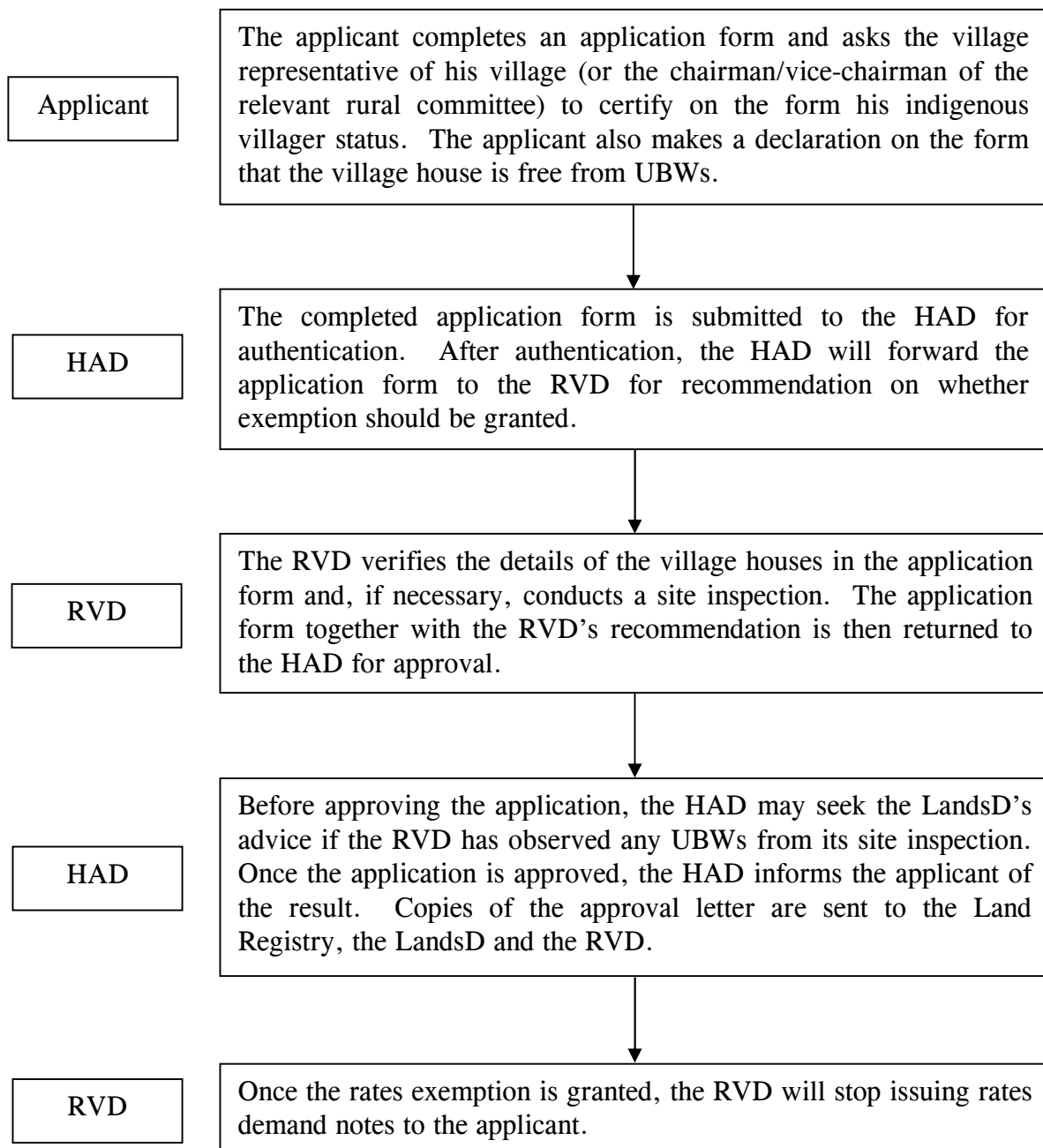
Note: The division is responsible to two Assistant Commissioners.

**Analysis of 105 designated village areas by districts
(31 December 2015)**

District	Number of DVAs	Estimated number of village houses
Yuen Long	49	14,460
North	12	740
Tai Po	12	430
Sai Kung	17	320
Islands	10	310
Shatin	4	110
Tsuen Wan	1	90
Total	105	16,460

Source: RVD records

Major steps in processing applications for exemption from payment of rates



Source: HAD records

**Key dates of 14 bona vacantia cases
(30 September 2015)**

Case	Date of properties vested in the Government	Date of referring to the LandsD	Date of taking possession by the LandsD
1	26 September 1997	25 October 2005	19 November 2012
2	15 August 2003	19 August 2013	—
3	26 September 2003	16 September 2004	7 September 2009
4	18 June 2004	7 January 2015	—
5	28 April 2006	10 December 2013	30 May 2015
6	28 April 2006	10 December 2013	30 May 2015
7	28 April 2006	10 December 2013	30 May 2015
8	28 April 2006	10 December 2013	30 May 2015
9	28 April 2006	10 December 2013	30 May 2015
10	28 April 2006	10 December 2013	30 May 2015
11	28 April 2006	10 December 2013	30 May 2015
12	25 July 2008	19 August 2013	—
13	15 May 2009	13 March 2014	—
14	24 December 2010	13 December 2011	—

Source: RVD records

Acronyms and abbreviations

Audit	Audit Commission
BD	Buildings Department
DLO	District Lands Office
DVA	Designated village area
FSTB	Financial Services and the Treasury Bureau
GR	General Revaluation
HAD	Home Affairs Department
IRD	Inland Revenue Department
LandsD	Lands Department
RVD	Rating and Valuation Department
RV/Rent ratio	Ratio of Rateable Value to Rent
UBWs	Unauthorised building works

CHAPTER 2

**Food and Health Bureau
Agriculture, Fisheries and Conservation Department**

Fresh food wholesale markets

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

FRESH FOOD WHOLESALE MARKETS

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1 – 1.10
Audit review	1.11 – 1.12
Acknowledgement	1.13
PART 2: UTILISATION OF PUBLIC FRESH FOOD WHOLESALE MARKETS	2.1 – 2.2
Utilisation of Agriculture, Fisheries and Conservation Department markets	2.3 – 2.18
Audit recommendations	2.19
Response from the Government	2.20
Utilisation of Fish Marketing Organisation markets	2.21 – 2.38
Audit recommendations	2.39
Response from the Government	2.40
PART 3: MANAGEMENT OF AGRICULTURE, FISHERIES AND CONSERVATION DEPARTMENT MARKETS	3.1
Management of daily operation	3.2 – 3.12
Audit recommendations	3.13

	Paragraph
Response from the Government	3.14
Contracting out of supporting services	3.15 – 3.25
Audit recommendations	3.26
Response from the Government	3.27
 PART 4: REPROVISIONING OF PRIVATE AND PUBLIC FRESH FOOD WHOLESALE MARKETS	 4.1
Reprovisioning of the Yau Ma Tei Fruit Market	4.2 – 4.15
Audit recommendations	4.16
Response from the Government	4.17 – 4.18
Reviews of provision of public fresh food wholesale markets	4.19 – 4.27
Reprovisioning of the Cheung Sha Wan Vegetable Market	4.28 – 4.38
Reprovisioning of fresh food wholesale markets on temporary sites	4.39 – 4.46
Audit recommendations	4.47
Response from the Government	4.48
 PART 5: WAY FORWARD	 5.1
Roles of two marketing organisations	5.2 – 5.9
Future roles of fresh food wholesale markets	5.10
Audit recommendations	5.11
Response from the Government	5.12

Appendices	Page
A : Locations of 12 public fresh food wholesale markets (31 December 2015)	71
B : Land status of 12 public fresh food wholesale markets (31 December 2015)	72
C : Agriculture, Fisheries and Conservation Department: Organisation chart (extract) (31 December 2015)	73
D : Chronology of key events relating to the reprovisioning of the Yau Ma Tei Fruit Market (January 1969 to January 2016)	74 – 76
E : Chronology of key events relating to the delay in residential developments at the Cheung Sha Wan sites (July 1994 to March 2016)	77
F : Acronyms and abbreviations	78

FRESH FOOD WHOLESALE MARKETS

Executive Summary

1. Fresh food wholesale markets have a long history in Hong Kong and are an integral part of the supply chain for distributing five types of fresh food (i.e. vegetables, fruits, eggs, live and fresh fishes, and live poultry). As at December 2015, there were 12 public fresh food wholesale markets, comprising four government fresh food wholesale markets operated by the Agriculture, Fisheries and Conservation Department (AFCD), seven wholesale fish markets operated by the Fish Marketing Organisation (FMO) and a wholesale vegetable market operated by the Vegetable Marketing Organisation (VMO). The FMO and the VMO are self-financing non-profit-making organisations established many years ago under the Marine Fish (Marketing) Ordinance (Cap. 291) and the Agricultural Products (Marketing) Ordinance (Cap. 277) respectively to promote the development of the agriculture and fisheries industries and the orderly marketing of fresh marine fishes and vegetables. Both organisations are administered by the Director of Marketing, who is also the Director of Agriculture, Fisheries and Conservation. Also, there were three privately operated fresh food wholesale markets, including the Yau Ma Tei Fruit Market. The 12 public fresh food wholesale markets had total site areas of 265,480 square metres (m²). In the past 10 years, fresh food distributed through the public wholesale markets had decreased both in quantum and market share. In 2014-15, total throughput was 666,000 tonnes, down 14% from 776,000 tonnes in 2005-06. On the other hand, as a result of the increase in total local consumption of the five types of fresh food from 1,339,000 tonnes in 2005-06 to 1,802,000 tonnes in 2014-15 (an increase of 35%), the percentage of fresh food supplied through the 12 markets had decreased from 58% in 2005-06 to 37% in 2014-15. The Audit Commission (Audit) has recently conducted a review of the AFCD's efforts in the provision and management of public fresh food wholesale markets.

Utilisation of public fresh food wholesale markets

2. *Some facilities at AFCD markets not used or used for unintended purposes.* The four AFCD markets provide stalls, trade offices and ancillary facilities (e.g. bank and kiosk) for renting by traders and interested parties. During 2005-06 to 2014-15, the overall throughput of the four markets decreased by 3%. One of them (Cheung Sha Wan Temporary Wholesale Poultry Market) had a 76% decrease in throughput. As at December 2015, 48 (56%) stalls in the poultry market were left vacant (see para. 9). Moreover, some trade offices and ancillary

Executive Summary

facilities at the four markets were unutilised, including two battery charging areas not used for over 10 years. To improve utilisation of the markets, the AFCD had allocated 26 (50%) trade offices and 9 (28%) ancillary facilities for use by government departments. These facilities were generally used by the departments for storage of miscellaneous items, instead of letting to traders for conducting fresh food wholesale activities (paras. 2.3 to 2.17).

3. ***Surplus areas in FMO markets.*** The land areas of the seven FMO markets comprise trading areas (e.g. stalls) and ancillary areas (e.g. loading/unloading and parking areas). During 2005-06 to 2014-15, the total throughput of the seven markets decreased by 16%. In three markets, the ancillary areas accounted for 70% or more of the market areas. The considerable proportion of ancillary areas might indicate surplus areas in the markets. Audit site visits to the market with the greatest proportion (85%) of ancillary areas revealed that its ancillary areas were mainly let out as 38 monthly parking spaces, which seemed excessive when compared with other FMO markets. Moreover, Audit analysis revealed that in another FMO market, 84% of the trading areas were not utilised (paras. 2.21 to 2.30 and 2.37).

Management of Agriculture, Fisheries and Conservation Department markets

4. ***Non-compliance with terms of tenancy agreements.*** The AFCD has contracted out supporting services for the four AFCD markets through open tendering, including market management, cleansing and security services. AFCD staff and staff of the contractors conduct daily inspections covering areas such as general condition of key facilities and compliance with terms of tenancy agreements. However, during site visits to two largest AFCD markets, Audit noted incidents of non-compliance/suspected non-compliance with the terms of tenancy agreements, including using wholesale market stalls for retail sale, causing obstructions and suspected gambling (paras. 3.2, 3.3 and 3.7).

5. ***Tender assessment methodology not conducive to improving performance.*** In conducting tender exercises for procuring supporting services for its markets, the AFCD has assessed tenders conforming to essential requirements based on the tender prices only. This is not conducive to improving contractor performance because any unsatisfactory performance of existing contractors would not affect their claims in future tender exercises. For example, Audit noted occasions that the contractors had provided fewer security guards than required, which weakened the

Executive Summary

control over compliance with the terms of tenancy agreements (see para. 4). However, the ability to deploy staff effectively to deter non-compliance incidents is not assessed in tender evaluation (paras. 3.23 to 3.25).

Reprovisioning of private and public fresh food wholesale markets

6. *Yau Ma Tei Fruit Market.* The Yau Ma Tei Fruit Market is a private market established in 1913. Over the years, it has become outdated, causing traffic and environmental nuisances in the vicinity. In accordance with the Executive Council's decision of 1969, the Government should reprovise the fruit market to a government-built wholesale market. In its last audit review of 2007, Audit reported that there had been little progress in the reprovisioning of the fruit market. In its Report of July 2007, the Public Accounts Committee (PAC) of the Legislative Council expressed serious concern and strongly urged the Government to provide a definite relocation timetable. In this audit review, Audit noted that: (a) in 2007, the Government informed the PAC of the plan to construct a new wholesale market for fresh fruits in Cheung Sha Wan for relocating the fruit market; (b) in 2008, the Government indicated that it would continue to liaise with fruit traders, who had strong reservations about the proposed relocation of the fruit market; (c) in 2011, the Government decided to release the site at Cheung Sha Wan for residential development and identified an alternative site at Kwai Chung; and (d) in January 2016, the Government decided to release the site at Kwai Chung for other competing uses and was considering a candidate site in Tsing Yi for the relocation of the fruit market. As at March 2016, after a lapse of some 47 years since the 1969 Executive Council decision, the fruit market had yet to be reprovisioned. Records indicated that, during 2007 to 2013, a total of 1,533 complaints (e.g. about obstructions and noise) in relation to the fruit market were lodged with various government departments. Audit site visits to the fruit market in January 2016 confirmed that nuisances caused by market operation persisted (paras. 4.2 to 4.14).

7. *Cheung Sha Wan Wholesale Vegetable Market.* The Cheung Sha Wan Vegetable Wholesale Market has been operated by the VMO since 1965. It has a total site area of 18,933 m². As early as in 1994, the Planning Department commented that its continued operation at the Cheung Sha Wan sites would be a misuse of valuable land. In 1998, the relevant areas were zoned for residential use, with the intention of using the land for public housing development. While the Planning Department had proposed different relocation sites for the vegetable market, the AFCD did not consider the sites suitable and had no plan of relocating

Executive Summary

the vegetable market. In 2011, a review conducted by the Food and Health Bureau in consultation with the AFCD concluded that relocation of the vegetable market would be planned to provide land supply for residential developments. The AFCD required a suitable relocation site with a site area of at least 25,000 m². Audit noted that the required area of 25,000 m² was 32% larger than the existing total site area of 18,933 m². Given that during 2005-06 to 2014-15 the throughput of the vegetable market decreased significantly by 40%, the AFCD needs to critically review the site requirements to ensure that they are justified. As at March 2016, there was little progress in the reprovisioning of the vegetable market. The Housing Department had commented that the relevant housing development could only be completed around five years after the relocation of the vegetable market (paras. 4.28 to 4.38).

8. ***North District Temporary Wholesale Market for Agricultural Products.*** The North District Temporary Wholesale Market for Agricultural Products operated by the AFCD had been occupying a temporary site of 12,500 m² in Fanling since its commissioning in 1989 to sell vegetables. Due to short operating hours and being only an open ground without permanent infrastructure, its “throughput to land areas” ratio in 2014-15 was only half of that of the Cheung Sha Wan Wholesale Vegetable Market. Also, during 2005-06 to 2014-15, it had a 48% decrease in throughput. There is a need to optimise the use of the site (paras. 2.6(b) and 4.40 to 4.42).

9. ***Cheung Sha Wan Temporary Wholesale Poultry Market.*** Occupying a temporary site of 26,000 m² since 1974, the Cheung Sha Wan Temporary Wholesale Poultry Market operated by the AFCD is the only wholesale market for live poultry in the territory. To address the risk of outbreak of avian influenza, the Government had launched schemes to help live poultry traders voluntarily end their business, resulting in diminution of the live poultry trade. During 2005-06 to 2014-15, the poultry market had a 76% decrease in throughput. As at December 2015, the poultry market had 48 (56%) vacant stalls, with vacancy periods over five years. The Government has commissioned a consultancy study on the way forward for the live poultry trade in Hong Kong, and the proposed relocation of the poultry market to Sheung Shui has been put on hold (paras. 2.6(a) and 4.43 to 4.46).

Way forward

10. The FMO and the VMO were originally set up for wholesale marketing of fresh marine fishes (excluding fishes alive and in water) and local vegetables respectively. During 2005-06 to 2014-15, the fresh marine fishes throughput of the

Executive Summary

seven FMO markets decreased by 20%, and the local vegetables throughput of the VMO's Cheung Sha Wan Wholesale Vegetable Market decreased by 59%. To sustain their operation, the FMO has let extensive market areas to traders for live marine fish trading (in contrast to fresh marine fishes) and car parking (see para. 3), and the VMO has sold predominantly imported vegetables. There is a need to review the use of lands by the FMO and the VMO for purposes other than originally intended to ensure that it represents an optimal use of public resources against competing demands. For example, as both the VMO's Cheung Sha Wan Wholesale Vegetable Market and the nearby AFCD's Cheung Sha Wan Wholesale Food Market are carrying out wholesale marketing of imported and local vegetables, it is necessary to review the roles and functions of these public markets, with a view to minimising overlap of activities and eliminating duplication of resources (paras. 5.4 to 5.9).

Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

Utilisation of public fresh food wholesale markets

- (a) **explore the conversion of any facilities at AFCD markets not used for a long period into other gainful uses (para. 2.19(b));**
- (b) **for facilities at AFCD markets currently allocated to government departments, ensure that they are periodically advertised for letting to traders (para. 2.19(c));**
- (c) **review the market areas of individual FMO markets to find out the areas which are surplus to operational needs and take measures to redeploy the surplus areas to gainful uses (para. 2.39(a) and (b));**

Management of AFCD markets

- (d) **consider measures to better detect and deter non-compliance with terms of tenancy agreements at AFCD markets (para. 3.13(a));**
- (e) **review the adequacy of the tender assessment methodology in inducing contractors to improve performance and in encouraging quality services (para. 3.26(b));**

Executive Summary

Reprovisioning of private and public fresh food wholesale markets

- (f) keep in view the progress made by the relevant bureau and departments in exploring a reprovisioning site for the Yau Ma Tei Fruit Market and consider how to engage fruit traders and other stakeholders to solicit their support (para. 4.16(a) and (c));
- (g) in the interim, continue to monitor the effectiveness of the measures for mitigating nuisances caused by the Yau Ma Tei Fruit Market operation (para. 4.16(d));
- (h) critically review the site requirements for the reprovisioning of the Cheung Sha Wan Wholesale Vegetable Market (para. 4.47(c));
- (i) work closely with the relevant departments to expedite the reprovisioning of the Cheung Sha Wan Wholesale Vegetable Market and the release of the sites for housing developments (para. 4.47(d));
- (j) examine how to optimise the use of the site currently occupied by the North District Temporary Wholesale Market for Agricultural Products (para. 4.47(f));
- (k) keep in view the development of the Government's policy on the selling of live poultry, with a view to reprovisioning the Cheung Sha Wan Temporary Wholesale Poultry Market and/or releasing its site at the earliest possible time (para. 4.47(g)); and

Way forward

- (l) in conjunction with the Secretary for Food and Health, critically review the roles and functions of the FMO and the VMO in relation to those of the AFCD in operating public fresh food wholesale markets, and take measures to help them perform their roles and functions effectively and efficiently (para. 5.11).

Response from the Government

12. The Secretary for Food and Health and the Director of Agriculture, Fisheries and Conservation generally accept the audit recommendations.

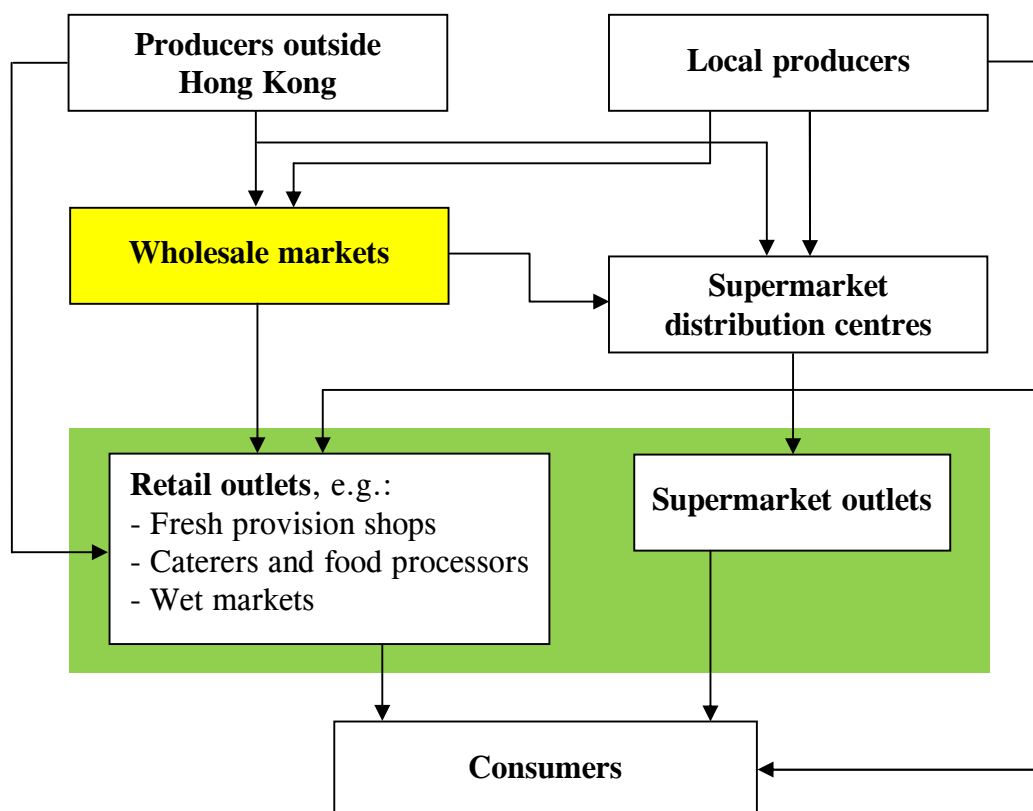
PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

1.2 In Hong Kong, fresh food wholesale markets are an integral part of the supply chain for distributing five types of fresh food (i.e. vegetables, fruits, eggs, live and fresh fishes, and live poultry). Through wholesale markets, producers sell their produce in bulk quantities to traders for their resale in smaller quantities to retailers. There are also retailers (e.g. supermarkets) and consumers who source fresh food directly from producers. Figure 1 shows an overview of the fresh food supply system.

Figure 1

Overview of the fresh food supply system



Legend: Retailers

Source: *Audit Commission analysis of Agriculture, Fisheries and Conservation Department records*

Introduction

Public fresh food wholesale markets

1.3 *4 markets operated by the Agriculture, Fisheries and Conservation Department (AFCD).* Fresh food wholesale markets have a long history in Hong Kong. Early markets were operated by private individuals/entities on open streets and land areas. In 1969, the Government decided to construct markets using public funds to re-provision such private markets and solve the traffic, environmental and other problems caused by them. As at 31 December 2015, there were four government fresh food wholesale markets, all operated by the AFCD.

1.4 *8 markets operated by the Fish Marketing Organisation (FMO) or the Vegetable Marketing Organisation (VMO).* In 1945 and 1946, against the backdrop of post-war rehabilitation, the Government established the FMO and the VMO respectively to help local fishermen and farmers. The FMO and the VMO are self-financing non-profit-making organisations formed to promote the development and continuous improvement of the agriculture and fisheries industries and to provide facilities and services for the orderly marketing of fresh marine fishes and fresh vegetables. The FMO operates under the Marine Fish (Marketing) Ordinance (Cap. 291) and the VMO operates under the Agricultural Products (Marketing) Ordinance (Cap. 277). The FMO and the VMO earn commissions on transactions conducted at the wholesale markets operated by them. As at 31 December 2015, there were seven wholesale fish markets operated by the FMO and one wholesale vegetable market operated by the VMO.

1.5 Also, as at 31 December 2015, there were three privately operated fresh food wholesale markets, comprising the Yau Ma Tei Fruit Market, Yuen Long Tin Kwong Hui Vegetable Wholesale Market and Yuen Long Freshwater Fish Market (Note 1).

Note 1: *The site areas were 14,000 square metres (m²) for the Yau Ma Tei Fruit Market, 8,200 m² for the Yuen Long Tin Kwong Hui Vegetable Wholesale Market and 7,800 m² for the Yuen Long Freshwater Fish Market. All three private markets were self-financed and did not involve government funding.*

1.6 According to the AFCD, besides their economic role (serving a hub-and-spoke function in the food supply chain), other roles of fresh food wholesale markets as evolved over the years include stabilising food supply and prices, improving food trading efficiency and price transparency, improving food safety and traceability, and generating employment opportunities for the grassroots. The AFCD has also indicated that:

- (a) one of the roles of the VMO is to help local farmers market their produce. In particular, the VMO helps small local farmers who have fewer resources and less bargaining power, and whose production volume does not make it viable for them to make their own logistics and direct sale arrangements. Similar to the VMO, the roles of the FMO include improving the marketing of fishery products and promoting co-operative enterprise in the fisheries industry; and
- (b) two AFCD markets (i.e. the Cheung Sha Wan Wholesale Food Market and the Western Wholesale Food Market) were constructed to remedy the traffic and environmental nuisances caused by the wholesale traders, making the best use of the land for the markets to the best advantage of the trade and the community, and to facilitate the development of the areas then occupied by wholesale traders.

1.7 In this Audit Report, the wholesale markets operated by the AFCD, the FMO or the VMO are referred to as public fresh food wholesale markets. The food supplied by the public fresh food wholesale markets and by the private markets are shown in Table 1. Table 2 lists the 12 public fresh food wholesale markets (Note 2). The locations and land status (e.g. short term tenancy (STT) or Private Treaty Grant (PTG)) of the public fresh food wholesale markets are shown in Appendix A and Appendix B respectively.

Note 2: *There were also one fish collecting depot at Cheung Chau (61 m²) operated by the FMO and two vegetable collecting depots at Kam Tin (486 m²) and Lam Tei (1,575 m²) operated by the VMO. Fishermen/farmers may deliver fishes/vegetables to the depots for transportation to FMO/VMO markets for sale.*

Introduction

Table 1

**Food supplied through public fresh food wholesale markets
(2014-15)**

Market	('000 tonnes)						
	Vegetables	Fruits	Eggs	Live and fresh fishes		Live poultry	Overall
				Freshwater	Marine		
<i>Food supplied through public fresh food wholesale markets</i>							
Cheung Sha Wan Temporary Wholesale Poultry Market	-	-	-	-	-	9	9
North District Temporary Wholesale Market for Agricultural Products	43	-	-	-	-	-	43
Cheung Sha Wan Wholesale Food Market	161	-	50	41	-	-	252
Western Wholesale Food Market	50	102	23	13	-	-	188
AFCD markets subtotal	254	102	73	54	-	9	492
7 Fish Markets of FMO	-	-	-	-	46	-	46
Cheung Sha Wan Wholesale Vegetable Market of VMO	128	-	-	-	-	-	128
Total	382	102	73	54	46	9	666
<i>Analysis of supply of fresh food</i>							
Through public wholesale markets	382 (47%)	102 (15%)	73 (68%)	54 (65%)	46 (41%)	9 (100%)	666 (37%)
Through Yau Ma Tei Fruit Market	-	317 (47%)	-	-	-	-	317 (17%)
Through the remaining 2 private wholesale markets	13 (1%)	-	-	16 (19%)	-	-	29 (2%)
Not through wholesale markets	425 (52%)	253 (38%)	34 (32%)	13 (16%)	65 (59%)	-	790 (44%)
Total local consumption	820 (100%)	672 (100%)	107 (100%)	83 (100%)	111 (100%)	9 (100%)	1,802 (100%)

Source: Audit Commission analysis of AFCD records

Table 2
Public fresh food wholesale markets
(31 December 2015)

Name of market (Abbreviated name referred to in this Audit Report)		Year of establishment	Site area (m ²)
<i>AFCD markets</i>			
1	Cheung Sha Wan Temporary Wholesale Poultry Market (Cheung Sha Wan Temporary Poultry Market)	1974	26,000 (Note 1)
2	North District Temporary Wholesale Market for Agricultural Products (North District Temporary Agricultural Products Market)	1989	12,500 (Note 1)
3	Cheung Sha Wan Wholesale Food Market (Cheung Sha Wan Food Market)	1993	100,000 (Note 1)
4	Western Wholesale Food Market (Western Food Market)	1994 (Note 2)	62,000 (Note 1)
Subtotal for AFCD markets			200,500
<i>FMO markets</i>			
5	Aberdeen Wholesale Fish Market (Aberdeen Fish Market)	1960	15,577
6	Sai Kung Wholesale Fish Market (Sai Kung Fish Market)	1969	380
7	Kwun Tong Wholesale Fish Market (Kwun Tong Fish Market)	1986	4,151
8	Tai Po Wholesale Fish Market (Tai Po Fish Market)	1988	4,422
9	Cheung Sha Wan Wholesale Fish Market (Cheung Sha Wan Fish Market)	1993	11,930
10	Shau Kei Wan Wholesale Fish Market (Shau Kei Wan Fish Market)	1994	4,474
11	Castle Peak Wholesale Fish Market (Castle Peak Fish Market)	2010	5,113
Subtotal for FMO markets			46,047
<i>VMO market</i>			
12	Cheung Sha Wan Wholesale Vegetable Market (Cheung Sha Wan Vegetable Market)	1965	18,933
Total			265,480

Source: AFCD records

Note 1: The figures are approximate site areas.

Note 2: Phase I of the market was completed in 1991. Phase II was completed in 1994.

Introduction

1.8 *Decrease in total throughput.* In the past 10 years, fresh food distributed through the public wholesale markets had decreased both in quantum and market share. As shown in Table 1, in 2014-15, total throughput of the 12 public fresh food wholesale markets was 666,000 tonnes, down 14% from 776,000 tonnes in 2005-06 (Note 3). On the other hand, as a result of the increase in total local consumption of the five types of fresh food from 1,339,000 tonnes in 2005-06 to 1,802,000 tonnes in 2014-15 (an increase of 35%), the percentage of the fresh food supplied through the 12 public markets had decreased from 58% in 2005-06 to 37% in 2014-15.

Management of public fresh food wholesale markets

1.9 The Food and Health Bureau (FHB) is responsible for drawing up policies on agriculture and fisheries, including those on fresh food wholesale markets. The AFCD implements the policies through its “Agriculture, Fisheries and Fresh Food Wholesale Markets” programme. The programme aims to facilitate agricultural and fisheries production and improve productivity. The work related to fresh food wholesale markets includes managing the four AFCD markets and providing administrative and technical support to the FMO and the VMO. The work involves about 64 AFCD staff, with an estimated financial provision of \$99 million for 2015-16. An extract of the AFCD organisation chart showing the divisions responsible for the work is at Appendix C.

1.10 The FMO and the VMO are self-financing organisations (see para. 1.4). They employ their own staff (Note 4) to operate their wholesale markets, with administrative and technical support provided by the AFCD (see para. 1.9). Both organisations are administered by the Director of Marketing, who is also the Director of Agriculture, Fisheries and Conservation and the Controlling Officer of the AFCD.

Note 3: *The total throughput of the 4 AFCD markets, the 7 FMO markets and the VMO market were down 3%, 16% and 40% respectively.*

Note 4: *As at 31 December 2015, the FMO and the VMO had a staff establishment of 196 and 205 respectively. The staff were not civil servants.*

Audit review

1.11 The Audit Commission (Audit) conducted a review of “The provision of government wholesale food markets” in 1996 (Chapter 6 of the Director of Audit’s Report No. 27), a review of “Wholesale marketing of marine fish” in 2000 (Chapter 1 of the Director of Audit’s Report No. 35) and a review of “Management of government fresh food wholesale markets” in 2007 (Chapter 4 of the Director of Audit’s Report No. 48). The reviews covered the fresh food wholesale markets operated by the AFCD and the FMO (i.e. the Cheung Sha Wan Vegetable Market operated by the VMO was not covered). Audit identified a number of issues on the utilisation, management and reprovisioning of certain markets. The Public Accounts Committee (PAC) of the Legislative Council (LegCo) considered the 1996 and 2007 Reports, and expressed serious concern that, among others, there was little progress in the reprovisioning of the Yau Ma Tei Fruit Market (see para. 4.6).

1.12 In October 2015, Audit commenced a review to examine the AFCD’s efforts in the provision and management of public fresh food wholesale markets, including following up relevant issues identified in the previous audit reviews. The review has focused on the following areas:

- (a) utilisation of public fresh food wholesale markets (PART 2);
- (b) management of AFCD markets (PART 3);
- (c) reprovisioning of private and public fresh food wholesale markets (PART 4); and
- (d) way forward (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.13 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the AFCD during the course of the audit review.

PART 2: UTILISATION OF PUBLIC FRESH FOOD WHOLESALE MARKETS

2.1 This PART examines the utilisation of public fresh food wholesale markets. Audit has found room for improvement in the following areas:

- (a) utilisation of AFCD markets (paras. 2.3 to 2.20); and
- (b) utilisation of FMO markets (paras. 2.21 to 2.40).

Utilisation of VMO market

2.2 Unlike AFCD markets and FMO markets, the VMO market (i.e. the Cheung Sha Wan Vegetable Market) does not provide market stalls or trading spaces for individual traders. Traders conduct wholesale transactions in groups at designated trading areas of the VMO market. According to the AFCD, the designated areas were fully utilised during 2014-15. Also, during 2005-06 to 2014-15, the number of wholesalers using the VMO market remained largely stable at some 220. The need to re-provision the market and release the site for residential development is discussed in PART 4 (see paras. 4.28 to 4.38).

Utilisation of Agriculture, Fisheries and Conservation Department markets

2.3 The four AFCD markets provide traders with facilities for trading fresh food comprising vegetables, fruits, eggs, live and fresh fishes, and live poultry. These facilities include stalls/trading spaces (Note 5 — collectively referred to as “stalls” hereinafter) to conduct trading, offices (trade offices) and piers. The markets also provide spaces for operating ancillary facilities such as banks, battery charging areas and kiosks. Traders and interested parties may rent the facilities/spaces from the AFCD for operation.

Note 5: *In the North District Temporary Agricultural Products Market, traders do not have a fixed market stall. Each trader is assigned an open trading space to conduct trading business.*

Utilisation of public fresh food wholesale markets

The 2007 audit review

2.4 In the 2007 audit review “Management of government fresh food wholesale markets”, Audit reported that some of the market facilities were underutilised. The facilities concerned included vacant trade offices and ancillary facilities in the Western Food Market and the Cheung Sha Wan Food Market, as well as four unutilised piers at the Western Food Market.

Utilisation of stalls

2.5 As at 31 December 2015, the four AFCD markets had a total of 974 stalls. In three markets (Cheung Sha Wan Food Market, North District Temporary Agricultural Products Market and Western Food Market), 887 (99.9%) of their 888 stalls were let to traders. In the remaining market (Cheung Sha Wan Temporary Poultry Market), 48 (56%) of its 86 stalls were left vacant. Table 3 shows the throughput of the four markets.

Table 3

**Throughput of AFCD markets
(2005-06 and 2014-15)**

AFCD market	Throughput (Tonne)		
	2005-06	2014-15	Increase/Decrease
Cheung Sha Wan Temporary Poultry Market	38,954	9,376	-29,578 (-76%)
North District Temporary Agricultural Products Market	81,135	42,524	-38,611 (-48%)
Cheung Sha Wan Food Market	216,367	251,962	+35,595 (+16%)
Western Food Market	171,184	188,265	+17,081 (+10%)
Overall	507,640	492,127	-15,513 (-3%)

Source: AFCD records

Remarks: The Table shows the throughput for the five types of fresh food, namely, vegetables, fruits, eggs, live and fresh fishes, and live poultry.

Utilisation of public fresh food wholesale markets

- 2.6 It can be seen from Table 3 that during 2005-06 to 2014-15:
- (a) the Cheung Sha Wan Temporary Poultry Market had a 76% decrease in throughput. The decrease in throughput and the low percentage of stalls let to traders suggested that stall facilities for the Market were over-provided; and
 - (b) the North District Temporary Agricultural Products Market had a 48% decrease in throughput. There might be a need to reprovision or take improvement measures on the temporary market.
- 2.7 Upon enquiry, the FHB and the AFCD informed Audit in March 2016 that:
- (a) to reduce the likelihood of human contact with live poultry and the outbreak of avian influenza that poses severe threat to human health, the Government introduced a voluntary surrender scheme in 2004-05 and a buyout scheme in 2008. As a result, the number of wholesalers operating in the Cheung Sha Wan Temporary Poultry Market was reduced from 86 prior to the introduction of the first voluntary surrender scheme to 23 at present. To tie in with the policy to reduce the number of live poultry wholesalers, the AFCD had stopped leasing out any vacant stalls at the wholesale market to new and existing tenants since then. In order to enhance the bio-security measures at the poultry market, the AFCD converted some vacant wholesale stalls into additional overnight stocking areas to further reduce the risk of avian influenza in 2013; and
 - (b) regarding the North District Temporary Agricultural Products Market, the FHB and the AFCD had been making ongoing improvements, as follows:
 - (i) to resolve previous market management problems (Note 6), the AFCD had since 1 April 2012 assumed the management of the Market; and
 - (ii) to make way for the proposed Fanling Bypass, the Market would need to be relocated to a nearby site in future. As early as in the planning stage, the AFCD had liaised with the Civil Engineering

Note 6: *Before April 2012, the North District Temporary Agricultural Products Market was managed by outside contractors.*

Utilisation of public fresh food wholesale markets

and Development Department to provide enhanced facilities and services in the reprovisioned Market (including toilets, a refuse collection point and adequate drainage within market premises; a steel canopy for the trading area; and metered electricity and water to individual market stalls). A better-equipped site would allow more room for the AFCD to explore optimising the use of this relatively remote and isolated site with interested parties.

The over-provision of the Cheung Sha Wan Temporary Poultry Market and the AFCD's plan to relocate it are further discussed in paragraphs 4.43 to 4.46. The need to reprovision or take additional improvement measures on the North District Temporary Agricultural Products Market is further discussed in paragraphs 4.40 to 4.42.

Utilisation of other facilities

2.8 Table 4 shows the utilisation of other facilities in the four AFCD markets.

Table 4

**Utilisation of other facilities in AFCD markets
(31 December 2015)**

Facility	Utilised (No.)	Not utilised		Total (No.)
		Committed for other uses (No.)	Not committed for other uses (No.)	
Piers	2 (25%)	5 (63%) (Note)	1 (12%)	8 (100%)
Ancillary facilities (e.g. bank and kiosk)	28 (88%)	0 (0%)	4 (12%)	32 (100%)
Trade offices	50 (96%)	0 (0%)	2 (4%)	52 (100%)
Overall	80 (87%)	5 (5%)	7 (8%)	92 (100%)

Source: AFCD records

Note: 4 piers at the Western Food Market were committed for conversion into a waterfront promenade (see para. 2.9(a)). 1 pier at the Cheung Sha Wan Food Market was committed for redevelopment (see para. 2.9(b)).

Remarks: Utilised facilities refer to those let to users (i.e. traders and interested parties), as well as those allocated to government departments (see paras. 2.14 to 2.18).

Unutilised piers planned for alternative use

2.9 As can be seen from Table 4, five piers not utilised as at 31 December 2015 had been committed for other uses. They comprised four at the Western Food Market (which were also reported as unutilised in the 2007 audit review — see para. 2.4) and one at the Cheung Sha Wan Food Market. Audit noted the following:

- (a) ***Four unutilised piers at Western Food Market.*** In March 2013, the Central and Western District Council agreed to proceed with the conversion of the piers into a promenade. In July 2015, the Council endorsed the design and secured the necessary funding. As at January 2016, the AFCD had completed the legal procedures for surrendering the related harbourfront area to the Lands Department. Construction work would commence in early 2016 for completion by late 2017; and
- (b) ***One unutilised pier at Cheung Sha Wan Food Market.*** The Planning Department had proceeded to re-zone the pier for redevelopment together with other housing sites at South West Kowloon. The pier together with the housing sites were scheduled to be auctioned for housing construction in 2017.

The AFCD has facilitated the release of the five piers.

2.10 Table 4 shows that one unutilised pier as at 31 December 2015 had not been committed for other uses. Audit noted that the pier, located at the Cheung Sha Wan Food Market, had been unutilised for some five years since 2010. Upon enquiry, the AFCD informed Audit in March 2016 that there were operational needs for the pier to remain because it was very close to the seawater intake point of the condensing water cooling system of the Cheung Sha Wan Food Market. Otherwise, maintenance of such vital market facilities would be obstructed.

2.11 In this connection, Audit noted that the piers had to be maintained even unused (Note 7). If any pier is no longer needed for wholesale marketing, the AFCD needs to consider alternative use or demolishing it. There is a need for the AFCD to keep monitoring the situation.

Note 7: *For example, during 2006-07 to 2014-15, the total maintenance cost for the two unused piers at the Cheung Sha Wan Food Market was \$3.8 million.*

Utilisation of public fresh food wholesale markets

Trade offices and ancillary facilities not used or used for unintended purposes

2.12 The unutilised facilities shown in Table 4 also included two trade offices and four ancillary facilities, with a total area of 188 m² and 134 m² respectively. The latter were two battery charging areas and two temporary working areas. The two battery charging areas had not been used for over 10 years.

2.13 Upon enquiry, the AFCD informed Audit in December 2015 that the AFCD had had discussions with the Architectural Services Department on possible alternative uses of the battery charging areas. Indications had so far suggested that conversion for other uses might not be easy given the need to avoid disrupting the maintenance of underground cables. Nevertheless, according to the AFCD, further investigations would be conducted.

2.14 Trade offices and ancillary facilities are intended for letting to users (e.g. traders, traders' associations, and transportation companies) for conducting wholesale and related activities. However, over the years, to improve the utilisation of wholesale markets, the AFCD has allocated some trade offices and ancillary facilities for use by government departments (including the AFCD). Table 5 shows the details.

Table 5
Allocation of trade offices and ancillary facilities
(31 December 2015)

	Trade offices (No.)	Ancillary facilities (No.)
Allocated to traders, transportation companies and other users for wholesaling activities	24 (46%)	19 (60%)
Allocated to government departments	26 (50%)	9 (28%)
Total being utilised	50 (96%)	28 (88%)
Total not being utilised (see para. 2.8)	2 (4%)	4 (12%)
Overall	52 (100%)	32 (100%)

Source: Audit analysis of AFCD records

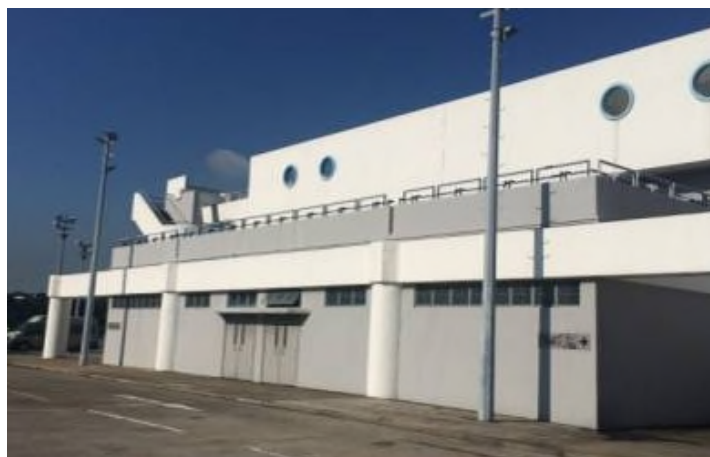
Utilisation of public fresh food wholesale markets

2.15 Table 5 shows that a considerable number of facilities (50% of the trade offices and 28% of the ancillary facilities) had been allocated to government departments for purposes other than fresh food wholesale. Audit noted that the allocated facilities were generally used for storage. Photographs 1 and 2 show an example.

Photographs 1 and 2

An ancillary facility occupied by the AFCD (Cheung Sha Wan Food Market)

Photograph 1



Outside

Photograph 2



Inside

Source: Photographs taken by Audit in January 2016

Utilisation of public fresh food wholesale markets

2.16 Given the considerable proportion of market facilities allocated to government departments, attention is needed to ensure that interested non-government users are not precluded from using the facilities for conducting fresh food wholesale activities.

Trade offices and ancillary facilities not advertised for letting

2.17 According to the arrangements with other government departments, the AFCD could give prior notice requiring them to return the facilities allocated. Most of the facilities allocated to government departments were located in the Cheung Sha Wan Food Market (Note 8). Audit analysed the advertisements placed for the Market (e.g. on the Internet, in newspapers and at the Market) and found that:

- (a) during March 2014 to December 2015, the AFCD advertised 5 trade offices and 5 ancillary facilities for letting; and
- (b) of the 22 trade offices and 7 ancillary facilities which had been allocated to government departments during the period, 17 (77%) trade offices and 6 (86%) ancillary facilities were not advertised.

2.18 In Audit's view, market facilities are intended for conducting wholesale and related activities. Any use for the intended purposes should take priority over other uses (e.g. use for storage) by government departments. It is important that facilities which have been allocated to government departments for other uses are advertised for letting.

Audit recommendations

2.19 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

Note 8: *As at December 2015, of the 26 trade offices and 9 ancillary facilities allocated to government departments, 22 (85%) trade offices and 7 (78%) ancillary facilities were located in the Cheung Sha Wan Food Market.*

Utilisation of public fresh food wholesale markets

- (a) **continue to monitor the unutilised pier at the Cheung Sha Wan Food Market that has not been committed for other uses and consider whether it should be demolished to save maintenance costs;**
- (b) **explore the conversion of any market facilities not used for a long period into other gainful uses;**
- (c) **for market facilities currently allocated to government departments (including those allocated to the AFCD), ensure that they are periodically advertised for letting to traders; and**
- (d) **for market facilities not taken up by traders, consider allocating them to government departments for gainful uses other than storage (e.g. for use as offices) where appropriate.**

Response from the Government

2.20 The Director of Agriculture, Fisheries and Conservation generally accepts the audit recommendations.

Utilisation of Fish Marketing Organisation markets

2.21 The seven FMO markets occupy land areas totalling 46,047 m², as follows:

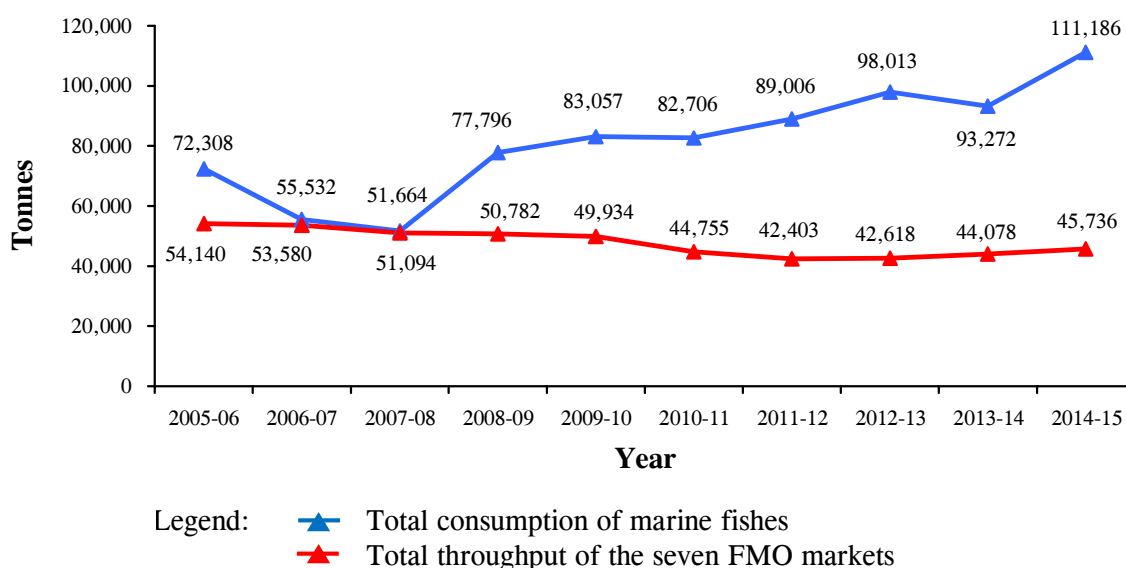
- (a) ***Trading areas of 16,074 m² (35%).*** Facilities in the trading areas include common areas for conducting wholesale marketing of marine fishes (e.g. for conducting auctions), areas let to individual traders (e.g. for use as live marine fish stalls, trade offices and stores) and other facilities related to the wholesale of marine fishes (e.g. storage for marketing equipment and containers); and
- (b) ***Ancillary areas of 29,973 m² (65%).*** The ancillary areas include areas for vehicular access, fish loading/unloading, parking by market users, piers, passages in the market, other storage provided by the market, office for FMO staff and space in-between the various areas. The ancillary areas are used for supporting the operation of the markets.

Diminished role of FMO markets in wholesale marketing

2.22 During 2005-06 to 2014-15, the total marine fish throughput of the seven FMO markets decreased considerably by 16% (i.e. from 54,140 tonnes to 45,736 tonnes). In contrast, the total consumption of marine fishes in the territory increased significantly by 54% (i.e. from 72,308 tonnes to 111,186 tonnes). Details are at Figure 2. Given the decrease in throughput of FMO markets, the FMO's share of marine fish market shrank considerably from 75% of total consumption in 2005-06 to 41% in 2014-15.

Figure 2

Consumption and throughput of marine fishes
(2005-06 to 2014-15)



Source: Audit analysis of AFCD records

Remarks: Marine fishes in the Figure refer to both live marine fishes and fresh marine fishes.

High proportion of ancillary areas

2.23 The diminished role and decreased throughput of FMO markets had impacted the market areas required for marine fish trading. Audit analysed records of trading areas and ancillary areas of individual FMO markets as at

Utilisation of public fresh food wholesale markets

September 2015 (Note 9). Table 6 shows the results. It can be seen that in three FMO markets, the trading area accounted for 30% or less of the market areas. The ancillary areas in these markets accounted for 70% or more of the market areas.

Table 6
Trading areas and ancillary areas of FMO markets
(September 2015)

FMO market	Trading area (m ²)	Ancillary area (m ²)	Total (m ²)
Shau Kei Wan Fish Market	686 (15%)	3,788 (85%)	4,474
Castle Peak Fish Market	1,440 (28%)	3,673 (72%)	5,113
Aberdeen Fish Market	4,677 (30%)	10,900 (70%)	15,577
Tai Po Fish Market	1,744 (39%)	2,678 (61%)	4,422
Kwun Tong Fish Market	1,704 (41%)	2,447 (59%)	4,151
Cheung Sha Wan Fish Market	5,494 (46%)	6,436 (54%)	11,930
Sai Kung Fish Market	329 (87%)	51 (13%)	380
Overall	16,074 (35%)	29,973 (65%)	46,047

Source: AFCD records

2.24 The large proportion of ancillary areas in individual FMO markets is a cause for concern. The considerable ancillary areas used for supporting the operation of individual markets might indicate surplus areas in FMO markets. Upon enquiry, the AFCD informed Audit in February 2016 that:

- (a) the structures of FMO markets had been designed and built based on the then prevailing standards on safety, environmental and structural requirements;

Note 9: *They were the latest records available during the audit review.*

Utilisation of public fresh food wholesale markets

- (b) apart from reduced throughput of marine fishes (see para. 2.22), changing circumstances such as change of sales method (see paras. 2.25 to 2.27) might also impact on the land required for trading and ancillary facilities; and
- (c) therefore, the FMO regularly reviewed and redeployed areas surplus to requirement during certain period of time for other uses related to the wholesale marketing of marine fishes.

Reduced need for transaction areas

2.25 Wholesale transactions of fresh marine fishes are conducted in common areas of FMO markets. Historically, all transactions were conducted through auction or negotiation. Under these modes of wholesale, space is required to be provided by FMO markets for sorting and weighing fishes, as well as for displaying the fishes for conducting auction or negotiation.

2.26 In 1998, to streamline the operation, “direct sale” of fresh marine fishes was introduced as an alternative mode of wholesale. Under “direct sale”, fishes have been sorted, weighed and packed into boxes, and negotiations between buyers and sellers have been concluded, before the landing of fishes at FMO markets. Fishes landed at FMO markets are collected by buyers directly. Since no sorting, weighing, displaying, auction or negotiation is required to be conducted at FMO markets, this mode of wholesale has reduced the need for transaction areas.

2.27 In 2014-15, 93% of the total fresh marine fish transactions at the seven FMO markets were conducted through “direct sale”. In three FMO markets (Cheung Sha Wan Fish Market, Kwun Tong Fish Market and Tai Po Fish Market), “direct sale” accounted for 100% of the fresh marine fishes transacted.

Disproportionate provision of parking spaces

2.28 To better utilise surplus areas brought about by the reduced throughput of FMO markets and “direct sale” of fresh marine fishes, measures have been taken to deploy the surplus areas in individual FMO markets, such as provision of parking spaces (see paras. 2.29 to 2.31) and sale of live marine fishes (see paras. 2.32 to 2.36).

Utilisation of public fresh food wholesale markets

2.29 In December 2015, Audit conducted site visits to the Shau Kei Wan Fish Market, which had the greatest proportion (85% — see Table 6 in para. 2.23) of ancillary areas. Audit noted that its ancillary areas were mainly let out as monthly parking spaces for 38 vehicles (see Photograph 3).

Photograph 3

**Parking of cars in ancillary areas
(Shau Kei Wan Fish Market)**



Source: Photograph taken by Audit in December 2015

2.30 In comparison with the other two FMO markets which also provided monthly parking spaces, the 38 parking spaces seemed excessive. Table 7 shows the comparison.

Table 7

**Provision of parking spaces in FMO markets
(September 2015)**

FMO market	No. of traders (wholesalers and buyers) in the market	No. of parking spaces	Ratio of traders to parking spaces
Aberdeen Fish Market	857	51	17
Castle Peak Fish Market	128	40	3
Shau Kei Wan Fish Market	41	38	1

Source: Audit analysis of AFCD records

2.31 Audit also noted that many parking spaces were occupied by private cars of users of the Market (see Photograph 3). To ensure the effective and efficient operations of the Market, operational vehicles (e.g. lorries and delivery vans) should be given priority over private cars in using parking spaces at FMO markets.

Sale of live marine fishes

2.32 The Marine Fish (Marketing) Ordinance was first enacted in 1956 and, together with amendments, only commenced in 1962. The Ordinance regulates the landing and wholesale marketing of “marine fishes” (referred to as fresh marine fishes in this Audit Report), which is defined as excluding fishes alive and in water (Note 10). Fresh marine fishes are required to be landed and sold by wholesale at a “wholesale marine fish market” conducted by the FMO. It was for meeting this provision that wholesale marine fish markets were originally established by the FMO, with land granted or let by the Government.

2.33 According to the FHB and the AFCDD, a plausible explanation for such arrangements is the intention that an adequate supply of basic foodstuffs should be secured and as far as possible the wholesaling aspect should be overseen by the Government or statutory bodies under its aegis. The Ordinance is a clear indication of the Government’s policy with respect to fishes, an important source of protein to the population. Live marine fishes (in contrast to “fresh marine fishes” as defined under the Ordinance), which might not be considered to be basic foodstuffs, need not necessarily be wholesaled through a “wholesale marine fish market” under the Ordinance. However, in 1991, the FMO started to let out surplus areas in its markets to traders for trading live marine fishes. In 2014-15, the seven FMO markets had a total throughput of 45,736 tonnes, of which 35,200 tonnes (77%) were fresh marine fishes and 10,536 tonnes (23%) were live marine fishes.

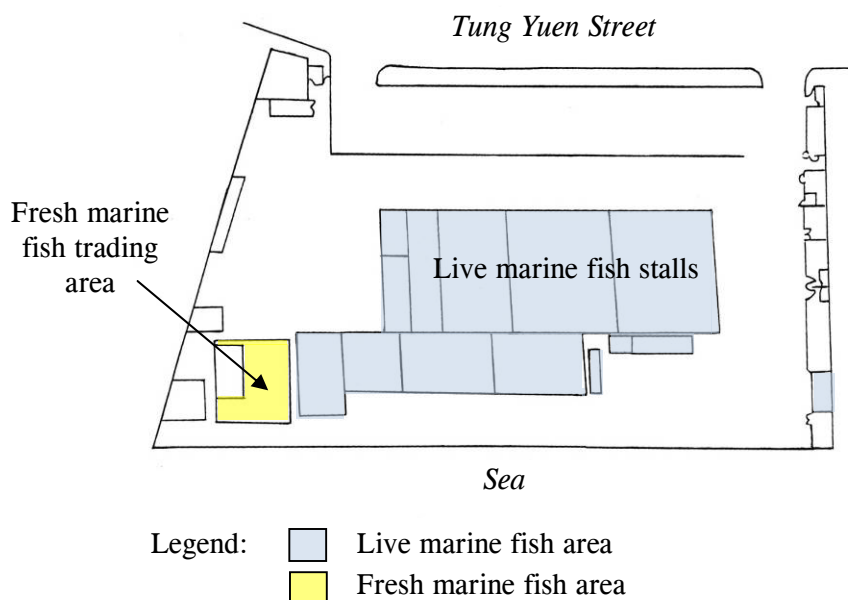
Note 10: *According to the Marine Fish (Marketing) Ordinance, marine fish means any fish or part thereof, whether fresh or processed, in any manner indigenous in sea water or partly in fresh water and partly in sea water, including any product derived therefrom, but excluding all crustaceans or molluscs and fishes alive and in water.*

Utilisation of public fresh food wholesale markets

2.34 Audit noted that some of the FMO markets had been heavily involved in live marine fish trading. As at September 2015, 70% of the trading areas in the Kwun Tong Fish Market (see Figure 3) and 63% of the trading areas in the Aberdeen Fish Market were used for live marine fish trading. The quantity of live marine fishes accounted for a significant proportion of the two Markets' throughput in 2014-15, namely, 59% (or 446 tonnes) for the Kwun Tong Fish Market and 43% (or 7,720 tonnes) for the Aberdeen Fish Market.

Figure 3

**Areas for marine fish trading
in the Kwun Tong Fish Market
(September 2015)**



Source: AFCD records

2.35 Audit notes the following two issues:

- (a) the operation of a “wholesale marine fish market”, such as the registration of buyers and the method of sales and payment, is regulated by the Marine Fish (Marketing) By-laws (Cap. 291B) made under the Marine Fish (Marketing) Ordinance. The By-laws provide that whenever the FMO assumes responsibility for the regulation and the conduct of a “wholesale marine fish market”, or establishes a “wholesale marine fish market”, a notification stating the name and location of any such market

Utilisation of public fresh food wholesale markets

shall be published in the Gazette. As at March 2016, the notification as set out in the Assumption of Responsibility for Markets (Consolidation) Notification (Cap. 291C) had covered the seven wholesale fish markets shown in Table 6 (see para. 2.23) for the wholesaling of “marine fishes”. If a major part of any market (e.g. the Kwun Tong Fish Market) is no longer used for wholesaling of “fresh marine fishes”, then the notification should be amended to reflect the reality (see (b) below); and

- (b) to the extent that any FMO market (e.g. the Kwun Tong Fish Market) is used for wholesaling live fishes, it is not a “wholesale marine fish market” under the Ordinance, and accordingly the provisions relevant only to “wholesale marine fish markets” or “marine fishes” are not applicable.

2.36 Upon Audit enquiry, the FHB and the AFCD liaised with the Department of Justice in March 2016 on the two issues in paragraph 2.35. The FHB and the AFCD acknowledge that these issues require addressing, but consider that there is no quick solution. The FHB and the AFCD informed Audit that the live marine fish stalls (see Figure 3) actually included stalls with intermingled operation of fresh marine fishes and live marine fishes. As long as there is still fresh marine fish trading in an FMO market, its name and location need to be retained in the notification. Besides, since the proportion of fresh marine fishes and live marine fishes varies over time, and operations relating to fresh marine fishes and live marine fishes are intermingled within traders’ stalls, the FHB and the AFCD consider it impracticable to demarcate a “live marine fish area” in an FMO market for exclusion from the notification relating to that FMO market. That said, the FHB and the AFCD agree that the two issues can be addressed in the context of the future roles of fresh food wholesale markets (see PART 5).

Underutilisation of trading areas

2.37 Audit analysed records of trading areas of individual FMO markets as at September 2015 (Note 11). Of the total trading areas of 16,074 m² of the seven FMO markets, 14,576 m² (91%) were gainfully deployed or let to traders. However, there was underutilisation of trading areas in the Tai Po Fish Market, with 84% of the trading areas not utilised (see Table 8).

Note 11: *They were the latest records available during the audit review.*

Utilisation of public fresh food wholesale markets

Table 8
Trading areas of the Tai Po Fish Market
(September 2015)

Facility	Area (m ²)	Utilised (m ²)	Not utilised (m ²)
Live marine fish stall — area 1	972	15	957
Live marine fish stall — area 2	100	0	100
Store, office and canteen	130	0	130
Common area for marine fish sale	522	240	282
Telecommunication station	20	20	0
Total trading areas	1,744 (100%)	275 (16%)	1,469 (84%)

Source: AFCD records

Remarks: Utilised facilities refer to those let to traders or gainfully deployed.

2.38 The underutilisation of trading areas in the Tai Po Fish Market was mainly due to decreased throughput in recent years and a major trader ceasing business (Note 12). The substantial trading areas not in use at the Market call for prompt remedial actions. Upon enquiry, the AFCD informed Audit in March 2016 that:

Note 12: *Throughput of the Tai Po Fish Market decreased by 13% from 449 tonnes in 2010-11 to 389 tonnes in 2014-15. During the period, a trader also ceased business and stopped renting facilities from the Market. Previously, the trader had rented a store room, trade offices, stalls and a canteen for operation, with a total area of 1,187 m². In June 2014, the FMO got back the rented areas from the trader.*

Utilisation of public fresh food wholesale markets

- (a) the FMO had redeployed some of the trading areas of the Tai Po Fish Market for live marine fish wholesaling since 2007;
- (b) in the light of a successful pilot trial of weekend fishermen bazaar in the Sai Kung Fish Market introduced in 2015, the FMO had been considering pursuing similar initiatives for promotion of local fishery products in the Tai Po Fish Market as well. In this connection, the FMO had reviewed and reassigned the areas within the trading areas of the Tai Po Fish Market for different uses, including wholesale and promotion of fishery products. The FMO was preparing a tender on the use of a portion of the trading areas in the Tai Po Fish Market (about 960 m²) for wholesale of fishery products. The tender invitation would be issued in early April 2016; and
- (c) moreover, a local fishery association had submitted a proposal of a fishermen bazaar for promotion of local fishery products in the Tai Po Fish Market. Some fish traders had also floated some ideas with the FMO to better utilise the Tai Po Fish Market such as trading of premium fishery products and promotion of local fishery ecotourism. The FMO would consider this and other ideas with a view to better utilising the areas in the Tai Po Fish Market to facilitate the wholesale of marine fishes and other fishery products and the promotion of local fishery products.

In Audit's view, the AFCD needs to ensure that the initiatives for improving the utilisation of the Tai Po Fish Market are followed through.

Audit recommendations

2.39 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **conduct a review of the market areas of individual FMO markets to find out the areas which are surplus to operational needs, having regard to their throughput and changes in the mode of operation;**
- (b) **take measures to redeploy surplus market areas to gainful uses;**

Utilisation of public fresh food wholesale markets

- (c) **address the two issues mentioned in paragraph 2.35 relating to the trading of live marine fishes in FMO markets in the context of the review of the roles and functions, and updating the legal framework, of FMO markets (see para. 5.11(a) and (b)(i)); and**
- (d) **ensure that the various initiatives for improving the utilisation of the Tai Po Fish Market are followed through.**

Response from the Government

2.40 The Director of Agriculture, Fisheries and Conservation generally accepts the audit recommendations.

PART 3: MANAGEMENT OF AGRICULTURE, FISHERIES AND CONSERVATION DEPARTMENT MARKETS

3.1 This PART examines the following management issues of AFCD markets:

- (a) management of daily operation (paras. 3.2 to 3.14); and
- (b) contracting out of supporting services (paras. 3.15 to 3.27).

Management of daily operation

3.2 As listed in Table 2 in paragraph 1.7, AFCD markets comprise the Cheung Sha Wan Temporary Poultry Market, the North District Temporary Agricultural Products Market, the Cheung Sha Wan Food Market and the Western Food Market. Together, they had a total site area of 200,500 m² as at 31 December 2015. The Wholesale Markets Management Division of the AFCD oversees the operation of AFCD markets. The provision of supporting services to individual markets (e.g. provision of market management, cleansing and security services) is contracted out to service providers (contractors) through open tendering.

3.3 Traders who conduct wholesale activities in AFCD markets are market tenants. They pay rentals for the facilities used (e.g. stalls and trade offices) in accordance with the tenancy agreement. On a daily basis, staff of the Wholesale Markets Management Division and those of the contractors carry out inspections of markets. The inspections cover areas such as general condition of key facilities and compliance with terms of tenancy agreements. Results of the inspections are documented in inspection reports, which are subject to monitoring checks by supervisory staff (supervisory checks) of the Wholesale Markets Management Division.

3.4 As at December 2015, the Wholesale Markets Management Division had an establishment of 64 staff monitoring the daily operation and conducting inspections of the facilities. The contractors had 259 staff for conducting inspections and providing other services (e.g. cleansing and security) under the contracts.

The 2007 audit review

3.5 In the 2007 audit review “Management of government fresh food wholesale markets”, Audit reported that inspections and supervisory checks had not been conducted as frequently as required. There were also incidents of non-compliance with terms of tenancy agreements, such as using market stalls for retail sale, keeping dogs and cats, causing obstructions and illegal gambling (Note 13).

Incidents of non-compliance still noted

3.6 Subsequent to the 2007 audit review, the AFCD has taken measures to improve the management of daily market operation (e.g. deploying additional staff to strengthen the team of inspecting staff, and updating the inspection procedures). According to the AFCD, market staff regularly patrol the market and take enforcement action as appropriate. In 2015, they conducted 7,373 inspections, issued 24 circulars/notices and 85 verbal and written warnings against activities not complying with the tenancy terms. They also liaise closely with the police, and report suspected criminal activities, including suspected gambling, for the police’s follow-up action. In 2015, the police entered the Cheung Sha Wan Food Market and the Western Food Market on 619 occasions carrying out patrol and enforcement duties.

3.7 In November and December 2015, Audit conducted visits to the two largest AFCD markets, namely, the Cheung Sha Wan Food Market and the Western Food Market. Records indicated that inspections and supervisory checks had generally been conducted as frequently as required. Nonetheless, during visits to the market sites, Audit noted incidents of non-compliance/suspected non-compliance (see Table 9) with the terms of tenancy agreements.

Note 13: *According to the terms of the tenancy agreements, the tenant shall not:*

- (a) gamble in stalls or facilities;*
- (b) keep any animal, bird or livestock in the stall other than those specified in the tenancy agreement;*
- (c) use the stall for retail sale of goods;*
- (d) place any goods, article, equipment or vehicle in the public area of the market so as to cause obstruction or disruption to the smooth operation of the market; and*
- (e) use the pier other than providing offloading services to vessels carrying freshwater fishes and/or fishery products destined for sale at the market.*

Table 9

**Incidents of non-compliance/suspected non-compliance
with the terms of tenancy agreements**

Date (Details)	Incident
23.12.2015 (Audit accompanied AFCD staff to inspect the Western Food Market)	(a) Several stalls in the market were also used for retail sale.
9.11.2015 (Independent audit visit to the Cheung Sha Wan Food Market)	(b) Dogs and cats were seen inside the market. Substances which looked like pet food for feeding the animals were put in a foam tray in the public area.
21.12.2015 (Audit accompanied AFCD staff to inspect the Western Food Market)	(c) Several incidents of obstructions were noted in the market, such as parking of motor vehicles and piling up of wooden pallets and other articles in public areas.
9.11.2015 (Independent audit visit to the Cheung Sha Wan Food Market)	(d) Suspected gambling was noted in the market. People were seen playing mahjong outside a stall, and playing cards in the public area.
24.11.2015 (Independent audit visit to the Cheung Sha Wan Food Market)	(e) The pier which was let to a tenant was used for unloading goods (e.g. rolls of fabrics) other than freshwater fishes and fishery products.

Source: Audit visits in November and December 2015

3.8 Audit noted that, while non-compliance with terms of tenancy agreements did not seem to be a widespread phenomenon at the time of audit visits, the incidents in Table 9 were not isolated cases. AFCD records indicated that, in 2013 to 2015, there were complaints about similar non-compliance cases (including obstructions and keeping of cats and dogs) in AFCD markets.

3.9 In January 2016, Audit referred to the AFCD the non-compliance cases noted during independent audit visits (i.e. incidents (b), (d) and (e) in Table 9) for follow-up.

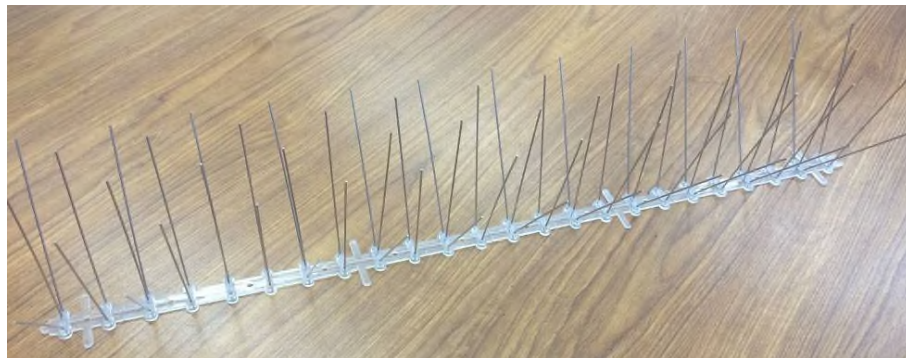
Wild birds not under control

3.10 In one market, the Western Food Market, wild birds had always been a concern to market users. The birds flocked to different areas of the market, leaving droppings and feathers, which contaminated the place. These contaminants, together with viruses possibly carried by birds, had posed a threat to food safety, hygiene and health.

3.11 In November 2013, market staff tried applying bird proof gels on rooftops but birds returned after they became familiar with the gels. In November 2014, the problem was brought up at a meeting of the Market Management Advisory Committee of the Western Food Market (Note 14). Having considered the need for protecting birds under the Wild Animals Protection Ordinance (Cap. 170 — Note 15), it was agreed that bird spikes (see Photograph 4) should be hung on high-level joists, pipes, conduits/ledges and wall structures in the market for bird control. As such, the pointed structures of the bird spike would make it difficult for birds to perch on it, and hence could force birds to roost elsewhere. However, wild birds switch to perch on adjacent spike-free areas.

Photograph 4

A sample bird spike



Source: Photograph taken by Audit in December 2015

Note 14: *The Market Management Advisory Committee, chaired by a staff member of the AFCD, has members including market users and representatives of fresh food and related trades. The Committee gives views and makes suggestions on the wholesale market for AFCD reference.*

Note 15: *According to the Ordinance, hunting birds by means including a live decoy or the emission of recorded noises, pitfall, arms and hunting appliance without approval (e.g. by the Director of Agriculture, Fisheries and Conservation) are prohibited.*

3.12 During the visits to the Western Food Market in December 2015, Audit noted that birds were still flocking to market areas, roosting on rails and feeding at refuse collection areas. They are still threats to food safety, hygiene and health.

Audit recommendations

3.13 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **consider measures to better detect and deter non-compliance with terms of tenancy agreements at AFCD markets;**
- (b) **conduct assessment of and continue to monitor the threats of wild birds to food safety and health at individual AFCD markets; and**
- (c) **ensure that effective measures, commensurate with the assessed threats of wild birds, are taken to control wild birds at individual AFCD markets.**

Response from the Government

3.14 The Director of Agriculture, Fisheries and Conservation generally accepts the audit recommendations. He has said that:

- (a) while it is unrealistic to expect patrolling and enforcement round-the-clock, the AFCD will consider ways of enhancing the compliance; and
- (b) market staff have been working hard on the problem of wild birds. The AFCD is now liaising with the Architectural Services Department to install light-weighted metal framework at entrance to prevent birds from entering market blocks.

**Management of Agriculture, Fisheries and
Conservation Department markets**

Contracting out of supporting services

3.15 The AFCD has contracted out to outside contractors the management, cleansing and security services for individual wholesale markets (see para. 3.2). As at December 2015, the services were provided under four contracts (see Table 10). The contracts involved two contractors and had a total value of \$247 million.

Table 10

**Contracts for key supporting services
(December 2015)**

Market/ contract price	Contract period	Service (✓ – contracted out)			Contractor
		Market management	Cleansing	Security	
Western Food Market/ \$99 million	1.6.2015 to 31.5.2020	✓	✓	✓	A
Cheung Sha Wan Food Market/ \$114 million	1.6.2015 to 31.5.2020	✓	✓	✓	B
North District Temporary Agricultural Products Market/ \$12 million	1.4.2015 to 31.3.2018	✓	✓	✓	
Cheung Sha Wan Temporary Poultry Market/ \$22 million (Note 1)	1.6.2014 to 31.5.2017	(Note 2)	✓	✓	

Source: AFCD records

Note 1: The contract also included Cage Labelling Services.

Note 2: Market management was performed by the Wholesale Markets Management Division of the AFCD.

Ceasing to use marking schemes

3.16 It has been an established practice of the AFCD to contract out the supporting services for wholesale markets through open tendering. The AFCD had all along been using a marking scheme for evaluating tenders. Under the marking scheme, each tender was given a technical score (Note 16) and a price score (Note 17). The sum of the two scores was the combined score of the tender. The AFCD evaluated the tenders according to their combined scores.

3.17 In June 2013, the Financial Services and the Treasury Bureau (FSTB) issued Financial Circular No. 4/2013 entitled “Streamlining Procurement Procedures” to announce the launch of new procedures for streamlining and expediting government procurement process. In August 2014, the FSTB issued a follow-up memo reminding government departments to avoid excessive use of marking schemes (Note 18). According to the memo, where the use of marking schemes was justified, the evaluation basis should be streamlined.

Note 16: *The technical score (30% weighting) reflected the quality of the technical proposal offered by a tenderer. It took into account factors such as a tenderer’s proposed management plan, work plan (including staff deployment plan), experience and past performance. The technical score was calculated by the following formula:*

$$30 \times \frac{\textit{Technical marks of the tender being considered}}{\textit{The highest technical marks among all tenders which had passed the technical assessment}}$$

Note 17: *The price score (70% weighting) was calculated by the following formula:*

$$70 \times \frac{\textit{The lowest tender price among all tenders which had passed the technical assessment}}{\textit{Tender price of the tender being considered}}$$

Note 18: *The FSTB was concerned that the evaluation criteria and evaluation basis in many marking schemes were getting disproportionately detailed and lengthy, delaying the tender preparation work of departments, discouraging new operators especially small and medium enterprises with no tendering expert support from bidding, and inhibiting competition, without necessarily improving the quality of the goods and services procured.*

Management of Agriculture, Fisheries and Conservation Department markets

3.18 In February 2015, having regard to the FSTB's concern and with a view to promoting competition, the AFCD agreed with the FHB that marking schemes were not to be used in tender evaluation for wholesale market supporting services. Accordingly, tenders conforming to essential requirements (e.g. tenderers must have three years' aggregate experience in facility management during the 10 years immediately preceding the tender closing date and possess a valid security company licence) would be assessed only on the basis of price.

Limited number of tenders despite marking schemes not being used

3.19 In March 2015, the AFCD invited tenders for the provision of supporting services for the Western Food Market and the Cheung Sha Wan Food Market under two separate contracts, covering the period from 1 June 2015 to 31 May 2020 (see Table 10 in para. 3.15).

3.20 The discontinuance of using marking schemes for the current tender exercise had not helped boost competition. Table 11 shows the same lukewarm responses to the current and previous tender invitations.

Table 11

Responses to tender invitations for two wholesale markets

Market	No. of tenders received in tender exercise	
	Current exercise (2015)	Previous exercise (2010)
Western Food Market	2	3
Cheung Sha Wan Food Market	2	3

Source: AFCD records

3.21 In May 2015, in considering the award of service contracts to tenderers, the Central Tender Board (Note 19) expressed concern about the small number of tenders received. The AFCD was requested to explore ways to promote its tender exercise and enhance competition in the future.

3.22 In this connection, Audit noted that, in the 2015 tender exercise, eight potential tenderers had collected tender documents from the AFCD. However, only two of them submitted tenders, each submitting one tender for each market. Records did not indicate that the AFCD had enquired the remaining six potential tenderers about their reasons for not submitting tenders. Upon enquiry, the AFCD informed Audit in February 2016 that AFCD market staff did ask the remaining potential tenderers why they had not submitted tenders. The AFCD was told that their companies did not have sufficient resources to provide the required services. There is a need for the AFCD to properly document the reasons for future reference.

Contractor performance not entirely satisfactory

3.23 Audit noted occasions that the contractors had provided fewer security guards than required. The AFCD regularly checked attendance records of security guards to identify shortfalls. Table 12 shows, as an example, the shortfalls in security guards for the Cheung Sha Wan Food Market during July to September 2015 (Note 20). Upon the AFCD's enquiry, the service contractors explained that the reasons for the shortfalls in security guards included high staff turnover and recruitment problem in the prevailing tight labour market and sick leave of staff at short notice.

Note 19: *The Central Tender Board is chaired by the Permanent Secretary for Financial Services and the Treasury (Treasury). Currently, tenders for goods and services (excluding services for construction and engineering works) and revenue contracts exceeding \$15 million in value per contract and service tenders for construction and engineering works exceeding \$30 million in value per contract are considered by the Central Tender Board.*

Note 20: *There is a standard clause in all service contracts stipulating that should there be any shortfall of manpower, the contract fee would be deducted at a pre-determined unit rate. In the circumstances, the AFCD deducted payments to Contractor B pursuant to the contract clause. The deductions totalled \$128,168.*

Table 12

**Shortfalls in security guards manhours provided by Contractor B for
the Cheung Sha Wan Food Market
(July to September 2015)**

Month of 2015	Security guards to be provided (Note) (Manhour)	Shortfall in security guards (Manhour)
July	19,096	789.50 (4.13%)
August	19,096	850.25 (4.45%)
September	18,480	602.50 (3.26%)
Overall	56,672	2,242.25 (3.96%)

Source: AFCD records

Note: A total of 616 manhours (or 77 security guards) were required every day. The 77 security guards worked in three shifts. There were about 26 security guards in a shift.

3.24 Incidents of non-compliance with the terms of tenancy agreements need to be better controlled (see para. 3.8). It is important that sufficient security guards are provided to help deter the prohibited activities (e.g. gambling and obstructions). Persistent shortfalls in security guards are less than satisfactory. There is a need for the contractors to improve their performance.

***Tender assessment methodology
not conducive to improving performance***

3.25 Audit notes that the prevailing tender assessment methodology of the AFCD is not conducive to improving contractor performance, particularly due to the following:

- (a) ***Past performance not taken into account.*** Upon cessation of using the marking scheme, all tenders conforming to essential requirements (see para. 3.18) would be assessed on the basis of price. Any unsatisfactory performance of existing contractors would not affect their claims in future tender exercises;

- (b) *Staff deployment plan not required to be submitted for assessment.* There has been a continued occurrence of non-compliance incidents at AFCD markets. The ability of contractors to deploy staff effectively to deter these incidents is a crucial quality, which is now not assessed in tender evaluation; and

- (c) *Limited competition.* For reasons not entirely known to the AFCD, the number of tenderers in each tender exercise was small. For example, for the Cheung Sha Wan Food Market, Contractor B has been providing supporting services since April 2007.

Audit recommendations

3.26 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

- (a) **ensure that reasons for the small number of tenders received in tender exercises are ascertained and properly documented;**

- (b) **review the adequacy of the tender assessment methodology in inducing contractors to improve performance and in encouraging quality services; and**

- (c) **take necessary measures to enhance tender competition in contracting out supporting services for AFCD markets.**

Response from the Government

3.27 The Director of Agriculture, Fisheries and Conservation generally accepts the audit recommendations. He has said that the AFCD will continue to seek the advice of the Central Tender Board for the most appropriate approach to tender out services at fresh food wholesale markets.

PART 4: REPROVISIONING OF PRIVATE AND PUBLIC FRESH FOOD WHOLESALE MARKETS

4.1 This PART follows up the Government's progress in the reprovisioning of a private fresh food wholesale market, and examines the reprovisioning of other public fresh food wholesale markets, focusing on the following areas:

- (a) reprovisioning of the Yau Ma Tei Fruit Market (paras. 4.2 to 4.18);
- (b) reviews of provision of public fresh food wholesale markets (paras. 4.19 to 4.27);
- (c) reprovisioning of the Cheung Sha Wan Vegetable Market (paras. 4.28 to 4.38); and
- (d) reprovisioning of fresh food wholesale markets on temporary sites (paras. 4.39 to 4.48).

Reprovisioning of the Yau Ma Tei Fruit Market

4.2 The Yau Ma Tei Fruit Market is a private market with a site area of some 14,000 m². It was first established at the current location at Yau Ma Tei in 1913. Over the years, it has become outdated. Although early markets were operated by private individuals/entities, the Executive Council approved in 1969 that the Government should accept the responsibility for the provision of fresh food wholesale markets and public funds were to be used to construct such markets (see para. 1.3). In accordance with the Executive Council's decision, the Yau Ma Tei Fruit Market should also be reprovisioned and moved to a different location. In August 1972, the LegCo Finance Committee approved a proposal to proceed with the detailed planning of the Cheung Sha Wan Food Market which would be situated on a land yet to be reclaimed. After some 18 years, in November 1990, a feasibility study indicated that the reclamation of the site for the Cheung Sha Wan Food Market would be completed in two phases in 1991 and 1994 respectively. The Yau Ma Tei Fruit Market would be reprovisioned to Phase 1 of the Cheung Sha Wan Food Market. However, in May 1991, the reprovisioning of the Yau Ma Tei Fruit Market was changed from Phase 1 to Phase 2. Since then, the reprovisioning of the Market had been deliberated on with different stakeholders and at various times, but

Reprovisioning of private and public fresh food wholesale markets

as at March 2016, after a lapse of some 47 years since the 1969 Executive Council's decision, it had yet to be reprovisioned. Appendix D shows a chronology of key events relating to its reprovisioning. The findings of the 1996 and 2007 audit reviews and this audit review are summarised in paragraphs 4.3 to 4.15.

The 1996 audit review

4.3 In the 1996 audit review "The provision of government wholesale food markets", Audit reported that the Yau Ma Tei Fruit Market had yet to be reprovisioned. At that time, the AFCD planned to reprovision it to Phase 2 of the Cheung Sha Wan Food Market, which was scheduled to be completed by end of 2000.

4.4 In its Report No. 27 of January 1997, the PAC urged the Government to expedite the development of Phase 2 of the Cheung Sha Wan Food Market and, in particular, the reprovisioning of the Yau Ma Tei Fruit Market.

The 2007 audit review

4.5 In the 2007 audit review "Management of government fresh food wholesale markets", Audit reported that there was little progress in the implementation of the Cheung Sha Wan Food Market Phase 2 project and the Yau Ma Tei Fruit Market was still operating at its existing location.

4.6 In its Report No. 48 of July 2007, the PAC expressed serious concern that there was little progress in reprovisioning of the Yau Ma Tei Fruit Market. The PAC strongly urged the Government to provide a definite timetable for relocating it. In the Government Minute laid before the LegCo in October 2007, the Government informed the PAC that the Government was considering the construction of a new wholesale market for fresh fruits in part of the Cheung Sha Wan Food Market Phase 2 site for relocating the Yau Ma Tei Fruit Market.

Plan to relocate the Yau Ma Tei Fruit Market to Cheung Sha Wan Food Market Phase 2 site unsuccessful

4.7 In January 2008, the Government reported to the PAC that fruit traders had strong reservations about the proposed relocation of the Yau Ma Tei Fruit

Reprovisioning of private and public fresh food wholesale markets

Market to the Cheung Sha Wan Food Market Phase 2 site. They considered that the new market site was too small and remote for their operation. The Government would continue to liaise with them. The Government provided the PAC with a relocation timetable, indicating that the new market would commence operation 53 months after obtaining fruit traders' and relevant District Councils' agreement to the relocation.

4.8 In October 2010, a Steering Committee on Housing Land Supply was set up within the Government (Note 21). One of the terms of reference of the Steering Committee was to coordinate the efforts of the various policy bureaux and government departments concerned in making available land for the housing supply targets set by the Government. In January 2011, a request (relaying the views of the Steering Committee) was made to the FHB to review the need for relocating public fresh food wholesale markets. In May 2011, the FHB, in consultation with the AFCD, completed the review. The review concluded that, among others, the Cheung Sha Wan Food Market Phase 2 site would be released for residential development. In June 2011, the Steering Committee endorsed the review results (see para. 4.23).

4.9 In October 2011, as per the FHB's request, an alternative site at Kwai Chung was identified. The AFCD's initial assessment confirmed the potential of the site for accommodating the Yau Ma Tei Fruit Market, subject to a proper market design to overcome the area limitation and securing the support of fruit traders.

4.10 In October 2012, the Yau Ma Tei Fruit Market relocation issue was discussed at a meeting of the Government's Social Community and Manpower Policy Group under the Chief Secretary for Administration's Office. Members noted that the Market site was reserved for public open space development with historic buildings subject to heritage preservation. In the event, the meeting decided that there was no urgency to proceed with the relocation exercise. As a result, the engineering feasibility study did not proceed. The FHB was tasked to work with the Yau Tsim Mong District Council to mitigate the environmental nuisance around the Market.

Note 21: *The Steering Committee on Housing Land Supply was chaired by the Financial Secretary. In February 2013, it was reorganised into the Steering Committee on Land Supply. The original scope of work was expanded to coordinate the overall plans for development and supply of land for different types of land uses including housing as well as commercial uses.*

Reprovisioning of private and public fresh food wholesale markets

4.11 In March 2015, a consultancy study on the roles and functions of fresh food wholesale markets in Hong Kong was completed (see para. 5.10). The study, commissioned by the FHB, found that the site at Kwai Chung (see para. 4.9) could be considered for relocating the Yau Ma Tei Fruit Market.

4.12 In January 2016, the FHB and the AFCD were again asked to release the site at Kwai Chung for other competing uses. A candidate site in Tsing Yi (which would have to be enlarged through reclamation prior to relocation) was being considered for relocation of the Yau Ma Tei Fruit Market.

4.13 Successful implementation of the relocation project would hinge on the support of fruit traders. However, as at March 2016, records did not indicate that consultations with fruit traders had commenced, nor did records indicate that an action plan had been formulated to take forward the relocation project. There is little indication that the Yau Ma Tei Fruit Market could be successfully reprovisioned. Upon enquiry, the FHB and the AFCD informed Audit in March 2016 that they had been liaising with the district and the trade, and the Government would continue to liaise with the trade on the practical requirements of the reprovisioned market in terms of size, facilities and other needs; and when more information has been obtained, a suitable site would be identified to cater for the needs of the trade.

Nuisances caused by market operation have persisted

4.14 The operation of the Yau Ma Tei Fruit Market has caused traffic and environmental nuisances in the vicinity and has been a source of many complaints. According to the analysis made by the FHB in its internal record for formulating measures to mitigate environmental nuisance around the fruit market, during 2007 to 2013, a total of 1,533 complaints (e.g. about obstructions and noise) in relation to the Market were lodged with the Hong Kong Police Force, the Food and Environmental Hygiene Department and the District Office of the Home Affairs Department. In January 2016, Audit conducted site visits to the Market and the surrounding areas, and noted the following:

- (a) ***Nuisances in daytime.*** Traders conducted retail activities on the street and obstructed the pavement. Fruits, trolleys and wooden pallets were kept in public areas. Some areas had hygiene problems (see Photographs 5 and 6); and

Reprovisioning of private and public fresh food wholesale markets

Photographs 5 and 6

Examples of environmental nuisances in daytime (Yau Ma Tei Fruit Market)

Photograph 5



A pavement obstructed

Photograph 6



Hygiene problems

Source: Photographs taken by Audit at 2 p.m. on 9 January 2016

- (b) **Nuisances at night-time.** A road adjoining the Market was blocked by trucks. Fruits in cartons were piled up on the road awaiting loading. Workers carrying cartons with trolleys crossed the road without observing traffic regulations and signals (see Photographs 7 and 8).

Photographs 7 and 8

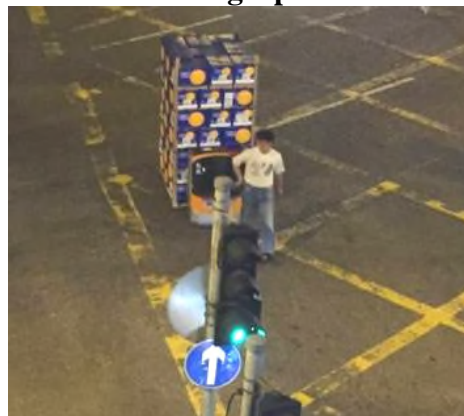
Examples of environmental nuisances at night-time (Yau Ma Tei Fruit Market)

Photograph 7



A road partly blocked

Photograph 8



Traffic regulations not observed

Source: Photographs taken by Audit at 11 p.m. on 13 January 2016

Reprovisioning of private and public fresh food wholesale markets

4.15 Upon enquiry, the FHB and the AFCD informed Audit in March 2016 that, since October 2012, meetings had been held from time to time among the FHB, the AFCD and other departments (e.g. Lands Department, Home Affairs Department, Transport Department, Hong Kong Police Force and Highways Department) on measures to mitigate environmental nuisances around the Yau Ma Tei Fruit Market. Concerted efforts had been made to making the best use of land resources available through STT to this end. The Government had plans to enlarge the aggregate area of the two existing STT sites and provide one more STT site, thus making available a total area (subject to survey) of about 8,940 m² (i.e. an increase of about 4,470 m²) earmarked for meeting the operational needs of the trade and mitigating the environmental nuisances caused to the neighbouring community.

Audit recommendations

4.16 **Audit has *recommended* that the Secretary for Food and Health and the Director of Agriculture, Fisheries and Conservation should:**

- (a) **keep in view the progress made by the relevant bureau and departments in exploring a possible site in Tsing Yi for reprovisioning the Yau Ma Tei Fruit Market;**
- (b) **upon receipt of the reply from the relevant bureau and departments, having regard to their initial assessment on technical feasibility, proceed with seeking a steer within the Government on the way forward;**
- (c) **after the Government has decided to proceed with the relocation exercise, consider how to engage fruit traders and other stakeholders with a view to soliciting their support;**
- (d) **in the interim, continue to monitor the effectiveness of the measures for mitigating nuisances caused by the market operation; and**
- (e) **keep LegCo posted on the relocation of the Market as appropriate.**

Response from the Government

4.17 The Secretary for Food and Health and the Director of Agriculture, Fisheries and Conservation generally accept the audit recommendations.

4.18 The Director of Planning has said that on the reprovisioning of fresh food wholesale markets, the Planning Department has previously helped identify different potential relocation sites. The Planning Department will continue to assist the FHB to identify suitable sites for reprovisioning fresh food wholesale markets that have the potential to and are confirmed by the FHB as can be released for other uses to optimise the use of land resources.

Reviews of provision of public fresh food wholesale markets

4.19 The 12 public fresh food wholesale markets occupy considerable land areas (265,480 m² in total). Many of them are located in areas which were the urban periphery (e.g. Cheung Sha Wan) at the time of their establishment. Over the years, many locations have become densely-populated/prime sites.

4.20 From time to time, the AFCD and the FHB conducted reviews of the provision and efficiency of wholesale markets. In a review completed in August 2003, it was found that:

- (a) for AFCD markets, the facilities were generally well utilised. The proportion of trading stalls let to the trade was 93%;
- (b) the increasing popularity and expansion of major supermarket chains into fresh food retailing, and the emergence of direct bulk importation arrangement organised by groups of retailers and restaurateurs, had posed increasing challenges to the traditional wholesale business; and
- (c) in the light of the developments, the VMO market and FMO markets should be separately reviewed.

Reprovisioning of private and public fresh food wholesale markets

Overall decrease in market throughput

4.21 The throughput of public fresh food wholesale markets is a key performance measure in the Controlling Officer's Report of the AFCD. Audit noted that, subsequent to the 2003 review, the throughput of public fresh food wholesale markets had on the whole decreased. Accordingly, the "throughput to land areas" ratio of the 12 markets had also on the whole decreased (see Table 13).

Table 13

Throughput of 12 public fresh food wholesale markets after 2003 review (2003-04 versus 2014-15)

Market	Operated by	Throughput		
		2003-04 (Tonne)	2014-15 (Tonne)	Increase/Decrease (+/-)
Cheung Sha Wan Fish Market	FMO	8,418	20,427	+143%
Sai Kung Fish Market	FMO	151	270	+79%
Cheung Sha Wan Food Market	AFCD	223,566	251,962	+13%
Aberdeen Fish Market	FMO	16,478	17,929	+9%
Western Food Market	AFCD	180,295	188,265	+4%
Tai Po Fish Market	FMO	5,724	389	-93%
Kwun Tong Fish Market	FMO	8,310	762	-91%
Cheung Sha Wan Temporary Poultry Market	AFCD	57,428	9,376	-84%
North District Temporary Agricultural Products Market	AFCD	91,356	42,524	-53%
Cheung Sha Wan Vegetable Market	VMO	246,371	128,033	-48%
Shau Kei Wan Fish Market	FMO	2,366	1,594	-33%
Castle Peak Fish Market	FMO	6,227	4,365	-30%
Overall		846,690	665,896	-21%
<i>Analysis of overall ratio of throughput to land areas</i>				
Land areas (m ²)		262,787	265,480	—
Throughput to land areas (tonnes per m ²)		3.2	2.5	-22%

Source: AFCD records

Remarks: The table shows the throughput for the five types of fresh food, namely, vegetables, fruits, eggs, live and fresh fishes, and live poultry.

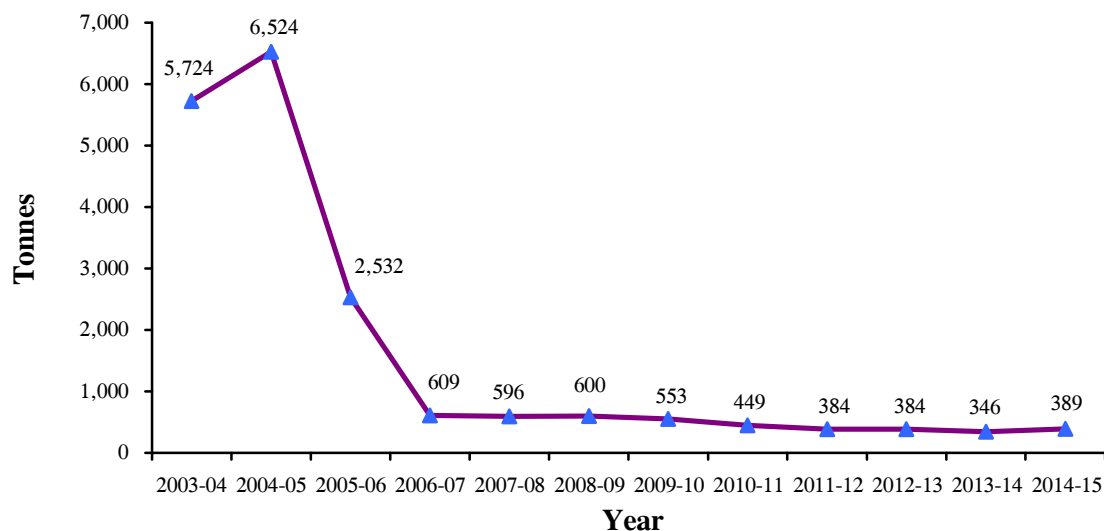
Reprovisioning of private and public fresh food wholesale markets

Drastic decrease in throughput of a number of markets

4.22 Table 13 shows that the decrease in throughput of five public fresh food wholesale markets was drastic (decrease ranged from 48% to 93%). Of the five markets, three were located in Kowloon (Kwun Tong Fish Market, Cheung Sha Wan Temporary Poultry Market and Cheung Sha Wan Vegetable Market) and occupied a total land area of 49,084 m², and two were located in the New Territories (Tai Po Fish Market and North District Temporary Agricultural Products Market) and occupied a total land area of 16,922 m². Audit analysis indicated that the downward trends in throughput of these five markets had persisted after the 2003 review (see para. 4.20). Figures 4 and 5 show the persistent downward trends of the two markets in the New Territories.

Figure 4

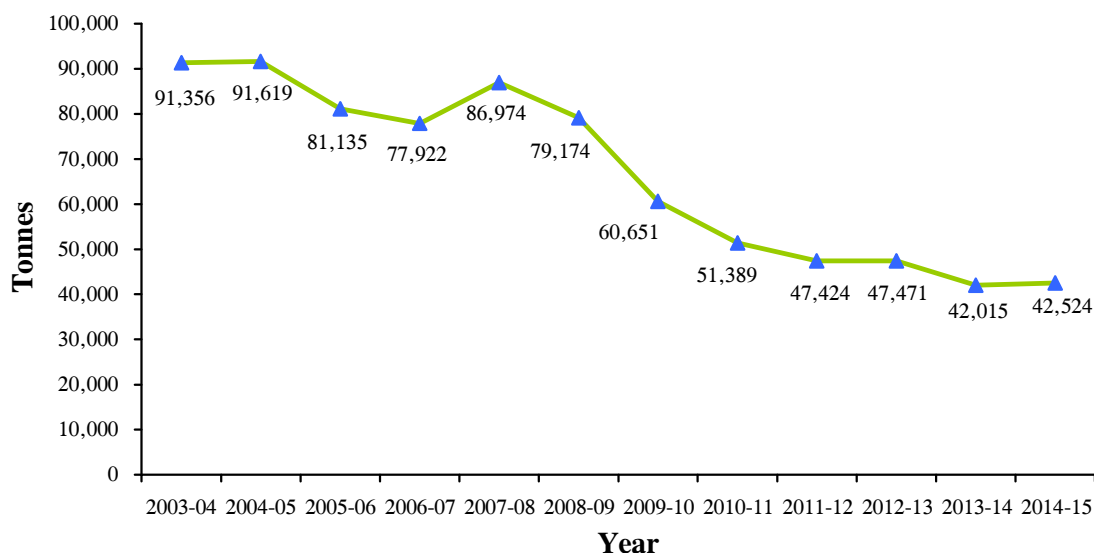
**93% decrease in throughput of Tai Po Fish Market (4,422 m²)
(2003-04 to 2014-15)**



Source: Audit analysis of AFCD records

Figure 5

**53% decrease in throughput of
North District Temporary Agricultural Products Market (12,500 m²)
(2003-04 to 2014-15)**



Source: Audit analysis of AFCD records

Reviews of public fresh food wholesale markets

4.23 As mentioned in paragraph 4.8, in May 2011, in consultation with the AFCD, the FHB completed the review on the possibility of relocating public fresh food wholesale markets with a view to releasing potential land supply for residential developments. In June 2011, the FHB informed the Steering Committee on Housing Land Supply of the results of the review, including the following:

- (a) the Cheung Sha Wan Food Market Phase 2 site would be released for residential development. The status quo in the Cheung Sha Wan Food Market on the Phase 1 site would be maintained for the time being;
- (b) subject to identification of viable alternative sites, the relocation of the Cheung Sha Wan Vegetable Market and the Yau Ma Tei Fruit Market would be planned longer-term, and the relocation of the Cheung Sha Wan Food Market on the Phase 1 site could also be considered; and

Reprovisioning of private and public fresh food wholesale markets

- (c) the relocation of the Cheung Sha Wan Temporary Poultry Market to Sheung Shui would be explored, and the proposed relocation of the Kwun Tong Fish Market would proceed subject to certain conditions.

4.24 For the three public fresh food wholesale markets in Kowloon which had a significant decrease in throughput (i.e. Kwun Tong Fish Market, Cheung Sha Wan Temporary Poultry Market and Cheung Sha Wan Vegetable Market — see para. 4.22), the 2011 review indicated that the relocation of the Kwun Tong Fish Market would proceed and the relocation of the other two markets would be explored or planned longer-term (see para. 4.23). However, the review made no mention of the two public fresh food wholesale markets in the New Territories which had a significant decrease in throughput (i.e. Tai Po Fish Market and North District Temporary Agricultural Products Market — see Figures 4 and 5 in para. 4.22).

4.25 In 2012, the FHB commissioned a consultancy study on the roles and functions of fresh food wholesale markets in Hong Kong. The study focused on five selected markets (Note 22) and covered sector-wide recommendations on ways to improve provision of wholesale market facilities and services with a view to bringing enhanced efficacy and benefits to the Hong Kong community as a whole, and market-specific recommendations on the five selected study markets. However, the two public fresh food wholesale markets in the New Territories which had a drastic decrease in throughput (see para. 4.22) were again not selected for the study.

4.26 Of the seven FMO markets, only the Kwun Tong Fish Market was reviewed by the FHB in 2011 (see para. 4.23(c)). The remaining six FMO markets were neither reviewed in 2011 nor in 2012 (see para. 4.25). These six FMO markets included three which had a considerable decrease in throughput (Note 23).

Note 22: *The study covered three AFCD markets (i.e. Cheung Sha Wan Temporary Poultry Market, Cheung Sha Wan Food Market and Western Food Market), the VMO's Cheung Sha Wan Vegetable Market and one private fresh food wholesale market (i.e. Yau Ma Tei Fruit Market).*

Note 23: *Of the remaining six FMO markets, three had a decrease in throughput during 2003-04 to 2014-15, namely, Tai Po Fish Market (93% decrease), Shau Kei Wan Fish Market (33% decrease) and Castle Peak Fish Market (30% decrease).*

Reprovisioning of private and public fresh food wholesale markets

As at March 2016, more than 12 years had elapsed since the 2003 review and no comprehensive review of all the FMO markets has been done (see para. 4.20(c)). The FHB and the AFCD need to undertake a comprehensive review of all the FMO markets.

Kwun Tong Fish Market

4.27 The Kwun Tong Fish Market has a site area of 4,151 m². As mentioned in paragraph 4.23(c), the 2011 review indicated that the proposed relocation of the Kwun Tong Fish Market would proceed subject to certain conditions. As at March 2016, a suitable relocation site had still not been identified. Records indicated that, after successful relocation, the Market site would be put to residential use. Upon enquiry, the FHB and the AFCD informed Audit in March 2016 that:

- (a) as early as in 2010, the FHB and the AFCD had been responding positively to the Planning Department's suggestion to relocate the Kwun Tong Fish Market to a nearby site in the Comprehensive Development Area in Yau Tong Industrial Area to facilitate the residential development thereon. In May 2013, a request was put to, and accepted by, the FHB and the AFCD that the reprovisioned site be released to facilitate the residential development. This was endorsed by the Committee on Planning and Land Development (Note 24) in February 2014; and
- (b) however, in the first quarter of 2016, a request was put to, and accepted by, the FHB and the AFCD that the relocation of Kwun Tong Fish Market to a possible site in Tsing Yi (which would be enlarged through reclamation prior to the relocation) should be explored.

Audit considers that the relocation of the Kwun Tong Fish Market should be taken forward in a timely manner.

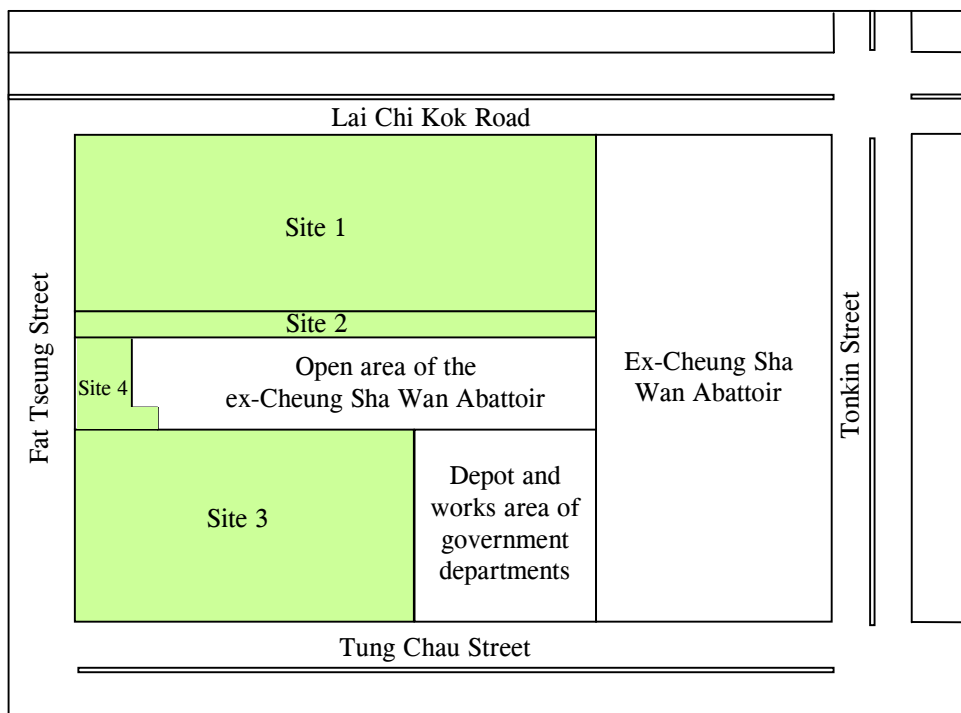
Note 24: *The Committee on Planning and Land Development is chaired by the Secretary for Development.*


Reprovisioning of the Cheung Sha Wan Vegetable Market

4.28 The Cheung Sha Wan Vegetable Market has been operated by the VMO since 1965. It comprises four sites, with a total area of 18,933 m² (see Figure 6).

Figure 6

The Cheung Sha Wan Vegetable Market and nearby areas



Legend:  The Cheung Sha Wan Vegetable Market

Source: AFCD records

Reprovisioning of private and public fresh food wholesale markets

4.29 The land status of the four sites is as follows:

- (a) *Site 1 — Wholesale market (12,607 m²)*. The land was granted by the Government to the VMO by a PTG executed in 1962, at a premium of \$1,492,700. It accommodates the wholesale market in which traders conduct business in designated areas (Note 25);
- (b) *Site 2 — Expanded transport compound (970 m²)*. In 1985, the Government let the land to the VMO through STT at market rent. The rent effective from June 2015 is \$698,400 per annum. The site is used as an expanded transport compound and parking spaces;
- (c) *Site 3 — Premium Vegetable Packaging Centre (5,016 m²)*. In 1997, the Government let the land to the VMO through STT at a nominal rent of \$1. The site is used for processing and packing quality vegetables for delivery to up-market customers; and
- (d) *Site 4 — Other operational area (340 m²)*. In 2011, the Government let the land to the VMO through STT at a nominal rent of \$1. The site is used for operational purposes (e.g. loading/unloading goods).

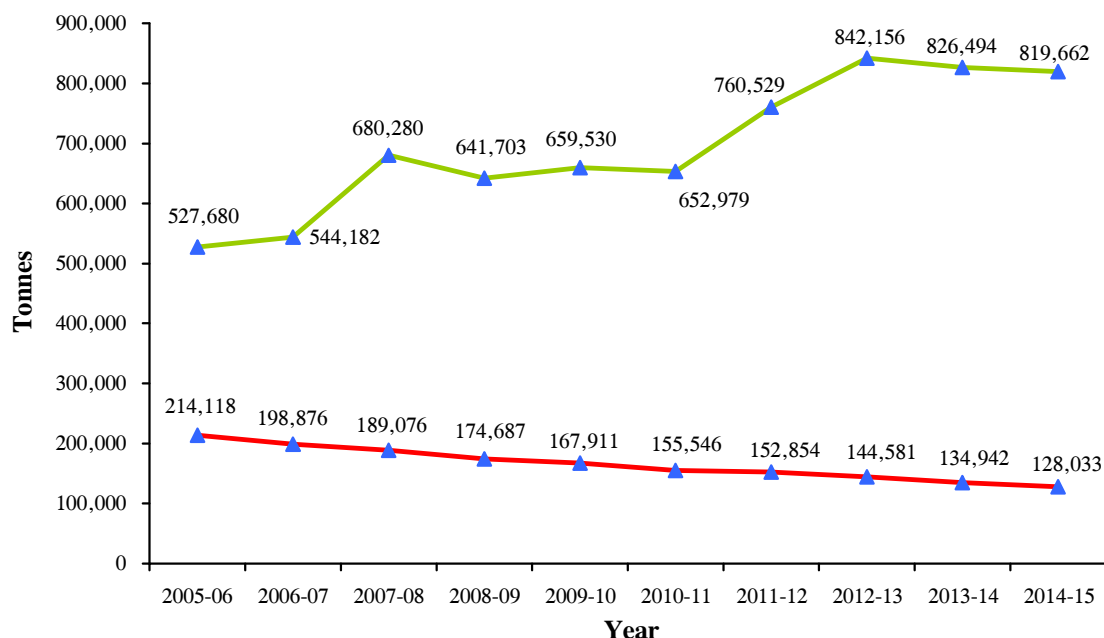
Diminishing role of the Cheung Sha Wan Vegetable Market in wholesale marketing of vegetables

4.30 During 2005-06 to 2014-15, the consumption of fresh vegetables in the territory increased by 55% (i.e. from 527,680 tonnes in 2005-06 to 819,662 tonnes in 2014-15). In contrast, the vegetable throughput of the Cheung Sha Wan Vegetable Market decreased significantly by 40% (i.e. from 214,118 tonnes in 2005-06 to 128,033 tonnes in 2014-15) (see Figure 7). Given the significant drop in throughput, the VMO's share of fresh vegetable market shrank considerably from 41% of total vegetable consumption in 2005-06 to 16% in 2014-15.

Note 25: *Traders conduct business at different time of the day. For each timeslot, traders trade in their designated areas (marked by lines on the ground). Fixed market stalls are not provided to them.*

Figure 7

Consumption and throughput of fresh vegetables (2005-06 to 2014-15)



Legend: ▲ Consumption of fresh vegetables
▲ Throughput of the Cheung Sha Wan Vegetable Market

Source: *Audit analysis of AFCD records*

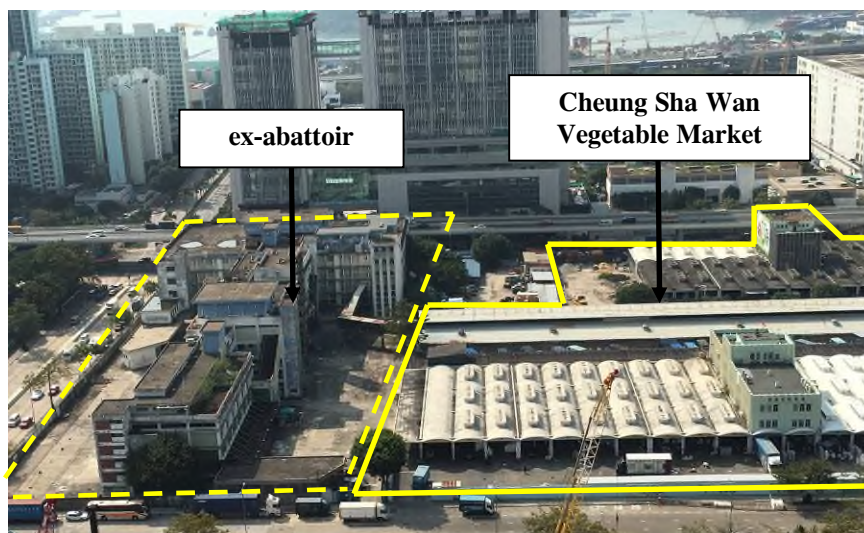
Misuse of valuable land

4.31 As early as in 1994, the Planning Department commented that the continued operation of the Cheung Sha Wan Vegetable Market at the Cheung Sha Wan sites would be a misuse of valuable land. In 1998, the relevant areas were zoned as “Residential (Group A)” on the Outline Zoning Plan (Note 26). However, as at March 2016, the Market was still operating at the Cheung Sha Wan sites (see Photograph 9). Appendix E shows a chronology of the key events. The audit findings are summarised in paragraphs 4.32 to 4.38.

Note 26: *The zone is intended primarily for high-density residential developments. Commercial uses are always permitted on the lowest three floors of a building or in the purpose-designed non-residential portion of an existing building.*

Photograph 9

The vegetable market and the ex-abattoir at Cheung Sha Wan (Viewing from Lai Chi Kok Road)



Source: Photograph taken by Audit in December 2015

Letting of additional land in Cheung Sha Wan to the VMO

4.32 Contrary to the Planning Department's advice in 1994, two more sites at Cheung Sha Wan (totalling 5,356 m²) were let to the VMO in 1997 and 2011 for use by the Cheung Sha Wan Vegetable Market (see para. 4.29(c) and (d)). Upon enquiry, the AFCD informed Audit in February 2016 that this was to meet operational needs.

No relocation plan

4.33 The Planning Department had proposed different relocation sites for the Cheung Sha Wan Vegetable Market. For example, in 1994, a potential site at Lai Chi Kok (some 28,000 m²) was proposed. However, the AFCD did not consider the sites suitable. A reason was that the AFCD had no plan of relocating the Market at that time.

Requiring a larger site for relocation

4.34 Between 1998 and 2004, the AFCD explored, unsuccessfully, the option of developing a multi-storey market complex at the Cheung Sha Wan Food Market Phase 2 site to accommodate, among others, the Cheung Sha Wan Vegetable Market (see items (k) to (m) in Appendix D). As mentioned in paragraph 4.23(b), in June 2011 the FHB indicated that the relocation of the Cheung Sha Wan Vegetable Market would be planned longer-term. In February 2012, the AFCD spelt out the requirements for the relocation site to kick-start the exercise. The requirements include that:

- (a) the site area should be at least 25,000 m²;
- (b) the site should be located in Kowloon; and
- (c) the site should be easily accessible by road networks and public transports.

In October 2012, the Planning Department proposed a relocation site in Lai Chi Kok, with a gross area of 26,100 m².

4.35 Audit noted that the required area of 25,000 m² was 32% larger than the existing total site area of 18,933 m² (see para. 4.28), or 98% larger than the wholesale market site of 12,607 m² (i.e. Site 1 — see para. 4.29(a)) which was granted to the VMO through PTG. Upon enquiry, the AFCD informed Audit in March 2016 that as transpired from the recommendations of the consultancy study (see para. 4.25) which had been formulated based on its consultations with the trade, the operational requirements of the VMO (which had been suppressed due to the constraints associated with the current site), and the limitations of the relocation site identified (Note 27), the AFCD's requirements turned out to be a prudent

Note 27: *According to the AFCD, the relocation site identified (see para. 4.34) is irregular in shape, surrounded by highways/flyovers with high traffic volume, adjacent to a potential hazardous installation (the facility — see para. 4.37(b)) (thus necessitating mitigation measures such as buffer area), above drainage reserve (thus necessitating measures to make way for maintenance works when required) and in lack of infrastructure. Hence, despite its stated gross area of some 26,100 m², that site can only yield 5,880 m² of trading floor at best, after meeting various land, planning and construction constraints. This is 13.5% less than the existing trading floor area of 6,800 m² at the Cheung Sha Wan Vegetable Market.*

Reprovisioning of private and public fresh food wholesale markets

assessment on which the site search exercise was based. Nevertheless, as was always the case, the AFCD was willing to explore the suitability of any sites identified by the Planning Department, and would continue to work with the FHB and the Development Bureau to discuss the way forward.

4.36 Audit noted that, during 2005-06 to 2014-15, the vegetable throughput of the Cheung Sha Wan Vegetable Market decreased significantly by 40% (see para. 4.30). The AFCD needs to critically review the site requirements (see para. 4.34(a) to (c)) to ensure that they are justified.

Housing project completion subject to relocation of the Cheung Sha Wan Vegetable Market

4.37 Regarding the relocation site in Lai Chi Kok proposed by the Planning Department (see para. 4.34), upon enquiry, the FHB and the AFCD informed Audit in March 2016 that:

- (a) the FHB and the AFCD had been working diligently, in conjunction with other relevant departments, to confirm the technical feasibility of the site, including issuing the project definition statement as well as commencing various studies (e.g. quantitative risk assessment in June 2013, traffic impact assessment in November 2013, topographical surveys in May 2014 and underground services investigation in November 2014); and
- (b) certain existing facility at the site required relocation for public safety considerations. If relocation of the facility was not possible, then an alternative site for reprovisioning the Cheung Sha Wan Vegetable Market would need to be identified, including a possible site in Tsing Yi (to be enlarged through reclamation prior to the relocation).

4.38 As at March 2016, some 20 years after the Planning Department commented that the continued operation of the Cheung Sha Wan Vegetable Market at the existing sites would be a misuse of valuable land (see para. 4.31), there was little progress in the reprovisioning of the Market. Given that the redevelopment of the Market site was a key component of a housing project at Cheung Sha Wan sites (see items (e) and (f) of Appendix E), the Housing Department had commented that the housing project could only be completed around five years after the relocation of the Cheung Sha Wan Vegetable Market.

Reprovisioning of fresh food wholesale markets on temporary sites

4.39 Of the 12 public wholesale markets, the Cheung Sha Wan Temporary Poultry Market and the North District Temporary Agricultural Products Market are located at temporary sites. According to the 2011 review conducted by the FHB, the relocation of the Cheung Sha Wan Temporary Poultry Market to Sheung Shui would be explored (see para. 4.23(c)). Audit findings revealed that the North District Temporary Agricultural Products Market might also need reprovisioning (see paras. 4.40 to 4.42).

North District Temporary Agricultural Products Market

4.40 *Suboptimal use of land resources.* The North District Temporary Agricultural Products Market was commissioned in 1989 to replace a private market in the New Territories. Occupying land areas of 12,500 m² in Fanling, it sold vegetables only (Note 28). The Market's "throughput to land areas" ratio was only half of that of the Cheung Sha Wan Vegetable Market (see Table 14).

Table 14
Ratio of throughput to land areas
(2014-15)

	North District Temporary Agricultural Products Market	Cheung Sha Wan Vegetable Market
Throughput in 2014-15	42,524 tonnes	128,033 tonnes
Land areas of the market	12,500 m ²	18,933 m ²
Ratio of throughput to land areas	3.40 tonnes per m ²	6.76 tonnes per m ²

Source: Audit analysis of AFCD records

Note 28: *Traders in the Market did not have a fixed market stall. Each trader was assigned a trading space to conduct business. During 2014-15, 98% of the trading spaces were allotted to traders.*

Reprovisioning of private and public fresh food wholesale markets

4.41 *Reasons for lower “throughput to land areas” ratio.* The following factors could be contributory to the lower “throughput to land areas” ratio in the North District Temporary Agricultural Products Market:

- (a) *Short operating hours.* The North District Temporary Agricultural Products Market operates only eight hours daily from 12:00 midnight to 8:00 a.m. It is closed for the rest of the day (see Photograph 10). As regards the Cheung Sha Wan Vegetable Market, it operates 15.5 hours daily from 3:00 a.m. to 6:30 p.m.; and
- (b) *Provision at temporary standards.* Being a temporary market, the North District Temporary Agricultural Products Market is basically an open ground without permanent infrastructure (e.g. lacking a storey above the ground level for use as offices and stores — see Photograph 10).

Upon enquiry, the AFCD informed Audit in March 2016 that the remote and isolated location of the North District Temporary Agricultural Products Market had been a factor for the short operating hours. However, the AFCD had liaised with the Civil Engineering and Development Department to improve the market facilities and was hopeful that the improvements will yield better utilisation in the future (see para. 2.7(b)(ii)). The improvement works were scheduled to commence in mid-2017.

Photograph 10

North District Temporary Agricultural Products Market during the non-operating hours



Source: Photograph taken by Audit at 9 a.m. in November 2015

Remarks: Traders did not have a fixed market stall. Each trader was assigned a trading space to conduct business.

Reprovisioning of private and public fresh food wholesale markets

4.42 *Need to take improvement measures.* Upon its commissioning in 1989, the North District Temporary Agricultural Products Market was built and provided to temporary standards only. In 1995, the AFCD discussed with the Lands Department ways to optimise the use of the site. In order not to pre-empt any future development of the site, it was agreed that the Market would operate as a “long-term” temporary market. As at March 2016, the Market had stayed “temporary” for more than 26 years without improving its facilities.

Cheung Sha Wan Temporary Poultry Market

4.43 The Cheung Sha Wan Temporary Poultry Market was commissioned in 1974 to provide temporary accommodation for traders dislodged from an on-street poultry market in Kowloon. Occupying land areas of 26,000 m², it is now the only wholesale market for live poultry in the territory.

4.44 *Surplus market facilities.* To address the risk of outbreak of avian influenza, the Government launched two schemes in 2005 and 2008 respectively to help live poultry traders voluntarily end their business (Note 29). The number of poultry wholesalers has also been frozen. The diminution of the live poultry trade rendered the Cheung Sha Wan Temporary Poultry Market facilities over-provided. As at December 2015, of the 86 stalls in the Market, only 23 (27%) stalls were used by traders. There were 48 (56%) stalls surplus to requirements (Note 30). Table 15 shows that the 48 surplus stalls had been vacant for more than five years. Against the diminished live poultry trade, the provision of the Cheung Sha Wan Temporary Poultry Market on a site of 26,000 m² in area requires immediate attention.

Note 29: *Under the 2005 scheme, ex-gratia payments were given to farmers, wholesalers, transporters and retailers who chose to cease their live poultry business permanently. Under the 2008 scheme, for local workers of live poultry business, they were provided with a one-off grant if affected by the cessation of business of their employers.*

Note 30: *Of the 86 market stalls, 23 were used by traders, 15 were used for storage of live poultry (e.g. poultry not sold during the day) and 48 were left vacant.*

Table 15**Period of vacancy of 48 surplus stalls
in the Cheung Sha Wan Temporary Poultry Market
(December 2015)**

Period of vacancy (Year)	No. of market stalls
5 to < 6	1 (2%)
7 to < 8	38 (79%)
9 to < 10	4 (8%)
10 to < 11	5 (11%)
Total	48 (100%)

Source: Audit analysis of AFCD records

4.45 ***Prolonged nuisances and health threats.*** Upon commissioning of the Market in 1974, the Cheung Sha Wan Temporary Poultry Market was planned to be used for about three years. Now, the Market is amid clusters of residential buildings. Continued provision of the Market at the present site might no longer be suitable, for the following reasons in particular:

- (a) ***Outdated structures.*** Audit noted that stalls at the Cheung Sha Wan Temporary Poultry Market were open-sided structures (see Photograph 11). Any contaminants in the Market might be carried a long way by wind. Moreover, components of stall roofs included corrugated asbestos cement sheets which could pose health risks (Note 31). Upon enquiry, the AFCD informed Audit in November 2015 that, as the Market would be relocated to another permanent site, the asbestos sheets were not to be dealt with at the moment; and

Note 31: *According to the Environmental Protection Department, asbestos-containing materials pose little health risk as long as they remain intact and undisturbed. If the conditions of the corrugated asbestos cement sheets deteriorate, registered asbestos professionals have to be hired to remove and dispose of the asbestos sheets properly.*

Photograph 11

Stalls at the Cheung Sha Wan Temporary Poultry Market



Source: Photograph taken by Audit in November 2015

- (b) **Public concerns.** The Sham Shui Po District Council had considered that the Cheung Sha Wan Temporary Poultry Market was a source of environmental nuisances to residents in the vicinity. The current appearance and activities of the Market were also not compatible with the latest developments in Cheung Sha Wan.

4.46 **Relocation put on hold.** According to the review conducted in May 2011 (see para. 4.23(c)), the original thinking was to relocate the Cheung Sha Wan Temporary Poultry Market to Sheung Shui. In 2015, the FHB commissioned a consultancy study to examine the way forward for the live poultry trade in Hong Kong. As such, the relocation of the Market has been put on hold. The AFCD has nevertheless prepared the preliminary design and included the project in the Capital Works Programme. It can be taken forward to the next step should a decision to proceed with the relocation project be made.

Audit recommendations

4.47 **Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

Reviews of public fresh food wholesale markets

- (a) **ensure that timely reviews of the provision and efficiency of public wholesale markets are conducted, taking account of changes in social-economic circumstances and the need for using public resources in a more efficient and effective manner;**

Kwun Tong Fish Market

- (b) **keep in view the progress made by the relevant bureau and departments in exploring the options for reprovisioning the Kwun Tong Fish Market, with a view to taking forward the relocation of the Market in a timely manner;**

Cheung Sha Wan Vegetable Market

- (c) **critically review the site requirements for the reprovisioning of the Cheung Sha Wan Vegetable Market, taking account of the need for optimising the use of land resources, the decreasing throughput of the Market, and the intended future roles and functions of the VMO in wholesale marketing of vegetables (see para. 5.11(a));**
- (d) **work closely with the Planning Department and other relevant works departments to expedite the reprovisioning of the Cheung Sha Wan Vegetable Market and the release of the sites for housing developments;**
- (e) **formulate an action plan to take forward the reprovisioning of the Cheung Sha Wan Vegetable Market, and closely monitor the progress;**

Reprovisioning of private and public fresh food wholesale markets

Public fresh food wholesale markets on temporary sites

- (f) **in consultation with the relevant departments, examine how to optimise the use of the site currently occupied by the North District Temporary Agricultural Products Market;**
- (g) **keep in view the development of the Government's policy on the live poultry trade, with a view to reprovisioning the Cheung Sha Wan Temporary Poultry Market and/or releasing its site at the earliest possible time;**
- (h) **in the interim, closely monitor the impact of the Cheung Sha Wan Temporary Poultry Market on the environment and public health, and where appropriate take measures to mitigate the impact; and**
- (i) **formulate action plans on the North District Temporary Agricultural Products Market and the Cheung Sha Wan Temporary Poultry Market, and closely monitor the progress after deciding the way forward.**

Response from the Government

4.48 The Director of Agriculture, Fisheries and Conservation generally accepts the audit recommendations.

PART 5: WAY FORWARD

5.1 This PART examines the way forward for fresh food wholesale markets.

Roles of two marketing organisations

5.2 The FMO and the VMO are statutory organisations operating under the legal framework of the Marine Fish (Marketing) Ordinance and that of the Agricultural Products (Marketing) Ordinance respectively (see para. 1.4). They were established in 1945 (for the FMO) and 1946 (for the VMO), shortly after World War II, to break the middleman's control of wholesale marketing of fresh marine fishes and vegetables, with a view to helping local fishermen and farmers secure a fuller share of income from the produce. Since their establishment, the FMO and the VMO have been operating as non-profit-making organisations on a self-financing basis.

Diminishing roles in wholesale marketing

5.3 In contrast to the increasing consumption of marine fishes and fresh vegetables in the territory, the quantities supplied through FMO markets and the VMO market have decreased over the years. During 2005-06 to 2014-15, the FMO's share of marine fish market shrank from 75% of total consumption in the territory in 2005-06 to 41% in 2014-15 (see para. 2.22). For the VMO, the share of fresh vegetable market shrank from 41% of total consumption in the territory in 2005-06 to 16% in 2014-15 (see para. 4.30).

5.4 As identified in the 2003 review of wholesale markets conducted by the FHB and the AFCD (see para. 4.20(b)), the emergence of direct bulk importation of fresh food (hence bypassing wholesale markets including the VMO market) was a contributory factor for the diminishing market share of the VMO. As regards the FMO, the AFCD has informed Audit that many fresh marine fishes were imported by air in recent years, bypassing FMO markets which were no longer the sole wholesale channel of fresh marine fishes. Audit noted that, during 2005-06 to 2014-15:

Way forward

- (a) for the FMO, the throughput of fresh marine fishes decreased by 20% from 43,806 tonnes in 2005-06 to 35,200 tonnes in 2014-15; and
- (b) for the VMO, the throughput of local fresh vegetables decreased by 59% from 5,216 tonnes in 2005-06 to 2,119 tonnes in 2014-15.

Diversifying into other activities

5.5 The FMO and the VMO were originally set up for wholesale marketing of fresh marine fishes and local vegetables (see para. 5.2). Operating on a self-financing basis, their major source of revenue was commissions levied on wholesale transactions. Owing to the decrease in throughput of fresh marine fishes and local vegetables, the FMO and the VMO have diversified into other activities to sustain their operation. According to their vision/mission statements, the FMO and the VMO are now operating under the objectives of:

- (a) for the FMO, providing the local fishing industry and fisheries trade section with an orderly and efficient wholesale marketing system and facilities for marine fish trading; and
- (b) for the VMO, providing the community with a reliable and plentiful supply of safe and quality vegetables, and facilitating the sustainable development of local agriculture.

Upon enquiry, the AFCD informed Audit in February 2016 that the FMO objectives also include improving the marketing of fishery products.

5.6 Audit notes that some of those other activities (see para. 5.5) currently undertaken by the FMO and the VMO were not intended at the time of their setting up. Examples are as follows:

- (a) **FMO.** The FMO has let extensive market areas to traders for trading live marine fishes (in contrast to fresh marine fishes — see paras. 2.32 to 2.36). As mentioned in paragraph 2.35, Audit notes two legal issues related to such live marine fish trading. The FMO has also let out areas for activities such as car parking (see paras. 2.28 to 2.31). In 2014-15, about 56% of the operating income of the FMO came from the letting of market areas; and

- (b) **VMO.** The VMO has engaged in the following activities:
- (i) ***Sale of imported vegetables.*** The VMO sells imported vegetables as well as local vegetables. Of the 128,033 tonnes of vegetables sold at its markets in 2014-15, 98% (125,914 tonnes) were imported vegetables; and
 - (ii) ***Direct sale of premium vegetables to household customers.*** In 1992, the VMO set up a Premium Vegetable Section to help local farmers market their quality vegetables to up-market caterers (i.e. retailers). The clientele subsequently expanded to include household customers (i.e. consumers). In 2014-15, the direct sale to household customers represented about 8% of the total sale of the Premium Vegetable Section.

5.7 Upon enquiry, the FHB and the AFCD informed Audit in March 2016 that:

- (a) the FMO reviewed regularly the use of its market areas to meet the changing needs of the fisheries trade and allowed an appropriate portion of the areas to be used as trade offices, ice stores, cold rooms, store rooms, parking spaces, live marine fish stalls, water tanks (provision of clean seawater), and facilities for promotion of local fishery products;
- (b) to cope with the decreasing trend in the landing of fresh marine fishes at FMO markets and the increasing demand for wholesale marketing facilities for live marine fishes as well as to optimise the utilisation of market space and facilities of the FMO, the FMO had expanded its functions in providing the needed facilities and services to the live marine fish wholesaling sector;
- (c) for the VMO, as land became increasingly scarce, local farmers had moved to the Mainland to continue their production, and they continue to use the VMO market to market their produce. This would account for roughly half of the imported vegetables sold through the VMO's Cheung Sha Wan Vegetable Market. In 2014-15, out of the total throughput of 125,914 tonnes of imported vegetables at the vegetable market, 56,554 tonnes were brought in by local farmers;

Way forward

- (d) one of the roles of the VMO was to help local farmers market their produce. The VMO had a role to help small local farmers who had fewer resources and less bargaining power, and whose production volume did not make it viable for them to make their own logistics and direct sale arrangements. The role of the VMO should not be restricted to just wholesaling. It was in line with Regulation 15(a) of the Agricultural Products (Marketing) Regulations (Cap. 277A) (Note 32); and
- (e) similar to the VMO, it was stipulated in section 11(2) of the Marine Fish (Marketing) Ordinance that the FMO might provide such services as may be deemed necessary for the improvement of the marketing of fishery products and the promotion of co-operative enterprise in the fisheries industry.

5.8 Audit notes that the direct import of fresh marine fishes by air, bypassing FMO wholesale markets (see para. 5.4), was not contemplated by law and might not be permissible (Note 33). Such a means of import is a major threat to the FMO, causing a significant decrease in its throughput of fresh marine fishes. Upon enquiry, the AFCD informed Audit in January 2016 that, while the AFCD combated illegal landing and trading of fresh marine fishes (e.g. AFCD staff conducting enforcement actions with the assistance of the police), the AFCD did not enforce the law insofar as importing fresh marine fishes by air was concerned. Moreover, although the law controlled the movement and sale of vegetables in Kowloon and the New Territories (Note 34), it was not the practice of the AFCD to enforce the provision. According to the AFCD, the law was outdated.

Note 32: *According to the Regulations, the Director of Marketing may provide such services as he may consider necessary or desirable for the improvement of agriculture or of the marketing of agricultural products, and engage in any activity which may improve or assist in the improvement of agriculture.*

Note 33: *According to the Marine Fish (Marketing) Ordinance, all fresh marine fishes are required to be landed and sold wholesale at FMO markets.*

Note 34: *According to the Agricultural Products (Marketing) Ordinance, except with a permit issued by the Director of Marketing, no vegetables shall be removed from and sold wholesale in Kowloon and the New Territories. Moreover, except with a permit, no vegetables shall be sold wholesale in Kowloon and the New Territories, except at the Cheung Sha Wan Vegetable Market.*

Suboptimisation of resources

5.9 While the FMO and the VMO are diversifying their activities and embarking on new roles which are not originally intended, the infrastructure in which they are operating has not been adequately modified and enhanced to keep pace with the change. As a result, public resources vested with the VMO and the FMO might not have been put into the best use. The following are worth noting:

- (a) ***Duplication of resources.*** Both the VMO market (i.e. the Cheung Sha Wan Vegetable Market) and the nearby AFCD market at Cheung Sha Wan (i.e. the Cheung Sha Wan Food Market) are carrying out wholesale marketing of vegetables (Note 35). During 2003-04 to 2014-15, throughput of the VMO market decreased by 48% from 246,371 tonnes (2003-04) to 128,033 tonnes (2014-15) (see Table 13 in para. 4.21). The VMO market might have surplus capacity;
- (b) ***Synergy not achieved.*** As an added value service for quality assurance, the VMO conducts pesticide residual testing for traders in its wholesale market. This service is not currently available to traders in wholesale markets of the AFCD, which is the VMO's competitor; and
- (c) ***Other uses of wholesale markets need to be justified.*** The lands of FMO and VMO markets are scarce resources. Use of the lands for purposes other than originally intended needs strong justifications against competing demands.

Future roles of fresh food wholesale markets

5.10 In 2012, the FHB commissioned a consultancy study on the roles and functions of fresh food wholesale markets in Hong Kong, covering the VMO market and other selected wholesale markets (Note 36). The study, completed in March 2015, has identified significant justifications for the continued existence of wholesale markets in Hong Kong having regard to their key roles in, for example:

Note 35: *For imported vegetables, wholesale marketing is carried out in both markets. For local vegetables, wholesale marketing is carried out in the VMO market.*

Note 36: *The study also covered four other fresh food wholesale markets, namely, Cheung Sha Wan Temporary Poultry Market, Cheung Sha Wan Food Market, Western Food Market and Yau Ma Tei Fruit Market.*

Way forward

- (a) stabilising food supply and prices within Hong Kong;
- (b) improving food trading efficiency and price transparency; and
- (c) improving food safety and traceability.

As at March 2016, the study was being considered by the Government.

Audit recommendations

5.11 **Audit has *recommended* that the Secretary for Food and Health and the Director of Agriculture, Fisheries and Conservation should:**

- (a) **critically review the roles and functions of the FMO and the VMO in relation to those of the AFCD in operating public fresh food wholesale markets, having regard to:**
 - (i) **the roles and functions of the FMO and the VMO originally intended;**
 - (ii) **their strengths, weaknesses, opportunities and threats; and**
 - (iii) **the need for enhancing their roles and functions to attain synergy and eliminate any duplication of resources in the operation of public fresh food wholesale markets; and**
- (b) **take measures to help the FMO, the VMO and the AFCD perform their roles and functions effectively and efficiently, including:**
 - (i) **updating the legal framework under which the FMO and the VMO operate and taking effective law enforcement actions; and**
 - (ii) **regularising, where necessary, new activities required to be performed by the FMO and the VMO.**

Response from the Government

5.12 The Secretary for Food and Health and the Director of Agriculture, Fisheries and Conservation generally accept the audit recommendations. They have said that the AFCD would explore ways to enhance the roles of the VMO and the FMO with a view to optimising the public resources vested with them. The Director of Agriculture, Fisheries and Conservation has said that:

- (a) the AFCD notes Audit's point on the legal issues mentioned in paragraphs 5.6(a) and 5.8, and will, in consultation with the Department of Justice, address them by taking measures to help the VMO and the FMO perform their roles and functions effectively and efficiently including updating the legal framework;
- (b) the main objectives of the Marine Fish (Marketing) Ordinance, which was introduced in 1960s, were to maintain orderly marketing of fresh marine fishes through ensuring that its landing and wholesaling activities would be conducted at designated spots in order to minimise environmental nuisances. Most, if not all, fresh marine fishes at that time were caught and carried by fishing vessels, and the landing and wholesaling activities involved would give rise to significant environmental nuisances if not properly controlled. Hence, they were required under the Ordinance to be landed and wholesaled in the FMO wholesale fish markets. Rarely were there any fresh marine fishes imported into Hong Kong by air then;
- (c) air cargo freight however has become rather commonplace in global trade in the last few decades. There is also a strong local demand for a variety of fresh marine fish products from different parts of the world in recent years. While the AFCD continued to combat illegal landing and trading of fresh marine fishes, the AFCD did not see the need and justification for restricting the landing and wholesaling of fresh marine fishes imported into Hong Kong by air to FMO wholesale fish markets. It is because such fishery products are normally frozen and well packaged for air transportation and after landing at the airport, would be distributed in a highly efficient manner to different sales channels including directly to the retailers. The environmental nuisances and hygiene concerns are minimal, if any. Requiring these marine fishery products to be landed and wholesaled at FMO wholesale fish markets would only impose unnecessary burdens on the trade without any environmental or consumer benefits;

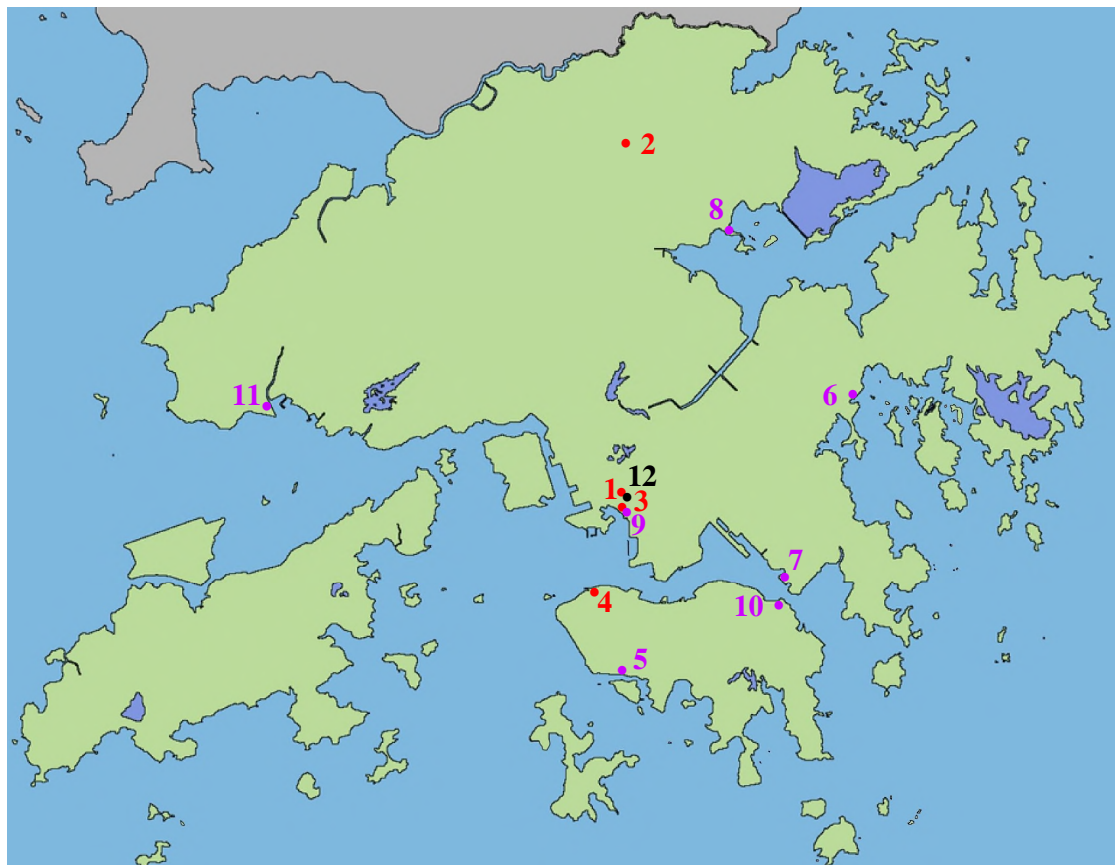
Way forward

- (d) the main objectives of the Agricultural Products (Marketing) Ordinance, introduced in the 1960s when Hong Kong was largely self-sufficient in vegetable consumption, were to maintain orderly marketing of all vegetables in Kowloon and the New Territories through ensuring that their movement and wholesaling activities would be conducted at designated wholesale vegetable markets with a view to helping local producers transport their vegetables to town for fair wholesaling and preventing unscrupulous middlemen from dominating the vegetable trade. The control appears outdated as currently nearly 98% of vegetables consumed locally are imported. The supply sources are diverse. So are the marketing channels. Adherence to a set of controls introduced 50 years ago and no longer meeting current needs would impose unnecessary burdens on the farmers and traders without any environmental or consumer benefits;

- (e) the VMO market specialised in fresh leafy vegetables supplying retail wet markets, while wholesalers at the AFCD's Cheung Sha Wan Food Market offered mainly contract supply services to catering outlets. The clientele were different though there might be some overlaps. The two markets complemented each other with different types of vegetables and services offered; and

- (f) wholesalers at the VMO market paid for the pesticide testing service themselves through a transaction levy without any subsidies from the VMO. Wholesalers at other wholesale markets could similarly employ private laboratories to do the same if they considered investing in such services would help promote their produce.

**Locations of 12 public fresh food wholesale markets
 (31 December 2015)**



- | | | |
|---------|--|----------------|
| Legend: | 1 Cheung Sha Wan Temporary Poultry Market | } AFCD markets |
| | 2 North District Temporary Agricultural Products Market | |
| | 3 Cheung Sha Wan Food Market | |
| | 4 Western Food Market | |
| | 5 Aberdeen Fish Market | } FMO markets |
| | 6 Sai Kung Fish Market | |
| | 7 Kwun Tong Fish Market | |
| | 8 Tai Po Fish Market | |
| | 9 Cheung Sha Wan Fish Market | |
| | 10 Shau Kei Wan Fish Market | } VMO market |
| | 11 Castle Peak Fish Market | |
| | 12 Cheung Sha Wan Vegetable Market | |

Source: AFCD records

**Land status of 12 public fresh food wholesale markets
(31 December 2015)**

Market		Site area (m ²)	Land status
<i>AFCD markets</i>			
1	Cheung Sha Wan Temporary Poultry Market	26,000	STT (Note 1)
2	North District Temporary Agricultural Products Market	12,500	STT (Note 1)
3	Cheung Sha Wan Food Market	100,000	STT (Note 1)
4	Western Food Market	62,000	STT (Note 1)
<i>FMO markets</i>			
5	Aberdeen Fish Market	15,577	PTG/STT (Note 2)
6	Sai Kung Fish Market	380	PTG
7	Kwun Tong Fish Market	4,151	PTG
8	Tai Po Fish Market	4,422	PTG
9	Cheung Sha Wan Fish Market	11,930	STT
10	Shau Kei Wan Fish Market	4,474	STT (Note 3)
11	Castle Peak Fish Market	5,113	STT (Note 3)
<i>VMO market</i>			
12	Cheung Sha Wan Vegetable Market	18,933	PTG/STT (Note 2)
Total		265,480	

Source: AFCD records

Note 1: The lands were let by the Government to the Financial Secretary Incorporated through STT for use by the AFCD.

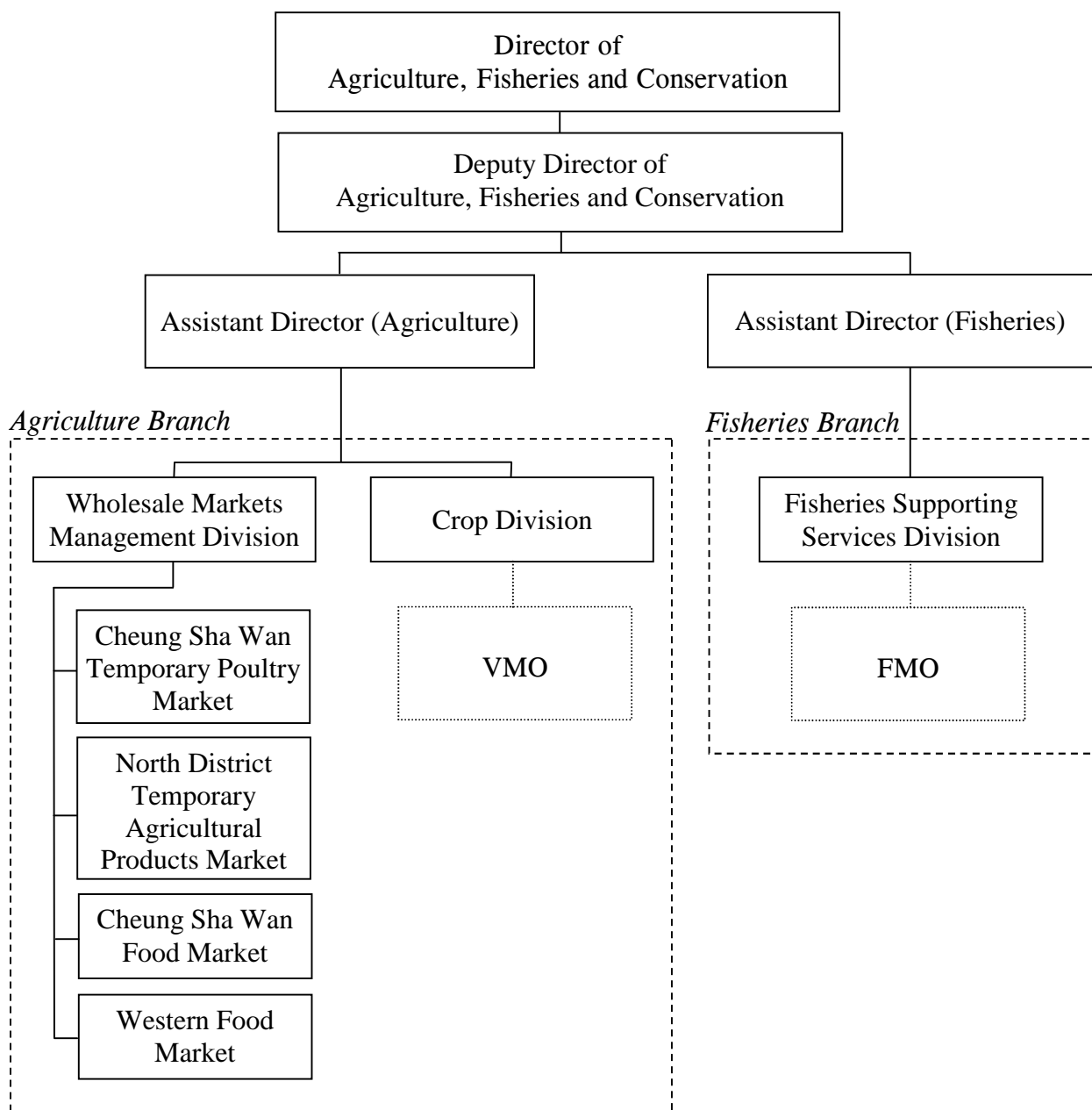
Note 2: The two markets each comprise more than one area. The areas were acquired through PTG or STT.

Note 3: The lands were allocated to the AFCD by permanent government land allocation, which were subsequently let through STT to the FMO.

Remarks: 1. A nominal rent of \$1 was charged for all STTs except one STT to the VMO (see para. 4.29(b)).

2. For the FMO's fish collecting depot at Cheung Chau (61 m²), the land was granted by the Government to the FMO through PTG. For the VMO's two vegetable collecting depots at Kam Tin (486 m²) and Lam Tei (1,575 m²), the lands were allocated by the Government to the VMO through land permit and land licence respectively.

**Agriculture, Fisheries and Conservation Department:
Organisation chart (extract)
(31 December 2015)**



Source: AFCD records

Remarks: The Deputy Director and Assistant Directors also oversee other Branches/Divisions.

**Chronology of key events relating to the
reprovisioning of the Yau Ma Tei Fruit Market
(January 1969 to January 2016)**

Date	Key event
January 1969	(a) The Executive Council approved that the Government should use public funds to construct fresh food wholesale markets to reprovision, among others, the Yau Ma Tei Fruit Market.
August 1972	(b) The LegCo Finance Committee approved a proposal to proceed with the detailed planning of the Cheung Sha Wan Food Market.
November 1990	(c) A feasibility study indicated that the reclamation of the land for the Cheung Sha Wan Food Market would be completed in two phases in 1991 and 1994 respectively. Accordingly, the study recommended developing the Market in two stages (i.e. Phase 1 and Phase 2), with the Yau Ma Tei Fruit Market to be reprovisioned to Phase 1.
December 1990	(d) The Architectural Services Department proposed to defer the reprovisioning of the Yau Ma Tei Fruit Market to Phase 2 of the Cheung Sha Wan Food Market, after considering factors including the overall layout, costs, programming and long-term operation of the fruit market.
May 1991	(e) The then Secretary for Economic Services gave policy support for the funding of Phase 1 and Phase 2 of the Cheung Sha Wan Food Market, with the Yau Ma Tei Fruit Market to be reprovisioned to Phase 2.
October 1993	(f) Phase 1 of the Cheung Sha Wan Food Market commenced operation.
October 1996	(g) Audit completed a review of the provision of government wholesale food markets. Audit reported that the Yau Ma Tei Fruit Market had yet to be reprovisioned to Phase 2 of the Cheung Sha Wan Food Market, which was scheduled to be completed by the end of 2000.
January 1997	(h) In its Report No. 27, the PAC urged the Government to expedite the development of Phase 2 of the Cheung Sha Wan Food Market and, in particular, the reprovisioning of the Yau Ma Tei Fruit Market.
October 1997	(i) The Government informed the PAC that the Government was inviting private developers to tender for the construction of a complex comprising wholesale markets for fruit and poultry, mid-stream container handling facilities and industrial-office accommodation at the Cheung Sha Wan Food Market Phase 2 site. The Yau Ma Tei Fruit Market would be relocated to the new wholesale fruit market by mid-2001.

Appendix D
(Cont'd)
(paras. 4.2 and 4.34 refer)

Date	Key event
February 1998	(j) As the only tender received had been found to have departed materially from the tender conditions, the Government decided to implement the Phase 2 project by itself.
August 1998	(k) The Government proposed to develop a multi-storey market complex at the Phase 2 site, which would accommodate five trades (i.e. vegetables, eggs, fishes, poultry and fruits).
February 2000	(l) The Government informed the PAC that the traders objected strongly to the multi-storey market complex proposal. They were concerned about the feasibility of their operation, possible traffic problems and future rental charges.
May 2004	(m) The Government informed the PAC that the multi-storey market complex proposal would not be pursued. It was reviewing other options of developing the Phase 2 site for the wholesale market, and would continue to keep the LegCo Panel on Food Safety and Environmental Hygiene informed of the development.
March 2007	(n) Audit completed a review of the management of government fresh food wholesale markets. Audit reported that there was little progress in the implementation of the Cheung Sha Wan Food Market Phase 2 project and the Yau Ma Tei Fruit Market was still operating at its existing location.
July 2007	(o) In its Report No. 48, the PAC expressed serious concern that: <p style="margin-left: 40px;">(i) the Yau Ma Tei Fruit Market had been operating for more than 80 years at its existing location and was in a very dilapidated condition, causing serious traffic and environmental nuisances in the vicinity; and</p> <p style="margin-left: 40px;">(ii) there was little progress in the implementation of the Cheung Sha Wan Food Market Phase 2 project and the reprovisioning of the Yau Ma Tei Fruit Market.</p> <p>The PAC strongly urged the Government to provide a definite timetable for relocating the Yau Ma Tei Fruit Market.</p>
October 2007	(p) The Government informed the PAC that it was considering the construction of a new wholesale market for fresh fruits in part of the Phase 2 site for relocating the Yau Ma Tei Fruit Market. The Government had embarked on preliminary discussion with fruit traders and other interested parties.

Appendix D
(Cont'd)
(paras. 4.2 and 4.34 refer)

Date	Key event
January 2008	(q) The Government submitted to the PAC a timetable for relocating the Yau Ma Tei Fruit Market, indicating that the new wholesale fruit market would commence operation 53 months after obtaining fruit traders' and relevant District Councils' agreement to the relocation.
May 2009	(r) The Government informed the PAC that, with a view to reaching a mutual understanding with the fruit wholesalers at the Yau Ma Tei Fruit Market, it had continued to engage the stakeholders in discussion.
May 2010	(s) The Government informed the PAC that it had continued to actively engage the stakeholders in discussion. Upon further discussion with the fruit wholesalers and the relevant District Councils on the relocation of the Yau Ma Tei Fruit Market, it would proceed with the development of the new wholesale fruit market according to the timetable forwarded to the PAC in January 2008. Follow-up action would continue to be taken on an on-going basis.
May 2011	(t) As per a request in January 2011 relaying the views of the Steering Committee on Housing Land Supply, the FHB, in consultation with the AFCD, completed a review on the need for relocating public fresh food wholesale markets. The review concluded that, among others, the Cheung Sha Wan Food Market Phase 2 site would be released for residential development.
October 2011	(u) An alternative site at Kwai Chung for relocating the Yau Ma Tei Fruit Market was identified. The AFCD's initial assessment confirmed the potential of the site for accommodating the fruit market.
October 2012	(v) The Yau Ma Tei Fruit Market relocation issue was discussed at a meeting of the Government's Social Community and Manpower Policy Group under the Chief Secretary for Administration's Office. The meeting decided that there was no urgency to proceed with the relocation exercise. The FHB was tasked to work with the Yau Tsim Mong District Council to mitigate environmental nuisance around the fruit market.
March 2015	(w) A consultancy study on the roles and functions of fresh food wholesale markets in Hong Kong was completed. The study found that, among others, the site at Kwai Chung was suitable for relocating the Yau Ma Tei Fruit Market.
January 2016	(x) The FHB and the AFCD were asked to release the site at Kwai Chung for other competing uses. A candidate site in Tsing Yi (to be further enlarged through reclamation) was being considered for relocation of the Yau Ma Tei Fruit Market.

Source: AFCD records

**Chronology of key events relating to the delay in
residential developments at the Cheung Sha Wan sites
(July 1994 to March 2016)**

Date	Key event
July 1994	(a) The Planning Department commented that the continued operation of the Cheung Sha Wan Vegetable Market at the existing sites would be a misuse of valuable land and constitute an incompatible element from an environmental point of view.
April 1995	(b) The Planning Department reiterated that early relocation of the Cheung Sha Wan Vegetable Market was critical from both environmental and urban renewal points of view. The Planning Department considered that every opportunity should be seized to identify a possible relocation site for the Market (Note).
April 1998	(c) The sites of the Cheung Sha Wan Vegetable Market and the adjacent Cheung Sha Wan Abattoir were zoned as “Residential (Group A)” on the Outline Zoning Plan. It was intended that the land would be used by the Housing Department for housing development.
September 1999	(d) The Cheung Sha Wan Abattoir was relocated to Sheung Shui.
March 2009	(e) The Housing Department advised that, due to the traffic and noise constraints generated by the Cheung Sha Wan Vegetable Market, the sites of the Market and the ex-Cheung Sha Wan Abattoir should be developed in one-go.
September 2013	(f) The Cheung Sha Wan Vegetable Market had yet to be relocated. The Housing Department decided to develop the ex-Cheung Sha Wan Abattoir site first.
March 2016	(g) The Cheung Sha Wan Vegetable Market was still operating at the Cheung Sha Wan sites.

Source: AFCD records

Note: The AFCD informed Audit in February 2016 that attempts were made to identify a possible relocation site, but in vain.

Acronyms and abbreviations

AFCD	Agriculture, Fisheries and Conservation Department
Audit	Audit Commission
FHB	Food and Health Bureau
FMO	Fish Marketing Organisation
FSTB	Financial Services and the Treasury Bureau
LegCo	Legislative Council
m ²	Square metres
PAC	Public Accounts Committee
PTG	Private Treaty Grant
STT	Short term tenancy
VMO	Vegetable Marketing Organisation

CHAPTER 3

**Transport and Housing Bureau
Highways Department
Civil Engineering and Development Department**

**Retrofitting of barrier-free access facilities
for grade-separated walkways**

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

RETROFITTING OF BARRIER-FREE ACCESS FACILITIES FOR GRADE-SEPARATED WALKWAYS

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1
Background	1.2 – 1.15
Audit review	1.16
Acknowledgement	1.17
PART 2: IMPLEMENTATION OF 2001 RETROFITTING INITIATIVE	2.1 – 2.2
Walkways considered feasible for retrofitting works	2.3 – 2.14
Audit recommendations	2.15
Response from the Government	2.16
Walkways considered infeasible for retrofitting works	2.17 – 2.29
Audit recommendations	2.30
Response from the Government	2.31

	Paragraph
PART 3: IMPLEMENTATION OF 2012 EXPANDED PROGRAMME	3.1
Public proposals on retrofitting lifts for GS walkways	3.2 – 3.21
Audit recommendation	3.22
Response from the Government	3.23 – 3.25
 PART 4: MANAGEMENT INFORMATION SYSTEM AND WAY FORWARD	 4.1
Integrated Structures Information System	4.2 – 4.11
Audit recommendations	4.12
Response from the Government	4.13 – 4.14
Major audit observations	4.15 – 4.17
Way forward	4.18 – 4.21
Audit recommendations	4.22 – 4.23
Response from the Government	4.24 – 4.26
 Appendices	 Page
A : Highways Department: Organisation chart (extract) (29 February 2016)	67
B : Comments of the HyD and the WSD on Case 1 (March 2016)	68 – 70
C : 15 grade-separated walkways without directional signs on nearby barrier-free access facilities	71
D : Acronyms and abbreviations	72

RETROFITTING OF BARRIER-FREE ACCESS FACILITIES FOR GRADE-SEPARATED WALKWAYS

Executive Summary

1. Under the Disability Discrimination Ordinance (Cap. 487) effective from 1996, it is unlawful for a person to discriminate against another person with a disability (PWD) by refusing to allow that other person access to, or the use of, any premises or facilities that the public is entitled, except where any alteration to the premises to provide such access or provision of such facilities would impose unjustifiable hardship on the provider of such access or facilities. According to the Highways Department (HyD), footbridges, elevated walkways and subways (hereinafter referred to as grade-separated walkways — GS walkways) are facilities governed under the Ordinance.

2. In September 2000, the then Transport Bureau (now the Transport and Housing Bureau — THB) stipulated in a circular that access for the PWDs had to be provided for all GS walkways either by the provision of ramps or lifts. In December 2001, the then Transport Bureau informed the Legislative Council (LegCo) that the Government would retrofit ramps or lifts for existing public footbridges according to an order of priorities (hereinafter referred to as the 2001 Retrofitting Initiative). As of December 2010, of the 1,540 GS walkways under its purview, the HyD had taken actions from 2001 to 2010 on investigation and retrofitting works for 94 walkways. In April 2011, the Labour and Welfare Bureau (LWB) informed LegCo that a total of 295 GS walkways in the territory were not provided with lifts, ramps or alternative at-grade crossings (hereinafter referred to as barrier-free access facilities). In June 2011, the THB informed LegCo that retrofitting works for barrier-free access facilities for GS walkways would be completed by 2017-18. In the same year, the HyD commenced a programme for carrying out investigation and retrofitting works for the remaining 201 (295 less 94) walkways not being provided with barrier-free access facilities (hereinafter referred to as the 2011 Retrofitting Programme, which formed part of the 2001 Retrofitting Initiative).

Executive Summary

3. In August 2012, in order to bring further convenience to the elderly, PWDs and the general public in using public GS walkways, the Government promulgated a new policy on “universal accessibility”, stating that, as long as site conditions permitted, it would consider installing lifts for walkways even when standard ramps had already been installed (hereinafter referred to as the 2012 Expanded Programme). Subsequently, in response to the Government’s invitation, members of the public submitted proposals for 253 walkways for lift retrofitting works. In November 2012, the THB informed LegCo that each of the 18 District Councils (DCs) would be invited to select three walkways from the List of Public Proposed Walkways (PPW List) for priority lift retrofitting works, which were to be carried out by the Civil Engineering and Development Department (CEDD — known as the First Phase of the 2012 Expanded Programme).

4. According to the HyD, the design, investigation, construction and supervision cost of retrofitting one lift each at both ends of a GS walkway was about \$40 million (or \$20 million for each lift) and the estimated annual operation and maintenance cost of each lift was about \$310,000. The total estimated cost of implementing the 2001 Retrofitting Initiative and the 2012 Expanded Programme from 2012-13 to 2021-22 would be about \$8.6 billion. The Audit Commission (Audit) has recently conducted a review to examine the retrofitting of barrier-free access facilities for GS walkways through implementation of the 2001 Retrofitting Initiative and the 2012 Expanded Programme.

Implementation of 2001 Retrofitting Initiative

5. *Understatement of walkways requiring retrofitting works.* In April 2011, the LWB informed LegCo that 295 GS walkways were not provided with barrier-free access facilities (see para. 2). However, according to the HyD’s records, in fact 328 GS walkways were not provided with barrier-free access facilities. Accordingly, the number of walkways not having been provided with barrier-free access facilities were understated by 33 (328 less 295) (para. 2.2).

6. *Slow progress in implementing 2011 Retrofitting Programme.* As of February 2016, twenty years had lapsed since the effective date of the Disability Discrimination Ordinance in 1996. In June 2011, the THB informed LegCo that the majority of the retrofitting works for barrier-free access facilities for GS walkways under the 2011 Retrofitting Programme were scheduled for completion by 2016-17 and the remaining walkways by 2017-18. Of the 328 walkways not having been

Executive Summary

provided with barrier-free access facilities (see para. 5), 184 (56%) were found to be feasible for retrofitting works and carried out under the 2001 Retrofitting Initiative. However, Audit examination revealed that, of the 184 GS walkways as of December 2015, retrofitting works for: (a) only 60 (33%) had been completed; (b) 94 (51%) were in progress; (c) 17 (9%) were under detailed design and public consultation; and (d) 13 (7%) had not commenced. Furthermore, as of December 2015, of the total approved funding of \$4.03 billion for the lift/ramp retrofitting works under the 2011 Retrofitting Programme, only \$1.15 billion (29%) had been spent (paras. 1.3, 1.13, 2.2, 2.3 and 2.6).

7. ***Significant time and cost overrun in implementing retrofitting works items.*** Of the 60 GS walkways for which lift retrofitting works had been completed as of December 2015, works for 34 (57%) walkways were completed from 2001 to 2010 and the remaining 26 (43%) walkways under the 2011 Retrofitting Programme. For the 34 walkways, Audit examination revealed that, in one case, the approved project estimate of implementing retrofitting works for two subways had increased by 16% to \$67 million, partly due to additional works for utility diversions. In another two cases, the actual completion dates of implementing retrofitting works had been delayed by 1,088 and 730 days respectively. The works delay of the latter case was mainly caused by works interfacing problems related to a water-pipe replacement project in the vicinity. For the remaining 26 walkways, Audit examination revealed that the actual works completion dates of 20 (77%) had been delayed by 14 to 422 days (on average 156 days), in some cases due to utility diversion problems found after awarding works contracts (paras. 2.4, 2.10 and 2.12).

8. ***Some retrofitting works originally found to be infeasible by the HyD but later found to be feasible by the CEDD.*** Subsequent to the effective date of the Disability Discrimination Ordinance in 1996, the Government commenced to carry out lift/ramp retrofitting works for GS walkways not being provided with barrier-free access facilities. From 2001 to 2013, the HyD's feasibility studies under the 2001 Retrofitting Initiative found that 95 walkways were not feasible for carrying out lift/ramp retrofitting works mainly due to site constraints or existence of underground utilities, including a footbridge in Sham Shui Po, and a footbridge and a subway in Wan Chai. However, the CEDD's feasibility studies under the 2012 Expanded Programme found that it was technically feasible to carry out retrofitting works for these three walkways by adopting alternative solutions. Audit also noted that the HyD had not issued guidelines on determining whether a walkway is feasible for carrying out lift/ramp retrofitting works (paras. 1.5, 2.19, 2.23, 2.25 and 2.26).

Executive Summary

9. *Lack of directional signs on nearby barrier-free access facilities.* In March 2009, the THB informed LegCo that, to facilitate PWDs who were unable to use footbridges not being provided with barrier-free access facilities, the Government would consider installing signs near the footbridges providing information on nearby at-grade crossing facilities having regard to the actual situation. However, Audit site visits to 15 GS walkways not being provided with barrier-free access facilities found that no directional sign was erected near all the 15 walkways to advise needy persons of nearby barrier-free access facilities (paras. 2.28 and 2.29).

Implementation of 2012 Expanded Programme

10. As of December 2015, the 18 DCs had nominated a total of 53 walkways (49 nominated from the PPW List and 4 outside the List) for priority lift retrofitting works under the 2012 Expanded Programme (paras. 3.7 and 3.8).

11. *Low pedestrian flow of some nominated walkways.* While the 18 DCs were each invited to nominate three walkways from the PPW List, the number of walkways included in individual PPW List for nomination by DCs varied from 1 to 28. For example, whereas the PPW List provided to Tuen Mun and Sha Tin DCs respectively contained 28 and 21 walkways, the List provided to Central and Western, Sham Shui Po and Sai Kung DCs each contained four walkways, and to Islands DC only one walkway. In this connection, Sham Shui Po and Islands DCs together nominated three walkways outside the PPW List for lift retrofitting works. Audit noted that the peak-hour pedestrian flow of some nominated walkways was relatively low. For example, an elevated walkway nominated in Southern District and a footbridge in Sai Kung District only respectively recorded peak-hour pedestrian flow of 69 and 112 (paras. 3.7 and 3.10).

12. *Some useful information not provided to DCs for facilitating informed decision.* Audit noted that the HyD had only provided to DCs some useful information of 219 walkways proposed by the public but omitted to include information of 32 walkways in the PPW List. Audit also noted that, in providing DCs with information for nominating walkways for lift retrofitting works, the HyD only provided three DCs (Tuen Mun, Kwai Tsing and Kwun Tong DCs) with

Executive Summary

information on nearby facilities for the elderly and PWDs, and alternative at-grade crossings within 100 metres, but did not provide such information to the remaining 15 (18 less 3) DCs. Furthermore, Audit examination revealed that the CEDD provided significant pedestrian-flow statistics to Wong Tai Sin DC relating to a footbridge only after the DC's nomination of the footbridge for retrofitting works (paras. 3.16, 3.17 and 3.21).

Management information system and way forward

13. *Information system not capable of generating important information.* The HyD established an Integrated Structures Information System (ISI System) in 2002 for maintaining information of ramps, lifts, staircases and other furniture of walkways under its maintenance. However, Audit noted that the ISI System could not generate management reports on the locations and availability of ramps or lifts of GS walkways under the HyD's purview (paras. 4.2 and 4.6).

14. *Some GS walkways constructed after effective date of Disability Discrimination Ordinance not being provided with barrier-free access facilities.* Audit examination of the information provided by the HyD revealed that 11 GS walkways constructed from 1999 to 2005 (after the effective date of the Disability Discrimination Ordinance of 1996) were not provided with barrier-free access facilities at the time of walkway construction (para. 4.10).

15. *Significant increase in average unit cost of lift retrofitting works.* Audit noted that the average construction cost of retrofitting a lift for a walkway had significantly increased from \$6.7 million between 2002 and 2011 by 124% to \$15.0 million in 2015 (para. 4.21).

16. *Second Phase of the 2012 Expanded Programme.* In the Policy Address of January 2016, the Government said that, from the fourth quarter of 2016, the Government would again invite DCs to further nominate not more than three existing GS walkways in each district for lift retrofitting works under the Second Phase of the 2012 Expanded Programme (para. 4.18).

Executive Summary

Audit recommendations

17. Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Government should:

Implementation of 2001 Retrofitting Initiative

- (a) expedite actions to complete the outstanding retrofitting works under the 2011 Retrofitting Programme (para. 2.15(a));
- (b) for works requiring utility diversions in implementing a works project in future, endeavour to find solutions before letting related works contracts (para. 2.15(c));
- (c) in implementing a works project in future, take measures to avoid unnecessary contract variations after contract award (para. 2.15(d));
- (d) conduct reviews of completed GS walkway retrofitting works items involving significant cost overrun or works slippages with a view to drawing lessons for improvement (para. 2.15(f));
- (e) re-examine the justifications for not carrying out retrofitting works for walkways found under the 2001 Retrofitting Initiative to be infeasible for such works, and inform LegCo and the related DCs of the examination findings (para. 2.30(e));
- (f) issue guidelines on determining whether a public GS walkway is feasible for carrying out lift/ramp retrofitting works (para. 2.30(f));
- (g) erect directional signs providing information on nearby barrier-free access facilities near GS walkways not being provided with such facilities (para. 2.30(g));

Executive Summary

Implementation of 2012 Expanded Programme

- (h) provide DCs with useful information for making informed decisions in nominating GS walkways for implementation of lift retrofitting works (para. 3.22);

Management information system and way forward

- (i) make enhancements to the ISI System for generating management reports on important information of GS walkways under the HyD's purview (para. 4.12(a));
- (j) conduct a review of GS walkways constructed after the effective date of the Disability Discrimination Ordinance in 1996 which were not provided with barrier-free access facilities to ascertain whether such facilities should have been provided at the time of walkway construction, and take necessary remedial measures (para. 4.12(c));
- (k) ascertain the reasons for the omission of 33 GS walkways in reporting to LegCo in April 2011 the number of walkways not having been provided with barrier-free access facilities (para. 4.12(d));
- (l) take into account observations in this Audit Report in implementing lift retrofitting works for GS walkways in future (para. 4.22); and
- (m) conduct a review to ascertain whether the implementation of a large quantity of lift retrofitting works within a few years has created pressure on the related trade and driven up the cost of works, and take necessary improvement measures (para. 4.23).

Response from the Government

18. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 In December 1987, the then Transport Branch (Note 1) promulgated in a circular entitled “Provision of covers or ramps and escalators to grade separated pedestrian facilities” that ramps (see Photograph 1) should be provided for all footbridges and elevated walkways (see Photograph 2), unless the then Secretary for Transport approved exempting the provision of such ramps under special circumstances, such as the lack of space.

Photograph 1

A ramp of a footbridge in Wong Tai Sin



Source: Photograph taken by Audit Commission in December 2015

Note 1: *The then Transport Branch (before July 1997) and the then Transport Bureau (from July 1997 to June 2002) were responsible for the policy portfolio of transport matters. In July 2002, the then Environment, Transport and Works Bureau was set up to take over the policy portfolio. In July 2007, the Transport and Housing Bureau was formed to take over the transport policy portfolio.*

Photograph 2

An elevated walkway in Wong Tai Sin



Source: Photograph taken by Audit Commission in February 2016

1.3 Under the Disability Discrimination Ordinance (Cap. 487) enacted in 1995 and effective from 1996, it is unlawful for a person to discriminate against another person with a disability (PWD) by refusing to allow that other person access to, or the use of, any premises or facilities that the public is entitled, except where any alteration to the premises to provide such access or provision of such facilities would impose unjustifiable hardship on the provider of such access or facilities.

1.4 According to the Highways Department (HyD), footbridges, elevated walkways and subways (hereinafter referred to as grade-separated walkways — GS walkways) are facilities governed under the Disability Discrimination Ordinance, and most of the GS walkways constructed after 1996 have thus been installed with barrier-free access facilities such as ramps or passenger lifts (see Photograph 3).

Photograph 3

A passenger lift for a footbridge in Wan Chai



Source: Photograph taken by Audit Commission in February 2016

Introduction

Lift retrofitting works from 2001 to 2010

1.5 In September 2000, the then Transport Bureau (see Note 1 to para. 1.2) stipulated in a circular entitled “Provision of covers, ramps, and escalators to grade separated pedestrian facilities” that access for the disabled had to be provided for all GS walkways either by the provision of ramps or lifts. In December 2001, in response to an enquiry of a Member of the Legislative Council (LegCo) on the provision of facilities for the disabled at footbridges, the then Transport Bureau informed LegCo that:

- (a) in view of the large scope of works and resource constraints, the Government would retrofit ramps or lifts for existing public footbridges according to an order of priorities (hereinafter referred to as the **2001 Retrofitting Initiative**); and
- (b) some footbridges could not be retrofitted with such facilities due to site constraints (e.g. not enough space for installing ramps), and some footbridges did not have a need for such facilities (e.g. there were nearby at-grade crossings).

1.6 In March 2009, in response to an enquiry of a LegCo Member, the Transport and Housing Bureau (THB) informed LegCo that the Transport Department (TD) received suggestions from the public from time to time on the provision of lifts at existing footbridges in different districts, and the suggestions on retrofitting lifts at some footbridges could not be accepted because ramps had already been provided at these footbridges to provide barrier-free access facilities for PWDs.

1.7 As of December 2010, of the 1,540 GS walkways under its purview, the HyD had taken actions from 2001 to 2010 on investigation and retrofitting works for 94 GS walkways. In April 2011, the Labour and Welfare Bureau (LWB) informed the LegCo Panel on Welfare Services that:

- (a) the Equal Opportunities Commission's Formal Investigation Report on Accessibility in Publicly Accessible Premises published in June 2010 had made recommendations on the improvement of accessibility, connectivity and interface with the surrounding environment, and user-friendly management practices for publicly accessible premises;
- (b) a total of 295 GS walkways in the territory were not provided with lifts, ramps or alternative at-grade crossings (hereinafter referred to as barrier-free access facilities); and
- (c) the HyD would accelerate retrofitting of barrier-free access facilities at GS walkways where technically feasible. In order to shorten the time of project delivery, retrofitting works for all remaining feasible walkways would be taken forward in phases, with majority of works scheduled for completion by around 2016-17 and works for the remaining walkways (e.g. those involving public objections or technical complexities) by around 2017-18.

1.8 In 2011, the HyD commenced a programme for carrying out investigation and retrofitting works for the remaining 201 (295 less 94) walkways (hereinafter referred to as the **2011 Retrofitting Programme** (Note 2), which formed part of 2001 Retrofitting Initiative). For the 94 walkways having investigation and retrofitting works carried out before the 2011 Retrofitting Programme, the works were funded by two project votes (6143TB and 6153TB) and a general block vote 6100TX (for financing HyD works, studies and investigations). As of December 2015, the total approved funding and actual expenditure of investigation and retrofitting works of these 94 walkways were \$437.6 million and \$345.2 million respectively. For the 201 walkways under the 2011 Retrofitting Programme, investigation and retrofitting works were funded under a project vote 6167TB (Provision of barrier-free access facilities) and a block vote 6101TX (Universal Accessibility Programme). As of December 2015, the total approved funding and actual expenditure of investigation and retrofitting works of the 201 walkways were \$4,032.7 million and \$1,147.7 million respectively. Details of the retrofitting works carried out from 2001 to 2010 and under the 2011 Retrofitting Programme are shown in Table 1.

Note 2: *In papers submitted to LegCo from 2012 to 2015, the HyD used the term "Original Programme" to refer to the 2011 Retrofitting Programme.*

Table 1

**Work progress of 2001 Retrofitting Initiative
(December 2015)**

Particulars	Number of walkways having investigation and retrofitting works		
	From 2001 to 2010	Included under 2011 Retrofitting Programme	Total
Total	94	201	295
<u>Less:</u> Retrofitting works found not feasible	49	24	73
Retrofitting works found not necessary (e.g. nearby at-grade crossing available)	3	16	19
Retrofitting works undertaken or to be undertaken under other projects	5	11	16
Retrofitting works to be carried out under 2012 Expanded Programme (see para. 1.10)	3	Nil	3
	34	150	184
Requiring retrofitting works	34	26	60
Works completed as of December 2015	Nil	124	124
Works in progress			

Source: Audit Commission analysis of HyD records

1.9 According to the 2001 Retrofitting Initiative, retrofitting works will not be carried out for GS walkways that are technically infeasible to be retrofitted with barrier-free access facilities, or a nearby at-grade crossing has been provided within 100 metres of the walkways. In this connection, in June 2011, the HyD informed LegCo Panel on Transport that, in deciding whether to retrofit barrier-free access facilities for a pedestrian crossing, the major consideration was the availability of such facilities and not its utilisation rate nor its location.

2012 Expanded Programme

1.10 In a press release on 21 August 2012, the Government promulgated a new policy on “universal accessibility” (see para. 1.11), stating that:

- (a) the Government would from that time onwards treat lifts and ramps equally when considering installing barrier-free access facilities at GS walkways. This would be a change from the prevailing practice of giving priority to installing ramps at GS walkways; and
- (b) as long as site conditions permitted, the Government would consider installing lifts at walkways where there was already a standard ramp installed (hereinafter referred to as the **2012 Expanded Programme**).

According to the THB, the universal accessibility policy aimed at bringing further convenience to the elderly, PWDs and the general public in using GS walkways.

Introduction

1.11 In January 2013, the Finance Committee (FC) of LegCo approved the creation of a new block vote 6101TX (Universal Accessibility Programme) under the Capital Works Reserve Fund to finance lift retrofitting works under the 2011 Retrofitting Programme and the 2012 Expanded Programme (see Table 2 in para. 1.13). Under the 6101TX block vote arrangement, retrofitting works costing \$75 million or below for a walkway may be approved by an appropriate directorate officer (Note 3) without the need to seek the FC's separate approval. In this regard, the Government would seek the FC's funding approval for the block vote on an annual basis.

1.12 Between August and October 2012, the Government invited members of the public to submit proposals for GS walkways for lift retrofitting works. In response, public proposals for 253 walkways were submitted to the Government. In November 2012, the THB informed the LegCo Panel on Transport of the arrangement of inviting each of the 18 District Councils (DCs) to select three priority GS walkways among the public proposals received. In the first half of 2013, the HyD and the Civil Engineering and Development Department (CEDD) invited each of the 18 DCs to nominate three GS walkways in its district for priority implementation of lift retrofitting works. As of December 2015, the 18 DCs together had nominated 53 walkways (Sham Shui Po DC only nominated two walkways — see para. 3.7(d)) for lift retrofitting works (hereinafter referred to as the First Phase of the 2012 Expanded Programme).

Sources of funding

1.13 The sources of funding for the 2001 Retrofitting Initiative and the 2012 Expanded Programme are summarised in Table 2.

Note 3: *For Subhead 6101TX, the approving officers for different sums are as follows:*

- (a) Permanent Secretary for Transport and Housing (Transport): up to \$75 million;*
- (b) Deputy Secretary for Transport and Housing (Transport): up to \$55 million;*
- (c) Director of Highways / Director of Civil Engineering and Development: up to \$50 million;*
- (d) Deputy Director (or officer at D3 level) of the HyD and the Civil Engineering and Development Department: up to \$30 million; and*
- (e) Directorate officers of the HyD and the Civil Engineering and Development Department: up to \$12 million.*

Table 2
2001 Retrofitting Initiative and 2012 Expanded Programme
(December 2015)

2001 Retrofitting Initiative				First Phase of 2012 Expanded Programme (covering 53 walkways)	
Investigation and retrofitting works from 2001 to 2010 (covering 94 walkways)		2011 Retrofitting Programme (covering 201 walkways)			
Funding source	Total approved funding (Actual expenditure) (\$ million)	Funding source	Total approved funding (Actual expenditure) (\$ million)	Funding source	Total approved funding (Actual expenditure) (\$ million)
Project vote 6143TB	67.0 (63.7)	Project vote 6167TB	292.1 (192.6)	Block vote 6101TX	1,692.2 (143.5)
Project vote 6153TB	71.4 (55.4)	Block vote 6101TX	3,740.6 (955.1)		(Note 2)
Block vote 6100TX	299.2 (226.1) (Note 1)		(Note 2)		
Total	437.6 (345.2)	Total	4,032.7 (1,147.7)	Total	1,692.2 (143.5)

- Legend: Project vote 6143TB: Improvement to pedestrian subway system at Kwai Fuk Road roundabout
- Project vote 6153TB: Enhancement of footbridges in Tsim Sha Tsui East
- Project vote 6167TB: Provision of barrier-free access facilities at public footbridges, elevated walkways and subways — design works and phase 1 construction works
- Block vote 6100TX: Highway works, studies and investigations for items in Category D of the Public Works Programme
- Block vote 6101TX: Universal Accessibility Programme

Source: *Audit Commission analysis of HyD records*

Note 1: *These amounts only represented the approved funding and actual expenditure of lift/ramp retrofitting works, but excluded those for other HyD works items under block vote 6100TX.*

Note 2: *Block vote 6101TX covers works under both 2011 Retrofitting Programme and 2012 Expanded Programme.*

Introduction

Estimated costs

- 1.14 According to the HyD:
- (a) the cost of retrofitting one lift each at both ends of a walkway was about \$40 million (or \$20 million for each lift). The cost included construction cost, design, investigation and supervision fees;
 - (b) the estimated annual operation and maintenance cost of each lift was about \$310,000;
 - (c) as of December 2015, the approved funding of the retrofitting works under the 2001 Retrofitting Initiative and the 2012 Expanded Programme totalled \$6.16 billion (\$437.6 million + \$4,032.7 million + \$1,692.2 million), and the total actual expenditure was \$1.64 billion (\$345.2 million + \$1,147.7 million + \$143.5 million) (see Table 2 in para. 1.13); and
 - (d) the total estimated cost of the works from 2012-13 to 2021-22 would be about \$8.6 billion.

Responsible government bureau and departments

1.15 The THB is responsible for policy matters on the provision of barrier-free access facilities for GS walkways. The Major Works Office (1), the Bridges and Structures Division and the Works Division of the HyD are responsible for implementing the 2001 Retrofitting Initiative. Moreover, the Urban and New Territories Regional Offices of the HyD are responsible for maintaining public walkways. Appendix A shows an extract of the organisation chart of the HyD. The Universal Accessibility Projects Unit of the CEDD is responsible for implementing the First Phase of the 2012 Expanded Programme.

Audit review

1.16 In December 2015, the Audit Commission (Audit) commenced a review to examine retrofitting of barrier-free access facilities for GS walkways through implementation of the 2001 Retrofitting Initiative and the 2012 Expanded Programme. The review focuses on the following areas:

- (a) implementation of 2001 Retrofitting Initiative (PART 2);
- (b) implementation of 2012 Expanded Programme (PART 3); and
- (c) management information system and way forward (PART 4).

Audit has found room for improvements in the above areas, and has made a number of recommendations to address the issues.

Acknowledgement

1.17 Audit would like to acknowledge with gratitude the full cooperation of the staff of the THB, the HyD and the CEDD during the course of the audit review.

PART 2: IMPLEMENTATION OF 2001 RETROFITTING INITIATIVE

2.1 This PART examines the HyD's actions in implementing the 2001 Retrofitting Initiative, focusing on:

- (a) walkways considered feasible for retrofitting works (see paras. 2.3 to 2.16); and
- (b) walkways considered infeasible for retrofitting works (see paras. 2.17 to 2.31).

2.2 From 2001 to 2010, the HyD had taken actions on investigation and retrofitting works for 94 GS walkways and had completed lift retrofitting works for 22 of them. LegCo was informed in April 2011 that 295 GS walkways had not been provided with barrier-free access facilities (see para. 1.7(b)). However, Audit examination revealed that in fact 328 walkways had not been provided with related facilities (see para. 4.11). Table 3 shows the status of implementing the 2001 Retrofitting Initiative as of April 2011 and December 2015.

Implementation of 2001 Retrofitting Initiative

Table 3

**GS walkways under 2001 Retrofitting Initiative
(April 2011 and December 2015)**

Retrofitting works	Walkways			
	HyD statistics reported to LegCo in April 2011		HyD statistics as of December 2015	
	(No.)	(%)	(No.)	(%)
Found feasible for implementation under 2001 Retrofitting Initiative	67	23%	184	56%
Found infeasible	56	19%	92	28%
Found not necessary (Note 1)	Not mentioned	Not mentioned	23	7%
Carried out or to be carried out under other works project or private development projects outside 2001 Retrofitting Initiative	Not mentioned	Not mentioned	26	8%
To be carried out under 2012 Expanded Programme (see para. 2.19)	Not mentioned	Not mentioned	3	1%
With planning and investigation in progress	172	58%	Nil	Nil
Total	295 (Note 2)	100%	328 (Note 2)	100%

Source: Audit analysis of LWB and HyD records

Note 1: As of December 2015, the HyD's investigation found that, mainly due to availability of nearby alternative barrier-free access facilities (e.g. within about 100 metres of a GS walkway), retrofitting works for 23 (7%) of the 328 walkways were not necessary.

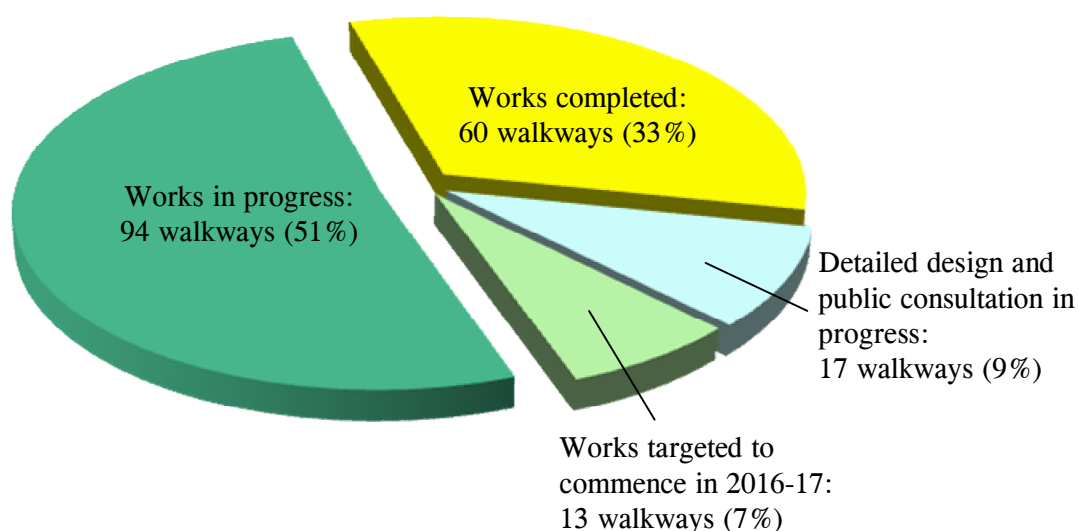
Note 2: Retrofitting works for 22 of the 295 walkways had been completed by April 2011 and 60 of the 328 walkways had been completed by December 2015. Based on HyD records, the 295 walkways as of April 2011 were understated by 33 walkways, comprising 19 walkways under "Found infeasible", 4 walkways under "Found not necessary" and 10 walkways under "carried out or to be carried out under other projects or private development projects outside 2001 Retrofitting Initiative".

Walkways considered feasible for retrofitting works

2.3 As of December 2015, 184 GS walkways (see Table 3 in para. 2.2) under the 2001 Retrofitting Initiative that had been found to be feasible for retrofitting works were in various stages of works. Figure 1 shows the progress of implementing retrofitting works for these 184 walkways.

Figure 1

**Progress of retrofitting works for 184 walkways
(December 2015)**



Source: HyD records

2.4 For the 60 GS walkways with retrofitting works completed as of December 2015, works for:

- (a) 34 GS walkways were completed from 2001 to 2010 and were not covered under the 2011 Retrofitting Programme; and
- (b) 26 GS walkways were completed under the 2011 Retrofitting Programme.

Implementation of 2001 Retrofitting Initiative

2.5 From December 2011 to December 2013, under the 2011 Retrofitting Programme, the HyD awarded five works contracts (Contracts A to E) through open tendering for carrying out retrofitting works for 50 walkways, including the 26 GS walkways with works completed as mentioned in paragraph 2.4(b). Details are shown in Table 4.

Table 4

**Contracts A to E for retrofitting works
(December 2015)**

Contract	Walkway to be retrofitted (No.)	Contract sum (\$ million)	Walkway with works completed (No.)	Contract commencement date	Scheduled completion date (Note 1)
A	4	44.5	4	December 2011	December 2014
B	6	86.8	6	October 2012	October 2015
C	14	372.4	10	March 2013	September 2017
D	10 (Note 2)	162.4	5	March 2013	March 2016
E	16	329.6	1	December 2013	December 2017
Total	50	995.7	26		

Source: HyD records

Note 1: As of December 2015, the accounts of Contracts A to E had not been finalised.

Note 2: Contract D comprised retrofitting works for 11 GS walkways of which one footbridge located in Wong Tai Sin was funded under block vote 7016CX, which was under the control of the Home Affairs Department. The works for this footbridge were not covered under the 2011 Retrofitting Programme. The \$162.4 million contract sum was for retrofitting the 11 walkways.

Implementation of 2001 Retrofitting Initiative

Slow progress in implementing the 2011 Retrofitting Programme

2.6 In the 2011-12 Budget published in February 2011, the Government stated that the bulk of the retrofitting works for barrier-free access facilities for GS walkways would be completed by 2016-17. The THB also informed the LegCo Panel on Transport in June 2011 that the majority of the retrofitting works for barrier-free access facilities for GS walkways under the 2011 Retrofitting Programme were scheduled for completion by 2016-17 and the remaining by 2017-18.

2.7 Notwithstanding the Government's commitment in 2011 to complete the majority of the retrofitting works under the 2011 Retrofitting Programme by 2016-17 and the remaining by 2017-18, of the 184 walkways found to be feasible for retrofitting works, as of December 2015, retrofitting works for 94 (51%) walkways were in progress, 17 (9%) were under detailed design and public consultation and 13 (7%) had not commenced (see Figure 1 in para. 2.3). Audit considers it questionable whether the target set in 2011 for completing the related retrofitting works by 2017-18 would be met.

2.8 According to the HyD:

- (a) the progress of the 2011 Retrofitting Programme was affected by factors including longer time required for handling different public opinions, the need to coordinate with other works or development projects and to resolve design and construction problems, such as the need to divert utility cables;
- (b) in November 2015, the THB informed the LegCo Panel on Transport that the lift retrofitting works for 104 walkways (Note 4) were in progress and they were targeted for completion progressively from 2015 to 2018, and the works for 30 walkways were targeted for completion progressively from 2018 onwards; and

Note 4: *In November and December 2015, works for 10 walkways were completed. Therefore, as of December 2015, works for 94 walkways were in progress (see Figure 1 in para. 2.3).*

Implementation of 2001 Retrofitting Initiative

- (c) according to the 2016 Policy Address, 80% of the retrofitting works items would be completed within three years.

2.9 In Audit's view, the HyD needs to expedite actions to complete the retrofitting works for the outstanding 124 (94 + 17 + 13) GS walkways (see para. 2.7) under the 2011 Retrofitting Programme.

Significant time and cost overrun in implementing retrofitting works items

2.10 Based on the information provided by the HyD and that kept in the Public Works Programme Information System (Note 5) maintained by the Development Bureau, Audit noted that 5 (Subways A and B and Footbridges A to C) of the 34 works items completed from 2001 to 2010 (see para. 2.4(a)) had significant cost-overrun and works slippages, as follows:

- (a) *Subways A and B carried out under a project.* The lift retrofitting works were carried out under a project (with an original approved project estimate (APE) of \$57.7 million) to address the increased pedestrian flow and to enhance pedestrian safety on a road. Four lifts were to be installed under the project. Audit noted that the project involved cost overrun of \$9.3 million (16% of the APE). In December 2009, the Financial Services and the Treasury Bureau approved an increase in the APE from \$57.7 million to \$67 million, partly due to additional works for utility diversions;
- (b) *Footbridges A and B carried out under a project.* The project (with an APE of \$71.4 million) included the renovation of Footbridges A and B and the replacement of footbridge ramps by lifts to provide more space for greening and to facilitate pedestrian movement. The actual works completion date was 1,088 days later than the scheduled completion date. The contractor had submitted claims for additional costs; and

Note 5: *Works departments are required to input specified information of works projects funded under a project vote of the Capital Works Reserve Fund into the System.*

Implementation of 2001 Retrofitting Initiative

- (c) *Footbridge C funded under block vote 6100TX.* The actual works completion date was 730 days later than the scheduled completion date (see Case 1).

Case 1

Works delay due to interfacing problems with other works projects in same location (Footbridge C)

1. In December 2009, the THB approved \$17.66 million for carrying out works to retrofit two lifts (Lifts A and B) for a footbridge (Footbridge C) funded under block vote 6100TX. In May 2010, the HyD awarded a contract to a contractor in the sum of \$15.2 million for carrying out the retrofitting works. Works commenced in May 2010 and were scheduled (under the contract) for completion in November 2011. As it transpired, retrofitting works for Lift A were completed and it was open for public use in March 2012. However, works for Lift B were only completed and it was open for use in November 2013, 20 months later than the opening date of Lift A. In August 2013, the THB approved increasing the APE of the works item from \$17.66 million by \$6.72 million (38%) to \$24.38 million for meeting the prolongation cost and the increase in price fluctuations.

2. The retrofitting works under the contract, which were scheduled for completion within 540 days, had been delayed by 730 days. According to the HyD's paper submitted in May 2013 to the THB for seeking approval for increasing the APE of the works item:

- (a) the lift retrofitting works were delayed by works of an interfacing water-pipe replacement project managed by the Water Supplies Department (WSD). Both the footbridge and water pipe projects required temporary occupation of a two-lane carriageway with one lane to be open to traffic at any time;
- (b) before commencement of the lift retrofitting works, the HyD had coordinated with the WSD which had originally scheduled the water pipe project to be completed by December 2010. The HyD planned to carry out the lift retrofitting works after the WSD completing the water pipe works; and
- (c) the WSD only completed the works in October 2012, with a delay of 22 months.

3. Comments of the HyD and the WSD on this case are summarised at Appendix B.

Case 1 (Cont'd)

Audit comments

4. Audit considers it unsatisfactory that Lift B was only commissioned 20 months after commissioning of Lift A, rendering Footbridge C not a truly barrier-free access facility during the 20-month period. The HyD needs to draw lessons from this works item and, in carrying out a similar works item in future, take measures to minimise works interfacing problems with another works project at the same location.

Source: HyD and WSD records

2.11 In March 2016, the HyD informed Audit that:

- (a) for Subways A and B, the increase in project cost was due to the higher-than-expected tender prices, higher-than-expected contract price fluctuations due to substantial inflation in construction material prices from 2008 to 2009, and additional works for drainage and water mains diversions; and
- (b) for Footbridges A and B, the project delay was mainly due to the contractor's delay in supplying materials in conformity with the contract specifications.

2.12 Of the 26 GS walkways having retrofitting works completed as of December 2015 (see para. 2.4(b)), works for 16 walkways were funded under block vote 6101TX, and their APEs ranged from \$11.61 million to \$47.3 million. For the remaining 10 walkways, works were funded under project vote 6167TB and they did not have individual APEs. Of the 26 GS walkways, as of December 2015, the actual works completion dates of 20 walkways (77%) were later than the contract completion dates, with slippages ranging from 14 to 422 days (on average 156 days) due to utility diversion problems found after awarding works contracts in some cases. In this connection, the contract time for completing retrofitting works for the 26 GS walkways ranged from 365 to 1,095 days, depending on the works location and complexity. Audit selected the following two completed works items for review:

Implementation of 2001 Retrofitting Initiative

- (a) a completed works item involving the longest works slippage (Footbridge D and Subway C — see Case 2); and
- (b) a completed works item involving the largest cost overrun (Subway D — see Case 3).

Case 2

Delays of two works items due to utility diversion problem (Footbridge D and Subway C)

1. Retrofitting works for a footbridge (Footbridge D) funded under project vote 6167TB involved the construction of two lifts which were scheduled (under the contract) for completion within 730 days. However, there was a slippage of 422 days in completing the retrofitting works. During the preliminary design and feasibility study, HyD consultant noted that the proposed locations of the two lifts would be in conflict with some underground utilities, including gas mains, power cables and tele-communication cables, and diversions were necessary in order to vacate space for the foundation works for the lift installation. After commencement of Footbridge D works, five utility companies submitted utility diversion plans with timeframes ranging from four to five years. Subsequently, the works contractor proposed to use a common trench to accommodate the underground utilities. The proposal was subsequently agreed by the utilities companies. This works item was substantially completed in December 2015 and took 1,152 days (or 3.2 years) to finish. According to the works contractor, consultation with the utility companies and final agreement of a solution for utility diversions had caused delays to the works.

2. Separately, retrofitting works for a subway (Subway C) funded under block vote 6101TX involved the construction of a lift which was scheduled for completion within 641 days, but there was a slippage of 367 days in completing the works. In order to construct the lift, an existing staircase would need to be demolished and reconstructed. After commencement of works, the works contractor found that signal cables located underneath the staircase would affect the demolition works. Subsequent to the diversion of the signal cables, the works contractor found that the construction of a proposed pillar box was obstructed by the diverted cables. As a result, HyD consultant revised the location of the pillar box to avoid conflict with the underground cables. This works item was substantially completed in December 2015 and took 1,008 days (or 2.8 years) to finish. As of December 2015, the contractor had submitted claims for the works item. According to the works contractor, the diversion of the underground signal cables had caused a delay to the works.

Case 2 (Cont'd)

3. In March 2016, the HyD informed Audit that, in implementing the 2011 Retrofitting Programme:

- (a) according to the established procedures and good practices, HyD consultants would consult the utility companies concerned on the locations of their utilities and the programme required for utility diversions. Such information would be incorporated into the contract documents and the contract period would take into account such information. Given the utility density in Hong Kong, it was not uncommon that the actual number, extent and locations of utilities on sites could be different from those shown in the records of utilities companies, resulting in unexpected obstruction to the works and the need for diversion solutions; and
- (b) a contractor under the related works contract could be granted extensions of time (but not additional payments) for delays arising from unforeseen utility works. However, if there was a change in design of the proposed works arising from a conflict between existing utilities and the works design, the contractor might be entitled to claim for both extensions of time and additional payments.

Audit comments

4. In Audit's view, for works requiring utility diversions (as identified in feasibility studies) in implementing a works project in future, the HyD needs to endeavour to find solutions before letting related works contracts.

Source: HyD records

Case 3

Works delay due to contract variations after contract award (Subway D)

1. Retrofitting works for Subway D funded under block vote 6101TX involved the construction of a lift (the other end of Subway D was connected to other subways having been provided with lifts and ramps). The APE of retrofitting works for Subway D was \$47.3 million and the works were scheduled (under the contract) to complete within 608 days. However, the works took 844 days (or 2.3 years) to complete.

2. As specified in the works contract, an air-conditioning system should be installed for the lift car. Subsequent to the works contractor submitting to the HyD the lift installation drawings for approval, the HyD informed the contractor that he should adopt a mechanical ventilation scheme for the lift instead of an air-conditioning system as specified in the contract. However, one year later, after conducting a cost-benefit analysis on the contractor's cost estimates, the HyD informed the contractor that he should revert back to adopting an air-conditioning system instead of a mechanical ventilation system. According to the contractor, the change in the ventilation system had caused a delay to the works. As of December 2015, the contractor had submitted claims for the works item.

3. In March 2016, the HyD informed Audit that:

- (a) the HyD instructed the contractor of Subway D to change the original design of air conditioning to mechanical ventilation for the purpose of energy saving which would also result in cost saving;
- (b) the HyD later cancelled the variation order after having detailed discussions with the contractor, because the variation would not be cost-effective given the cost and possible time implications; and
- (c) the HyD considered it as an isolated case. Some other similar projects were successful in changing the air conditioning system to mechanical ventilation system.

Audit comments

4. In Audit's view, in implementing a works project in future, the HyD needs to take measures to avoid unnecessary contract variations after contract award.

Source: HyD records

2.13 Furthermore, Audit also selected one (Footbridge E) of the 94 works-in-progress items for examination (see Case 4).

Case 4

Excessive footbridge settlement due to concurrent carrying out of two works projects in close proximity (Footbridge E)

1. After commencing lift retrofitting works for Footbridge E funded under block vote 6101TX, the HyD consultant noted that there were cracks on the bridge structure and damage to the expansion joints, and the works contractor suspended works immediately. The HyD survey check found that there was excessive settlement of Footbridge E. Based on the HyD consultant's investigation report, the likely cause of the excessive settlement of Footbridge E was the cumulative effect of vibration caused by the works at Footbridge E and works by a utility company nearby.

2. The contractor later resumed works after taking remedial measures including carrying out grouting works. According to the HyD, the ground settlement had been stable with no further adverse development. As of December 2015, the contractor had submitted claims for the works item.

Audit comments

3. In Audit's view, in implementing works for a footbridge in future where another works project is being carried out in close proximity, the HyD needs to take measures to prevent excessive footbridge settlement due to the cumulative effect of vibration caused by works of the two projects.

Source: HyD records

2.14 As of December 2015, retrofitting works for 124 walkways were in progress or had not commenced (see Figure 1 in para. 2.3). Audit examination of Cases 1 to 4 revealed that there were lessons to be learnt from the lift retrofitting works. In Audit's view, the HyD needs to conduct reviews of other completed works items involving significant cost overrun or works slippages with a view to drawing lessons for improvement.

Audit recommendations

- 2.15 **Audit has *recommended* that the Director of Highways should:**
- (a) **expedite actions to complete the outstanding retrofitting works under the 2011 Retrofitting Programme;**
 - (b) **take measures to avoid carrying out a works project concurrently with another works project at the same location in future;**
 - (c) **for works requiring utility diversions in implementing a works project in future, endeavour to find solutions before letting related works contracts;**
 - (d) **in implementing a works project in future, take measures to avoid unnecessary contract variations after contract award;**
 - (e) **in implementing works for a footbridge in future where another works project is being carried out in close proximity, take measures to prevent excessive footbridge settlement due to the cumulative effect of vibration caused by works of the two projects; and**
 - (f) **conduct reviews of completed GS walkway retrofitting works items involving significant cost overrun or works slippages with a view to drawing lessons for improvement.**

Response from the Government

2.16 The Director of Highways agrees with the audit recommendations. He has said that the HyD will:

- (a) expedite actions to complete the outstanding retrofitting works under the 2011 Retrofitting Programme so as to meet the latest commitment made in the 2016 Policy Address;
- (b) after balancing the related considerations, take measures to avoid carrying out a works project concurrently with another works project at the same location in future;
- (c) endeavour to arrange for utility diversions before contract commencement, and to allow for sufficient time for diversion of underground utilities in future contract programmes; and
- (d) issue letters to HyD consultants involved in retrofitting works to remind them of the need to implement the audit recommendations in paragraph 2.15(a) to (e).

Walkways considered infeasible for retrofitting works

2.17 As shown in Table 3 in paragraph 2.2, as of December 2015, 92 GS walkways were considered to be infeasible for carrying out retrofitting works. Based on HyD records, Audit analysis of HyD justifications for not carrying out retrofitting works for these 92 walkways are shown in Table 5.

Table 5

**HyD justifications for not carrying out retrofitting works for 92 walkways
(December 2015)**

Justification	Walkway	
	(No.)	(Percentage)
(a) Walkways situated on or alongside sloping terrains where barrier-free access facilities could not be provided unless large-scale site formation works were carried out	53	58%
(b) Insufficient space for retrofitting a lift or a standard ramp	27	29%
(c) Retrofitting works likely affecting existing underground utilities and insufficient space for diverting affected facilities	6	7%
(d) Retrofitting works likely affecting existing underground railway facilities	3	3%
(e) Retrofitting works likely affecting structural integrity of existing structures	3	3%
Total	92	100%

Source: Audit analysis of HyD records

No documented feasibility study reports on some GS walkways considered infeasible for retrofitting works

2.18 As shown in Table 5 in paragraph 2.17, 92 walkways were found to be infeasible for carrying out lift/ramp retrofitting works. Audit noted that feasibility study reports were only prepared for 36 walkways (39%) by HyD consultants. Regarding the remaining 56 (61%) walkways, the feasibility studies were carried out by HyD in-house staff. According to the HyD, of the 56 walkways, location plans, site photographs and justifications for not carrying out retrofitting works for 37 walkways were recorded in the HyD's document archives but the related records for the other 19 walkways could not be located. In Audit's view, the HyD needs to properly document the findings of the technical feasibility study for every walkway which has been examined for retrofitting works.

Some retrofitting works originally found to be infeasible by the HyD but later found to be feasible by the CEDD

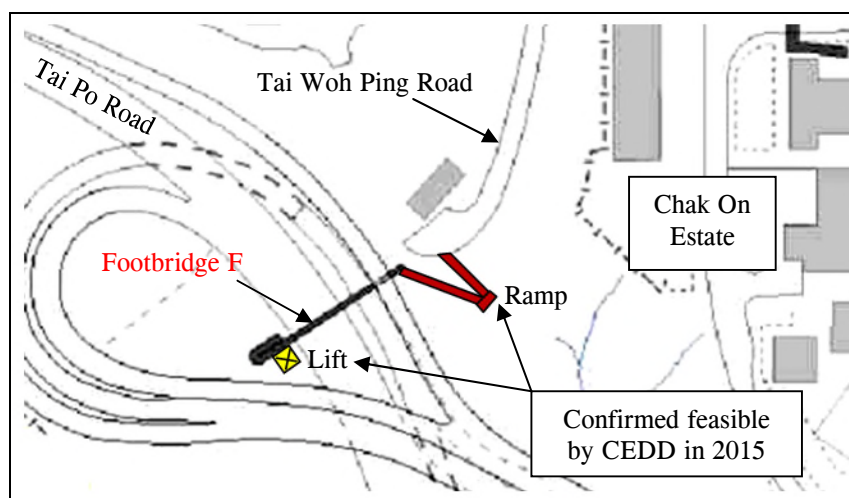
2.19 Audit examination revealed that, notwithstanding that HyD technical feasibility studies under the 2001 Retrofitting Initiative had found that it was infeasible to carry out retrofitting works for a footbridge in Sham Shui Po (Footbridge F — see Case 5), a footbridge in Wan Chai (Footbridge G — see Case 6) and a subway in Wan Chai (Subway E — see Case 7), the CEDD later found in its feasibility studies conducted between February 2014 and April 2015 under the 2012 Expanded Programme that it was technically feasible to carry out the works for these three walkways by adopting alternative solutions.

Case 5

Footbridge F in Sham Shui Po

1. Footbridge F is located in Sham Shui Po District across Tai Po Road near Tai Woh Ping Road (see Figure 2). According to the HyD, Footbridge F is the main pedestrian route to the nearby Chak On Estate.

Figure 2



2. In April 2011, a feasibility study carried out by HyD in-house staff found that, unless large-scale site formation works were carried out, barrier-free access facilities could not be provided for Footbridge F because it was situated alongside a sloping terrain. In June 2011, the THB informed LegCo Panel on Transport that it was infeasible to retrofit lifts or standard ramps for Footbridge F because of insufficient space.

3. In July 2014, in response to an enquiry from two Sham Shui Po DC Members, the HyD stated that it was infeasible to carry out lift retrofitting works for Footbridge F due to limited space. In October 2014, the Sham Shui Po DC nominated Footbridge F as one of the priority items of that district under the 2012 Expanded Programme, and requested the CEDD to conduct a feasibility study on the retrofitting works. In April 2015, the CEDD informed the Sham Shui Po DC that it was feasible to retrofit a lift and a ramp for Footbridge F (see Figure 2). In late 2015, CEDD consultant completed the detailed design work for Footbridge F and estimated that the works would cost \$51.1 million.

Case 5 (Cont'd)

4. In March 2016, the HyD informed Audit that:
- (a) the existing Tai Woh Ping Road connecting Footbridge F to Chak On Estate was too steep to be provided with a barrier-free environment. Large-scale site formation works would have to be carried out to make the road barrier-free, but there was insufficient space for such works. In the event, the retrofitting works for Footbridge F were considered infeasible in 2011;
 - (b) while constructing the proposed lift and ramp for Footbridge F were confirmed to be feasible by the CEDD under the 2012 Expanded Programme which could benefit the elderly and the needy persons, pedestrians would still need to access Chak On Estate via the existing Tai Woh Ping Road; and
 - (c) in view of the large quantity of lift retrofitting works, the HyD had been implementing the works gradually using the available resources.

Audit comments

5. Footbridge F, which was not provided with lifts, ramps or alternative crossings, fell within the 2001 Retrofitting Initiative. However, retrofitting works for the footbridge were only taken forward after nomination by the Sham Shui Po DC under the 2012 Expanded Programme.

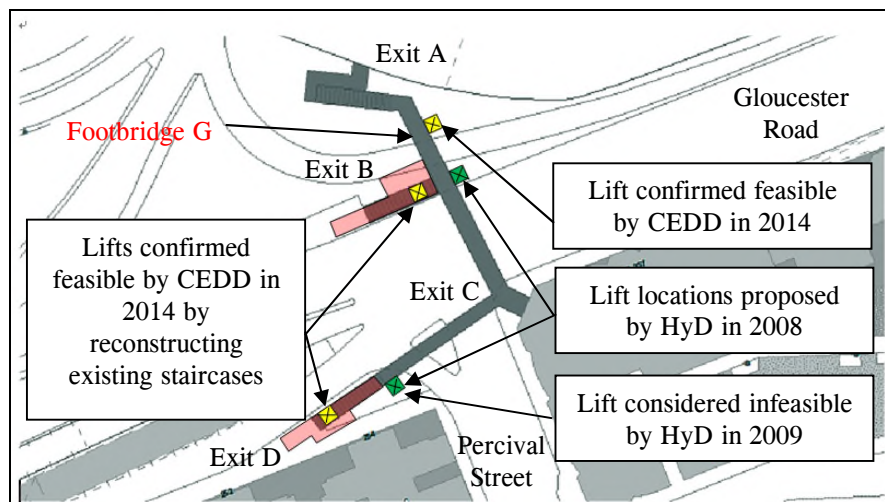
Source: HyD and CEDD records

Case 6

Footbridge G in Wan Chai

1. Footbridge G is located in Wan Chai District across Gloucester Road and Percival Street having four exits (see Figure 3).

Figure 3



2. In February 2008, the HyD engaged a consultant (Consultant A) to investigate the feasibility of retrofitting barrier-free access facilities for 50 GS walkways, including Footbridge G and Subway E (see Case 7), at a lump-sum fee of \$5.6 million. The HyD requested Consultant A to study the feasibility of retrofitting lifts at Exits B and D of Footbridge G (see Figure 3).

3. In June 2009, the HyD informed the Wan Chai DC that, while it was feasible to retrofit a lift at Exit B, lift retrofitting works at Exit D were infeasible because the proposed lift location would conflict with two underground sewers and there was insufficient space to divert the sewers elsewhere. At the same meeting, the DC Members enquired whether the HyD had considered demolishing the existing staircase at Exit D and reconstructing a lift and a staircase at the same location. In reply, HyD representative said that this option was infeasible because it would extend the staircase length at Exit D, which would seriously narrow the adjacent footpath.

Case 6 (Cont'd)

4. In June 2011, the THB informed LegCo Panel on Transport that it was infeasible to retrofit barrier-free access facilities for Footbridge G because the works would affect existing underground utilities and there was insufficient space for diverting them.

5. In February 2013, the Wan Chai DC nominated Footbridge G as one of the priority items of that district under the 2012 Expanded Programme.

6. In February 2014, the CEDD informed the Wan Chai DC that it was feasible to retrofit a lift at Exit A, and two other lifts could be respectively retrofitted at Exits B and D by demolishing and reconstructing the existing staircases at the locations (see Figure 3). The CEDD considered that the underground sewers and the footpath narrowing issue (as indicated by the HyD in 2009 — see para. 3 above) would not affect the lift retrofitting works at Exit D, because it could reconstruct the existing staircase to provide space for a lift.

7. In November 2015, a CEDD contractor commenced retrofitting works (under Contract H — see Table 10 in para. 4.16) for 10 walkways, including the works at Exit D of Footbridge G. The APE for the works at Exit D of Footbridge G was \$31.6 million. According to the CEDD, the works at Exits A and B would be carried out in or after 2021 following the completion of a nearby railway project.

Audit comments

8. The HyD, in consultation with the CEDD, needs to investigate why the HyD's feasibility study in 2009 found it infeasible to retrofit a lift at Exit D.

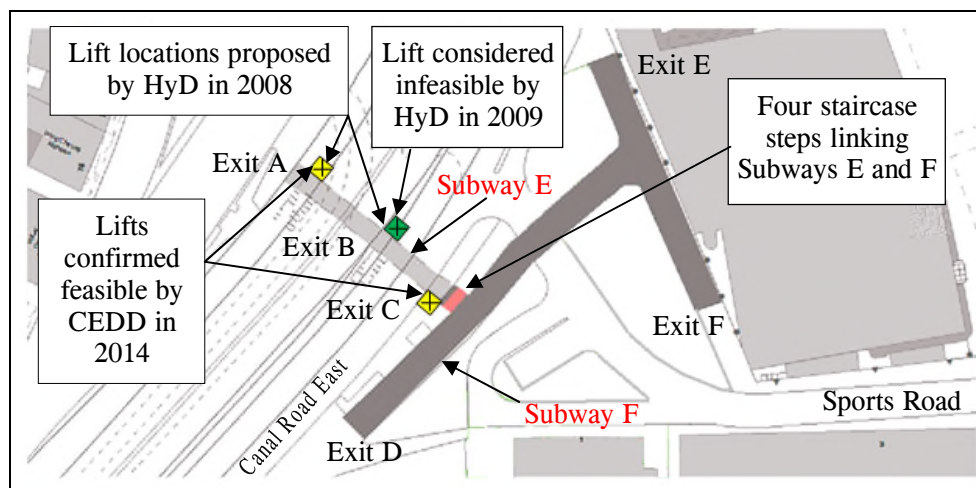
Source: HyD and CEDD records

Case 7

Subway E in Wan Chai

1. Subway E is located in the Wan Chai District across Canal Road East near Sports Road having staircases at Exits A and B, and the subway is connected to another subway (Subway F) at Exit C by four staircase steps (see Figure 4).

Figure 4



2. In February 2008, the HyD engaged Consultant A (see para. 2 in Case 6) to study the feasibility of retrofitting lifts at Exits A and B. In June 2009, the HyD informed the Wan Chai DC that, while it was feasible to retrofit a lift at Exit A, retrofitting a lift at Exit B was infeasible due to insufficient headroom to accommodate the lift shaft.

3. In February 2011, the HyD informed the Wan Chai DC that the four staircase steps at Subway F were not suitable for use by wheelchair users, and proposed to modify part of the four staircase steps to a ramp.

4. In June 2011, the THB informed LegCo Panel on Transport that it was infeasible to retrofit lifts or standard ramps for Subway E because of insufficient space.

5. In February 2013, the Wan Chai DC nominated Subway E as one of the priority items of that district under the 2012 Expanded Programme. In February 2014, the CEDD informed the Wan Chai DC that it was feasible to retrofit a lift at Exit A and another lift at Exit C of Subway E (see Figure 4). In April 2015, a CEDD contractor commenced retrofitting works (under Contract G — see Table 10 in para. 4.16) for 8 walkways, including Subway E. The APE for the works at Subway E was \$47 million.

Case 7 (Cont'd)

6. In February 2016, Audit site visit found that works had not been carried out to convert part of the four staircase steps at Subway F into a ramp.

7. In March 2016, the HyD informed Audit that:

- (a) since a lift could not be installed at Exit B, retrofitting works for Subway E were considered as infeasible in 2009 due to physical constraints in providing lifts for both Exits A and B;
- (b) while the retrofitting works for Subway E had been confirmed to be feasible by the CEDD by providing a lift at Exit A and installing an additional lift at Exit C, it was still not feasible to install a lift at Exit B;
- (c) since the proposed lift at Exit C of Subway E would serve as a barrier-free access facility (so that needy persons would not have to negotiate the four staircase steps at Subway F to use the subways), modification works of the four steps into a ramp were considered no longer necessary; and
- (d) in view of the large quantity of lift retrofitting works, the HyD had been implementing the works gradually using the available resources.

Audit comments

8. Subway E, which was not provided with lifts, ramps or alternative crossings, fell within the 2001 Retrofitting Initiative. However, retrofitting works for the subway were only approved after nomination by the Wan Chai DC under the 2012 Expanded Programme.

9. The HyD needs to inform the Wan Chai DC of its decision of not carrying out modification works for the four staircase steps at Subway F (see para. 7(c) above).

Source: HyD and CEDD records

Implementation of 2001 Retrofitting Initiative

2.20 In Audit's view, the HyD needs to take measures to ensure that lift retrofitting works are implemented for GS walkways not having been provided with barrier-free access facilities (if technically feasible) under the 2001 Retrofitting Initiative. The HyD also needs to re-examine the justifications for not carrying out retrofitting works for the 92 walkways previously found to be infeasible for such works (see Table 5 in para. 2.17).

LegCo and DCs not fully informed of reasons for not carrying out retrofitting works for some walkways

2.21 Of the 92 GS walkways considered infeasible for retrofitting barrier-free access facilities, Audit examination revealed that, up to February 2016, the HyD had only informed the related DCs of the reasons for not carrying out retrofitting works for 21 (23% of 92) walkways. When informing the DCs of the reasons, the HyD generally provided a discussion paper (explaining the feasibility of retrofitting works at each exit of a walkway, together with a location map and a site photograph) for DCs' information and deliberation.

2.22 In June 2011, the THB submitted a paper to LegCo Panel on Transport providing reasons for not carrying out retrofitting works for 52 walkways. However, as of February 2016, LegCo had not been informed of reasons for not carrying out retrofitting works for another 43 walkways (Note 6) subsequently found by the HyD. In Audit's view, for enhancing transparency and public accountability, after re-examining the justifications for not carrying out retrofitting works for 92 walkways (see para. 2.20), the HyD needs to inform LegCo and the related DCs of the examination findings.

Note 6: *Three walkways previously considered to be infeasible for retrofitting works were subsequently having the works confirmed to be feasible under the 2012 Expanded Programme (see para. 2.19). Therefore, 95 (92 + 3) walkways were considered infeasible for retrofitting works from 2001 to 2013 (see para. 2.25) and reasons for 43 (95 less 52) walkways found to be infeasible for the works had not been provided to LegCo.*

Lack of guidelines on determining the feasibility of carrying out retrofitting works for walkways

2.23 Under the Disability Discrimination Ordinance effective from 1996, it is unlawful for a person to discriminate against another PWD by refusing to allow that other person access to, or the use of, any premises or facilities that the public is entitled, except where any alteration to the premises to provide such access or provision of such facilities would impose unjustifiable hardship on the providers of such facilities (see para. 1.3). In this connection, Audit noted that, in 2004, in response to a complaint about discrimination in respect of the lack of access for PWDs at a footbridge in the Yau Tsim Mong District, the HyD accelerated action to carry out works to retrofit two lifts for that footbridge.

2.24 According to the HyD:

- (a) physical constraints can be construed as unjustifiable hardship for lift retrofitting works under the Disability Discrimination Ordinance; and
- (b) taking into account the physical constraints, the HyD has reviewed the feasibility of carrying out lift retrofitting works for all GS walkways including those completed before the enactment of the Disability Discrimination Ordinance.

2.25 From 2001 to 2013, HyD feasibility studies found that 95 walkways were not feasible for carrying out lift/ramp retrofitting works under the 2001 Retrofitting Initiative mainly for reasons of site constraints or existence of underground utilities. Between February 2014 and April 2015, CEDD feasibility studies carried out under the 2012 Expanded Programme found that three of the 95 walkways were feasible for carrying out retrofitting works (see Cases 5 to 7 in para. 2.19).

2.26 In Audit's view, in order to ensure that all public GS walkways not having been installed with barrier-free access facilities are eligible for exemption from retrofitting works for the facilities under the Disability Discrimination Ordinance, the HyD needs to issue guidelines on determining whether a public GS walkway is feasible for carrying out lift/ramp retrofitting works.

Implementation of 2001 Retrofitting Initiative

Lack of directional signs on nearby barrier-free access facilities

2.27 According to the Transport Planning and Design Manual issued by the TD, although the general practice is to avoid the over-use of traffic signs (as the signs together with any support posts can themselves cause obstruction), a more liberal attitude should be adopted wherever possible to provide useful information for PWDs to help them identify routes suitable for their use (see examples in Photographs 4 and 5).

Photographs 4 and 5

Directional signs on nearby barrier-free access facilities



Source: Photographs taken by Audit in February 2016

2.28 In March 2009, in response to a LegCo Member's enquiry, the THB informed LegCo that, to facilitate PWDs who were unable to use footbridges not being provided with barrier-free access facilities, the Government would consider installing signs near the footbridges providing information on nearby at-grade crossing facilities having regard to the actual situation.

2.29 In this connection, Audit site visits from December 2015 to March 2016 to 15 GS walkways (see Appendix C) not being provided with barrier-free access facilities found that no directional sign was erected near all the 15 walkways to advise needy persons of nearby barrier-free access facilities (see an example in Case 8).

Case 8

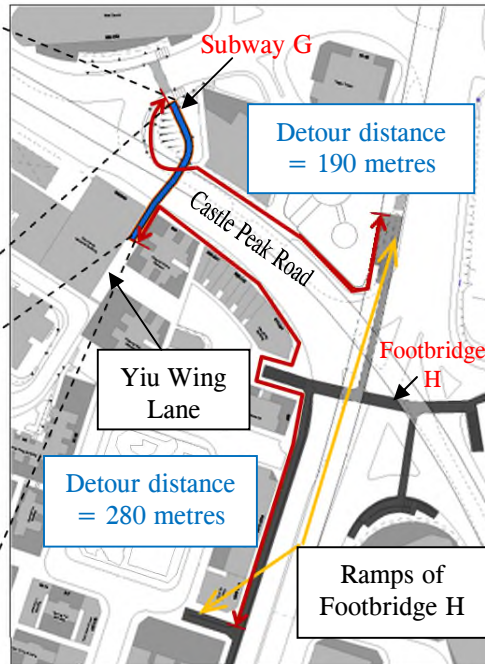
Subway G in Kwai Tsing

1. Subway G is located in Kwai Tsing District across Castle Peak Road near Yiu Wing Lane (see Figure 5).

Photographs 6 and 7



Figure 5



2. In August 2011, the HyD informed the Traffic and Transport Committee of the Kwai Tsing DC that it was infeasible to retrofit barrier-free access facilities for Subway G mainly because of insufficient space. In response, a Committee member suggested that the HyD should erect directional signs to guide needy persons to make use of the barrier-free access facilities of a nearby footbridge (Footbridge H in Figure 5) for road-crossing.

3. In February 2016, Audit site visit found that no directional sign was erected near Subway G to advise needy persons of the nearby ramps at Footbridge H for crossing Castle Peak Road.

Audit comments

4. The HyD, in consultation with the TD, needs to erect directional signs (providing information on nearby barrier-free access facilities) near walkways not being provided with such facilities.

Source: HyD records and photographs taken by Audit in February 2016

Audit recommendations

- 2.30 **Audit has recommended that the Director of Highways should:**
- (a) **take measures to ensure that findings of technical feasibility studies for walkway retrofitting works are properly documented;**
 - (b) **take measures to implement retrofitting works under the 2001 Retrofitting Initiative (if technically feasible to do so) for all GS walkways not being provided with barrier-free access facilities;**
 - (c) **in consultation with the Director of Civil Engineering and Development, investigate why the HyD's feasibility study in 2009 found it infeasible to retrofit a lift at Exit D of Footbridge G;**
 - (d) **inform the Wan Chai DC of the decision of not carrying out modification works for the four staircase steps at Subway F;**
 - (e) **re-examine the justifications for not carrying out retrofitting works for walkways found under the 2001 Retrofitting Initiative to be infeasible for such works, and inform LegCo and the related DCs of the examination findings;**
 - (f) **issue guidelines on determining whether a public GS walkway is feasible for carrying out lift/ramp retrofitting works; and**
 - (g) **in consultation with the Commissioner for Transport, erect directional signs providing information on nearby barrier-free access facilities near GS walkways not being provided with such facilities.**

Response from the Government

2.31 The Director of Highways agrees with the audit recommendations. He has said that the HyD will:

- (a) issue guidelines on documentation of investigation findings of retrofitting works;
- (b) conduct a review of all GS walkways not being provided with barrier-free access facilities and will take measures to implement retrofitting works if justifiable to do so;
- (c) for paragraph 2.30(d), inform the Wan Chai DC during the next round of consultation for the forthcoming lift retrofitting works; and
- (d) for paragraph 2.30(g), liaise with the TD to take appropriate actions.

PART 3: IMPLEMENTATION OF 2012 EXPANDED PROGRAMME

3.1 This PART examines actions taken by the HyD and the CEDD in implementing the 2012 Expanded Programme.

Public proposals on retrofitting lifts for GS walkways

3.2 According to the THB, since 2001, the Government has taken actions to retrofit ramps and lifts for public GS walkways not having been installed with standard barrier-free access facilities. Under the 2012 Expanded Programme, as long as site conditions permit, retrofitting of lifts for a GS walkway would be considered even when a standard ramp has already been installed. The objective is to bring further convenience to the elderly, PWDs and the general public in using public GS walkways.

3.3 According to the THB:

- (a) the Government's transport policy is to factor in "walkability" as complementary to the overall mobility system through careful planning and provision of adequate pedestrian facilities. The installation of lifts for walkways would allow those in need, including elderly persons and PWDs, to move around the community with greater ease;
- (b) this initiative also supports the Government's commitment to provide an age-friendly environment, which is pertinent to the promotion of active ageing to unleash and harness the social capital of senior citizens; and
- (c) the 2012 Expanded Programme adopts a "bottom-up" model whereby each DC was invited to select public GS walkways for priority implementation. DCs should be in the best position to nominate up to three walkways by prioritising the implementation of the retrofitting works within the district according to the actual local requirements of the districts.

Implementation of 2012 Expanded Programme

3.4 Between August and October 2012, the Government invited members of the public to submit proposals for GS walkways for lift retrofitting works. In November 2012, the THB informed the LegCo Panel on Transport that each of the 18 DCs would be invited to select three walkways from the public proposals received for priority implementation of lift retrofitting works. In January 2013, the THB informed the LegCo Public Works Subcommittee that the Government had received public proposals on retrofitting lifts for 253 walkways. In the first half of 2013, the HyD and the CEDD invited each of the 18 DCs to nominate three walkways in its district from 219 walkways (see Table 6) proposed by the public (hereinafter referred to as List of Public Proposed Walkways — PPW List) for priority implementation of lift retrofitting works.

Implementation of 2012 Expanded Programme

Table 6

Public proposed walkways for lift retrofitting works (2013)

District	Public proposed walkways				
	As of January 2013	Subsequently received before consulting DCs	Involving two structures (Note 1)	Not provided to DCs (Note 2)	Included in PPW List
	(a) (No.)	(b) (No.)	(c) (No.)	(d) (No.)	(e) = (a) + (b) - (c) - (d) (No.)
Tuen Mun	32	2		4	30
Sha Tin	23				23
Tsuen Wan	21		1	2	18
North	20	2	4		18
Yuen Long	19		1		18
Eastern	18		2	2	14
Kwai Tsing	17	1		2	16
Central and Western	16			4	12
Kwun Tong	14			2	12
Wan Chai	13			6	7
Kowloon City	12			3	9
Wong Tai Sin	11			1	10
Southern	10			2	8
Tai Po	8				8
Yau Tsim Mong	8			2	6
Sham Shui Po	6	1		2	5
Sai Kung	4				4
Islands	1				1
Total	253	6	8	32	219

Source: Audit analysis of HyD records

Note 1: For example, a footbridge consisting of two bridge spans may be considered as two footbridges which are assigned with two structure numbers by the HyD. However, during DC consultation under the 2012 Expanded Programme, this footbridge with two spans was considered as one walkway.

Note 2: The HyD did not provide DCs with information of 32 walkways proposed by the public for DC nomination (see para. 3.15).

Implementation of 2012 Expanded Programme

Low peak-hour pedestrian flow of some nominated walkways

3.5 In the PPW List provided to DCs comprising 219 walkways, the HyD indicated that three walkways had been closed or already installed with lifts, 28 walkways had already been included under the 2011 Retrofitting Programme and nine walkways had been found technically infeasible for retrofitting works. Details are shown in Table 7.

Table 7
Public proposed walkways for DC nomination
(2013)

District	Public proposed walkways				
	Included in PPW List (a) (No.)	Already closed or installed with lifts (b) (No.)	Included under 2011 Retrofitting Programme (c) (No.)	Found technically infeasible (d) (No.)	For DC nomination (e) = (a) – (b) – (c) – (d) (No.)
Tuen Mun	30		2		28
Sha Tin	23	1	1		21
Tsuen Wan	18		5		13
North	18		5		13
Yuen Long	18	1			17
Eastern	14		2		12
Kwai Tsing	16		1		15
Central and Western	12		1	7	4
Kwun Tong	12		2	2	8
Wan Chai	7		2		5
Kowloon City	9				9
Wong Tai Sin	10		2		8
Southern	8		3		5
Tai Po	8		1		7
Yau Tsim Mong	6		1		5
Sham Shui Po	5	1			4
Sai Kung	4				4
Islands	1				1
Total	219	3	28	9	179

Source: Audit analysis of HyD records

Implementation of 2012 Expanded Programme

3.6 To facilitate DCs' nomination of walkways for lift retrofitting works, the HyD provided them with pertinent information of each of the 179 public proposed walkways, including:

- (a) pedestrian-flow information;
- (b) a map showing locations of proposed lifts; and
- (c) the number of public proposals received.

3.7 As of December 2015, the 18 DCs together had nominated 53 walkways for lift retrofitting works. Details are as follows:

- (a) for Eastern DC, it originally nominated three walkways from the PPW List, but one was later found by the CEDD as infeasible for lift retrofitting works. The DC nominated another walkway from the List which was not recommended by the CEDD for lift retrofitting works because the works were complicated and the estimated cost would exceed \$75 million. The DC agreed with the CEDD's view and subsequently nominated another walkway from the List (totalled three walkways);
- (b) for Wan Chai DC, it nominated two walkways from the List and one walkway outside the List (totalled three walkways);
- (c) for Islands DC, it nominated the only one walkway from the List and two outside the List (totalled three walkways);

Implementation of 2012 Expanded Programme

- (d) for Sham Shui Po DC, it originally nominated three walkways from the List, but two were later found by the CEDD as infeasible or not recommended by the CEDD (due to site constraints and objections received) for lift retrofitting works. It subsequently nominated two walkways outside the List, but the CEDD later did not recommend carrying out retrofitting works for one of the walkways and the DC agreed not to proceed with the related retrofitting works (Note 7 — totalled two walkways); and
- (e) the remaining 14 DCs each nominated three walkways from the PPW List for lift retrofitting works (totalled 42 walkways).

3.8 Accordingly, of the 53 (3 + 3 + 3 + 2 + 42) walkways nominated by the 18 DCs, 49 were nominated from the PPW List and four outside the List.

3.9 To assist DCs in nominating walkways in their districts for lift retrofitting works, the HyD and the CEDD provided them with the pedestrian-flow information. Of the 179 walkways included in the PPW List, four were later found by the CEDD as infeasible or not recommended by the CEDD for retrofitting works (see para. 3.7(a) and (d)). Table 8 summarises the pedestrian-flow statistics of the 175 (179 less 4) walkways and those of 49 walkways (see para. 3.8) nominated by the 18 DCs for retrofitting works.

Note 7: *After consulting and obtaining agreement of the Sham Shui Po DC, the CEDD did not proceed with implementing the DC's proposal of retrofitting a lift for a GS walkway due to the availability of a nearby at-grade crossing, the provision of another nearby at-grade crossing in the near future, and the estimated low utilisation of the proposed lift based on views of and survey results provided by a nearby university.*

Table 8

Pedestrian-flow statistics of walkways included in PPW List

Peak-hour pedestrian flow in 2013 (No.)	Public proposed walkways	
	For DC nomination (No.)	Nominated by DCs (No.)
6,001 to 9,988	5	5
5,001 to 6,000	3	2
4,001 to 5,000	3	2
3,001 to 4,000	3	1
2,001 to 3,000	8	3
1,001 to 2,000	27	14
801 to 1,000	16	6
601 to 800	10	2
401 to 600	14	3
201 to 400	34	9
0 to 200	52	2 (Note)
Total	175	49

Source: Audit analysis of HyD and CEDD records

Note: The peak-hour pedestrian-flow statistics of the two walkways nominated by DCs were 69 (Elevated Walkway A in Southern District) and 112 (Footbridge I in Sai Kung District) respectively.

3.10 Under the 2012 Expanded Programme, each DC was invited to nominate three walkways in its district for lift retrofitting works. However, while the 18 DCs were each invited to nominate three walkways from the PPW List, the number of walkways included in individual PPW List for nomination by DCs varied from 1 to 28. For example, as shown in Table 7 in paragraph 3.5, whereas the PPW List provided to Tuen Mun and Sha Tin DCs respectively contained 28 and 21 walkways, the List provided to Central and Western, Sham Shui Po and Sai Kung DCs each contained 4 walkways, and to Islands DC only 1 walkway. As a result, of the latter four DCs, Sham Shui Po and Islands DCs together nominated three walkways outside the List for lift retrofitting works. Details of the walkways nominated by the latter four DCs are shown in Table 9. Audit noted that there were wide variations in the pedestrian flow among the walkways. As shown in Table 8 in paragraph 3.9, the peak-hour pedestrian flow of some walkways nominated was relatively low. For example, Elevated Walkway A in Southern District and Footbridge I in Sai Kung District had peak-hour pedestrian flow of 69 and 112 respectively (See Note to Table 8). On the other hand, some walkways having relatively high pedestrian flow and included in the PPW List were not nominated, such as those with peak-hour pedestrian flow of about 2,000 to 5,000 (see Table 9).

Implementation of 2012 Expanded Programme

Table 9
Pedestrian flow of walkways nominated and
not nominated for retrofitting works
(December 2015)

District	Walkway	Included / not included in PPW List	Peak-hour pedestrian flow in 2013 (No.)
(a) Walkways nominated by four DCs			
Central and Western	Footbridge J	Included	1,234
	Footbridge K	Included	298
	Footbridge L	Included	280
Sham Shui Po	Footbridge M	Included	696
	Footbridge F (see Case 5 in para. 2.19)	Not included	73 (Note 1)
Sai Kung	Footbridge N	Included	287
	Footbridge O	Included	257
	Footbridge I	Included	112
Islands	Footbridge P	Included	381
	Footbridge Q	Not included	(Note 2)
	Subway H	Not included	(Note 2)
(b) Walkways not nominated by seven DCs			
Yau Tsim Mong	Footbridge R	Included	5,076
Kwun Tong	Footbridge S	Included	4,959
North	Footbridge T	Included	3,613
Sha Tin	Subway I	Included	3,557
	Footbridge U	Included	2,080
Yuen Long	Footbridge V	Included	2,980
Wan Chai	Footbridge W	Included	2,891
	Footbridge X	Included	2,059
Wong Tai Sin	Footbridge Y	Included	2,054

Source: Audit analysis of HyD and CEDD records

Note 1: The pedestrian-flow information of Footbridge F was separately provided to Sham Shui Po DC upon the DC's request when it was invited to nominate walkways to replace those found to be infeasible or not recommended by the CEDD for lift retrofitting works (see para. 3.7(d)).

Note 2: These walkways were outside the PPW List, and no pedestrian-flow information was available when Islands DC made the nomination.

Implementation of 2012 Expanded Programme

3.11 According to a paper submitted to the Public Works Subcommittee of LegCo in December 2012 seeking approval to create the new Capital Works Reserve Fund block vote 6101TX, the Government would ensure that cost-effectiveness consideration would be met when approving individual works item under the block vote. The Director of Highways is the Controlling Officer of block vote 6101TX, and the Director of Civil Engineering and Development has been delegated the authority to approve works items under the block vote. According to Financial Circular No. 1/2004 on Responsibility of Controlling Officers, Controlling Officers are ultimately responsible and accountable for the proper use of funds under their control, and they should also satisfy themselves that an appropriate system of cost control or monitoring is in place, having regard to economy, efficiency and effectiveness in the delivery of public service and use of the public funds.

3.12 According to the THB and the HyD:

- (a) it is the Government's deliberate policy decision that the provision of lifts should no longer be justified on expected usage under the 2012 Expanded Programme. The policy intent is to retrofit lifts for all GS walkways where technically feasible, and expected usage may be a factor taken into account by the DCs in selecting the priority items;
- (b) the nominations by the DCs were made with due consideration of an array of factors, including the pedestrian-flow information. The ultimate decision would rest with the DCs to select up to three walkways that they consider to be the most beneficial ones to the districts. The HyD would ensure that the retrofitting works for the walkways selected by the DCs would be implemented in a cost-effective manner (e.g. by using mechanical ventilation instead of air-conditioning for a lift to save energy);
- (c) allocating the same three-walkway quota to each district is generally acceptable to the DCs and the public, obviating the need for prolonged discussion over the criteria for allocating walkways among the districts which would lead to delays in the works implementation. This approach is considered to be conducive to consensus building at the DC level, engaging DCs constructively in matters of significant local community concern, and the maintenance of a harmonious relationship between the Government and DCs; and

Implementation of 2012 Expanded Programme

- (d) the HyD has been acting in accordance with the policy on “universal accessibility” promulgated in 2012, and cost-effectiveness is only one of the considerations in taking forward a public works project. Controlling Officers will ensure the cost-effectiveness to the extent of the actual planning, design and construction of the concerned works, after nominations of the GS walkways by the DCs, and this approach of nominations is in accordance with the 2016 Policy Address.

3.13 The Government has a plan to retrofit lifts for all GS walkways where technically feasible (see para. 3.12(a)). However, Audit notes that there is an open timeframe for implementing this plan.

Some useful information not provided to DCs for facilitating informed decision

3.14 Audit noted that when the public were invited to make proposals for retrofitting lifts for walkways in 2012 (see para. 3.4), they were requested to indicate on a standard form one or more of the following justifications for their proposals:

- (a) no ramp provided;
- (b) high pedestrian flow;
- (c) high usage by the elderly, PWDs and wheelchair users;
- (d) elderly home nearby;
- (e) no road crossing facilities for wheelchair users nearby; and
- (f) other reasons (to be specified).

Implementation of 2012 Expanded Programme

3.15 As shown in Table 6 in paragraph 3.4, the HyD did not provide DCs with information of 32 walkways proposed by the public for DC nomination. In February and March 2016, the HyD informed Audit that:

- (a) the reasons for not including information of the 32 walkways in the PPW List to the DCs were:
 - (i) retrofitting works for 17 walkways had been included under other projects (e.g. retrofitting works included under other HyD's infrastructure projects);
 - (ii) 7 walkways were found to be technically infeasible for lift retrofitting works;
 - (iii) 5 walkways had already been installed with lifts;
 - (iv) 2 walkways had already been included under the 2011 Retrofitting Programme; and
 - (v) 1 walkway had already been demolished; and

- (b) there was room for improvement in adopting a unified approach in preparing the PPW List for DC nomination. The HyD would prepare appropriate guidelines for adopting a unified approach.

3.16 Audit noted that, as shown in Table 7 in paragraph 3.5, the HyD provided information of 219 walkways in the PPW List to DCs, including those “already closed or installed with lifts”, “included under 2011 Retrofitting Programme”, and “found technically infeasible”. In Audit's view, information of the 32 walkways was likely omitted from the PPW List, and the HyD needs to take measures to prevent omissions in including information of pertinent walkways proposed by the public in the PPW List for DC nomination. In this connection, Audit noted that Sham Shui Po DC had nominated Footbridge F (see Case 5 in para. 2.19) for priority lift retrofitting works, which was one of the 32 walkways having been omitted from the PPW List.

Implementation of 2012 Expanded Programme

3.17 According to the THB and the HyD, they appreciated the importance of letting DCs make informed choices in implementing the 2012 Expanded Programme, and therefore the HyD provided DCs with pertinent information of each of the public proposed walkways, including pedestrian-flow information. Audit noted that, for the 179 walkways on the PPW List, the HyD provided DCs with pertinent information, including pedestrian-flow information, a map showing locations of proposed lifts and number of public proposals received (see para. 3.6). The HyD also provided additional information to three (Tuen Mun, Kwai Tsing and Kwun Tong) DCs, including:

- (a) ramps at suggested locations;
- (b) nearby facilities for the elderly and PWDs;
- (c) alternative at-grade crossings within 100 metres; and
- (d) availability of other lift facilities nearby.

3.18 For the four walkways nominated by DCs but not being included in the PPW List (see para. 3.8), the HyD and the CEDD only provided pedestrian-flow information of one walkway to Sham Shui Po DC (see Note 1 to Table 9 in para. 3.10), but did not provide such information of the two walkways to Islands DC (see Note 2 to Table 9 in para. 3.10) and of one walkway to Wan Chai DC (see para. 3.7(b)).

3.19 In Audit's view, in order to facilitate DCs in nominating walkways for retrofitting works, the HyD and the CEDD need to provide them with the pedestrian-flow information and information mentioned in paragraph 3.17. In addition, Audit considers that the following information is also useful for DCs in nominating walkways for retrofitting works:

- (a) estimated cost of proposed lift retrofitting works;
- (b) relevant information that would affect the pedestrian flow; and
- (c) site constraints and land resumption requirements.

3.20 To facilitate DCs in making informed decisions in nominating GS walkways for lift retrofitting, Audit considers that the HyD and the CEDD need to provide useful information to DCs in future.

Some relevant information not timely provided to a DC for considering retrofitting works for a walkway

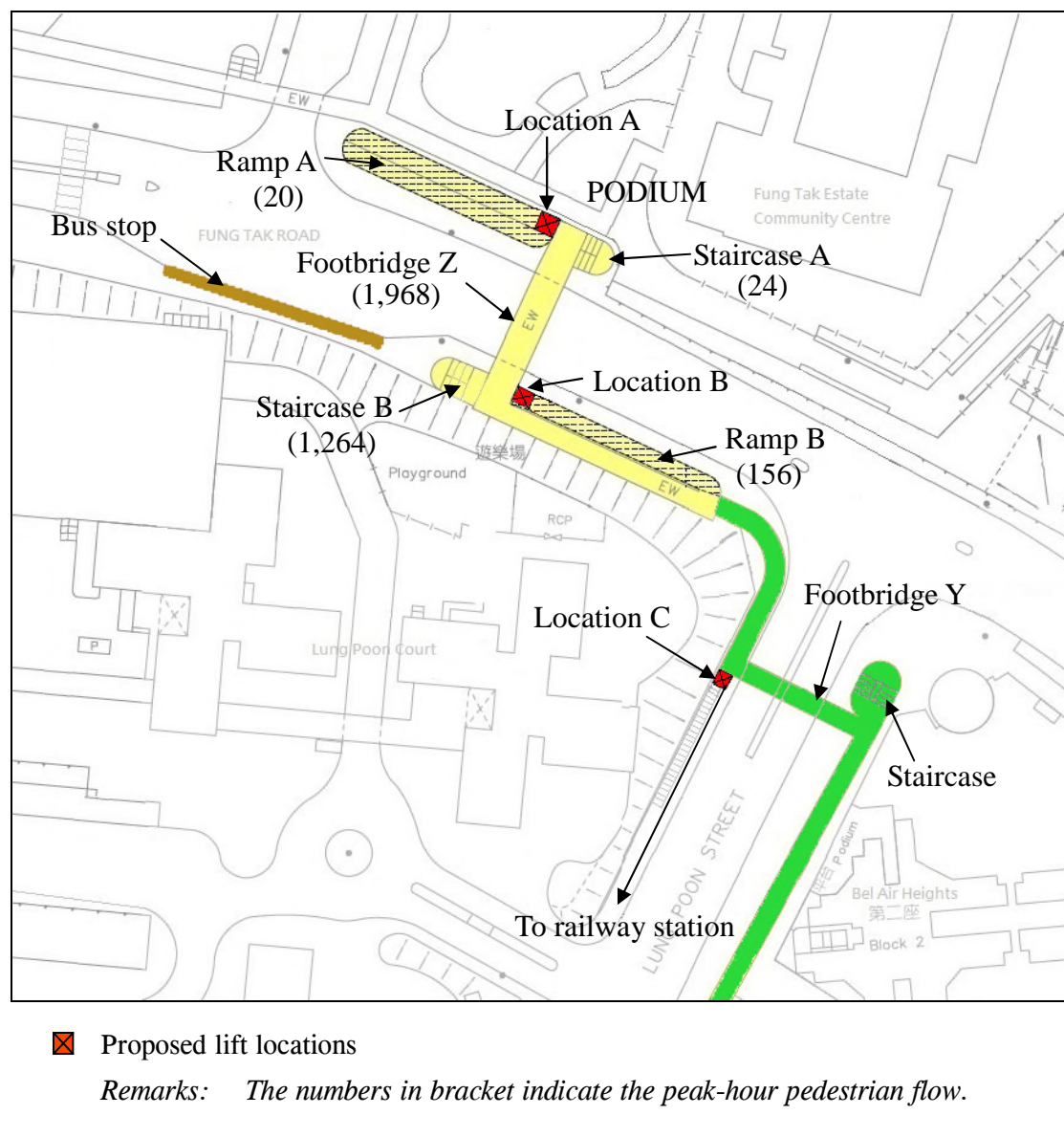
3.21 Under the 2012 Expanded Programme, pedestrian-flow information was provided to DCs for nominating walkways for priority implementation of retrofitting works (see para. 3.6). However, Audit noted that the CEDD provided significant pedestrian-flow statistics to Wong Tai Sin DC relating to a footbridge (Footbridge Z) only after the DC's nomination of Footbridge Z for retrofitting works (see Case 9).

Case 9

Footbridge Z in Wong Tai Sin

1. In March 2013, the Wong Tai Sin DC nominated Footbridge Z being situated across Fung Tak Road and Lung Poon Street as one of the three walkways in the district for priority retrofitting works under the 2012 Expanded Programme. As reflected by public proposals, two lifts might be respectively retrofitted at Locations A and B, each of which had been installed with a ramp and a staircase (see Figure 6).

Figure 6



Case 9 (Cont'd)

2. The proposed scope of works included demolishing the ramps at Locations A and B and retrofitting a lift at each location. The Wong Tai Sin DC made reference to the peak-hour pedestrian flow of both Footbridges Z and Y in nominating Locations A and B for retrofitting lifts. At that time, a lift at Location C was being constructed by a railway company as part of its pedestrian connectivity enhancement project.

3. In August and September 2013, CEDD consultant (Consultant B) conducted surveys on the peak-hour pedestrian flow of staircases and ramps of Footbridge Z. The results are as follows:

Location	Peak-hour pedestrian flow
Footbridge Z	1,968
Staircase A	24
Ramp A	20
Staircase B	1,264
Ramp B	156

4. In January 2014, the CEDD informed the DC of preliminary design and the result of the feasibility study, including the additional pedestrian-flow information. As of January 2016, the CEDD was preparing for tendering for lift retrofitting works at Locations A and B.

5. In March 2016, the HyD informed Audit that:

- (a) as the main span served the primary function of the walkway to cross the road, the pedestrian flow at the main span should normally be adequate to reflect the level of usage of the walkway, including the entrances and exits, for consideration by the DCs; and
- (b) in this case, the pedestrian-flow information for individual ramps and staircases was specially provided upon the pertinent DC's request, as pedestrians could bypass the ramp and access the adjacent public housing estate directly through an exit connecting to the footbridge deck. Nevertheless, the HyD would consider providing the DCs with additional pedestrian-flow information if the situation so warranted.

Case 9 (Cont'd)

Audit comments

6. Audit noted that, according to Consultant B's survey result, the peak-hour pedestrian flow of Staircase A and Ramp A was 24 and 20 respectively. Audit considers that the pedestrian-flow information of Staircase A and Ramp A was significant information for considering the nomination of Location A for lift retrofitting works. However, the CEDD only provided the DC with this information in January 2014, 10 months after the DC had made the nomination in March 2013. In Audit's view, in implementing lift retrofitting works in future, the HyD and the CEDD need to provide the DCs with pedestrian-flow information of existing ramps and staircases of the walkways involved before their nomination of walkways for retrofitting works.

Source: HyD and CEDD records

Audit recommendation

3.22 **Audit has recommended that, in implementing works items under the 2012 Expanded Programme, the Director of Highways and the Director of Civil Engineering and Development should provide DCs with useful information (such as that mentioned in paragraphs 3.17 and 3.19) for making informed decisions in nominating GS walkways for implementation of lift retrofitting works.**

Response from the Government

3.23 The Director of Highways agrees with the audit recommendation. He has said that the HyD will provide DCs with additional information as appropriate.

3.24 The Director of Civil Engineering and Development also agrees with the audit recommendation.

Implementation of 2012 Expanded Programme

3.25 The Secretary for Transport and Housing has said that, when inviting the 18 DCs to further nominate not more than three existing walkways in each district under the Second Phase of the 2012 Expanded Programme (see para. 4.18(b)), the HyD will provide relevant information (including current and rough predicted pedestrian flow of the walkways, rough order of cost of the proposed lift retrofitting works, facilities for the elderly or PWDs nearby, and site constraints of the proposed lift retrofitting works) to facilitate DCs to make informed choices.

PART 4: MANAGEMENT INFORMATION SYSTEM AND WAY FORWARD

4.1 This PART examines the management information systems for supporting implementation of the 2001 Retrofitting Initiative and the 2012 Expanded Programme, outlines the major audit observations and examines the way forward.

Integrated Structures Information System

4.2 The HyD established an Integrated Structures Information System (ISI System) in 2002 for maintaining information of ramps, lifts, staircases and other furniture of walkways under its maintenance.

ISI System not capable of generating important information

4.3 In April 2011, the LWB informed LegCo that 295 GS walkways were not installed with lifts, ramps or alternative at-grade crossings (see para. 1.7(b)). In June 2011, the THB informed LegCo that, as of December 2010, of the 1,540 GS walkways under the HyD's purview, about 1,270 walkways had already been installed with lifts or up-to-standard ramps, or alternative at-grade crossings were available in the vicinity. In other words, about 270 (1,540 less 1,270 — Note 8) walkways were yet to be provided with barrier-free access facilities. According to HyD records, GS walkways constructed after April 2011 had been installed with barrier-free access facilities.

4.4 In December 2015, Audit requested the HyD to provide an up-to-date list of the 1,540 GS walkways showing the following information for each walkway:

- (a) its location;
- (b) availability of ramps or lifts; and

Note 8: *Of the 295 walkways, 22 walkways had been retrofitted with lifts from 2001 to 2010. Therefore, 273 walkways had not been provided with ramps or lifts in April 2011.*

- (c) year of commissioning.

4.5 In March 2016, the HyD provided Audit with a list comprising 1,561 GS walkways as of 24 September 2012 with information of their locations, availability of ramps or lifts and year of commissioning. According to the HyD:

- (a) the information as of 24 September 2012 was compiled in September 2012 through a one-off exercise by manually searching information from the ISI System. The ISI System was designed for structural asset management to facilitate highway structure maintenance, and was not for generating management reports on barrier-free access facilities. It would involve substantial modification to enhance the System before it could generate information on barrier-free access facilities of individual GS walkways; and
- (b) of these 1,561 walkways, 1,259 (81%) were provided with ramps or lifts and 302 (19%) were not provided with these facilities (Note 9).

4.6 Audit considers it unsatisfactory that the ISI System could not generate management reports on the locations and availability of ramps or lifts of GS walkways under the HyD's purview. The HyD needs to make enhancements to the ISI System for the purpose.

Need to maintain records of monitoring progress of retrofitting works items

4.7 According to the Project Administration Handbook for Civil Engineering Works, all works projects should be completed on time and within budget. The HyD and the CEDD engaged consultants to help monitor implementation of works items under the 2001 Retrofitting Initiative and the 2012 Expanded Programme. The consultants submitted monthly reports outlining the works progress and problems encountered in implementing the retrofitting works items.

Note 9: *Audit noted that the 295 walkways referred to in April 2011 (see para. 4.3) and 302 walkways in September 2012 were both understated (see para. 4.11).*

Management information system and way forward

4.8 In March 2016, the HyD informed Audit that:

- (a) the HyD's Universal Accessibility Project Team had prepared periodic reports on works progress and expenditures of individual works items of the retrofitting works; and
- (b) the Chief Engineer of the Project Team held monthly meetings with the consultants and contractors to monitor the works progress and expenditure. The monthly construction and planning meetings, chaired by the Project Manager of the HyD Major Works Project Management Office, also monitored and reviewed the works progress and expenditure summaries of the 2001 Retrofitting Initiative and the 2012 Expanded Programme.

4.9 However, the HyD did not have documents (such as minutes of meeting) showing the discussion and monitoring of the works progress and expenditures of the retrofitting works items at the construction and planning meetings. Audit considers that the HyD needs to maintain such records.

Some GS walkways constructed after effective date of Disability Discrimination Ordinance not being provided with barrier-free access facilities

4.10 Twenty years have lapsed since the effective date of the Disability Discrimination Ordinance in 1996. According to the HyD, walkways constructed after the effective date of the Ordinance should be provided with barrier-free access facilities, and of the 1,561 GS walkways as of 24 September 2012, 302 walkways were not provided with barrier-free access facilities (see para. 4.5(b)). However, Audit examination of the information provided by the HyD revealed that, of these 302 walkways, construction of 11 (4%) had commenced from 1999 to 2005, and the construction time of the other 29 (10%) walkways (which were open for public use from 1997 to 2003) was not available. These 40 (11 + 29) walkways were included in the 328 walkways for considering retrofitting works (see Table 3 in para. 2.2). In Audit's view, the HyD needs to conduct a review of these 40 walkways to ascertain whether barrier-free access facilities should have been provided at the time of walkway construction, and take necessary remedial measures.

Needs to inform LegCo of the correct number of walkways requiring retrofitting works

4.11 Furthermore, the LWB informed LegCo in April 2011 that 295 GS walkways had not been provided with lifts, ramps or alternative at-grade crossings (see para. 1.7(b)). However, Audit examination revealed that in fact 328 walkways had not been provided with related facilities as of April 2011 (i.e. an understatement of 33 walkways — see para. 2.2). Audit noted that the understatement of the number of walkways without barrier-free access facilities as of April 2011 was partly due to the omissions of some elevated walkways in the compilation of information. In Audit's view, the HyD needs to make improvement in its record keeping as well as providing correct information to LegCo in future.

Audit recommendations

4.12 **Audit has recommended that the Director of Highways should:**

- (a) **make enhancements to the ISI System for generating management reports on important information of GS walkways under the HyD's purview;**
- (b) **maintain records (such as minutes of meeting) showing the monitoring of the works progress and expenditures of the retrofitting works items at the construction and planning meetings;**
- (c) **conduct a review of GS walkways constructed after the effective date of the Disability Discrimination Ordinance in 1996 which were not provided with barrier-free access facilities to ascertain whether such facilities should have been provided at the time of walkway construction, and take necessary remedial measures; and**
- (d) **ascertain the reasons for the omission of 33 walkways in reporting to LegCo in April 2011 the number of walkways not having been provided with barrier-free access facilities, and endeavour to provide correct information to LegCo in future.**

Response from the Government

4.13 The Director of Highways agrees with the audit recommendations. He has said that, regarding paragraph 4.12(a), the HyD will explore the feasibility on making enhancements to the ISI System for generating management reports related to barrier-free access facilities.

4.14 The Secretary for Labour and Welfare has said that, regarding paragraph 4.12(d), the LWB will follow up the matter with the HyD.

Major audit observations

2001 Retrofitting Initiative

4.15 Since 2001, the HyD has taken actions to carry out retrofitting works for GS walkways not yet provided with barrier-free access facilities. Audit noted that the progress in implementing the 2011 Retrofitting Programme had been behind schedule. However, 20 years have lapsed since the effective date of the Disability Discrimination Ordinance in 1996, and notwithstanding that the THB informed LegCo in June 2011 that the majority of the retrofitting works under the 2011 Retrofitting Programme were scheduled for completion by 2016-17 and the remaining by 2017-18, works for 13 walkways would only commence in 2016-17 and the time of works commencement for 17 walkways had not been determined as of December 2015. Audit also noted that 11 GS walkways constructed after the effective date of the Disability Discrimination Ordinance had not been provided with barrier-free access facilities. Furthermore, as of December 2015, of the total approved funding of \$4.03 billion for the lift/ramp retrofitting works under the 2011 Retrofitting Programme, only \$1.15 billion (29%) had been spent (see Table 2 in para. 1.13). Audit examination of implementation of some works items revealed areas for improvement, such as handling of utility diversions and design changes after contract award.

2012 Expanded Programme

4.16 As of December 2015, of the 53 GS walkways included in the First Phase of 2012 Expanded Programme, the CEDD had awarded four contracts (Contracts F to I) for 44 walkways (see Table 10).

Table 10

**Contracts F to I under First Phase of 2012 Expanded Programme
(December 2015)**

Contract	Number of GS walkways involved	Contract sum (\$ million)	Contract commencement date	Scheduled completion date
F	13	290.0	April 2015	October 2018
G	8	272.0	April 2015	April 2019
H	10	254.1	November 2015	November 2019
I	13	320.1	November 2015	May 2019
Total	44	1,136.2		

Source: CEDD records

4.17 Under the 2012 Expanded Programme, based on a DC's nomination, a GS walkway having been installed with ramps might also be considered for lift retrofitting works. Audit examination revealed that, while the 18 DCs were each invited to nominate three walkways from the PPW List, the number of walkways included in individual PPW List for nomination by DCs varied from 1 to 28. Audit also noted that the peak-hour pedestrian flow of some nominated walkways was relatively low.

Way Forward

- 4.18 In the Policy Address of January 2016, the Government said that:
- (a) it would press ahead with the remainder of about 180 projects (Note 10) in all 18 districts, including the three priority projects identified by each DC. It was expected that about 80% of the projects would be completed in phases within three years; and
 - (b) from the fourth quarter of 2016, the Government would again invite the DCs to further nominate not more than three existing GS walkways in each district for lift retrofitting works under the Second Phase of the 2012 Expanded Programme. The walkways eligible for consideration by the DCs would no longer be confined to GS walkways maintained by the HyD, provided that certain criteria were met (Note 11).
- 4.19 In Audit's view, the THB, the HyD and the CEDD need to take into account the observations contained in this Audit Report in implementing lift retrofitting works for GS walkways in future.

Note 10: *These comprised 124 GS walkways (184 less 60 — see para. 2.4) under the 2001 Retrofitting Initiative and 53 GS walkways (see para. 3.7) under the 2012 Expanded Programme.*

Note 11: *According to a paper submitted to the LegCo Panel on Transport in January 2016, the criteria include:*

- (a) *walkways being spanned across public roads maintained by the HyD, open for public access at all times and not privately owned; and*
- (b) *the parties responsible for the management and maintenance of these walkways have no objection to such retrofitting proposals, and are willing to cooperate with the Government on the works implementation. The HyD will take up the maintenance of the lifts installed.*

Significant increase in average unit cost of lift retrofitting works

4.20 From 2001 to 2010, lift retrofitting works for 34 GS walkways had been completed (no walkway being retrofitted with ramps). Of these 34 walkways, 18 have been each retrofitted with two lifts and the remaining 16 have been each retrofitted with one lift (because one of the two ends are linked to barrier-free access facilities). The related works contracts were awarded from February 2002 to June 2011 and the contract cost of these 52 ($18 \times 2 + 16$) lifts totalled \$347.8 million, or on average \$6.7 million for retrofitting one lift. On the other hand, retrofitting works for the 44 walkways under Contracts F to I (see Table 10 in para. 4.16) awarded in 2015 costing \$1,136.2 million involved retrofitting a total of 76 lifts, or on average \$15.0 million for retrofitting one lift.

4.21 Given the significant increase in the average unit construction cost of lift retrofitting works from \$6.7 million (from 2002 to 2011) to \$15.0 million in 2015 (a 124% increase), the HyD needs to conduct a review to ascertain whether the implementation of a large quantity of lift retrofitting works within a few years has created pressure on the related trade and driven up the cost of works, and take necessary improvement measures.

Audit recommendations

4.22 **Audit has recommended that the Secretary for Transport and Housing, the Director of Highways and the Director of Civil Engineering and Development should take into account observations contained in this Audit Report in implementing lift retrofitting works for GS walkways in future.**

4.23 **Audit has also recommended that the Director of Highways should conduct a review to ascertain whether the implementation of a large quantity of lift retrofitting works within a few years has created pressure on the related trade and driven up the cost of works, and take necessary improvement measures.**

Response from the Government

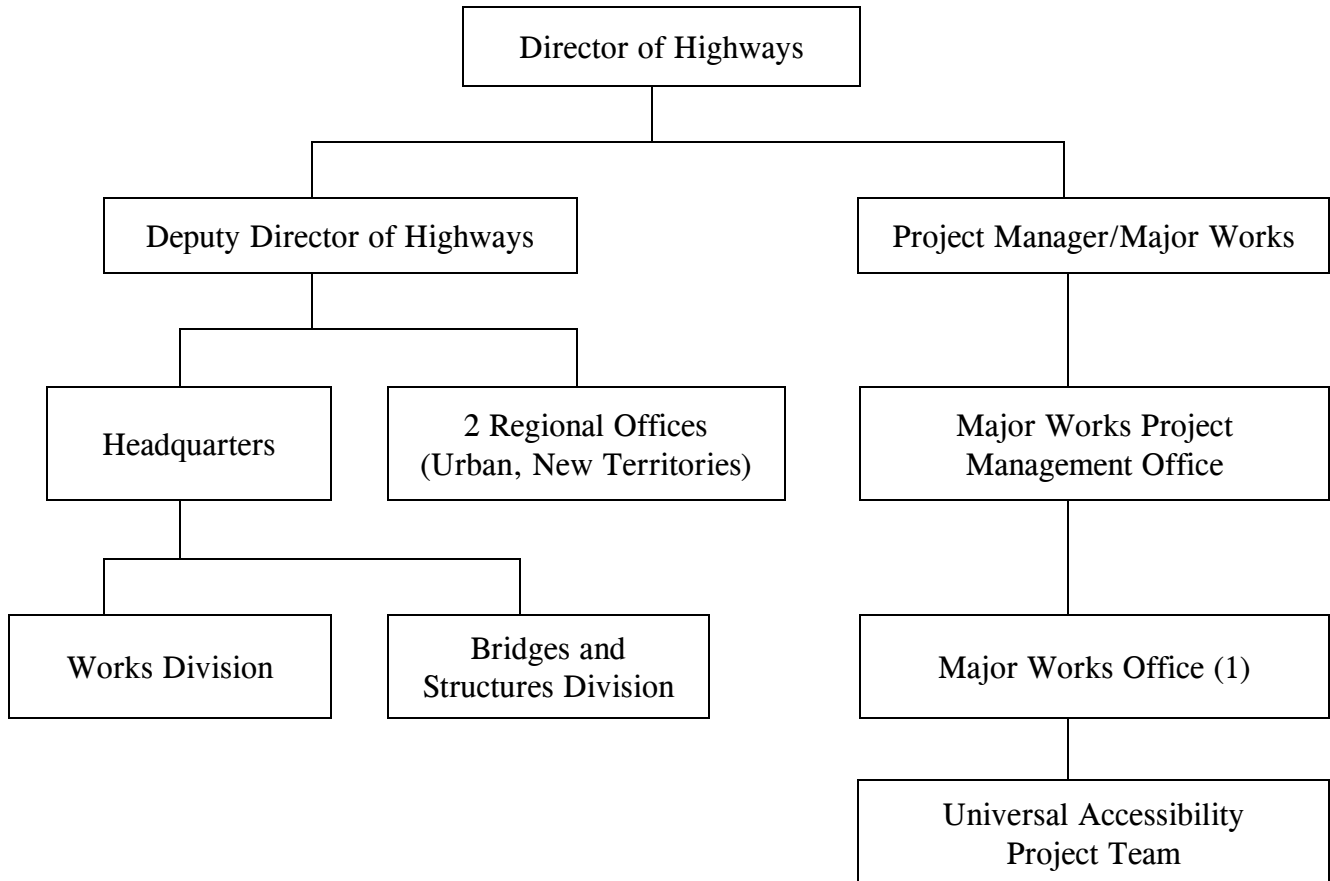
4.24 The Secretary for Transport and Housing agrees with the audit recommendation in paragraph 4.22.

4.25 The Director of Highways agrees with the audit recommendations in paragraphs 4.22 and 4.23. He has said that:

- (a) the rise in the construction prices of the lift retrofitting works is attributed to a number of factors, such as:
 - (i) construction cost has risen in recent years; and
 - (ii) the lift retrofitting works are relatively small in scale, and should be able to attract more medium-sized contractors to submit tenders. This keen level of competition is reflected by the fact that 13 contractors won tenders for 15 works contracts awarded from December 2011 to November 2015 for lift retrofitting works; and
- (b) the HyD will continue to closely monitor the market situation and conduct related tender exercises at appropriate time.

4.26 The Director of Civil Engineering and Development also agrees with the audit recommendation in paragraph 4.22.

**Highways Department:
Organisation chart (extract)
(29 February 2016)**



Source: HyD records

**Comments of the HyD and the WSD on Case 1
(March 2016)**

HyD comments

- (a) When planning the implementation of a works project, there were various considerations in managing interfacing issues with other projects or developments. From an overall consideration of implementing the Public Works Programme, it might often not be advisable to complete one project before commencing another project in the vicinity, since this would unduly prolong the delivery of the projects and was not in the public interest. Furthermore, depending on the site conditions and nature of the projects, there were cases in which working concurrently with another project could enhance integration, minimise disruption to the public and increase cost-effectiveness. The HyD project office would carefully make arrangements for individual projects to ensure the smooth implementation of the projects.

- (b) During the design and planning stages in 2008 for the lift retrofitting works for Footbridge C, the HyD was aware of the WSD's water-pipe replacement project being implemented in the vicinity. Though the WSD's works front was outside the proposed works site, the HyD noted that the WSD's works might affect the temporary traffic lane closure under the HyD's works contract. The works involved applications for the traffic lane closure and excavation permits for road works. In this connection, since October 2008, the HyD had liaised with the WSD to explore the feasibility of carrying out the necessary water-pipe diversion works under the WSD's water-pipe replacement project, and to ascertain the WSD's project completion date before conducting tendering of the lift retrofitting project. In July 2009, the WSD informed the HyD that the water-pipe replacement works would be completed in around December 2010, and the WSD would provide a better estimate on the works completion date upon completion of further site investigation. The HyD planned the contract commencement date based on the information provided by the WSD and included certain flexibility to cater for possible delay in the WSD works. There was also strong public expectation and pressure for early commencement of the lift retrofitting works. Late commencement of HyD works contract might not be favourable as other utility undertakers also had plans for laying cables at the same location.

- (c) Since at least one of the traffic lanes should always be open for public use, the road works under the HyD works contract could not proceed until the WSD had completed its works. With the delay in the completion of the WSD works contract, the HyD's lift retrofitting works project unavoidably encountered a consequential delay. Nevertheless, having noted the WSD's works difficulty due to adverse ground conditions and stringent traffic requirements (i.e. traffic lanes could not be closed during normal working hours on weekdays), the HyD had instructed the works contractor to implement mitigation measures to create more work fronts at the concerned road section to mitigate the works delay, and to request the utility undertakers to change the diversion routes to shorten the working period on the road.
- (d) As of March 2016, the HyD had granted an extension of time of 671 days to the works contractor due to the above delay and was assessing the contractor's claim for prolongation cost.

WSD comments

- (e) In May 2009, the WSD water-pipe works commenced and the works were carried out in a common trench excavated by a contractor of a utility company for laying its utilities. The trench excavation was fraught with uncertainties, and was the most time-consuming and critical activity in the whole project. Neither the utility company nor the WSD could provide a works completion date with certainty. The common trench works would not affect the HyD's lift retrofitting works.
- (f) The HyD's lift retrofitting works were affected by an underground fresh water pipe, which had to be diverted away from the foundation area of Lift B. In July 2010, the HyD started liaison with the WSD site staff with a view to making provision in the WSD water-pipe project to enable the diversion of the underground water pipe affecting the HyD's lift retrofitting works. This involved a variation to the construction sequence and therefore longer construction time taken for the WSD's water-pipe works (e.g. additional site investigation and re-opening of the completed section of the water pipe).

- (g) The diversion of the underground fresh water pipe affecting the HyD's lift retrofitting works was completed in September 2012. The long construction period of the WSD's water-pipe works was primarily due to longer construction time taken for works in the common trench, adverse ground condition, restricted working hours due to stringent traffic requirements, and obstruction by existing underground utilities.

- (h) There were also other utilities required to be diverted before the commencement of the HyD's retrofitting works for Lift B. Such utilities included gas pipes, power cables, stormwater and sewer drains, and optical fibre cables. Some of the diversion works were carried out at the same time with the WSD's water-pipe works. The delay of the HyD's lift retrofitting works was mainly caused by the interfacing issues arising from the diversion of existing utilities under the foundation area of Lift B. The WSD had made the best endeavour to tackle the site constraints and coordinate the interfacing issues with the HyD for the lift retrofitting works.

Source: HyD and WSD records

**15 grade-separated walkways without directional signs
on nearby barrier-free access facilities**

Item	District	Walkway location
1	Central and Western	Elevated walkway across Cotton Tree Drive over Queensway
2		Footbridge across Queensway from Garden Road to Murray Road
3	Eastern	Footbridge across Shau Kei Wan Road near Taikoo Shing Road
4		Footbridge along Electric Road near Fuk Yuen Street
5	Kowloon City	Footbridge across Waterloo Road near Durham Road
6	Kwai Tsing	Footbridge across Castle Peak Road near Ping Fu Path
7		Subway across Castle Peak Road near Yiu Wing Lane
8	Kwun Tong	Footbridge across Kwun Tong Road near Junction of Ngau Tau Kok Road
9		Subway across Kwun Tong Road near How Ming Lane
10	Tsuen Wan	Subway across Texaco Road at Tak Tai Path
11		
12	Wan Chai	Footbridge across Gloucester Road and Wan Shing Street near Canal Road
13		
14	Yau Tsim Mong	Subway across Nathan Road near Saigon Street
15		Subway across Nathan Road near Soy Street

Source: Audit site visits from December 2015 to March 2016

Acronyms and abbreviations

APE	Approved project estimate
Audit	Audit Commission
CEDD	Civil Engineering and Development Department
DC	District Council
FC	Finance Committee
GS walkway	Grade-separated walkway
HyD	Highways Department
ISI System	Integrated Structures Information System
LegCo	Legislative Council
LWB	Labour and Welfare Bureau
PPW List	List of Public Proposed Walkways
PWD	Person with a disability
TD	Transport Department
THB	Transport and Housing Bureau
WSD	Water Supplies Department

CHAPTER 4

Immigration Department

<p>Admission schemes for talent, investors and workers</p>

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

ADMISSION SCHEMES FOR TALENT, INVESTORS AND WORKERS

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1 – 1.11
Audit review	1.12
General response from the Government	1.13
Acknowledgement	1.14
PART 2: ADMISSION SCHEMES FOR TALENT, PROFESSIONALS AND NON-LOCAL GRADUATES	2.1
Administration of GEP Employment Stream and ASMTP	2.2 – 2.17
Audit recommendations	2.18
Response from the Government	2.19
Administration of QMAS	2.20 – 2.28
Audit recommendations	2.29
Response from the Government	2.30
Administration of IANG	2.31 – 2.39
Audit recommendations	2.40
Response from the Government	2.41

	Paragraph
PART 3: ADMISSION SCHEMES FOR INVESTORS	3.1
Administration of GEP Investment Stream	3.2 – 3.12
Audit recommendations	3.13
Response from the Government	3.14
Administration of CIES	3.15 – 3.23
Audit recommendations	3.24
Response from the Government	3.25
 PART 4: ADMISSION SCHEME FOR FOREIGN DOMESTIC HELPERS	 4.1
Administration of Admission Scheme for FDHs	4.2 – 4.16
Audit recommendations	4.17
Response from the Government	4.18
 PART 5: OTHER ADMINISTRATIVE ISSUES	 5.1
Information system	5.2 – 5.5
Supervisory checks	5.6
Cost recovery of visas/entry permits and extension of stay	5.7 – 5.8
Audit recommendations	5.9
Response from the Government	5.10

	Paragraph
PART 6: WAY FORWARD	6.1
Proactive and targeted approach to attract talent	6.2 – 6.9
Audit recommendations	6.10
Response from the Government	6.11

Appendices	Page
A : Fees for visas, entry permits and extension of limit of stay (December 2015)	76
B : Eligibility for right of abode of admitted persons and entry of their dependants under Admission Schemes	77
C : Immigration Department: Organisation chart (extract) (31 December 2015)	78
D : Main provisions in the Scheme Rules of the CIES	79
E : Investments made by CIES entrants (October 2003 to December 2015)	80
F : Examples of supervisory-check requirements and audit findings	81
G : Analysis of approved GEP entry applications by employment sectors (September 2014 to December 2015)	82
H : Analysis of approved ASMTP entry applications by employment sectors (2011 to 2015)	83
I : Analysis of approved QMAS entry applications by employment sectors (2011 to 2015)	84
J : Analysis of approved IANG applications by employment sectors (November 2014 to December 2015)	85
K : Acronyms and abbreviations	86

ADMISSION SCHEMES FOR TALENT, INVESTORS AND WORKERS

Executive Summary

1. As pre-entry control measures, persons who come to Hong Kong for employment, investment, residence, study or training and do not have the right of abode or right to land are required to apply for entry visas or permits before landing. The Government has introduced the following eight Admission Schemes to attract talent, investors and workers to work/stay in Hong Kong:

- (a) ***Admission Schemes for talent, professionals and non-local graduates.*** The four Schemes are the General Employment Policy (GEP) Employment Stream, the Admission Scheme for Mainland Talents and Professionals (ASMTP), the Quality Migrant Admission Scheme (QMAS) and the Immigration Arrangements for Non-local Graduates (IANG);
- (b) ***Admission Schemes for investors.*** The two Schemes are the GEP Investment Stream and the Capital Investment Entrant Scheme (CIES); and
- (c) ***Admission Schemes for importing foreign domestic helpers (FDHs) and workers.*** The two Schemes are the Admission Scheme for FDHs and the Supplementary Labour Scheme (SLS).

The Immigration Department (ImmD) is responsible for processing applications under the Admission Schemes and issuing visas or entry permits to successful applicants. Upon entry to Hong Kong, a person must comply with the limit of stay and such conditions of stay imposed by the ImmD under the Immigration Ordinance (Cap. 115). He may apply to the ImmD for permission of extension of stay. Except for FDHs and imported workers under the SLS, a person who has been admitted under the other six Admission Schemes and is lawfully and continuously an ordinary resident in Hong Kong for seven years may apply for permanent residence. According to ImmD Controlling Officer's Report, the total estimated expenditure of its pre-entry control programme for 2015-16 is \$281 million.

Executive Summary

2. In his 2015 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region announced adopting a more proactive and targeted approach, as recommended by the Steering Committee on Population Policy (SCPP), to attract more outside talent to work and settle in Hong Kong by taking various enhancement measures. The duration of stay of successful applicants/entrants and their extension of stay pattern under the GEP, the ASMTP and the QMAS have been relaxed, and the consideration factors of the GEP Investment Stream have been specified. The Audit Commission (Audit) has recently conducted a review to examine the ImmD's work on the administration of the eight Admission Schemes.

Admission Schemes for talent, professionals and non-local graduates

3. ***GEP Employment Stream and ASMTP.*** The GEP Employment Stream aims to attract qualified professionals from overseas, Taiwan and Macao and the ASMTP aims to attract those from the Mainland to work in Hong Kong to meet local manpower needs. An application may be favourably considered if the applicant meets the eligibility criteria, including securing employment that cannot be readily taken up by the locals and his remuneration package is broadly commensurate with the market level. From January 2006 to December 2015, some 273,100 applications had been approved under the GEP Employment Stream with an average approval rate of 95.7% from 2011 to 2015. For the ASMTP, from its inception in July 2003 to December 2015, some 83,700 applications had been approved with an average approval rate of 91.7% from 2011 to 2015 (paras. 1.6(a) and (b), 2.2 and 2.3).

4. ***Need to monitor GEP and ASMTP applications with long processing time.*** From 2011 to 2015, the ImmD achieved its targets for processing entry visas and permits for the GEP Employment Stream and the ASMTP within four weeks (upon receipt of all supporting documents) for 90% of the applications. Audit's analysis of the actual processing time of approved applications from January 2014 to September 2015 from the receipt of the applications revealed that 665 (1%) of the 53,694 GEP approved applications and 1,055 (7%) of the 15,663 ASMTP approved applications had taken more than 90 days to process. Audit's sample check of 30 such applications further revealed that in 13 (43%) cases, there were delays on the part of the ImmD in requesting additional supporting documents from the applicants (paras. 2.4 and 2.5).

Executive Summary

5. ***Need to provide more guidelines on the assessment of local availability and remuneration.*** In processing GEP and ASMTP applications, the case officers should consider availability of local employees and market level of remuneration to ascertain whether the applicants meet the criteria stated in paragraph 3. While the ASMTP guidelines specified that the sponsoring companies (i.e. the employers) should be required to provide a declaration that genuine local recruitment efforts had been made but without success and such proof would be sought if necessary, the GEP guidelines did not have the same requirement. According to the ImmD, salary statistics reports prepared by the Census and Statistics Department and salary survey reports published by employment websites would be used for considering applicants' monthly remunerations but such practices were not laid down in its guidelines. In some cases, the applicants' remunerations were below the average/median salaries published by the information sources mentioned by the ImmD and the basis of accepting the remunerations as commensurate with the market level was not documented by the case officers (para. 2.6).

6. ***Need to ensure compliance with laid-down guidelines in processing applications.*** In processing GEP and ASMTP applications, there were guidelines requiring case officers to: (a) grant limit of stay to applicants subject to validity of their travel documents to ensure returnability to their countries of residence or citizenship; (b) approve limit of stay not exceeding the employment contract period or the limit stipulated by the ImmD, whichever is shorter; (c) vet intra-company transfer applications to ensure that the transferees have worked for the company for not less than one year; and (d) impose special conditions of stay on foreign cooks, including restricting the change of employer. However, Audit's sample check of approved applications revealed instances of non-compliance with the laid-down guidelines (paras. 2.10 to 2.16).

7. ***QMAS.*** The Scheme aims to attract highly skilled or talented persons to settle in Hong Kong. It is a quota-based scheme (currently 1,000 persons per year) operated under a points-based system, which includes the Achievement-based Points Test for individuals with exceptional talents or skills and outstanding achievements, and the General Points Test for other skilled and talented persons. Since its inception in June 2006 to December 2015, some 3,000 applications had been approved with an average approval rate of 28.9% from 2011 to 2015 (paras. 1.6(c) and 2.20).

Executive Summary

8. ***Need to incorporate a talent list for the QMAS.*** From January 2010 to September 2015, 713 applicants had submitted applications for two to four times (totalling 1,500 representing 14% of all 10,574 applications received in the period) but only 151 (21%) of them were successfully allocated a quota under the QMAS. The large number of repeat applications suggests that the applicants might be unclear about the targeted talent requirements. The ImmD needs to closely liaise with the Labour and Welfare Bureau (LWB), which is now considering the feasibility of drawing up a talent list to attract high quality talent, for incorporating the list into the QMAS once it is available so that prospective applicants are better informed before deciding whether they should submit an application (para. 2.28).

9. ***IANG.*** The Scheme aims to attract foreign and Mainland students who have obtained a degree or higher qualification in a full-time and locally-accredited local programme to stay/return and work in Hong Kong. Since its inception in May 2008 to December 2015, some 51,500 non-local graduate applications had been approved to stay/return and work in Hong Kong with an average approval rate of 99.9% from 2011 to 2015 (paras. 1.6(d), 2.31 and 2.33).

10. ***Need to verify authenticity of supporting documents.*** An IANG applicant/entrant is only required to submit photocopies of his academic/professional qualification and employment offer to support his entry application or extension-of-stay application. With the advances in information technologies (e.g. image processing technology), there is a risk that bogus documents may be used to support IANG applications. Audit research on similar schemes administered by overseas authorities reveals that the authenticity of supporting documents is verified by different means, e.g. applicants are required to provide an original endorsement letter from an education institution (paras. 2.34 and 2.35).

11. ***Need to document factors considered in assessing IANG applicants' job qualification requirements.*** For an entry application by a returning graduate (i.e. not a fresh graduate) or an application for extension of stay, the IANG requires an applicant/entrant to secure an employment offer which is at a level commonly taken up by degree holders and a remuneration package at market level. Audit's examination of 30 of 442 approved cases with monthly remunerations of \$9,000 or below from January 2010 to September 2015 revealed that in 6 cases, the case officers approved the applicants taking up the jobs which were specified for

Executive Summary

certificate holders/Form 5 graduates or above. There was no documentation on the factors that had been considered by the case officers in allowing IANG applicants to take up jobs that could be filled by local certificate holders/Form 5 graduates (paras. 2.36 to 2.38).

Admission Schemes for investors

12. ***GEP Investment Stream.*** Apart from the Employment Stream (see para. 3), the GEP has an Investment Stream to admit overseas, Taiwan and Macao investors who wish to set up or join in a business in Hong Kong, and are in a position to make substantial contributions to the economy. From January 2006 to December 2015, some 3,300 applications had been approved under the GEP Investment Stream with an average approval rate of 66.7% from 2011 to 2015 (paras. 1.6(e) and 3.4).

13. ***Need to improve the efficiency of processing applications.*** Audit's analysis of the actual processing time for approved GEP Investment Stream applications from the receipt of applications in the period January 2014 to September 2015 revealed that 193 (58%) of the 330 approved applications had taken more than 90 days to process. Audit's sample check of 15 such applications further revealed that on average, the case officers took 73 days in 3 cases to make further information requests and 87 days in 5 cases to grant approval after receipt of all supporting documents (paras. 3.5 and 3.6).

14. ***Need to improve business reviews for extension-of-stay applications.*** The ImmD may approve an entry application on the condition that a business review (covering office set-up, local recruitment and business performance) will be carried out upon the subsequent extension-of-stay application. Audit's sample check of 15 business review cases from January 2012 to September 2015 revealed that in four (27%) cases, while the applicants had not delivered the planned scale of operation as stated in the entry applications, the case officers approved their extension-of-stay applications without imposing the requirement of further business reviews (paras. 3.7 and 3.8(a)).

Executive Summary

15. **CIES.** The CIES was implemented in October 2003 to facilitate the entry for residence by persons who would make capital investment in permissible investment assets in Hong Kong but would not be engaged in the running of business. Since its inception to December 2015, some 28,200 applications with capital investment of some \$244 billion had been approved under the CIES with an average approval rate of 99.9% from 2011 to 2015. In view of the economic situation in Hong Kong, the Government decided to suspend the CIES with effect from 15 January 2015. The applications pending processing as at December 2015 totalled 11,429 (paras. 1.6(f) and 3.15).

16. ***Need to step up monitoring of the processing of CIES applications.*** Audit's examination of ten selected approved applications in 2014 and 2015 revealed that in two cases, the case officers took 49 and 60 months respectively to grant final approvals. The long processing time of the two cases was partly attributable to the case officers' belated actions as they had not reminded the applicants to submit the required information (such as proof of investment) until 10 and 25 months respectively after the submission deadlines (para. 3.21).

17. ***Need to tighten control over breaches of CIES Scheme Rules.*** The CIES Scheme Rules require a financial intermediary to notify the Director of Immigration that the applicant/entrant has not re-invested within 14 days the proceeds of sale of his scheme assets. Audit's examination of ten of some 300 cases of breaches of the requirements on re-investment revealed that the ImmD only issued warning letters to the entrants concerned a long time (averaging 525 days) after the breaches had occurred. Besides, in three of the ten cases, the entrants had breached the re-investment requirement two to four times each despite warning letters issued by the ImmD (para. 3.23).

Admission Scheme for foreign domestic helpers

18. Since early 1970s, the Government has allowed admission of FDHs in order to meet the acute shortage of local live-in domestic helpers. From 2011 to 2015, 492,139 applications had been approved with an average approval rate of 99.5%. As at December 2015, there were some 340,000 FDHs in Hong Kong (paras. 1.6(g) and 4.2).

Executive Summary

19. *Need to strengthen follow-up actions on suspected job-hoppers.* In response to the public concern that individual FDHs deliberately under-performed to cause their employers to terminate the contracts pre-maturely, the ImmD has taken measures to strengthen control over FDH entry-visa applications to curb possible abuses. Audit's examination of 30 selected suspected job-hopper cases (i.e. FDHs who had two or more pre-mature termination (PMT) records in 12 months preceding their new visa applications) revealed that seven cases were approved although the case officers had not contacted all their ex-employers who made adverse comments on the applicants' performance. Moreover, there were no laid-down procedures to guide case officers in processing new applications from suspected job-hoppers (paras. 4.7 to 4.11).

20. *Need to tighten the vetting of applications for FDHs performing driving duties.* Since January 2000, an FDH has been prohibited from performing all sorts of driving duties unless an employer can provide full justifications that he has genuine needs for his FDH to perform driving duties. From 2000 to 2015, the total number of successful applications for FDHs performing driving duties had increased by 125% from 903 to 2,032. Audit examination of ten approved applications revealed that the justifications provided in the application forms were travelling needs for performing commonly required domestic duties but there was no elaboration on why such travelling needs could only be met by an FDH performing driving duties (paras. 4.13 to 4.15).

Other administrative issues

21. *Need to properly maintain computer records.* All the entry and extension-of-stay applications under the various Admission Schemes are processed with the aid of a computer system. Audit's examination revealed that the remuneration or employment information of some GEP, ASMTP and IANG applications was not or incorrectly input into the computer system. A reliable database will facilitate the ImmD to compile management information for better decision making and resources planning (paras. 5.2 and 5.3).

Executive Summary

Way forward

22. *Need to periodically compile key statistics and conduct reviews on the effectiveness of the Admission Schemes.* To achieve the population policy objective as recommended by the SSCP (see para. 2), the Chief Executive in his 2015 Policy Address announced that various enhancement measures should be implemented in the Admission Schemes to deal with the ageing population and decline in labour force. Statistics on entrants obtaining right of abode and their duration of stay are key indicators of the entrants' willingness to work/stay in Hong Kong. However, such statistics were not periodically compiled by the ImmD because they could not be generated from the computer system readily. In light of the introduction of various enhancement measures in 2015, the ImmD needs to, in consultation with the Security Bureau, continue to monitor the implementation of such measures and review the effectiveness of the Schemes, taking on board the audit observations and recommendations in this Audit Report (paras. 6.2, 6.5 to 6.7 and 6.9).

Audit recommendations

23. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Director of Immigration should:**

Admission Schemes for talent, professionals and non-local graduates

- (a) **monitor GEP and ASMTP applications with long processing time (para. 2.18(a));**
- (b) **issue guidelines to set out clearly the required procedures for considering availability of local employees and market level of remuneration in processing GEP and ASMTP applications (para. 2.18(b)(i) and (ii));**
- (c) **closely liaise with the LWB to incorporate the talent list into the QMAS once it is available (para. 2.29(b));**
- (d) **tighten control over the verification of the authenticity of supporting documents submitted by IANG applicants/entrants (para. 2.40(a));**

Executive Summary

Admission Schemes for investors

- (e) **step up monitoring of the processing time of GEP entrepreneur applications (para. 3.13(b));**
- (f) **tighten control over breaches of Scheme Rules of the CIES (para. 3.24 (b));**

Admission Scheme for FDHs

- (g) **issue guidelines setting out the key follow-up procedures in processing new visa applications with PMT records (para. 4.17(b));**
- (h) **consider tightening the vetting of applications for FDHs performing driving duties (para. 4.17(e));**

Other administrative issues

- (i) **take measures to ensure the proper maintenance of computer records for the various Admission Schemes (para. 5.9(a)); and**

Way forward

- (j) **enhance the computer system to periodically generate statistics and review the effectiveness of the Admission Schemes (para. 6.10(a) and (b)(ii)).**

Response from the Government

24. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Government adopts an open immigration regime. Nationals of about 170 countries and territories are allowed visa-free visits to Hong Kong for periods ranging from 7 to 180 days. Mainland visitors may visit Hong Kong for periods ranging from 7 to 90 days under different arrangements (Note 1). Every visitor must possess a valid travel document, sufficient means of support and re-entry facilities to their countries of domicile.

1.3 Apart from visitors, professionals and businessmen are welcome to work and invest in Hong Kong. Non-local students are also allowed to enter Hong Kong for study. While effort is made to facilitate the entry and stay of visitors and those who contribute to Hong Kong's development and prosperity, the Immigration Department (ImmD), under the policy directives of the Security Bureau, exercises pre-entry immigration control to:

- (a) guard against the entry of undesirable persons to maintain Hong Kong's prosperity and stability;
- (b) facilitate the entry of talent and professionals to enhance Hong Kong's competitiveness while protecting the local labour force from unfair competition; and

Note 1: *Article 22 of the Basic Law states that "for entry into the Hong Kong Special Administrative Region, people from other parts of China must apply for approval". Residents from the Mainland who wish to visit Hong Kong should obtain an Exit-entry Permit for Travelling to and from Hong Kong and Macao and an appropriate exit endorsement from the Mainland authorities. There are different arrangements for entry of Mainland visitors. For example, under the Individual Visit Scheme for Mainland Residents, residents of all the 21 cities in Guangdong Province and 28 other cities may visit Hong Kong on an individual basis for a period of not more than seven days upon each entry.*

Introduction

- (c) facilitate the mobility of tourists and business people, making Hong Kong an attractive tourist and business centre.

1.4 As pre-entry control measures, persons who come to Hong Kong for employment, investment, residence, study or training and do not have the right of abode or right to land are required to apply for visas or entry permits (Note 2) before landing. Applicants may send their applications direct to the ImmD or through their sponsors in person or by post. The ImmD will finalise the applications upon receipt of all necessary documents in four to six weeks. Upon entry to Hong Kong, a person has to comply with the limit of stay and such conditions of stay imposed by the ImmD under the Immigration Ordinance (Cap. 115). Before expiry of the limit of stay, he may apply to the ImmD for permission of extension of stay. According to ImmD Controlling Officer's Report (COR), the total estimated expenditure of its pre-entry control programme for 2015-16 is \$281 million.

1.5 The ImmD charges a successful applicant a fee for a visa or an entry permit for entering Hong Kong or for extension of stay (see fees at Appendix A). The total estimated revenue of such fees for 2015-16 is \$129 million.

Admission Schemes

1.6 The Government has introduced various Admission Schemes to attract talent, professionals, non-local graduates and investors from other places to work or invest in Hong Kong. To address the problems of shortage of local live-in domestic helpers and shortage of labours in some industries, the Government has also established schemes to import foreign domestic helpers (FDHs) and workers in relevant industries. To qualify for admission under various schemes, applicants must meet the normal immigration requirements (Note 3) and the specific eligibility criteria of individual schemes. The ImmD is responsible for processing applications

Note 2: *For entry into Hong Kong, visas are issued to foreigners whereas entry permits are issued to residents of the Mainland, Macao and Taiwan.*

Note 3: *Applicants: (a) must possess valid travel documents with adequate returnability to their countries of residence or citizenship; (b) are of clear criminal record and raise no security or criminal concerns to Hong Kong; and (c) have no likelihood of becoming a burden to Hong Kong.*

under the following eight Admission Schemes (Note 4) with the aid of a computer system, namely the Application and Investigation Easy System (APPLIES — see para. 5.2):

Admission Schemes for talent, professionals and non-local graduates

- (a) ***General Employment Policy (GEP) Employment Stream.*** The Government has for many years admitted overseas, Taiwan and Macao professionals who possess special skills, knowledge or experience of value to and not readily available in Hong Kong under the GEP Employment Stream. Applicants must have a confirmed offer of employment, and the remuneration package of which must be broadly commensurate with the prevailing market rate of Hong Kong. From January 2006 to December 2015, some 273,100 applications had been approved under the GEP Employment Stream;
- (b) ***Admission Scheme for Mainland Talents and Professionals (ASMTP).*** The ASMTP was introduced in July 2003 with assessment criteria in line with those under the GEP Employment Stream. The objective was to attract qualified Mainland talent and professionals to work in Hong Kong in order to meet local manpower needs and enhance Hong Kong's competitiveness in the global market. From inception of the Scheme to December 2015, some 83,700 applications had been approved;
- (c) ***Quality Migrant Admission Scheme (QMAS).*** The QMAS was introduced in June 2006 for highly skilled or talented persons from the Mainland and overseas to settle in Hong Kong in order to enhance Hong Kong's economic competitiveness in the global market. The QMAS is a quota-based scheme (1,000 persons per year) operated under a points-based system, which includes the Achievement-based Points Test (APT) for individuals with exceptional talents or skills, and who have outstanding achievements (e.g. Olympic Games medallists and Nobel Prize winners) and the General Points Test (GPT) for other skilled and talented persons. The ImmD may seek advice from the Advisory

Note 4: *For the purpose of classifying the Admission Schemes by types, the Employment Stream (para. 1.6(a)) and the Investment Stream (para. 1.6(e)) of the General Employment Policy are treated as two separate Admission Schemes in this Audit Report.*

Introduction

Committee on Admission of Quality Migrants and Professionals (Note 5) on the assessment, point-scoring and quota allocation under the Scheme. Successful applicants are not required to secure an offer of local employment before taking up residence in Hong Kong. From inception of the Scheme to December 2015, some 3,000 applications had been approved;

- (d) ***Immigration Arrangements for Non-local Graduates (IANG).*** The IANG was launched in May 2008 to complement the policy initiative “Developing Hong Kong as a Regional Education Hub” (Note 6) endorsed by the Chief Executive of the Hong Kong Special Administrative Region in October 2007. It aims to attract non-local graduates (i.e. who have obtained a degree or higher qualification in a full-time and locally-accredited local programme in Hong Kong) to stay/return and work in Hong Kong so as to strengthen its human resources and competitiveness, and enhance its attractiveness to non-local students. Successful applicants may be granted 12 months’ stay on time limitation without other conditions of stay. They are free to take up and change employment during their permitted stay without the need to seek prior approval from the ImmD. From inception of the Scheme to December 2015, some 51,500 non-local graduates had been approved to stay/return and work in Hong Kong;

Admission Schemes for investors

- (e) ***GEP Investment Stream.*** Apart from the Employment Stream (see para. (a)), the GEP has an Investment Stream to admit overseas, Taiwan and Macao investors who wish to set up or join in a business in Hong Kong, and are in a position to make substantial contributions to the

Note 5: *The Advisory Committee, chaired by a non-official chairperson and comprises three government officials (one representative each from the Labour and Welfare Bureau, the Security Bureau and the Labour Department) and 18 non-official members. The Committee considers the socio-economic needs of Hong Kong and other relevant factors for making recommendations on the allocation of available quota in each selection exercise.*

Note 6: *The education hub policy aims to attract quality non-local students to study in Hong Kong, internationalise the local higher education sector and increase the exposure of local students. The measure helps address the manpower needs of Hong Kong and enhance its overall competitiveness.*

economy. In addition to the amount of investment, they have to satisfy the ImmD on matters such as the nature of business to be established, number of jobs to be created for local people, and economic benefits to be brought to Hong Kong. From January 2006 to December 2015, some 3,300 applications had been approved under the GEP Investment Stream;

- (f) ***Capital Investment Entrant Scheme (CIES)***. The CIES was implemented in October 2003 to facilitate the entry for residence by persons (Note 7) who would make capital investment in permissible investment assets (Note 8) in Hong Kong but would not be engaged in the running of business. The investment threshold was originally set at \$6.5 million but was subsequently raised to \$10 million in October 2010. From inception of the Scheme to December 2015, some 28,200 applications with capital investment of some \$244 billion had been approved. In view of the economic situation in Hong Kong, the Government considered that attracting capital investment entrants would no longer be a priority and decided to suspend the CIES with effect from 15 January 2015 (Note 9);

Admission Schemes for importing FDHs and workers

- (g) ***Admission Scheme for FDHs***. Since early 1970s, the Government has allowed admission of FDHs to Hong Kong in order to meet the acute shortage of local live-in domestic helpers. With employment terms (Note 10) set out in the two-year Standard Employment Contract, FDHs

Note 7: *In this context, persons refer to foreign nationals (except nationals of Afghanistan, Cuba and the Democratic People's Republic of Korea), Macao residents, Chinese nationals who have obtained permanent resident status in a foreign country, stateless persons who have obtained permanent resident status in a foreign country with proven re-entry facilities and Taiwan residents.*

Note 8: *Permissible investment assets originally included real estate and financial assets (such as equities, debt securities and certificates of deposits). Since October 2010, real estate has been suspended as permissible investment asset.*

Note 9: *The suspension does not affect applications received before the suspension date.*

Note 10: *The employment terms include a mandatory wage level not lower than prevailing Minimum Allowable Wage, free accommodation and return passage to and from the place of origin on expiry of the two-year contract or on contract termination.*

Introduction

may perform full-time and live-in domestic duties such as household cleaning and taking care of the elderly and children. From 2006 to 2015, 909,861 FDHs had been admitted under the Scheme. As at December 2015, there were some 340,000 FDHs working in Hong Kong; and

- (h) ***Supplementary Labour Scheme (SLS)***. The SLS was introduced in 1996 to allow employers with genuine difficulties in finding suitable staff locally to import workers at technician level or below. The SLS is administered by the Labour Department. Members of the Labour Advisory Board (Note 11) are invited to give views on the applications to the Commissioner for Labour. There are no overall or industry-specific quotas under the SLS and all applications are considered on a case-by-case basis. After approval-in-principle is granted by the Labour Department, employers will arrange submission of visa/entry permit applications for their prospective imported workers to the ImmD for processing and issuing visas/entry permits. Imported workers are required to return to their places of origin on completion of their employment contracts. From January 2006 to December 2015, some 18,500 workers (mainly for the community, social and personal services industry, the agriculture and fishing industry, and the construction industry) had been admitted under the SLS.

1.7 Under the Immigration Ordinance, a person who is lawfully and continuously an ordinary resident in Hong Kong for seven years may apply for permanent residence. Furthermore, persons admitted under the Admission Schemes for talent, professionals, non-local graduates and investors may bring in their spouses and unmarried children below the age of 18 to Hong Kong. However, the Ordinance provides that FDHs or imported workers should not be treated as ordinary residents and therefore they cannot apply for right of abode in Hong Kong. Besides, they cannot bring in their dependants (see Appendix B). The number of approved applications under the Admission Schemes from 2011 to 2015 is shown in Table 1.

Note 11: *The Labour Advisory Board, chaired by the Commissioner for Labour, is a non-statutory body responsible for advising the Commissioner on labour matters. It has 12 unofficial members (6 representing employers and 6 others representing employees).*

Table 1
Number of approved applications under the Admission Schemes
(2011 to 2015)

Admission Scheme	Number of approved applications					Percentage increase/ (decrease) from 2011 to 2015
	2011	2012	2013	2014	2015	
Admission Scheme for talent, professionals and non-local graduates						
GEP Employment Stream	30,064	28,150	28,070	31,461	34,198	14%
ASMTF	8,088	8,105	8,017	9,313	9,229	14%
QMAS	292	251	298	338	240	(18%)
IANG	5,258	6,756	8,704	10,375	10,269	95%
Admission Scheme for investors						
GEP Investment Stream	493	475	310	215	205	(58%)
CIES	4,187	3,804	3,734	4,855	2,739	(35%)
Admission Scheme for importing FDHs and workers						
FDH	101,505	102,581	95,057	95,060	97,936	(4%)
SLS	1,602	2,159	2,582	2,543	3,852	140%
Others						
Dependant	28,363	27,063	27,593	30,227	26,412	(7%)
Overall	179,852	179,344	174,365	184,387	185,080	3%

Source: ImmD records

Remarks: The approved applications did not include extension-of-stay applications.

Introduction

Recent developments

1.8 In January 2015, the Chief Secretary for Administration's Office issued a Report on Population Policy Strategies and Initiatives (hereinafter referred to as the 2015 Population Policy Report) setting out the strategies and initiatives put forward by the Steering Committee on Population Policy (SCPP — Note 12). According to the Report, one-third of the Hong Kong's population in 2041 will be 65 years old or above and the ageing population will lower the labour force participation rate (the proportion of the labour force within the total population aged 15 or above) from 59.4% in 2013 to 49.5% in 2041. To address population ageing and anticipated decline in labour force, the Chief Executive, in his Policy Address of January 2015, announced adopting the SCPP's proposed five-pronged strategy, one of which was "adopting a more proactive and targeted approach to attract more outside talent to work and settle in Hong Kong" (Note 13), by taking the following enhancement measures:

- (a) implement a pilot scheme to attract the second generation of Chinese Hong Kong permanent residents who have emigrated overseas to return to Hong Kong;
- (b) encourage talent and entrepreneurs to come and stay in Hong Kong by relaxing the stay arrangements under the GEP, the ASMTP and the QMAS;
- (c) adjust the QMAS (see para. 1.6(c)) scoring points to attract quality migrants with an outstanding educational background or international work experience to come to Hong Kong;

Note 12: *The SCPP, chaired by the Chief Secretary for Administration and comprised both official and non-official members, was reconstituted in December 2012. Between October 2013 and February 2014, a public engagement exercise was conducted to seek public views on strategies and measures to address the demographic challenges.*

Note 13: *The other four strategies were: (a) unleashing the potential of local labour force; (b) nurturing local manpower; (c) fostering a supportive environment for forming and raising families; and (d) promoting active ageing.*

- (d) list clearly the factors to be considered when processing applications to enter Hong Kong for investment under the GEP to attract more entrepreneurs from overseas to develop their business in Hong Kong, and suspend the CIES (see para. 1.6(f)); and
- (e) study, with regard to overseas experience, the feasibility of drawing up a talent list to attract, in a more effective and focused manner, high-quality talent to support Hong Kong's development as a diversified and high value-added economy.

1.9 Following the 2015 Policy Address:

- (a) the Admission Scheme for the Second Generation of Chinese Hong Kong Permanent Residents (ASSG) was introduced in May 2015 as a pilot scheme to attract the second generation of Chinese Hong Kong permanent residents, aged 18 to 40, from overseas to return to Hong Kong. Applicants must have a good educational background and are not required to have secured an employment offer before entry. As at December 2015, the ImmD had received 211 applications and approved 108 under the ASSG (Note 14);
- (b) the initial duration of stay of successful applicants under the GEP and the ASMTP on employment condition and QMAS entrants under the GPT has been relaxed from one year to two years (or in accordance with the duration of the employment contract for GEP and ASMTP applicants, whichever is shorter). The extension of stay pattern for all entrants under the GEP, the ASMTP and the QMAS (GPT) will also be relaxed from 2+2+3 years to 3+3 years (or in accordance with the duration of employment contract for GEP and ASMTP applicants, whichever is shorter). Top-tier GEP, ASMTP and QMAS entrants (Note 15) may be

Note 14: *This audit review does not cover the ASSG as it is a pilot scheme newly introduced in May 2015.*

Note 15: *This refers to GEP and ASMTP entrants who have been permitted to take up employment as professionals for not less than two years and have an assessable income of not less than \$2 million in the previous year of salaries tax assessment, and QMAS entrants who have the same threshold of assessable income.*

Introduction

granted a 6-year extension of stay. Furthermore, QMAS entrants under the APT may be granted a stay of eight years upon entry instead of the previous pattern of 1+2+2+3;

- (c) the consideration factors of the GEP Investment Stream have been specified to include business plan, business turnover, financial resources, investment sum, number of jobs created locally and introduction of new technology or skills. Furthermore, the ImmD may favourably consider an application from an applicant who wishes to establish or join a start-up business supported by a government-backed programme; and
- (d) to facilitate the entry of talent with an outstanding academic background and those with international work experience, with effect from May 2015, an additional 30 points under the GPT of the QMAS will be awarded to graduates of renowned institutions recognised internationally and an additional 15 points to applicants with not less than two years of graduate or specialist level international work experience.

1.10 In his Policy Address of January 2016, the Chief Executive further said that the Government proposed to make greater efforts to attract talent and planned to set up a dedicated platform to provide employment information for the second generation of Hong Kong migrants, Hong Kong students educated in overseas tertiary institutions and overseas professionals.

Organisation of the ImmD

1.11 The Visa and Policies Branch of the ImmD, headed by an Assistant Director of Immigration, is responsible for formulating, reviewing and implementing policies in respect of visas/permits and extension of stay. The Branch has two divisions, each headed by a Principal Immigration Officer (see organisation chart at Appendix C), namely:

- (a) ***Visa Control (Policies) Division.*** The Division formulates and reviews policy and assessment procedures on visa matters and handles petitions/appeals/judicial reviews relating to the Certificate of Entitlement Scheme and visa control matters; and

- (b) *Visa Control (Operations) Division.* The Division processes applications for entry into Hong Kong for visit, employment, investment, training, residence and study, applications for extension of stay from visitors and temporary residents, and applications for Certificate of Entitlement to the right of abode in Hong Kong.

As at 31 December 2015, the Visa and Policies Branch had a strength of 538 staff, comprising 396 disciplined staff and 142 civilian staff.

Audit review

1.12 In October 2015, the Audit Commission (Audit) commenced a review to examine the ImmD's work on the administration of the eight Admission Schemes mentioned in paragraph 1.6(a) to (h), focusing on:

- (a) Admission Schemes for talent, professionals and non-local graduates (PART 2);
- (b) Admission Schemes for investors (PART 3);
- (c) Admission Scheme for FDHs (PART 4);
- (d) other administrative issues (PART 5); and
- (e) way forward (PART 6).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Introduction

General response from the Government

1.13 The Secretary for Security welcomes and the Director of Immigration agrees with the audit recommendations. The Secretary has said that the Security Bureau will monitor the progress of the ImmD's work closely to ensure that the audit recommendations are implemented as far as possible.

Acknowledgement

1.14 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the ImmD during the course of the audit review.

PART 2: ADMISSION SCHEMES FOR TALENT, PROFESSIONALS AND NON-LOCAL GRADUATES

2.1 This PART examines the admission of talent, professionals and non-local graduates, focusing on:

- (a) administration of GEP Employment Stream and ASMTP (paras. 2.2 to 2.19);
- (b) administration of QMAS (paras. 2.20 to 2.30); and
- (c) administration of IANG (paras. 2.31 to 2.41).

Administration of GEP Employment Stream and ASMTP

2.2 The objective of the GEP Employment Stream and the ASMTP is to attract qualified talent and professionals to work in Hong Kong in order to meet local manpower needs and enhance Hong Kong's competitiveness in the global market. Applicants should possess special skills, knowledge or experience of value to and not readily available in Hong Kong (Note 16). The schemes are quota-free and non-sector specific. The Employment and Visit Visas Section (EVV Section) of the Visa Control (Operations) Division is responsible for processing entry applications under the GEP and the Extension Section of the Division for extension-of-stay and change-of-employment applications. As at December 2015, 38 staff in the EVV Section and 26 staff in the Extension Section were deployed to administer the GEP among other duties. For the ASMTP, the Quality Migrants and Mainland Residents Section (QMMR Section) of the Division is responsible for processing entry, extension-of-stay and change-of-employment applications. As at December 2015, 21 staff in the QMMR Section were deployed to administer the ASMTP.

Note 16: *Both the GEP Employment Stream and Investment Stream are not applicable to nationals of Afghanistan, Cambodia, Cuba, the Democratic People's Republic of Korea, Laos, Nepal and Vietnam, and Chinese residents of the Mainland.*

Admission Schemes for talent, professionals and non-local graduates

2.3 Apart from the normal immigration requirements (see Note 3 to para. 1.6), an application may be favourably considered if:

- (a) the applicant has a good education background, normally a first degree in the relevant field, but in special circumstances, good technical qualifications, proven professional abilities and/or relevant experience;
- (b) there is a genuine job vacancy;
- (c) the applicant has a confirmed employment offer and is employed in a job relevant to his academic qualifications or work experience that cannot be readily taken up by the local work force; and
- (d) the remuneration package (including income, accommodation, medical and other fringe benefits) is broadly commensurate with the prevailing market level for professionals in Hong Kong.

An analysis of the applications received and processed under the GEP Employment Stream and the ASMTP from 2011 to 2015 is shown in Table 2.

Admission Schemes for talent, professionals and non-local graduates

Table 2

**Analysis of applications under GEP Employment Stream and ASMTP
(2011 to 2015)**

Application	Number of applications					Percentage increase/ (decrease) from 2011 to 2015
	2011	2012	2013	2014	2015	
GEP Employment Stream						
Received	32,491	30,769	31,416	34,664	36,052	11 %
Approved	30,064	28,150	28,070	31,461	34,198	14 %
Rejected	857	1,402	1,764	1,821	922	8 %
Case closed (Note)	1,094	1,119	1,311	1,439	1,064	(3 %)
Processed	32,015	30,671	31,145	34,721	36,184	13 %
ASMTP						
Received	9,591	10,461	10,185	10,983	11,034	15 %
Approved	8,088	8,105	8,017	9,313	9,229	14 %
Rejected	209	896	1,230	831	711	240 %
Case closed (Note)	963	1,303	981	819	921	(4 %)
Processed	9,260	10,304	10,228	10,963	10,861	17 %

Source: ImmD records

Note: A case would be closed when the applicant withdrew his application or when the application could not be processed (e.g. due to failure to provide required information).

Remarks: The average approval rates (i.e. applications approved ÷ (applications processed – cases closed) × 100%) from 2011 to 2015 were 95.7% and 91.7% for the GEP Employment Stream and the ASMTP respectively.

Need to monitor GEP and ASMTP applications with long processing time

2.4 According to the ImmD Guidebook to applicants, it normally takes four weeks to process visa/entry permit applications for employment upon receipt of all required documents. The ImmD set the targets for processing entry visas and permits for employment and for processing entry permits under the ASMTP “within four weeks (upon receipt of all supporting documents) for 90% of the applications” in the COR. For the purpose of reporting the achievement of the processing time targets, the period between the time of receipt of applications and that of all supporting documents would not be counted. The targets were achieved from 2011 to 2015 for 96.1% to 98.9% of the applications. Audit noted that for applications without all supporting documents available at the time of submission, the actual processing time counting from the receipt of applications could, in some cases, take more than four weeks. Audit analysis of the actual processing time of approved applications from the receipt of the applications from January 2014 to September 2015 (Note 17) revealed that:

- (a) for the GEP, 665 (1% of 53,694 approved applications) had taken more than 90 days to process (averaging 122 days); and
- (b) for the ASMTP, 1,055 applications (7% of 15,663 approved applications) had taken more than 90 days to process (averaging 130 days).

2.5 Audit’s sample check of 30 approved GEP and ASMTP cases with processing time longer than 90 days revealed that in 13 (43%) cases, there were delays on the part of the ImmD in requesting additional supporting documents. For example, in one case, the case officer requested additional information (such as details of the job duties) from the sponsoring company (i.e. the employer) on 24 April 2014 (about one month after receipt of the application on 21 March 2014). While not all of the requested information was received on 22 May 2014, the case officer only requested the outstanding and further information on 29 October 2014 (i.e. 5 months later). The reply was received on 11 November 2014 and the application was approved on 27 November 2014. In Audit’s view, there is a need to monitor GEP and ASMTP applications with long processing time to ensure the timely admission of talent and professionals to meet local manpower needs.

Note 17: *The analysis covered applications received from January 2014 to September 2015 which were approved from January 2014 to December 2015.*

***Need to provide more guidelines
on the assessment of local availability and remuneration***

2.6 As reflected in Table 2, the average approval rates for the GEP Employment Stream and the ASMTTP during 2011 to 2015 were 95.7% and 91.7% respectively. The number of applications processed also increased by 13% from 32,015 in 2011 to 36,184 in 2015 for the GEP Employment Stream and by 17% from 9,260 in 2011 to 10,861 in 2015 for the ASMTTP. According to the ImmD, in processing the GEP and ASMTTP applications, the case officers should consider availability of local employees and market level of remuneration to ascertain whether the applicants meet the criteria stated in paragraph 2.3(c) and (d). Audit's examination of approved GEP and ASMTTP cases revealed room for enhancement in the assessment of local availability and remuneration:

- (a) ***Local availability.*** The common application form used for the GEP and the ASMTTP requires a sponsoring company to provide justifications for employing an applicant and the reasons why the post cannot be filled by the locals. According to the ImmD's departmental guidelines, supporting documents for proof of local recruitment will normally be exempted but the Sections responsible for processing applications would issue operational instructions as appropriate. Audit noted that:
 - (i) the QMMR Section's ASMTTP guidelines specified that the sponsoring companies should be required to provide a declaration that genuine local recruitment efforts had been made but without success and such proof would be sought if necessary. However, Audit's sample check of 20 approved ASMTTP applications (for which the required information was not available) revealed that in seven cases, the case officers concerned had not requested proofs of local recruitment. There was no documentation on the reasons why the declaration or relevant proof was not obtained; and
 - (ii) the GEP guidelines issued by the EVV Section did not contain the same declaration or proof of local recruitment requirement as the ASMTTP guidelines. As the eligibility criteria for both the GEP and the ASMTTP schemes are the same, Audit considers that the ImmD should issue guidelines to ensure that the assessments of local availability for GEP applications are carried out in a manner consistent with that of ASMTTP applications; and

Admission Schemes for talent, professionals and non-local graduates

(b) **Remuneration.** According to the ImmD, case officers would make reference to information including the salary statistics reports prepared by the Census and Statistics Department (C&SD), salary survey reports published by two specified employment websites and information provided by relevant professional bodies in considering market level of remuneration. However, such practices were not laid down in the ImmD's guidelines. Audit reviewed 51 approved cases for the Information Technology Manager position and 217 approved cases for the Accounting/Finance Manager position during 2010 to 2015 (up to September) and noted that the monthly remunerations of some applicants were below the average/median monthly salaries published by the information sources mentioned by the ImmD. However, the case officers concerned had not documented the basis of accepting the remunerations as commensurate with the market level for such cases. Details are as follows:

- (i) according to the C&SD, the average monthly salaries of Information Technology Managers during 2010 to 2015 ranged from \$35,100 to \$60,700. According to one of the ImmD's specified employment websites, the average monthly salaries during the same period ranged from \$34,518 to \$43,766. According to another employment website specified by the ImmD, as at February 2016, the median monthly salary of Information Technology Managers for the period from March 2015 to February 2016 was \$41,282. However, 13 (25%) of 51 Information Technology Manager positions approved had monthly remunerations of below \$30,000 (averaging \$22,808). No notations were made for the 13 cases on how the case officers had satisfied themselves that the remunerations of the applicants were commensurate with the market level;
- (ii) according to the C&SD, the average monthly salaries of Accounting/Finance Managers during 2010 to 2015 ranged from \$40,500 to \$71,900. According to one of the ImmD's specified employment websites, the average monthly salaries during the same period ranged from \$34,861 to \$44,261. According to another employment website specified by the ImmD, as at February 2016, the median monthly salary of Accounting Managers for the period from March 2015 to February 2016 was \$35,731. For Finance Managers, the median monthly salary

Admission Schemes for talent, professionals and non-local graduates

during the same period was \$47,772. However, 56 (26%) of the 217 Accounting/Finance Manager positions approved had monthly remunerations of below \$30,000 (averaging \$22,322). No notations were made for the 56 cases on how the case officers had satisfied themselves that the remunerations of the applicants were commensurate with the market level; and

- (iii) according to the ImmD, in all 69 (13 plus 56) cases, the case officers concerned had considered that the applicants' remunerations were commensurate with the market level but the basis used in the assessments had not been documented.

2.7 In Audit's view, the ImmD needs to issue guidelines setting out clearly the required procedures for considering availability of local employees and market level of remuneration to ensure that the Admission Schemes' criteria are applied consistently to all applications. The ImmD also needs to tighten control to ensure that the laid-down guidelines on considering availability of local employees in processing ASMTP applications are complied with at all times.

Need to improve the random check arrangements in verifying applicants' qualifications

2.8 The GEP and ASMTP applicants are only required to submit photocopies of their academic/professional qualifications and employment offers to support their entry applications. According to ASMTP guidelines, in warranted cases (Note 18), the applicants are required to apply for verification of their qualifications at the China Academic Degrees and Graduate Education Development Centre (Note 19)

Note 18: *These include cases where the issuing institutes of the academic certificates are not found in the education institute list provided by the Education Bureau or cannot be verified by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, or the authenticity of the academic certificates is in doubt.*

Note 19: *The Centre is an administrative department directly under the Ministry of Education of the Mainland. One of its functions is to engage in the researches into the degree equivalency between China and foreign countries, and between Mainland and Hong Kong, Macao and Taiwan.*

Admission Schemes for talent, professionals and non-local graduates

and arrange for the verification results to be sent to the ImmD directly. Regarding the authenticity of documents from the other professionals such as cooks, the applicant may be required to apply to the relevant Notary offices for confirmation.

2.9 Audit's examination of the arrangements in verifying the GEP and ASMTP applicants' qualifications revealed the following issues:

- (a) according to ASMTP guidelines, the case officers of the QMMR Section should verify the applicants' qualification documents and supervisors should randomly select 5% of the potential approval cases for performing the same verification procedures. In January 2016, Audit requested the QMMR Section to provide evidence of the supervisors' random checks for review. In response, the QMMR Section said in February and March 2016 that case officers had conducted verification on the applicants' qualifications in warranted cases with the documentation received scanned and the applications checked and endorsed by supervisors in the computer system. However, records of the 5% random checks had not been maintained; and
- (b) as for the GEP Scheme, Audit noted that the EVV Section had not issued specific guidelines on verification of applicants' qualifications and there was no similar requirement on random checks as that of the ASMTP. In response to Audit's enquiry, the EVV Section said in February 2016 that as a general and normal practice, case officers would require clarification and verification of documents in case of doubt.

In Audit's view, the ImmD needs to improve the random check arrangements in verifying applicants' qualification documents for both GEP and ASMTP applications.

Need to tighten control over approval on limit of stay

2.10 ***Returnability requirement not met.*** According to the ImmD's guidelines, to ensure returnability of an applicant to his country of residence or citizenship, the limit of stay granted is subject to validity of the applicant's travel document. The limit of stay will only be approved up to 7 days before the expiry date of the travel

Admission Schemes for talent, professionals and non-local graduates

document for GEP entry cases (Note 20). An extension of stay will not normally be granted beyond one month before the expiry date of the applicant's travel document for all GEP cases. For ASMTP cases, the extension of stay will not be normally granted beyond one month (before 17 March 2014) and 7 days (since 17 March 2014) before the expiry date of the applicant's travel document. Audit analysed the ImmD's computer records of the GEP cases and the ASMTP extension-of-stay cases (see Note 20) from 2010 to 2015 (up to September) and found that the approved limit of stay of 10,449 approved cases appeared to have exceeded the stipulated requirements, accounting for about 3% of some 354,000 cases analysed (Note 21).

2.11 Audit selected 90 such approved cases for further examination and noted the following:

- (a) 54 (60%) cases were related to the case officers' oversight of the expiry dates of the travel documents; and
- (b) the remaining 36 (40%) cases involved incorrect data recorded in the computer system. For example, in some cases, although new travel documents were subsequently provided by the applicants, the ImmD had not updated the computer records or the data were not correctly input into the system. According to the ImmD, as the expiry date of travel document was not a mandatory data input field, the data captured in the system might not be up-to-date.

In Audit's view, the ImmD needs to remind its case officers to ensure that the returnability requirement is met in granting approval on limit of stay. The ImmD also needs to take measures to ensure that data maintained in the computer system are accurate and up-to-date.

Note 20: *The immigration requirement for ASMTP applicants is different. After an ASMTP application is approved, the applicant should apply for an Exit-entry Permit for Travelling to and from Hong Kong and Macao and an exit endorsement from the Public Security Bureau Office. As the documents are not available at the time of application, the returnability test will be carried out by ImmD staff at the control point when the applicant arrives in Hong Kong.*

Note 21: *Audit's analysis excluded applications without records of travel document expiry date in the computer system.*

Admission Schemes for talent, professionals and non-local graduates

2.12 *Limit of stay granted beyond contract period.* According to ImmD guidelines, the initial duration of stay of successful non-top-tier applicants under the GEP and the ASMTP is two years and the extension of stay pattern for them is 3+3 years or in accordance with the duration of the employment contract, whichever is shorter. Audit's sample check of 30 applications approved from 2010 to 2015 revealed that in four cases (Note 22), the limit of stay granted exceeded the contract periods by 101 to 456 days (averaging 277 days). The ImmD needs to remind its case officers to strictly follow the laid-down guidelines in approving limit of stay.

Need to tighten checking of applications for intra-company transfer

2.13 According to ImmD guidelines, an employee at managerial or professional level is allowed to enter Hong Kong for intra-company transfer provided that he has worked with the company for not less than one year. In addition to the requirement that the remuneration provided should be at market level, the number of transferees sponsored by a company at any one time should also be reasonable. In this regard, the company is required to state in the application form the number of local and expatriate staff employed.

2.14 From 2010 to 2015 (up to September), there were 51,543 and 8,326 applications approved through intra-company transfer under the GEP and the ASMTP. Audit's sample check of 30 applications approved during the period suggested that there were inadequacies in the ImmD's vetting process, as follows:

- (a) in 11 (37%) approved GEP cases, the sponsoring companies had not provided the number of local and non-local staff in the application forms or only provided incomplete (e.g. only the number of local staff was provided) or outdated information. There was no evidence to show that

Note 22: *These involved an entry application and a change-of-employment application for the GEP, and two change-of-employment applications for the ASMTP.*

Admission Schemes for talent, professionals and non-local graduates

the ImmD had requested the relevant information from the companies concerned and assessed the reasonableness of the local and expatriate staff mix (Note 23); and

- (b) in 10 (33%) approved GEP cases, the applicants had worked for the companies for less than one year (averaging 4 months) but the ImmD still approved the applications.

The ImmD needs to remind case officers to strictly follow the laid-down guidelines in checking applications for intra-company transfer.

Need to ensure compliance with requirement on special conditions of stay of foreign cooks

2.15 It is the ImmD's policy to tighten control of the conditions of stay of foreign cooks employed by local restaurants under the GEP. According to the guidelines, special conditions of stay should be imposed on foreign cooks by the Section Head (Chief Immigration Officer), namely:

- (a) they should work for a specific employer and that change of employer is not permitted; and
- (b) they should stay in Hong Kong until the end of their limit of stay or two weeks after termination of employment contract, whichever is earlier.

2.16 Audit's sample check of 20 GEP applications approved during 2010 to 2015 involving foreign cooks revealed that in 7 (35%) cases, the special conditions of stay for foreign cooks were not imposed. Audit also noted that the special conditions of stay for foreign cooks were not applied to cooks under the ASMTP.

Note 23: *According to the EVV Section, in 7 cases, although the relevant information had not been provided by the sponsoring company in the GEP application forms, the case officers had made reference to other application forms submitted by the same company under the ASMTP and for training visas in assessing the GEP applications.*

Admission Schemes for talent, professionals and non-local graduates

2.17 Apart from foreign cooks, there were no laid-down guidelines on whether special conditions should also apply to other types of catering professionals. Audit noted that there were inconsistencies in imposing special conditions of stay by case officers. For example, special conditions of stay were imposed in some cases on bakers, chef trainers and mixologists but not others. In Audit's view, the ImmD needs to review the consistency of the practices of imposing special conditions of stay on cooks and catering professionals.

Audit recommendations

2.18 **Audit has recommended that the Director of Immigration should, in administering the GEP and the ASMTP:**

- (a) monitor GEP and ASMTP applications with long processing time to ensure that case officers take prompt actions on requesting and following up additional information from applicants;**

- (b) issue guidelines to set out clearly the required procedures for:**
 - (i) considering availability of local employees in processing GEP applications in line with those for ASMTP applications;**

 - (ii) considering market level of remuneration in processing both GEP and ASMTP applications; and**

 - (iii) documenting the justifications in cases where the laid-down guidelines cannot be followed,**

and take measures to ensure relevant staff's compliance with the laid-down guidelines;

Admission Schemes for talent, professionals and non-local graduates

- (c) **improve the random check arrangements in verifying applicants' qualification documents for GEP and ASMTP applications;**
- (d) **remind case officers to:**
 - (i) **ensure that the returnability requirement is met in approving the limit of stay;**
 - (ii) **strictly follow the laid-down guidelines in approving limit of stay in accordance with duration of the employment contracts where applicable;**
 - (iii) **strictly follow the laid-down guidelines in checking applications for intra-company transfer; and**
 - (iv) **ensure that special conditions of stay for foreign cooks under the GEP are imposed in accordance with the ImmD's policy;**
- (e) **take measures to ensure that the data maintained in the computer system for processing GEP/ASMTP applications are accurate and up-to-date; and**
- (f) **review the consistency of the practices of imposing special conditions of stay on cooks and professionals in the catering industry.**

Response from the Government

2.19 The Director of Immigration agrees with the audit recommendations. He has said that the ImmD:

- (a) has stepped up monitoring of cases with prolonged processing time. Case officers have been reminded to adhere to the laid-down guidelines in processing the GEP and the ASMTP applications; and

Admission Schemes for talent, professionals and non-local graduates

- (b) will conduct reviews on:
- (i) the alignment of the assessment procedures for local availability as well as remuneration in processing both the GEP and the ASMTTP applications; and
 - (ii) the imposition of special conditions of stay on cooks and professionals in the catering industry,

and take appropriate follow-up measures based on the review results.

Administration of QMAS

2.20 The QMAS aims to attract highly skilled or talented persons to settle in Hong Kong (see para. 1.6(c)). The Scheme is promoted to interested persons through the Government's Economic and Trade Offices in overseas countries and in the Mainland, and the website of the ImmD. It is a quota-based scheme (currently 1,000 persons per year) operated on a points-based system. Since its inception in June 2006 to December 2015, 3,305 applicants (Note 24) were successfully allotted a quota (averaging 348 per year). Table 3 shows that from 2011 to 2015, while the number of annual applications received had increased by 9% from 1,674 to 1,829, the number of annual applications approved dropped by 18% from 292 to 240.

Note 24: *Of the 3,305 quotas allotted, 3,042 quotas were allotted under the GPT and 263 quotas under the APT (see para. 2.22).*

Table 3

**Analysis of applications under QMAS
(2011 to 2015)**

Application	Number of applications					Percentage increase/ (decrease) from 2011 to 2015
	2011	2012	2013	2014	2015	
Received	1,674	1,965	1,787	2,341	1,829	9%
Approved	292	251	298	338	240	(18%)
Rejected	471	604	736	884	789	68%
Case closed (Note)	703	720	710	1,335	820	17%
Processed	1,466	1,575	1,744	2,557	1,849	26%

Source: ImmD records

Note: A case would be closed when the applicant withdrew his application or when the application could not be processed (e.g. due to failure to provide required information).

Remarks: The average approval rate (i.e. applications approved ÷ (applications processed – cases closed) × 100%) from 2011 to 2015 was 28.9%.

2.21 The QMMR Section is also responsible for administering the QMAS. As at December 2015, 19 staff in the QMMR Section were deployed to administer the QMAS.

Selection mechanism

2.22 A QMAS applicant meeting the normal immigration requirements (see Note 3 to para. 1.6) will be assessed by one of the two points-based tests (see para. 1.6(c)) according to his choice:

Admission Schemes for talent, professionals and non-local graduates

- (a) **GPT.** The GPT uses five point-scoring factors (i.e. age, academic/professional qualifications, work experience, language proficiency and family background — Note 25) to assess the points which an applicant can score. The prevailing pass point is 80 (Note 26) out of a possible 195 points; and
- (b) **APT.** Under the APT, an applicant can score either 0 or 195 points depending on whether he can meet the criteria for achievement (e.g. Olympic medal, Nobel Prize or lifetime achievement award from industry).

2.23 Each application attaining the pass point will be further assessed on its individual merits by one of the four Panels (Note 27) of the Advisory Committee on Admission of Quality Migrants and Professionals (the Committee — see Note 5 to para. 1.6(c)) for approval based on the following factors:

- (a) **Education.** The awarding institution is one that is representative of its field of study;
- (b) **International exposure.** The applicant has valuable international exposure that is regarded as a plus by his sector;

Note 25: *The maximum points for each factor are: age (30), academic/professional qualifications (70), work experience (55), language proficiency (20) and family background (20).*

Note 26: *The QMAS aims to cast the net wider for talent from places all over the world and expand the pool of candidates for selection. With a pass point set at 80, young talent with strong academic background (e.g. a doctorate degree) but with less work experience may also be selected.*

Note 27: *The four Panels, each comprises five to six members of different sectors, are responsible for assessing applications of their respective sectors, including: (a) manufacturing, architecture, surveying, engineering and construction, and information technology and telecommunications sectors; (b) financial and accounting services, legal services, logistics and transportation, and commerce and trade sectors; (c) broadcasting and entertainment, catering and tourism, arts and culture, and sports sectors; and (d) business support and human resources, academic research and education, human health and veterinary services and others sectors.*

Admission Schemes for talent, professionals and non-local graduates

- (c) *Language skills.* The applicant possesses language skills other than Chinese/English that are needed by his sector;
- (d) *Career track record/professional training.* The career track record and other professional training of the applicant are likely to bring contribution to Hong Kong; and
- (e) *Future plan.* The applicant has a concrete and feasible plan which is relevant to his past experience.

Applications that require further deliberation and review (Note 28) will be discussed at the Committee for making decisions. A successful applicant is required to attend an interview in which the authenticity of his documents is verified.

Need to document justifications for recommending or rejecting GPT applications

2.24 Audit examined the records of 55 GPT selection exercises conducted by the Committee (11 exercises) and its Panels (44 exercises) from January 2013 to September 2015. Audit found that:

- (a) the Committee recorded in the minutes of meetings details of the deliberations in the selection exercises and justifications for allotting or not allotting a quota to an applicant; and
- (b) the Panels used a standard pre-printed form called “comments sheet” to record their assessments on the applications in the selection exercises (i.e. by making a tick mark against the list of choices under the comments and justifications columns (Note 29)). General comments made in the selection exercises were also recorded in the minutes of meetings.

Note 28: *If an applicant possesses specific or unique profile (e.g. having a doctorate degree) but his application is not recommended by a Panel, the Committee will review his application.*

Note 29: *There are four choices under the comments column (viz. exceptional, highly recommended, recommended and marginal) and six choices under the justification columns (i.e. the five factors mentioned in para. 2.23 and others).*

Admission Schemes for talent, professionals and non-local graduates

2.25 Audit also found that in three selection exercises of some 750 GPT applications, the Panels had not provided any justifications for recommending eight applications and assessing two other applications as “marginal” either by checking against the appropriate boxes in the comments sheets or stating the justifications in the minutes of meetings.

2.26 In Audit’s view, proper documentation of the justifications for recommending or rejecting QMAS applications is important to support accountability and ensure consistency in assessing applications in future selection exercises. The ImmD needs to remind the Panels to record their justifications in this regard.

Need to incorporate a talent list for the QMAS

2.27 From 2011 to 2015, the number of rejected QMAS applications had increased by 68% from 471 in 2011 to 789 in 2015 (see Table 3 in para. 2.20). In response to Audit’s enquiry in February 2016, the ImmD said that the Committee would consider the socio-economic needs of Hong Kong, the sectoral mix of candidates and other relevant factors (see para. 2.23) before making recommendation to the Director of Immigration on allocating quota in each selection exercise.

2.28 Audit noted that from January 2010 to September 2015, 713 applicants had submitted applications for two to four times each (totalling 1,500 representing 14% of all 10,574 applications received in the period) but only 151 (21%) of them were successfully allocated a quota under the QMAS. The large number of repeat applications suggests that the applicants might be unclear about the targeted talent requirements. In pursuance of the Chief Executive 2015 Policy Address, the Labour and Welfare Bureau (LWB) is now considering the feasibility of drawing up a talent list to attract high quality talent to support Hong Kong’s development (see para. 1.8(e)). In Audit’s view, the ImmD needs to closely liaise with the LWB for incorporating the talent list into the QMAS once it is available so that prospective applicants are better informed before deciding whether they should submit an application.

Audit recommendations

- 2.29 **Audit has recommended that the Director of Immigration should:**
- (a) **remind the Panels of the QMAS to record their justifications for recommending or rejecting an application in the GPT selection exercise; and**
 - (b) **closely liaise with the LWB to incorporate the talent list into the QMAS once it is available so that prospective applicants are better informed before deciding whether they should submit an application.**

Response from the Government

2.30 The Director of Immigration agrees with the audit recommendations. He has said that the ImmD will follow up the audit recommendations in paragraph 2.29(a) and (b) with the Panels of the QMAS and the LWB respectively.

Administration of IANG

2.31 The IANG aims to attract foreign and Mainland students (Note 30) who have obtained a degree or higher qualification in a full-time and locally-accredited local programme to stay/return and work in Hong Kong so as to strengthen its human capital and enhance its attractiveness to non-local students (see para. 1.6(d)). A non-local fresh graduate who wishes to apply for the IANG needs to submit an application within six months after the date of his graduation. He is not required to have an offer of employment upon application. On the other hand, a non-local graduate who wishes to return to work in Hong Kong beyond six months after his graduation is required to secure an offer of employment upon application.

Note 30: *The IANG is not applicable to nationals of Afghanistan, Cambodia, Cuba, the Democratic People's Republic of Korea, Laos, Nepal and Vietnam.*

Admission Schemes for talent, professionals and non-local graduates

2.32 Upon approval of an IANG application, the applicant becomes an IANG entrant and he may normally be granted 12 months' stay. He is free to take up and change employment without the need to seek prior approval from the Director of Immigration. Upon application for extension of stay before expiry of his limit of stay, he is required to have secured an offer of employment as in the case of a returning graduate. Successful entrants will normally be permitted to stay in Hong Kong in a pattern of 2+2+3 years.

2.33 The QMMR Section is responsible for administering the IANG. As at December 2015, five staff in the Section were deployed to process the IANG applications (Note 31). As indicated in Table 4, from 2011 to 2015, the number of IANG approved applications had increased by 95% from 5,258 in 2011 to 10,269 in 2015 (i.e. an average increase of some 1,200 cases per year).

Note 31: *According to the ImmD, staff in the QMMR Section are flexibly deployed to cope with upsurges in workload among different units in the Section.*

Table 4

**Analysis of applications under IANG
(2011 to 2015)**

Application	Number of applications					Percentage increase from 2011 to 2015
	2011	2012	2013	2014	2015	
Received	5,313	6,803	8,750	10,444	10,337	95%
Approved	5,258	6,756	8,704	10,375	10,269	95%
Rejected	0	0	0	3	3	—
Case closed (Note)	33	35	35	64	59	79%
Processed	5,291	6,791	8,739	10,442	10,331	95%

Source: ImmD records

Note: A case would be closed when the applicant withdrew his application or when the application could not be processed (e.g. due to failure to provide required information).

Remarks: The average approval rate (i.e. application approved ÷ (applications processed – cases closed) × 100%) from 2011 to 2015 was 99.9%.

Need to verify authenticity of supporting documents

2.34 An IANG applicant/entrant is only required to submit photocopies of his academic/professional qualification and employment offer to support his entry application or extension-of-stay application. Unlike the QMAS (see para. 2.23), he is not required to attend any interview when the original copies of his supporting documents can be inspected. In response to Audit’s enquiry, the ImmD said in February 2016 that:

- (a) case officers would check the application history of IANG applicants in the APPLIES (see para. 1.6) to confirm their non-local student status; and

Admission Schemes for talent, professionals and non-local graduates

- (b) the case officers might request fresh graduates to provide original transcripts of academic records, graduation certificates or supporting letters from the degree awarding institutions if the cases warranted. For returning graduates, since it was impracticable to request them to submit original copies of their documents, the ImmD would check with the respective degree awarding institutions in case of doubt.

2.35 With the advances in information technologies (e.g. image processing technology), there is a risk that bogus documents may be used to support IANG applications. Audit research on similar schemes administered by overseas authorities reveals that the authenticity of supporting documents is verified by different means (e.g. applicants are required to provide an original endorsement letter from an education institution or to submit certified copies of original documents). In Audit's view, the ImmD needs to tighten the control over the verification of the authenticity of supporting documents submitted by IANG applicants (e.g. sample checking original documents or requesting confirmation from relevant education institutions).

Need to document factors considered in assessing IANG applicants' job qualification requirements

2.36 For an entry application (by a returning graduate) or an application for extension of stay (by a fresh/returning graduate), the IANG requires an applicant/entrant to secure an employment offer which is at a level commonly taken up by degree holders and the remuneration package is at market level. Audit analysed the computer records of the approved IANG cases by remuneration levels (for the period January 2010 to September 2015) and found that 442 of some 34,000 cases had monthly remunerations of \$9,000 or below. Audit randomly selected 30 of the 442 approved cases to examine:

- (a) the academic/professional requirements of the applicants' jobs as specified by the employers in the employment contracts/application forms; and
- (b) the comments made by the case officers for recommending or rejecting an application.

Admission Schemes for talent, professionals and non-local graduates

2.37 Audit's examination revealed that the case officers' written comments on the academic/professional qualification requirements of the applicants' jobs did not always tally with those specified by the employers. In 6 of the 30 approved cases selected for audit examination, while the application forms/employment contracts submitted by the employers specified that the jobs (e.g. account clerk) were open to certificate holders/Form 5 graduates or above, the case officers concerned noted down on file that the entry requirement was a bachelor degree and the job duties were highly professional and technical in nature.

2.38 Upon Audit's enquiry in February 2016, the ImmD said that in processing the applications, the case officers concerned had considered the following factors:

- (a) whether the applicants/entrants possessed the qualification/experience which suited the job requirements;
- (b) the employers' comments on the potential of the applicants/entrants; and
- (c) whether the remuneration packages offered were at market level.

However, there was no documentation that these factors had been considered by the case officers in the cases reviewed by Audit. Audit considers that the ImmD needs to remind case officers to document all the factors considered in assessing the applicants' job qualification requirements.

Need to establish a database of current market remuneration package

2.39 According to the ImmD, in processing IANG applications, the case officers needed to ascertain whether an IANG applicant/entrant could meet the criteria of securing an employment offer of degree level with remuneration at market level and would make reference to the latest graduate employment survey reports of local universities, the remuneration packages offered by reputable employers and recruitment advertisements in local media (e.g. newspapers and recruitment journals). In this connection, Audit notes that the ImmD has not established a database to maintain information on current market remuneration

Admission Schemes for talent, professionals and non-local graduates

package of young graduates employed in various industries to facilitate case officers' reference. To improve the efficiency and effectiveness of the assessment of IANG applications and subsequent reviews by supervisory staff, the ImmD needs to consider establishing such a database.

Audit recommendations

2.40 **Audit has *recommended* that the Director of Immigration should:**

- (a) **tighten control over the verification of the authenticity of supporting documents submitted by IANG applicants/entrants;**
- (b) **remind case officers to document all the factors considered in assessing IANG applicants' job qualification requirements; and**
- (c) **consider establishing a database of current market remuneration package of young graduates employed in various industries to facilitate case officers' assessment of IANG applications.**

Response from the Government

2.41 The Director of Immigration agrees with the audit recommendations. He has said that the ImmD:

- (a) has stepped up the verification of the authenticity of supporting documents submitted by IANG applicants/entrants;
- (b) has reminded case officers to document all factors considered in assessing IANG applications; and
- (c) will consider the feasibility of establishing a database as recommended in paragraph 2.40(c).

PART 3: ADMISSION SCHEMES FOR INVESTORS

3.1 This PART examines the admission of investors, focusing on:

- (a) administration of GEP Investment Stream (paras. 3.2 to 3.14); and
- (b) administration of CIES (paras. 3.15 to 3.25).

Administration of GEP Investment Stream

3.2 Overseas, Taiwan and Macao persons who wish to enter/stay in Hong Kong for investment as entrepreneurs (i.e. establishing or joining in a business in Hong Kong) shall apply for admission under the GEP Investment Stream (see para. 1.6(e)). The scheme is quota-free and non-sector specific. The EVV Section is responsible for processing entry applications and the Extension Section for extension-of-stay applications. An application may be favourably considered if, apart from meeting the same conditions under the GEP Employment Stream mentioned in paragraph 2.3(a), the applicant is in a position to make substantial contribution to the economy of Hong Kong.

3.3 Before the implementation of enhancement measures in May 2015 (see para. 1.9(c)), in assessing whether the applicant was in a position to make substantial contribution to the economy of Hong Kong, factors such as nature of business, mode of operations, financial and staffing situation of the company, and financial situation of the applicant were considered. Currently, other factors including business plan, business turnover, financial resources, investment sum, number of jobs created locally and introduction of new technology or skills are also considered.

3.4 Entrepreneurs admitted under the GEP Investment Stream will normally be granted an initial stay in Hong Kong for 24 months upon entry. They may apply for extension of stay within four weeks before their limit of stay expires. Extension of stay, if approved, will normally follow the 3+3 years pattern. An analysis of the applications received and processed under the GEP Investment Stream from 2011 to 2015 is shown in Table 5.

Table 5

**Analysis of applications under GEP Investment Stream
(2011 to 2015)**

Application	Number of applications					Percentage increase/ (decrease) from 2011 to 2015
	2011	2012	2013	2014	2015	
Received	702	718	793	581	368	(48%)
Approved	493	475	310	215	205	(58%)
Rejected	49	85	354	270	90	84%
Case closed (Note)	108	99	199	93	69	(36%)
Processed	650	659	863	578	364	(44%)

Source: ImmD records

Note: A case would be closed when the applicant withdrew his application or when the application could not be processed (e.g. due to failure to provide required information).

Remarks: The average approval rate (i.e. applications approved ÷ (applications processed – cases closed) × 100%) from 2011 to 2015 was 66.7%.

Need to improve the efficiency of processing applications

3.5 In the COR, the ImmD has reported the performance for processing visa/entry permit applications under the GEP Investment Stream together with that for the GEP Employment Stream against the same performance target of processing 90% of the applications within four weeks (upon receipt of all supporting documents — see para. 2.4). For the purpose of reporting the attainment of the processing time target, the period between the time of receipt of applications and that of all supporting documents would not be counted. Audit analysed the actual processing time for approved GEP Investment Stream applications from the receipt

of applications from January 2014 to September 2015 (Note 32) and found that 193 (58%) of the 330 approved applications had taken more than 90 days with an average processing time of 137 days.

3.6 Audit selected 15 cases with processing time exceeding 90 days for examination and found that:

- (a) in 14 cases, the case officers requested the following additional documents from the applicants to facilitate processing:
 - (i) in 13 (93%) cases, documents filed with the Companies Registry (e.g. latest annual returns or incorporation forms);
 - (ii) in 11 (79%) cases, tenancy agreements or supporting documents on office set-up; and
 - (iii) in 6 (43%) cases, licences or certificates of a particular type of business (e.g. financial institution licences issued by the Securities and Futures Commission).

While these documents were frequently requested by case officers, they were not included in the checklist of submission of documents in the relevant guidebook for applicants. To enhance processing efficiency, the ImmD needs to review the types of additional documents required for processing and include them in the checklist so that the applicants can submit such documents together with their applications at an early time; and

- (b) in 3 cases, upon receipt of additional documents from the applicants, the case officers took over 30 days (averaging 73 days) to make further information requests. In 5 cases, the time lapse between the receipt of all supporting documents and granting the approval was over 30 days (averaging 87 days). The ImmD needs to step up monitoring of the processing time of applications to ensure that prompt actions are taken in obtaining/following up any additional supporting documents from applicants.

Note 32: *The analysis covered applications received from January 2014 to September 2015 which were approved from January 2014 to December 2015.*

Admission Schemes for investors

Need to improve business reviews for extension-of-stay applications

3.7 The ImmD may approve an entry application on the condition that a business review will be carried out upon the subsequent extension-of-stay application in warranted cases (e.g. a newly established business). The review will cover aspects such as office set-up, local recruitment and business performance. For such a review, the ImmD will require the applicant to submit documents (such as tenancy agreements) to support his application. Of the 1,148 entry applications approved from January 2012 to September 2015, 157 (14%) were subject to business reviews.

3.8 Audit examined a sample of 15 business review cases handled by the Extension Section to identify areas where improvements can be made. Audit noted the following issues:

- (a) in four (27%) cases, while the applicants had not delivered the planned scale of operation (e.g. setting up offices/recruiting local staff) as stated in the entry applications, the case officers approved their extension-of-stay applications without imposing the requirement of further business reviews (see an example in Case 1); and

Case 1

1. The applicant stated in the entry application in November 2013 that he planned to employ 9 local staff each for setting up two retail shops and another 8 local staff for the wholesale business. The application was approved with a condition that a business review should be carried out.

2. The business review conducted in November 2014 revealed that only one retail shop had been opened with one local staff employed to operate the shop. However, the application for extension-of-stay was approved without requiring a further business review.

Source: Audit analysis of ImmD records

- (b) in two (13%) cases, there was room for enhancement in obtaining reliable supporting documents for business reviews (see an example in Case 2).

Case 2

1. When approving the entry application in September 2012, the case officer stated on file that Mandatory Provident Fund (MPF) contribution record for local staff employed should be examined in the business review.
2. While the applicant failed to provide MPF records for his local employees in three subsequent business reviews conducted in December 2013, September 2014 and October 2015, his extension-of-stay application in October 2015 was approved without requiring a further business review.
3. Upon Audit's enquiry, the ImmD said that the applicant had provided a staff list as a supporting document of employing local employees. However, the staff list was prepared by the applicant's company and could not provide the same level of assurance as MPF contribution records.

Source: Audit analysis of ImmD records

3.9 Business reviews are important to ascertain whether the entrants under the GEP Investment Stream have delivered the planned scale of operation as stated in the entry applications. In Audit's view, the ImmD needs to remind case officers to ascertain that the GEP entrepreneur entrants have done so (including obtaining reliable proof in warranted cases) before approving their extension-of-stay applications. For doubtful cases, the approval should be granted subject to further business reviews.

Need to obtain the stipulated supporting letters in processing extension-of-stay applications

3.10 Since May 2015, the ImmD has required a GEP entrepreneur applicant for extension of stay to submit a supporting letter indicating his contribution to Hong Kong. According to ImmD guidebook for applicants, the supporting letter

Admission Schemes for investors

should include information on the applicants' business, such as the amount of capital invested and to be invested in the coming three years, the number of posts created for local employees with post titles and those to be created in the coming three years. Audit examined a sample of 30 approved extension-of-stay cases (with applications submitted after May 2015) and found that the stipulated information on the applicants' contribution to the economy of Hong Kong was not always obtained by the case officers. Details are as follows:

- (a) in 15 (50%) applications, the applicants concerned provided information in accordance with the pre-May 2015 requirements (i.e. the office positions held by the applicants and remunerations received) instead of the stipulated supporting letters on their contribution to the economy of Hong Kong; and
- (b) in 9 (30%) applications, the supporting letters submitted did not contain all the required information or the contribution made was not clearly stated. For example, in 5 (56%) of the 9 applications, the numbers of posts to be created for local employees in the coming three years were not stated in the supporting letters. In another case, the required information was not stated in exact terms in the supporting letter, i.e. the applicant had invested millions of dollars in Hong Kong, and the company had employed some full-time and part-time staff and would employ at least two full-time staff.

3.11 In Audit's view, the ImmD needs to take measures to ensure that the stipulated supporting letters with all the required information are always obtained for processing extension-of-stay applications. Given that the supporting letters are prepared by the applicants' companies, the ImmD also needs to obtain proof on their claimed contributions in warranted cases.

Need to maintain statistics on GEP entrepreneur entrants' contribution to Hong Kong's economy

3.12 Since May 2015, the ImmD has required case officers to input GEP entrepreneur entrants' business information (such as business sector, amount of capital invested and to be invested in the coming three years, and number of posts created for local employees and those to be created in the coming three years) into the computer system for statistical analysis of their contribution to the economy of

Hong Kong in order to evaluate the effectiveness of the scheme. However, such requirement only applies to entry and change-of-status applications but not for extension-of-stay applications. In Audit's view, the ImmD needs to maintain computerised information on the GEP entrepreneur entrants' sustained contribution to the local economy since their admission to Hong Kong. Such computerised information is useful for compiling statistics for evaluating the extent of achievement of the GEP Scheme.

Audit recommendations

3.13 **Audit has *recommended* that the Director of Immigration should:**

- (a) **include the types of supporting documents required for processing GEP entrepreneur applications in the checklist of submission of documents in the relevant guidebook for applicants;**
- (b) **step up monitoring of the processing time of GEP entrepreneur applications to ensure that prompt actions are taken in obtaining/following up any additional supporting documents from applicants;**
- (c) **remind case officers to ascertain that the GEP entrepreneur entrants have delivered the planned scale of operation as stated in their entry applications (including obtaining reliable proof in warranted cases) before approving their extension-of-stay applications. For doubtful cases, the approval should be granted subject to further business reviews;**
- (d) **take measures to ensure that the stipulated supporting letters with all the required information are always obtained for processing extension-of-stay applications;**
- (e) **obtain proof on the GEP entrepreneur applicants' claimed contributions to Hong Kong in warranted extension-of-stay cases; and**
- (f) **maintain computerised information on the GEP entrepreneur entrants' sustained contributions to the local economy.**

Response from the Government

3.14 The Director of Immigration agrees with the audit recommendations. He has said that the ImmD:

- (a) has stepped up monitoring of the processing time and reminded case officers of guidelines and requirements for applications under the GEP Investment Stream; and
- (b) will also explore the feasibility and cost-effectiveness of the enhancement of the APPLIES having due regard to operational efficiency.

Administration of CIES

3.15 The CIES was introduced in October 2003 to facilitate the entry for residence by persons who make capital investment in permissible investment assets but would not be engaged in the running of any business in Hong Kong. Notwithstanding the suspension of the CIES since 15 January 2015, the ImmD is continuing to process applications received before the suspension date (see para. 1.6(f)). Table 6 shows the number of CIES applications received and processed by the ImmD from 2011 to 2015. Approved applications have declined by 35% from 4,187 in 2011 to 2,739 in 2015. The applications pending processing as at December 2015 totalled 11,429 (see para. 3.18). According to the ImmD, after suspension of the CIES, reinforcement staff have been redeployed back to other fronts of the ImmD to cope with pressing operational needs. As at December 2015, 33 staff were deployed to administer the CIES.

Table 6

**Number of applications under CIES
(2011 to 2015)**

Application	Number of applications				
	2011	2012	2013	2014	2015
Received	3,384	6,508	9,227	6,083	2,851 (Note 2)
Approved	4,187	3,804	3,734	4,855	2,739
Rejected	2	1	1	10	2
Case closed (Note 1)	274	471	645	1,012	1,264
Processed	4,463	4,276	4,380	5,877	4,005

Source: ImmD records

Note 1: A case would be closed when the applicant withdrew his application or when the application could not be processed (e.g. due to failure to provide required information).

Note 2: Some 1,800 applications were received on 14 January 2015 when the Government announced that the CIES would be suspended on the next day.

Remarks: The average approval rate (i.e. applications approved ÷ (applications processed – cases closed) × 100%) from 2011 to 2015 was 99.9%.

3.16 A CIES applicant must have net assets of not less than \$10 million throughout the two years preceding his application (Note 33). Under the CIES, the applicant must invest not less than \$10 million in permissible investment assets which include equities, debt securities, certificates of deposits, subordinated debts and eligible collective investment schemes or a combination of these assets (i.e. specified financial assets). He is also required to provide an undertaking to the

Note 33: *To streamline the application procedure as well as shortening the processing time of application, with effect from 16 March 2009, an applicant may at his own cost engage a Certified Public Accountant (Practising) to issue a report to demonstrate that he has met the personal asset requirement.*

Admission Schemes for investors

ImmD that he agrees to abide by the Scheme Rules (Note 34). In essence, the Scheme Rules prescribe that an applicant/entrant should not reduce his investment commitment while he is permitted to stay in Hong Kong (see Appendix D). The Scheme Rules also specify that the Director of Immigration is expected, for example, to scrutinise closely:

- (a) transactions between parties not at arm's length (e.g. associated persons under the influence of the applicant/entrant); and
- (b) suspected "back-to-back" arrangements where the applicant's/entrant's holding of specified financial assets by borrowing or leveraging against those assets.

3.17 In processing an application, the ImmD may grant an applicant a formal approval or an approval-in-principle, as follows:

- (a) ***Formal approval.*** A formal approval is granted if an applicant has met one of three specified investment requirements. For example, he has invested permissible investment assets of not less than \$10 million within and thereafter throughout the period beginning six months before submission of his application; or
- (b) ***Approval-in-principle.*** An approval-in-principle is granted if an applicant can demonstrate that he has net assets/equity to which he is absolutely beneficially entitled with a market value of not less than \$10 million net throughout the two years preceding the date he lodged his application. A formal approval will be granted after the entrant furnishes proof of his investments (within and thereafter throughout the period beginning six months after approval-in-principle has been granted).

Note 34: *If an applicant/entrant breaches any part of his undertaking to the Director of Immigration, he and his dependants would not be allowed to stay in Hong Kong. In addition, the applicant/entrant may be liable to a fine and to imprisonment on conviction if: (a) there is a breach of any of the conditions of stay imposed; or (b) he has made untruthful declaration or statement for the purpose of the Scheme.*

An entrant who has obtained formal approval is permitted to stay in Hong Kong for two years and may apply for an extension of stay every two years (Note 35). From October 2003 to December 2015, some 28,200 CIES applications had been approved and the total values of the investments made by CIES entrants at the times when formal approvals were granted to them amounted to \$244 billion (see Appendix E).

3.18 Owing to an increase in the number of CIES applications over the years, the number of CIES applications pending processing as at December 2015 was 11,429. An ageing analysis (see Table 7) revealed that in 10,084 applications where approvals-in-principle/formal approvals have not been granted, 1,714 (17%) had been submitted for two years or more. Apart from the 10,084 outstanding applications, there were another 1,345 applications with approvals-in-principle granted but still awaiting final approvals. In 1,213 (90%) of these 1,345 cases, two years or more had elapsed since submission of applications.

Table 7

**Ageing analysis of outstanding CIES applications
(December 2015)**

Time elapsed since submission (Year)	Number of applications		Total
	pending processing	with approved-in-principle granted	
< 1	2,511	5	2,516
1 to < 2	5,859	127	5,986
2 to < 3	1,629	1,179	2,808
3 to < 4	71	25	96
≥ 4	14	9	23
Overall	10,084	1,345	11,429

} 1,714 (17%) } 1,213 (90%) } 2,927 (26%)

Source: Audit analysis of ImmD records

Note 35: *Upon completion of not less than seven years of continuous ordinary residence in Hong Kong, the entrant and his dependants may apply for right of abode.*

Admission Schemes for investors

3.19 According to the ImmD, it will process CIES applications in chronological sequence based on the dates of application submission. The ImmD estimated that it might take two to three years to clear the backlog of applications.

Need to step up monitoring of the processing of CIES applications

3.20 According to the ImmD, it has not made specific performance pledge for the CIES because the procedures involved are more complicated and more supporting documents are required. Audit selected 30 closed (i.e. no formal approval granted) cases for examination and found that:

- (a) for 10 (33%) cases which were closed before approval-in-principle was granted, the case officers, on average, sent out the first request for further information 11 months after receipt of applications; and
- (b) for 18 (60%) out of 20 cases which were closed after approval-in-principle was granted, the case officers, on average, sent out the first request for proof of investment 18 months after the stipulated six-month period (see para. 3.17(b)).

3.21 Audit's examination of ten selected approved cases with processing time longer than 10 months from some 7,000 approved CIES applications in 2014 and 2015 revealed that in two cases, the case officers took 49 and 60 months respectively to grant final approvals. Audit found that the long processing time of the two cases was partly attributable to the case officers' belated actions. For example, the case officers concerned had not reminded the applicants to submit the required information (such as proof of investment) until 10 and 25 months respectively after the submission deadlines.

3.22 In light of Audit's findings in paragraphs 3.20 and 3.21, the ImmD needs to step up monitoring of the processing of CIES applications to ensure that prompt follow-up actions are taken in obtaining additional information or ascertaining whether the investment requirements have been met.

Need to tighten control over breaches of CIES Scheme Rules

3.23 The Scheme Rules require a financial intermediary to notify the Director of Immigration that the applicant/entrant has not re-invested within 14 days the proceeds of sale of his scheme assets (see (d)(i) in Appendix D). Audit randomly selected ten of some 300 cases of breaches of the requirements on re-investment within 14 days for examination and found that:

- (a) in all ten cases (nine discovered by the ImmD and one informed by a financial intermediary), the ImmD only issued warning letters to the entrants concerned a long time (averaging 525 days) after the breaches had occurred; and
- (b) in three of the ten cases, the entrants had breached the re-investment requirement two to four times each despite warning letters issued by the ImmD.

In Audit's view, the ImmD needs to tighten control over breaches of Scheme Rules to ensure that the CIES entrants meet the investment requirement (Note 36). Such control actions may include timely issue of warning letters to the entrants and taking more stringent actions against cases of repeated breaches after issue of warning letters.

Audit recommendations

3.24 **Audit has recommended that the Director of Immigration should:**

- (a) **step up monitoring of the processing of CIES applications to ensure that prompt follow-up actions are taken in obtaining additional information or ascertaining whether the investment requirements have been met; and**

Note 36: *As at December 2015, the ImmD should ensure that some 24,800 approved applicants/entrants from January 2009 to December 2015 meet the investment requirement.*

Admission Schemes for investors

- (b) **tighten control over breaches of Scheme Rules of the CIES, including:**
 - (i) **timely issue of warning letters to the entrants concerned; and**
 - (ii) **taking more stringent actions against cases of repeated breaches after issue of warning letters.**

Response from the Government

3.25 The Director of Immigration agrees with the audit recommendations. He has said that:

- (a) the ImmD has reminded case officers to tighten monitoring of the processing of CIES applications and to uphold the Scheme Rules; and
- (b) regarding Audit's observations in paragraph 3.21, only a small number (i.e. 25 (0.33%) of 7,600 cases) of all applications with formal approval granted in 2014 and 2015 took more than 48 months to process. Nevertheless, the ImmD would continue to stay alert and flexibly deploy manpower resources to expedite the processing of CIES applications as far as practicable.

PART 4: ADMISSION SCHEME FOR FOREIGN DOMESTIC HELPERS

4.1 This PART examines the administration of the Admission Scheme for FDHs.

Administration of Admission Scheme for FDHs

4.2 Since early 1970s, the Government has allowed admission of FDHs to perform full-time and live-in domestic duties in Hong Kong (see para. 1.6(g)). To apply for admission, an FDH must have two-year relevant work experience and the sponsor (i.e. the prospective employer) is a Hong Kong resident who is proved to be financially capable of employing an FDH. At present, the sponsor must have a household income of not less than \$15,000 per month or assets of not less than \$350,000 (Note 37) to support the employment of an FDH for the whole two-year contract period. From 2006 to 2015, 909,861 FDHs had been admitted under the Scheme. As at December 2015, there were some 340,000 FDHs in Hong Kong. Table 8 shows that the number of approved applications under the FDH Scheme had decreased by 4% from 101,505 in 2011 to 97,936 in 2015.

Note 37: *The sponsor may also submit proof of assets of comparable amount (currently \$350,000) which is approximately the total sum of the income threshold of \$15,000 per month for the 24-month contract period.*

Admission Scheme for foreign domestic helpers

Table 8

Analysis of applications under Admission Scheme for FDHs (2011 to 2015)

Application	Number of applications					Percentage increase/ (decrease) from 2011 to 2015
	2011	2012	2013	2014	2015	
Received	104,138	105,955	99,132	98,149	105,590	1%
Approved	101,505	102,581	95,057	95,060	97,936	(4%)
Rejected	278	345	535	486	713	156%
Case closed (Note)	3,938	3,870	3,519	3,292	3,624	(8%)
Processed	105,721	106,796	99,111	98,838	102,273	(3%)

Source: ImmD records

Note: A case would be closed when the applicant withdrew his application or when the application could not be processed (e.g. due to failure to provide required information).

Remarks: Of the total 492,139 approved applications from 2011 to 2015, the average approval rate (i.e. applications approved ÷ (applications processed – cases closed) × 100%) was 99.5%.

4.3 As at December 2015, 149 staff in the Foreign Domestic Helpers Section (FDH Section) under the Visa Control (Operations) Division (see Appendix C) were responsible for processing visa applications for FDHs.

Need to review stipulated financial requirements

4.4 The household income threshold of \$15,000 has been adopted since the 1970s. In 1994, the “four times Minimum Allowable Wage” was adopted as the basis of determining the income threshold. In 2001, an inter-departmental Working Group on Review of Policies relating to FDHs (Note 38) found that the income threshold was unrealistically low on account of inflation over the years and therefore recommended a review to be conducted shortly to reflect the wage index movements, followed by regular reviews in future to reduce the possibility of underpayment of wages for FDHs.

4.5 In March 2016, the Labour Department informed Audit that:

- (a) the recommendation of the Working Group had not been pursued by the then Education and Manpower Bureau (Note 39). The household income and the asset thresholds were to ensure that employers had the means to pay wages to the FDHs for the whole 24-month contractual period. There was no indication so far that there was a deteriorating trend of wage defaults involving FDHs and their employers, thereby warranting any urgent need for a review of the income threshold; and
- (b) there were over 340,000 FDHs in Hong Kong and many of them were helping families with children and elders, including retirees who relied on their other incomes (e.g. retirement benefits, contribution from their children) or savings. In view of the ageing population and the anticipated manpower shortage problem, the number of FDHs was likely to grow in the coming years. The household income and asset thresholds formed part of the Government’s FDH policy and should be considered cautiously and holistically with a basket of socio-economic factors.

Note 38: *The Working Group, comprising representatives from the then Education and Manpower Bureau, the Labour Department and the ImmD (who were invited to attend meetings involving immigration of FDHs), reviewed policies on FDHs.*

Note 39: *Following the reorganisation of the Government Secretariat with effect from 1 July 2007, the manpower portfolio under the Education and Manpower Bureau was taken up by the LWB.*

Admission Scheme for foreign domestic helpers

As such, the Labour Department is of the view that any increase of the income and asset thresholds must be considered carefully with due regard to the above and other relevant factors.

4.6 Audit noted that, while the Minimum Allowable Wage of the FDHs had increased five times in the past six years from \$3,580 in 2010 to \$4,210 in 2015 (Note 40), the household income and asset thresholds had remained unchanged since the 1970s. As more than 14 years have elapsed since the inter-departmental Working Group's last review of the household income threshold, Audit considers that the ImmD should liaise with the Labour Department to conduct a review on the household income and the asset thresholds for employing FDHs, taking into consideration the need to ensure sponsors' financial capability and other socio-economic factors.

Need to strengthen follow-up actions on suspected job-hoppers

4.7 The two-year Standard Employment Contract (see para. 1.6(g)) stated that if a contract is terminated before its expiry, the employer and the FDH shall give the Director of Immigration a notice (pre-mature termination (PMT) notification) in writing within seven days of the date of termination (Note 41). From time to time, there were media reports alleging that individual FDHs deliberately

Note 40: *Owing to the adjustments in the Minimum Allowable Wage, the household income threshold of \$15,000 was lower than the "four times Minimum Allowable Wage" level from December 1996 to January 1999 and from late September 2012 onwards. Audit estimated that, in order to meet the "four times Minimum Allowable Wage" level, the household income threshold for employing an FDH in 2015 should be \$16,840 (i.e. \$4,210 × 4) instead of \$15,000 and the asset threshold should be about \$400,000 (i.e. \$16,840 × 24) instead of \$350,000.*

Note 41: *These records will be kept and taken into account by the ImmD in considering future applications made by the FDH for visa or extension of stay.*

under-performed to cause their employers to terminate the contracts pre-maturely (Note 42). On termination, instead of returning to their place of origin, the FDHs took a short trip to Macao or the Mainland pending approval of their entry visa for a new employment (Note 43).

4.8 In response to the public concern, the FDH Section has taken the following measures to strengthen control over FDH entry-visa applications to curb possible abuses:

- (a) **Phase 1.** From June 2012 to June 2013, the FDH Section identified entry-visa applications of FDHs with two or more PMT records within six months preceding their new visa applications for further scrutiny of their previous contract duration, termination reasons given by ex-employers and other case facts (Note 44);
- (b) **Phase 2.** In June 2013, the ImmD established a Special Duty Team (SDT — Note 45) within the FDH Section to further tighten the control. From late June to August 2013, the identification criteria were enhanced to cover FDHs who had two or more PMT records in 12 months preceding their new visa applications. The SDT would proactively contact the ex-employers of the suspected job-hoppers for a better assessment of their new visa applications;
- (c) **Phase 3.** From September 2013 to November 2014, the identification criteria were further enhanced to cover those FDHs who had two or more PMT records in any 12 months within the two years preceding their new visa applications; and

Note 42: *The alleged incentives of an FDH are: (a) one-month salary in lieu of notice from employer (in case of immediate termination); and (b) possibly money in lieu of free passage for returning to her place of origin.*

Note 43: *The ImmD might reduce the period of stay of an FDH who used this means to prolong the period of stay in Hong Kong for searching a new employer.*

Note 44: *As at June 2013, the FDH Section had identified some 1,000 FDHs as suspected job-hoppers. Subsequently, some 3% of the identified applications were rejected.*

Note 45: *The SDT comprised one Senior Immigration Officer and two Immigration Officers.*

Admission Scheme for foreign domestic helpers

- (d) **Phase 4.** A review by the ImmD found that the identification criteria used in Phase 3 did not have a significant impact on identifying job-hoppers and they had lengthened the processing time. The ImmD decided to revert back to the identification criteria adopted in Phase 2 with effect from mid-December 2014 and formed a Special Screening Unit (Note 46) in the SDT to speed up the identification process of suspected job-hoppers.

Up to December 2015, the SDT had identified and processed 6,960 suspected job-hopper cases and refused 606 (8.7%) of the pertinent visa applications. Besides, 745 cases (10.7%) were closed either because the applicants withdrew their applications or the applications could not be processed (e.g. the required information was not provided by the applicants).

4.9 Audit extracted from the ImmD's computer system some 3,000 visa applications from January to September 2015 of FDHs who had two or more PMT records in 12 months preceding their applications, and randomly selected 30 cases for examination. Audit noted that there were no guidelines setting out the key procedures on processing visa applications with PMTs. Individual case officers of the SDT had taken one or more of the following courses of actions:

- (a) scrutinising the comments in the PMT notices/complaint letters;
- (b) contacting ex-employers by telephone;
- (c) arranging an interview with the FDHs concerned;
- (d) reviewing the duration of service in previous contracts; and
- (e) considering other relevant facts (e.g. whether the FDH had provided false statements in previous applications).

Note 46: *The Special Screening Unit comprised one Immigration Officer and two Clerical Assistants.*

Admission Scheme for foreign domestic helpers

4.10 Audit's examination of the 30 randomly selected cases also revealed that, in eight cases, the ex-employers of the FDHs had made adverse comments on their performance in the PMT notices/complaint letters. All eight visa applications had been approved although in seven cases, not all the ex-employers had been contacted:

- (a) **Cases 3 to 6.** The four cases had been followed up by the individual units of the FDH Section instead of the SDT. There was no documentary evidence showing that the case officers had tried to contact any of the ex-employers who had adverse comments on the applicant FDHs before approving the visa applications; and
- (b) **Cases 7 to 9.** The three cases had been followed up by the SDT. Audit noted that:
 - (i) in Case 7, the case officer had only made one telephone call to one ex-employer and gave up after the call was unanswered;
 - (ii) in Case 8, the case officer had only successfully contacted a family member of one ex-employer who had made adverse comments on the FDH's performance. The case officer had not contacted the other ex-employer after the first telephone call was unanswered; and
 - (iii) in Case 9, the case officer had not contacted the two ex-employers after the first telephone calls to them were unanswered.

In one of the 30 cases examined by Audit (Case 10), the FDH had three PMT records in 12 months preceding her visa application but the reasons for termination of contract were not stated. The case officer successfully contacted the first ex-employer who made some adverse comments on the FDH's performance. However, the visa application was approved without having successfully contacted the other two ex-employers to ascertain the reasons for the premature termination of contracts.

Admission Scheme for foreign domestic helpers

4.11 While the ImmD had established the SDT to address the job-hopping problem of FDHs, there were no laid-down procedures to guide case officers in processing new applications with PMT records. Upon Audit's enquiry, the ImmD said in February 2016 that case officers had to process new applications with PMT records on case-by-case merits by considering a wide array of factors including contacting the ex-employers to gather further information on the past performance of the FDHs (see para. 4.9). However, in view of the variation in the extent of follow-up actions on new applications with PMT records mentioned in paragraph 4.10 above, Audit considers that the ImmD needs to issue guidelines setting out the key follow-up procedures to ensure consistency in processing such applications. If there is an operational need for other units in the FDH Section to handle new applications with PMT records, the ImmD also needs to ensure that the unit case officers follow the same follow-up procedures.

Need to timely process PMT notifications and update the computer records

4.12 Upon receipt of PMT notifications from employers/FDHs, the FDH Section needs to expeditiously process such notifications and update the computer records in order to facilitate early identification of suspected job-hoppers for further actions. Audit's analysis revealed that, while the monthly average number of 10,928 PMT notifications received in 2015 was the lowest in the past five years from 2011 to 2015, the monthly average number of such notifications pending processing had increased by 44% from 4,298 in 2011 to 6,202 in 2015 (see Table 9). In this regard, the ImmD said that it had endeavoured to process the PMT notifications and update the computer records timely. Subsequently, the number of PMT notifications pending processing as at the year end of 2015 was 3,683, 57% down from 8,471 in 2014. Audit notes the ImmD's recent efforts and considers that the ImmD should continue to expedite the processing of PMT notifications and updating the computer records to support the SDT's work in addressing the job-hopping problem of FDHs.

Table 9

**Analysis of PMT notifications
(2011 to 2015)**

PMT notification	Average number per month				
	2011 (Note)	2012	2013	2014	2015
Received	11,249	13,147	12,706	12,278	10,928
Processed	11,326	13,150	12,965	11,765	11,327
Pending processing (monthly average)	4,298	5,308	3,768	7,000	6,202
Pending processing (year end)	5,462	5,423	2,316	8,471	3,683

Source: Audit analysis of ImmD records

Note: A backlog of 6,400 PMT notifications were carried forward from December 2010 to January 2011.

***Need to tighten the vetting of applications for
FDHs performing driving duties***

4.13 Since January 2000, the Standard Employment Contract (see para. 1.6(g)) has prohibited FDHs from performing all sorts of driving duties to prevent employers from employing FDHs to work as full-time chauffeurs (Note 47). Nevertheless, individual employers who have genuine needs for their FDHs to perform driving duties may apply to the ImmD for special permission. In a paper submitted to the Legislative Council in May 2011, the ImmD explained that when applying for special permission to perform driving duties, an employer should provide full justifications that:

Note 47: *This restriction becomes one of the conditions of stay imposed on the FDHs.*

Admission Scheme for foreign domestic helpers

- (a) his FDH has to perform any of the five broad categories of domestic duties (i.e. household chores, cooking, looking after aged persons in the household, baby-sitting and child-minding); and
- (b) the driving duties are incidental thereto and arising therefrom. Details of such driving duties should also be provided.

4.14 Audit noted that, while the number of FDHs in Hong Kong had increased by 57% from 216,790 in 2000 to 340,380 in 2015, the total number of successful applications for FDHs performing driving duties had increased by 125% from 903 to 2,032 (Note 48) during the same period. Table 10 shows the total number of approved and rejected applications by the ImmD from 2011 to 2015.

Table 10
Number of approved and rejected applications
for FDHs performing driving duties
(2011 to 2015)

Year	Approved application			Rejected
	New	Renewal	Total	
2011	346	1,058	1,404	4
2012	347	1,404	1,751	3
2013	358	1,551	1,909	4
2014	236	1,530	1,766	8
2015	284	1,748	2,032	4

Source: ImmD records

Note 48: *The actual number of FDHs permitted to carry out driving duties was more than 2,032 in 2015 because the permission would be valid for the contract period of two years.*

4.15 Audit's examination of the ImmD's computer records of ten approved applications revealed that the justifications provided in the application forms were travelling needs for performing commonly required domestic duties, such as:

- (a) taking children to and from schools;
- (b) taking other domestic helpers to and from market/groceries stores/laundry stores;
- (c) taking pets to veterinarian/salon; and
- (d) taking elders/children to and from clinic.

There was no elaboration on why such travelling needs could only be met by an FDH performing driving duties. Upon Audit's enquiry, the ImmD said in February 2016 that the case officers concerned had to consider, among others, the location of the destinations and the individual needs of the household members when assessing the applications concerned. However, Audit could not find any documentation on these factors having been considered by the case officers. As it is the responsibility of the employers concerned to provide full justifications for employing FDHs to perform driving duties, Audit considers that the ImmD needs to tighten the vetting of such applications (such as requiring employers to demonstrate their special needs for FDHs performing such duties).

Need to require FDHs to declare driving offence records

4.16 ImmD guidelines do not require an FDH applicant for special permission to perform driving duties to declare in the application form his previous driving offence information. In this connection, Audit noted that in one case, an FDH was allowed to perform driving duties for three consecutive employers notwithstanding that there were adverse comments on his driving behaviour. In processing the applications for FDHs to perform driving duties, the case officers did not require the FDH to provide information on whether he had any driving-related convictions. Audit considers that the ImmD needs to take improvement measures in this regard.

Audit recommendations

- 4.17 **Audit has *recommended* that the Director of Immigration should:**
- (a) **liaise with the Labour Department to conduct a review on the household income and the asset thresholds for employing FDHs, taking into consideration the need to ensure sponsors' financial capability and other socio-economic factors;**
 - (b) **issue guidelines setting out the key follow-up procedures for all case officers in the FDH Section to ensure consistency in processing new visa applications with PMT records;**
 - (c) **remind case officers in the SDT and all other units in the FDH Section to make greater efforts to contact the ex-employers of PMT cases, especially those who have made adverse comments on the performance of the applicant FDHs, for clarification before making decisions on their new visa applications;**
 - (d) **continue to expedite the processing of PMT notifications and updating the computer records; and**
 - (e) **consider tightening the vetting of applications (including renewals) for FDHs performing driving duties by requiring:**
 - (i) **employers to provide full justifications for employing FDHs to perform driving duties; and**
 - (ii) **FDHs to make a declaration to indicate whether they have any driving-related convictions in and outside Hong Kong.**

Response from the Government

4.18 The Director of Immigration agrees with the audit recommendations. He has said that the ImmD:

- (a) will liaise with the Labour Department for its review on the sponsors' household income and the asset thresholds for employing FDHs;
- (b) will issue guidelines on follow-up actions for FDH visa applications with PMT records;
- (c) has reminded case officers to follow up on adverse comments given by FDHs' ex-employers of PMT cases;
- (d) has expedited the processing of PMT notifications; and
- (e) will closely scrutinise applications for FDHs performing driving duties and study the feasibility of requiring FDHs to make a declaration of driving-related convictions.

PART 5: OTHER ADMINISTRATIVE ISSUES

5.1 This PART examines other administrative issues relating to the Admission Schemes.

Information system

Need to properly maintain computer records

5.2 All the entry and extension-of-stay applications under the various Admission Schemes are processed with the aid of the computer system known as the APPLIES. In the funding paper submitted to the Finance Committee of the Legislative Council in May 2004 (Note 49), the Security Bureau said that, to cope with increasing workload and continuous demand for service improvements, achieve productivity improvement and provide necessary management information for better decision making and resources planning, the ImmD had to enhance its computer system. The APPLIES which was rolled out in December 2008 had the following features:

- (a) case officer assessing applications and handling investigation cases would work in a paperless environment supported by imaging facilities, automatic tracking and case distribution functions, online processing capability as well as expert system technology to facilitate decision making and investigation;
- (b) the public would be able to submit applications for most services by electronic means and obtain services and the processing time could be significantly shortened. The applicants could also check the progress of the applications by electronic means;
- (c) the system would integrate standalone systems developed through end user computing to provide better system support to process applications; and

Note 49: *In May 2004, the Finance Committee approved funding of \$337 million for upgrading two computer systems, namely APPLIES and the Electronic Records Programme. A cost breakdown of the two systems was not available.*

- (d) the system would provide enhanced functionalities to investigation officers including information analysis, data dissemination and operation support.

The ImmD also expected that the APPLIES would render better support to various Admission Schemes launched by the Government such as the ASMTP and the CIES.

5.3 Audit's examination of computer records of the Admission Schemes kept in the APPLIES revealed inadequacies. For example:

- (a) **GEP and ASMTP.** While the monthly remunerations of GEP entry applicants were input into the computer system for easy retrieval and analysis purposes, there was no similar mandatory input requirement for extension-of-stay applications. Besides, in 12 (40%) of the 30 GEP and ASMTP entry applications examined by Audit, the monthly remuneration information was incorrectly input into the system. For example, in one case, an Information Technology Consultant's monthly remuneration in foreign currency equivalent to HK\$29,760 was incorrectly input as HK\$64,500;
- (b) **QMAS.** Of some 3,600 approved extension-of-stay applications from January 2010 to September 2015, the expiry dates of the travel documents of 232 cases were not input;
- (c) **IANG.** Of some 34,000 computer records for the period January 2010 to September 2015 captured by the APPLIES, some information was not input into the APPLIES (e.g. name of the employers (67 cases), work posts of the applicants/entrants (627 cases) and remuneration package of the applicants/entrants (721 cases)); and
- (d) **FDHs.** Some of the contract renewal applications and PMT notifications (see para. 4.12) received after late 2015 had not been scanned into the computer system up to February 2016.

A complete and reliable database will facilitate the ImmD to compile necessary management information for better decision making and resources planning (see para. 5.2). In Audit's view, the ImmD needs to take measures to improve the proper maintenance of computer records in the APPLIES.

Other administrative issues

Need to enhance the functions of APPLIES

5.4 Audit also notes that the QMMR Section needs to rely on a tailor-made programme to supplement the APPLIES for the purpose of capturing data of QMAS applicants for data analysis purpose. Audit considers that efforts should be exerted to use the APPLIES to integrate standalone systems developed through end user computing as stated in the 2004 Finance Committee Paper (see para. 5.2(c)).

5.5 Besides, the computer records of FDHs in the APPLIES might not be maintained in a way to facilitate easy retrieval of information for statistical analysis. For example, there was no identifier for rejected applications for special permission to undertake driving duties in the computer system. Audit considers that the ImmD should explore the feasibility of enhancing the functions of the APPLIES to address the above inadequacies.

Supervisory checks

Need to improve supervisory-check arrangements

5.6 The ImmD has put in place supervisory-check arrangements to provide quality assurance on the decisions made by case officers in processing visa/permit applications under various Admission Schemes. However, Audit's examination of the supervisory-check records for the period 2010 to 2015 has revealed the following inadequacies in the present supervisory-check arrangements:

- (a) the number of supervisory checks carried out was less than the stipulated requirements. Besides, there was insufficient documentation on the conduct of supervisory checks in the spot-check registers of the QMAS, the IANG, the CIES and the SLS for certain periods (see some examples in Appendix F);
- (b) there was no specified supervisory-check requirement on entry-visa and contract renewal applications in the FDH Section; and
- (c) the extent of checks was not specified in the relevant guidelines for the ASMTP.

Audit considers that the ImmD needs to enhance the supervisory-check arrangements to provide sufficient monitoring and evaluation of the quality of decisions made by case officers in processing visa/permit applications under various Admission Schemes.

Cost recovery of visas/entry permits and extension of stay

5.7 The ImmD charges a fee of \$190 for visas, entry permits and extension of stay under the various Admission Schemes (see Appendix A). The fee took effect from February 2015 after a costing exercise completed by the ImmD in mid-2014, which was eight years after the previous fee revision in June 2006 (Note 50). Notwithstanding the fee increase by 19% from \$160 to the current level of \$190, the cost-recovery rate of the current fee was only 26% in 2014.

5.8 In his 2013-14 Budget Speech, the Financial Secretary emphasised the need to review fees and charges systematically for upholding the “user pays” principle. Audit considers that the ImmD should review the need for improving the cost-recovery rates of visas/entry permits and extension of stay and consider setting a target recovery rate for such fees in the long run.

Audit recommendations

- 5.9 **Audit has *recommended* that the Director of Immigration should:**
- (a) **take measures to ensure the proper maintenance of computer records for the various Admission Schemes, taking into account the audit findings mentioned in paragraph 5.3;**
 - (b) **explore the feasibility of enhancing the functions of the APPLIES to address the inadequacies mentioned in paragraphs 5.4 and 5.5;**

Note 50: *Since 2010, the ImmD had conducted two costing exercises in 2010 and 2012 respectively but it was agreed that no fee revision would be suggested.*

Other administrative issues

- (c) **enhance the supervisory-check arrangements to provide sufficient monitoring and evaluation of the quality of decisions made by case officers in processing visa/permit applications under various Admission Schemes; and**
- (d) **review the need for improving the cost-recovery rate of visas/entry permits and extension of stay and consider setting a target cost-recovery rate in the long run.**

Response from the Government

5.10 The Director of Immigration agrees with the audit recommendations. He has said that the ImmD:

- (a) has reminded case officers of the importance of data accuracy;
- (b) will explore the feasibility and cost-effectiveness of enhancing the functions of the APPLIES having due regard to operational efficiency; and
- (c) has reminded case officers to keep records of supervisory checks.

PART 6: WAY FORWARD

6.1 This PART explores the way forward for the administration of the GEP, the ASMTP, the QMAS and the IANG.

Proactive and targeted approach to attract talent

6.2 In his 2015 Policy Address, the Chief Executive adopted the five-pronged strategy to deal with demographic challenges (i.e. ageing population and decline in labour force) with a view to achieving the following population policy objective as recommended by the SCPP (Note 51):

“To develop and nurture a population that will continuously support and drive Hong Kong’s socio-economic development as Asia’s world city, and to engender a socially inclusive and cohesive society that allows individuals to realise their potential, with a view to attaining quality life for all residents and families.”

As one of the strategies was “adopting a more proactive and targeted approach to attract more outside talent to work and settle in Hong Kong”, the Chief Executive also announced in his Policy Address that various enhancement measures should be implemented (see para. 1.8(a) to (e)).

Note 51: *The SCPP, chaired by the Chief Secretary for Administration, currently consists of government officials as members, including the Secretary for Security and the Director of Immigration.*

Way forward

6.3 Following the 2015 Policy Address, the Government implemented various enhancement measures (including the introduction of the ASSG, relaxation of stay arrangements for GEP, ASMTP and QMAS entrants, specification of consideration factors of the GEP Investment Stream and revision of the GPT of the QMAS — see para. 1.9(a) to (d)). Up to January 2016, the Government had not announced the study result on the feasibility of drawing up a talent list (Note 52) to attract, in a more effective and focused manner, high-quality talent (see para. 1.8(e)).

6.4 According to the 2015 Population Policy Report (see para. 1.8), importing talent and professionals is considered the most direct and effective means to meet the huge demand for talent in the local market and to build up human capital stock in Hong Kong. Hitherto, the role of the Government has been to facilitate the local market to bring in talent, professionals, entrepreneurs and non-local graduates through the GEP, the ASMTP, the QMAS and the IANG. With the adoption of a more proactive and targeted approach to attract talent, the SCPP will, as indicated in its terms of reference:

- (a) oversee the implementation of new or improved measures formulated and review the progress from time to time to ensure that such measures have been followed through; and
- (b) keep in view the main social and economic challenges brought about by the ageing population, refine existing policies and measures as necessary, and coordinate cross-bureaux initiatives to ensure that the policy measures remain relevant and effective to address the challenges.

Note 52: *According to the 2015 Population Policy Report (see para. 1.8), many overseas countries are proactively attracting talent through targeted immigration programmes, such as the Shortage Occupation List in the United Kingdom and the Skilled Occupation List in Australia.*

Need to periodically compile key statistics for measuring the effectiveness of the Admission Schemes

6.5 The objectives of the Admission Schemes are to attract talent, professionals, entrepreneurs and non-local graduates to stay and work in Hong Kong in order to meet local manpower needs and enhance Hong Kong's competitiveness in the global market. Under the population policy, these entrants will help support and drive Hong Kong's socio-economic development. Over the years, the ImmD has approved a number of entrants under the GEP, the ASMTP (Note 53), the QMAS and the IANG (who may apply for permanent residence after residing in Hong Kong for not less than seven years — see para. 1.7).

6.6 Upon Audit's requests in December 2015 and January 2016, the ImmD provided Audit with the following statistics:

- (a) the number of entrants who had obtained right of abode for the four Admission Schemes (in accordance with their status at the time of application). As indicated in Table 11, from 2009 to 2015, a total of 32,274 entrants had obtained right of abode in Hong Kong, with an increase of 306% from 1,804 in 2009 to 7,327 in 2015; and
- (b) the number of GEP and ASMTP entrants with breakdown by duration of stay as at the end of December 2015. As indicated in Table 12, of the 71,986 GEP entrants and 16,234 ASMTP entrants who resided in Hong Kong as at December 2015, 1,525 (2%) and 1,447 (9%) had stayed in Hong Kong for seven years or more respectively.

The above statistics are key indicators of the entrants' willingness to work/stay in Hong Kong. Audit noted that the ImmD had not periodically compiled such statistics.

Note 53: *About half of the GEP and ASMTP entrants were engaged in short-term employment of less than 12 months.*

Table 11**Number of entrants having obtained right of abode
(2009 to 2015)**

Year	Number of entrants				
	GEP	ASMTF	QMAS	IANG	Total
2009	1,531	130	6	137	1,804
2010	1,939	179	6	313	2,437
2011	2,648	406	11	827	3,892
2012	2,706	440	24	983	4,153
2013	3,831	647	50	1,360	5,888
2014	4,319	693	118	1,643	6,773
2015	4,494	905	186	1,742	7,327
Total	21,468	3,400	401	7,005	32,274

Source: ImmD records

Table 12

**Number of GEP and ASMTP entrants
with breakdown by duration of stay
(December 2015)**

Period for which entrants had stayed in Hong Kong	GEP		ASMTP		Total	
	Number	%	Number	%	Number	%
Less than one year	18,017	25%	4,593	28%	22,610	26%
One year to less than three years	24,655	34%	4,703	29%	29,358	33%
Three years to less than five years	17,221	24%	3,368	21%	20,589	23%
Five years to less than seven years	10,568	15%	2,123	13%	12,691	15%
Seven years or more	1,525	2%	1,447	9%	2,972	3%
Total	71,986	100%	16,234	100%	88,220	100%

Source: ImmD records

Remarks: Figures refer to those who have a valid limit of stay in Hong Kong as GEP and ASMTP entrants as at the end of December 2015. The above analysis excluded those entrants who had obtained right of abode in Hong Kong (see Table 11).

6.7 In response to Audit's enquiry in January 2016, the ImmD said that:

- (a) the statistics on the number of entrants who had obtained permanent residence under the Admission Schemes and the number of entrants by their duration of stay as shown in Tables 11 and 12 respectively could not be generated from the computer system readily. As such, the ImmD needed to engage manpower resources to manually retrieve a huge amount of data from the computer system to compile such statistics; and

Way forward

- (b) the ImmD had therefore compiled such statistics on a need basis.

In Audit's view, the ImmD needs to enhance its computer system to periodically generate these statistics for closely monitoring the effectiveness of the Admission Schemes in attracting and retaining talent, professionals, entrepreneurs and non-local graduates.

6.8 *Analysis of entrants' employment by trade and industry.* Audit noted that the ImmD had conducted analyses of entrants' employment by trade and industry sectors for the approved entry applications of the ASMTP and the QMAS. Such analyses are useful to show whether the Admission Schemes are attracting the types of talent and professionals that meet the local manpower needs. For the GEP and the IANG, the ImmD has started to input employment sector data into the computer system since September 2014 and end of October 2014 respectively. Based on available data, the ImmD provided Audit with the analyses of entrants' employment by trade and industry sectors for the GEP and the IANG. Details of such analyses for the GEP, the ASMTP, the QMAS and the IANG are shown at Appendices G to J. In Audit's view, the ImmD needs to periodically analyse entrants' employment for the four Admission Schemes. Such analyses together with the statistics on the number of entrants who had obtained right of abode or stayed in Hong Kong for seven years or more are useful for the SCPP to review the progress of the enhanced measures under the Admission Schemes (see para. 6.4(a)). Audit considers that the ImmD needs to periodically provide such information for reference by the SCPP.

Need to conduct reviews on the effectiveness of Admission Schemes

6.9 To meet changing social and economic needs of Hong Kong, the Government has conducted reviews from time to time to evaluate the effectiveness of the Admission Schemes in attracting and retaining outside talent to stay and work in Hong Kong. As laid down in the best practice guide entitled "A User Guide to Post Implementation Reviews" issued by the Efficiency Unit in February 2009, conducting a post-implementation review is a good practice of modern day public sector management. It helps bureaux and departments evaluate whether a programme/project has achieved its intended objectives, review its performance and capture learning points to improve the delivery and outputs of future programmes/projects. In light of the introduction of various enhancement measures under the Admission Schemes in 2015 (see para. 6.3), the ImmD needs to, in

consultation with the Security Bureau, continue to monitor the implementation of such measures and review the effectiveness of the Schemes, taking on board the audit observations and recommendations in this Audit Report.

Audit recommendations

6.10 **Audit has *recommended* that the Director of Immigration should:**

- (a) **enhance the computer system to periodically generate statistics for monitoring the effectiveness of the GEP, the ASMTP, the QMAS and the IANG in attracting and retaining talent, professionals, entrepreneurs and non-local graduates for reference by the SCPP; and**
- (b) **in consultation with the Secretary for Security:**
 - (i) **continue to monitor the implementation of the various enhancement measures under the Admission Schemes mentioned in paragraph 6.3; and**
 - (ii) **review the effectiveness of the Admission Schemes in attracting and retaining outside talent to stay and work in Hong Kong, taking on board the audit observations and recommendations in this Audit Report.**

Response from the Government

6.11 The Director of Immigration agrees with the audit recommendations. He has said that while the Security Bureau/the ImmD will continue to monitor/review the effectiveness of the various Admission Schemes, the ImmD will explore the feasibility and cost-effectiveness of enhancement of the APPLIES having due regard to operational efficiency.

**Fees for visas, entry permits
and extension of limit of stay
(December 2015)**

Item	Fee (\$)
Ordinary visa/entry permit	190
Extension of limit of stay (Note)	190
Entry permit valid for one entry	190

Source: ImmD records

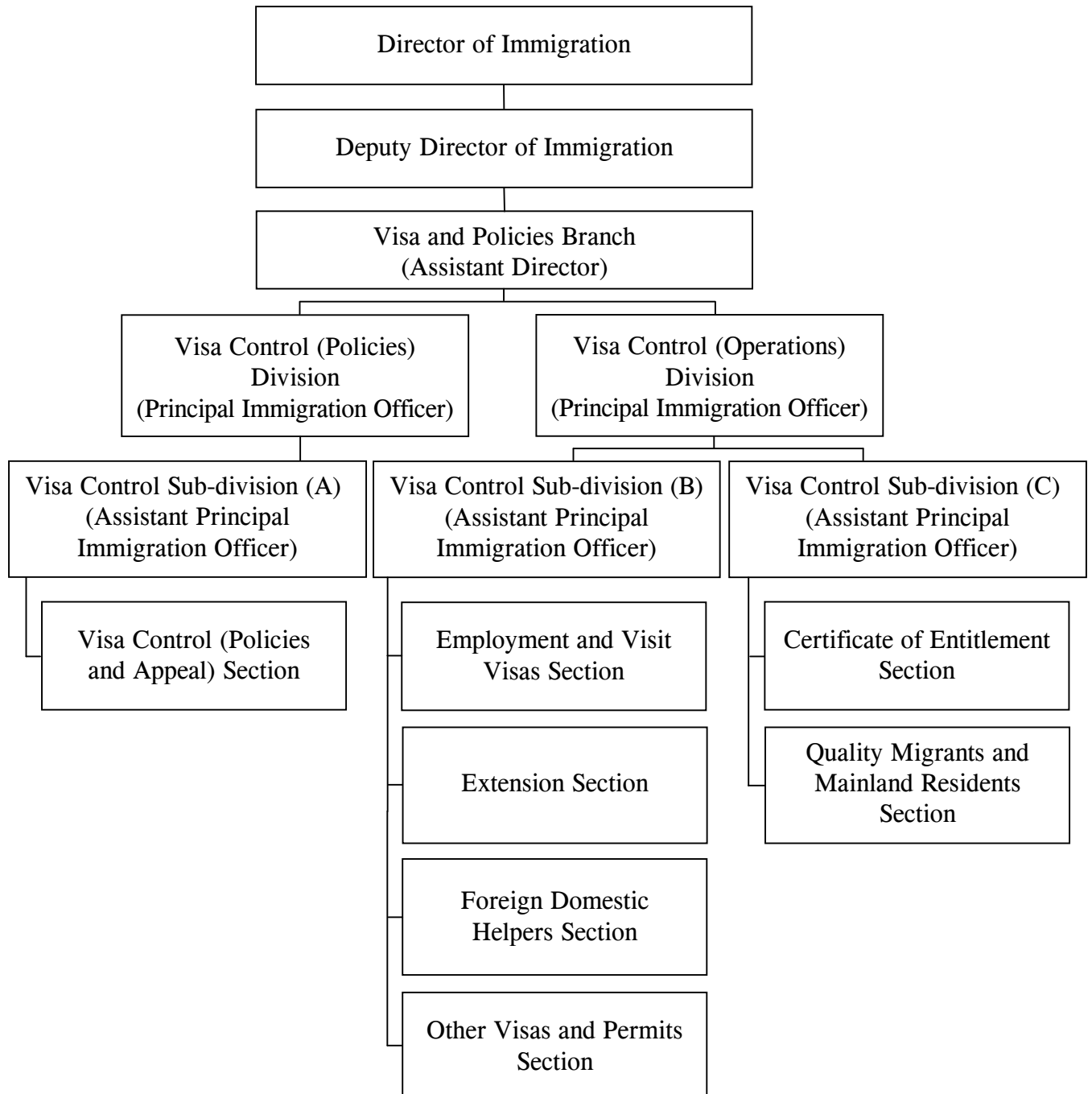
Note: This includes changes of conditions of stay.

**Eligibility for right of abode of admitted persons
and entry of their dependants under Admission Schemes**

Admission Scheme	Target person	Eligibility for right of abode of admitted person	Eligibility for entry of dependant
Admission Scheme for talent, professionals and non-local graduates			
GEP Employment Stream	Overseas, Taiwan and Macao talent and professionals	Yes	Yes
ASMTTP	Mainland talent and professionals	Yes	Yes
QMAS	Mainland and overseas highly skilled or talented persons	Yes	Yes
IANG	Non-local graduates	Yes	Yes
Admission Scheme for investors			
GEP Investment Stream	Overseas, Taiwan and Macao investors	Yes	Yes
CIES	Capital investment entrants	Yes	Yes
Admission Scheme for importing FDHs and workers			
FDH	FDHs	No	No
SLS	Workers at technician level or below in industries with manpower shortage	No	No

Source: ImmD records

**Immigration Department:
Organisation chart (extract)
(31 December 2015)**



Source: ImmD records

Remarks: In addition to administering the eight Admission Schemes covered in this Report, the Visa and Policies Branch also provides assistance and/or processes applications for entry for visit, study and training, and other admission schemes, such as One-way Permit Scheme and Certificate of Entitlement Scheme.

Main provisions in the Scheme Rules of the CIES

The Scheme Rules provide that an applicant/entrant should:

- (a) transact only the permissible investment assets in designated account opened with a single financial intermediary (the ring-fencing requirement);
- (b) reinvest the entire proceeds from the sale of assets notwithstanding that he can switch investments among permissible investment assets (portfolio maintenance requirement). The applicant/entrant is not required to top-up the value of his investment asset should its market value fall below \$10 million;
- (c) make a declaration to the Director of Immigration every 12 months that he is the absolute beneficial owner of the investment assets in his designated account; and
- (d) enter into an agreement with the financial intermediary for the management and operation of the designated account. The agreement requires that, among others, the financial intermediary shall notify the Director of Immigration in writing:
 - (i) within seven working days that the applicant/entrant has not re-invested within 14 days the proceeds of sale or other realisation of investment assets; and
 - (ii) within 14 working days the composition and the acquisition cost of the designated account (i.e. annual statement) after each subsequent anniversary of the grant of formal approval to the applicant/entrant.

Source: ImmD records

**Investments made by CIES entrants
(October 2003 to December 2015)**

Investment	Amount (\$ million)	Percentage (%)
Equities	104,180	42.8%
Eligible collective investment scheme	55,906	23.0%
Real estate (Note)	42,588	17.5%
Debt securities	39,431	16.1%
Certificate of deposits	1,440	0.5%
Subordinated debt	2	0.1%
Total	243,547	100%

Source: ImmD records

Note: Real estate has ceased to be permissible investment asset since October 2010.

Examples of supervisory-check requirements and audit findings

GEP	<p>Supervisory-check requirements:</p> <p>5% of the intra-company transfer entry applications and on 50 routine extension-of-stay applications approved by the case officers monthly</p> <p>Audit findings:</p> <p>The number of intra-company transfer entry cases approved by case officers was not readily available from 2013 to 2015 (on average, 39 cases were checked monthly). For extension-of-stay applications, the supervisory-check requirement was not met in 26 of the 36 months from 2013 to 2015 (on average, 28 cases were checked monthly).</p>
QMAS	<p>Supervisory-check requirements by Senior Immigration Officers:</p> <p>4% of entry applications, 5% of extension-of-stay applications and 4% of original document verifications conducted by Immigration Officers monthly</p> <p>Audit findings:</p> <p>The guideline was outdated as the above duties were performed by Senior Immigration Officers.</p>
SLS	<p>Supervisory-check requirements:</p> <p>5% of approved applications</p> <p>Audit findings:</p> <p>There was no record in spot-check register showing that the required spot checks had been carried out in periods from March 2012 to July 2012, September 2012 to April 2013, June 2013 to July 2013 and September 2013 to June 2015.</p>

Source: Audit analysis of ImmD records

**Analysis of approved GEP entry applications
by employment sectors
(September 2014 to December 2015)**

Employment sector	Number of approved applications		
	2014 (Sept – Dec)	2015	Total
Academic research and education	1,071	3,763	4,834
Architecture/surveying	74	138	212
Arts/culture	1,058	3,973	5,031
Biotechnology	3	15	18
Catering industry	258	718	976
Commerce and trade	1,164	3,790	4,954
Engineering and construction	416	1,341	1,757
Financial services	1,799	4,942	6,741
Information technology	540	1,341	1,881
Legal services	175	512	687
Manufacturing industries	203	335	538
Medical and health services	51	224	275
Recreation and sports	2,446	7,115	9,561
Telecommunications	82	172	254
Tourism	203	657	860
Traditional Chinese medicine	1	2	3
Others	1,206	5,365	6,571
Total	10,750	34,403	45,153

Source: ImmD records

Remarks: The analysis includes applications from both the Employment and Investment Streams.

**Analysis of approved ASMTP entry applications
by employment sectors
(2011 to 2015)**

Employment sector	Number of approved applications					
	2011	2012	2013	2014	2015	Total
Academic research and education	2,475	2,627	2,470	2,485	2,496	12,553
Architecture/surveying	69	58	61	80	58	326
Arts/culture	2,058	1,987	2,127	2,827	2,137	11,136
Biotechnology	26	18	11	9	9	73
Catering industry	96	46	69	55	44	310
Commerce and trade	743	966	809	784	621	3,923
Engineering and construction	306	450	360	496	391	2,003
Financial services	1,167	973	1,021	1,239	1,547	5,947
Information technology	278	308	269	371	327	1,553
Legal services	137	89	123	101	109	559
Manufacturing industries	98	59	99	49	27	332
Medical and health services	65	61	49	64	66	305
Recreation and sports	140	128	97	140	225	730
Telecommunications	68	73	66	41	94	342
Tourism	15	18	21	27	12	93
Traditional Chinese medicine	5	9	17	6	4	41
Others	342	235	348	539	1,062	2,526
Total	8,088	8,105	8,017	9,313	9,229	42,752

Source: ImmD records

**Analysis of approved QMAS entry applications
by employment sectors
(2011 to 2015)**

Employment sector	Number of approved applications					
	2011	2012	2013	2014	2015	Total
Academic research and education	10	7	18	9	7	51
Architecture, surveying, engineering and construction	32	23	43	29	32	159
Arts/culture	25	36	16	34	7	118
Broadcasting and entertainment	9	10	12	22	10	63
Business support and human resources	8	7	3	5	7	30
Catering and tourism	2	0	4	0	0	6
Commerce and trade	19	7	4	10	10	50
Financial and accounting services	70	48	52	60	24	254
Human health and veterinary services	2	4	8	2	10	26
Information technology/ telecommunications	54	50	87	111	79	381
Legal services	10	14	5	13	13	55
Logistics and transportation	11	9	3	8	4	35
Manufacturing industries	21	19	28	20	26	114
Sports	16	12	12	15	8	63
Others	3	5	3	0	3	14
Total	292	251	298	338	240	1,419

Source: ImmD records

Remarks: The analysis is based on the trade and industry sectors that best represent the skills possessed by successful QMAS applicants.

**Analysis of approved IANG applications by employment sectors
(November 2014 to December 2015)**

Employment sector	Number of approved applications		
	2014 (Nov – Dec)	2015	Total
Academic research and education	170	1,809	1,979
Architecture/surveying	12	168	180
Arts/culture	10	388	398
Biotechnology	2	86	88
Catering industry	7	71	78
Commerce and trade	92	1,795	1,887
Engineering and construction	33	724	757
Financial services	142	3,014	3,156
Information technology	35	661	696
Legal services	14	244	258
Manufacturing industries	4	132	136
Medical and health services	6	123	129
Recreation and sports	7	91	98
Telecommunications	8	304	312
Tourism	4	53	57
Traditional Chinese medicine	1	9	10
Others	5	234	239
Total	552	9,906	10,458

Source: ImmD records

Remarks: The analysis includes new applications from returning graduates and applications for extension of stay from fresh and returning graduates.

Acronyms and abbreviations

APPLIES	Application and Investigation Easy System
APT	Achievement-based Points Test
ASMTF	Admission Scheme for Mainland Talents and Professionals
ASSG	Admission Scheme for the Second Generation of Chinese Hong Kong Permanent Residents
Audit	Audit Commission
C&SD	Census and Statistics Department
CIES	Capital Investment Entrant Scheme
COR	Controlling Officer's Report
EVV Section	Employment and Visit Visas Section
FDH	Foreign domestic helper
FDH Section	Foreign Domestic Helpers Section
GEP	General Employment Policy
GPT	General Points Test
IANG	Immigration Arrangements for Non-local Graduates
ImmD	Immigration Department
LWB	Labour and Welfare Bureau
MPF	Mandatory Provident Fund
PMT	Pre-mature termination
QMAS	Quality Migrant Admission Scheme
QMMR Section	Quality Migrants and Mainland Residents Section
SCPP	Steering Committee on Population Policy
SDT	Special Duty Team
SLS	Supplementary Labour Scheme

CHAPTER 5

Home Affairs Bureau

Hong Kong Academy for Performing Arts

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

HONG KONG ACADEMY FOR PERFORMING ARTS

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1 – 1.17
Audit review	1.18 – 1.19
General response from the HKAPA and the Government	1.20
Acknowledgement	1.21
PART 2: PROVISION OF ACADEMIC PROGRAMMES	2.1 – 2.5
Student enrolment	2.6 – 2.16
Audit recommendations	2.17
Response from the HKAPA	2.18
Response from the Government	2.19
Admission of non-local students	2.20 – 2.30
Audit recommendations	2.31
Response from the Government	2.32 – 2.33
Student unit cost	2.34 – 2.37
Audit recommendation	2.38
Response from the HKAPA	2.39
Response from the Government	2.40 – 2.41

	Paragraph
Graduate number and employment survey	2.42 – 2.50
Audit recommendations	2.51 – 2.52
Response from the HKAPA	2.53
Response from the Government	2.54
Non-government funded programmes	2.55 – 2.58
Audit recommendations	2.59
Response from the HKAPA	2.60
Response from the Government	2.61
PART 3: GOVERNANCE AND GOVERNMENT MONITORING	3.1 – 3.5
Council and committee proceedings	3.6 – 3.17
Audit recommendations	3.18 – 3.19
Response from the HKAPA	3.20
Response from the Government	3.21
Government monitoring	3.22 – 3.38
Audit recommendations	3.39 – 3.41
Response from the HKAPA	3.42
Response from the Government	3.43 – 3.44
PART 4: ADMINISTRATIVE ISSUES	4.1
Utilisation of teaching venues	4.2 – 4.9
Audit recommendations	4.10
Response from the HKAPA	4.11

	Paragraph
Utilisation of performance venues	4.12 – 4.16
Audit recommendations	4.17
Response from the HKAPA	4.18
Electricity charges and energy management	4.19 – 4.23
Audit recommendations	4.24
Response from the HKAPA	4.25
Management of fixed assets	4.26 – 4.33
Audit recommendations	4.34
Response from the HKAPA	4.35
Investment of surplus funds	4.36 – 4.38
Audit recommendations	4.39
Response from the HKAPA	4.40
PART 5: CAMPUS IMPROVEMENT AND EXPANSION	5.1
Wanchai Campus expansion project	5.2 – 5.15
Audit recommendations	5.16 – 5.18
Response from the HKAPA	5.19
Response from the Government	5.20 – 5.21
Planning for further campus expansion	5.22 – 5.30
Audit recommendations	5.31 – 5.32
Response from the HKAPA	5.33
Response from the Government	5.34

Appendices	Page
A : HKAPA: Organisation chart (December 2015)	85
B : HKAPA's income and expenditure (2010-11 to 2014-15)	86
C : Awards and achievements of HKAPA students and graduates in performing arts events (2015)	87
D : Acronyms and abbreviations	88

HONG KONG ACADEMY FOR PERFORMING ARTS

Executive Summary

1. The Hong Kong Academy for Performing Arts (HKAPA) was established in 1984 by The Hong Kong Academy for Performing Arts Ordinance (Cap. 1135) to foster and provide training, education and research in the performing arts and related technical arts. The HKAPA offers undergraduate degree programmes, sub-degree programmes and junior programmes with government funding. It also offers self-financing Master's degree programmes. The Home Affairs Bureau (HAB) oversees the funding and operations of the HKAPA. In the financial year 2014-15 (ended on 30 June 2015), government subvention to the HKAPA amounted to \$309 million, accounting for 66% of the HKAPA's total income of \$467 million. With a total expenditure of \$437 million, the HKAPA recorded a surplus of \$30 million in 2014-15. The Audit Commission (Audit) has recently conducted a review of the HKAPA.

Provision of academic programmes

2. *Enrolment shortfall in government-funded programmes.* As at 31 October 2015, there were 643 students enrolled for the HKAPA's undergraduate degree programmes and 142 students for sub-degree programmes. The 785 enrolled students comprised 698 (89%) local students and 87 (11%) non-local students. The HKAPA sets student enrolment targets every year. For undergraduate degree and sub-degree programmes, there were enrolment shortfalls in the academic years 2012/13 to 2015/16, increasing from 14 places (2%) in 2012/13 to 40 places (5%) in 2015/16. In 2015/16, local students only filled 85% of the enrolment target of 825. The shortfall was partially made up by non-local students (see para. 3). Among the HKAPA's six Schools, the School of Chinese Opera had the highest number (16) and percentage (26%) of enrolment shortfall in 2015/16. With increasing competition from other higher education institutions against the trend of a falling student population, the HKAPA needs to plan strategically to meet the challenges in student enrolment (paras. 1.7, 2.6, 2.8, 2.10 and 2.13).

Executive Summary

3. ***Need to review HKAPA policy on admission of non-local students.*** The Government has adopted a policy to attract quality non-local students to study in Hong Kong as a way to internationalise the local higher education sector. In December 2014, the Government refined the policy such that for education institutions funded by the University Grants Committee (UGC), starting from 2016/17, all new non-local students should be admitted through over-enrolment outside the approved student number targets, capped at 20% of the targets. The refined policy ensures that all UGC-funded places are for local students only. The HKAPA has adopted a policy of admitting non-local students up to 20% of the total student number, with no differentiation of its student number target between local students and non-local students. The HAB needs to review whether and to what extent the principles of the refined policy for UGC-funded institutions would apply to the HKAPA, and to draw up a policy on admission of non-local students for the HKAPA (paras. 2.20, 2.23, 2.26 and 2.27).

4. ***Tuition fee for non-local students not recovering all additional direct costs.*** For undergraduate degree programmes, the HKAPA has adopted the policies of aligning the tuition fee with that of UGC-funded institutions (set for some years at \$42,100 a year), and charging non-local students the same tuition fee. By contrast, UGC-funded institutions are required to charge non-local students tuition fee at a level that was at least sufficient to recover all additional direct costs. In 2015/16, their fees ranged from \$110,000 to \$146,000. In response to the HAB's request of February 2015 for the HKAPA to review its tuition fee policy for non-local students, the HKAPA indicated that it was formulating a proposal of phased introduction of fee increase (paras. 2.28 and 2.29).

5. ***Increasing student unit cost.*** The HKAPA's student unit cost, being an important performance indicator, is published in the HAB's Controlling Officer's Report. There has been an increasing trend in the HKAPA's student unit cost, which increased by 80% from \$171,000 in 2005/06 to \$308,000 in 2014/15. The HAB and the HKAPA need to examine the underlying reasons and monitor the student unit cost closely (paras. 2.34 and 2.36).

6. ***Decreasing number of graduates.*** In line with the new academic structure, the HKAPA started in 2012/13 to migrate to a four-year undergraduate degree structure. In the transition, the HKAPA expanded its enrolment of undergraduate degree programmes and phased out some sub-degree programmes. As a result, the total number of graduates decreased by 47% from the peak of 418 in

Executive Summary

2011/12 to 222 in 2014/15. This has reduced the supply of HKAPA graduates to the performing arts sector (paras. 2.42 to 2.44).

Governance and government monitoring

7. *Lower meeting attendance rates of some committees and Council members.* The Council, supported by seven committees, is the governing body of the HKAPA. While from 2011 to 2015 the overall attendance rates at meetings of the Council and its committees were generally above 70%, one committee in 2013 and another in 2011, 2013 and 2015 had lower overall attendance rates (ranging from 60% to 69%). Furthermore, two Council members had low attendance rates (29%) at Council meetings during their term from 2013 to 2014. However, both were re-appointed for another term from 2015 to 2016 (paras. 3.2, 3.3, 3.7 and 3.8).

8. *Need to impose additional requirements for monitoring.* In 2001, the HAB and the HKAPA entered into a Memorandum of Administrative Arrangements (MAA) setting out the framework of administrative arrangements between them. As the MAA has not been updated, some important reporting requirements specified in subvention guidelines issued by the Government after 2001 are not incorporated, such as the requirement to submit an audited annual financial report on subvented programmes with an auditor's opinion on the compliance with all government requirements and subvention guidelines (paras. 3.22, 3.24 and 3.25).

9. *Unspent balances not returned to the reserve.* The HKAPA may keep as reserve any savings from its annual recurrent subvention, up to a limit. It might make allocation from the reserve for a specific purpose. When the purpose has been accomplished, the unspent balance should be returned to the reserve. However, there were cases where the unspent balances totalling some \$18 million were not duly returned to the reserve (paras. 3.26 and 3.29).

Administrative issues

10. *Low utilisation rates of some teaching venues.* Audit analysis based on available records indicated that the average utilisation rates of the HKAPA's teaching venues in 2014-15 were: (a) 32% to 79% for those at the Wanchai Campus; (b) 3% to 28% for those at the Bethanie Campus; and (c) 12% to 35% for

Executive Summary

those at leased premises at commercial buildings. The utilisation rates recorded for some teaching venues were low, although according to HKAPA records there have been repeated comments of acute shortage in teaching space (paras. 4.5 to 4.7).

11. *Low utilisation rates of some performance venues.* The HKAPA has a number of performance venues, which are available for hiring by outside parties when they are not being used for teaching purposes. Based on statistics compiled by the HKAPA, the utilisation rates of these performance venues in 2014-15 were: (a) 50% to 94% for those at the Wanchai Campus; and (b) 19% to 31% for those at the Bethanie Campus. There is scope for promoting the hiring of the performance venues with low utilisation rates (paras. 4.12 to 4.14).

Campus improvement and expansion

12. In June 2012, the Finance Committee of the Legislative Council (LegCo) approved a funding of \$444.8 million for the HKAPA to carry out an expansion and improvement project of the Wanchai Campus. The core part of the project was an on-campus expansion (OCE) project, scheduled for completion in December 2015. As at January 2016, the OCE project was expected to be completed in December 2017, two years behind schedule (paras. 5.3 and 5.5).

13. *Change in project design after funding approval.* The HKAPA's original plan was to invite tenders in January 2013. However, it only did so in October 2013 after making design changes found necessary in: (a) a strategic review initiated in November 2012, which concluded in April 2013 that a digital technology enhanced educational environment would be a key priority; and (b) a value re-engineering exercise conducted from January to March 2013 with a view to reducing the project cost, after it found from the pre-tender estimate in December 2012 that the approved project estimate (APE) of \$444.8 million might be exceeded. However, the returned tender prices were still higher than the estimates. In March 2014, the HAB made a proposal to the Financial Services and the Treasury Bureau (FSTB) to seek supplementary provision of \$150 million to cover the increased cost of the OCE project (about \$105 million) and to meet the expenditure for specialist equipment (about \$45 million) not included in the original project scope. The FSTB commented that it was highly undesirable for the HKAPA to initiate changes that would affect the APE after funding approval, and asked the HAB and the HKAPA to critically review the project scope and works specifications to contain the project cost within the APE (paras. 5.6 and 5.8).

Executive Summary

14. ***Project scope reduction not reported to LegCo.*** In June 2014, the HAB and the HKAPA worked out a cost containment proposal to bring about savings of \$68 million to contain the project cost within the APE by excluding the construction of a one-storey lightweight structure on the roof of an existing block. The original total construction floor area of 10,889 square metres would be reduced by about 10%. According to a Financial Circular, LegCo approval should be sought for changes that constitute a significant deviation from the approved project scope and the FSTB may approve minor changes to project scope. There are currently no guidelines and procedures for determining what constitutes a significant change in project scope where LegCo approval has to be sought. In this case, the FSTB deferred to the HAB to consider whether and, if so, how to report the reduction in project scope to LegCo. The HAB considered it not necessary to report to LegCo as the proposal would not constitute a substantial change in project scope. In August 2014, the HKAPA awarded the contract according to the cost containment proposal. Up to February 2016, the HAB had not informed LegCo of the project delay and reduction in scope (paras. 5.6 and 5.9 to 5.13).

Audit recommendations

15. **Audit recommendations are made in the respective sections of the Audit Report. Only the key ones are highlighted in the Executive Summary. Audit has *recommended* that the HKAPA should:**

- (a) **closely monitor the student enrolment situation and address the enrolment shortfall (para. 2.17(a));**
- (b) **in conjunction with the Secretary for Home Affairs, closely monitor the student unit cost and take effective measures to contain the increasing trend (para. 2.38);**
- (c) **in conjunction with the Secretary for Home Affairs, review the effects of the reduction in number of graduates (para. 2.51);**
- (d) **take measures to improve the attendance rates at Council and committee meetings (para. 3.18(a) and (b));**
- (e) **return to the reserve the unspent balance of an allocation when the purpose of the allocation has been accomplished (para. 3.39(b));**

Executive Summary

- (f) **monitor the utilisation rates of teaching venues and performance venues, and improve the utilisation of those with low utilisation rates (paras. 4.10 and 4.17); and**
 - (g) **implement future government-subsented capital works projects in strict accordance with the approved scope, and avoid making changes to the design and specifications that would increase the APE (para. 5.16(b)).**
16. **Audit has *recommended* that the Secretary for Home Affairs should:**
- (a) **draw up a policy on admission of non-local students for the HKAPA (para. 2.31(a));**
 - (b) **pursue further with the HKAPA on setting a tuition fee level for non-local students to recover all additional direct costs (para. 2.31(b));**
 - (c) **update the MAA with the Government's prevailing subvention guidelines (para. 3.40(a));**
 - (d) **follow up the return of unspent balances of allocations made from the HKAPA's reserve (para. 3.40(b));**
 - (e) **provide timely guidance to subsented organisations to remind them to implement subsented capital works projects in strict accordance with the approved scope, and complete the projects on time and within budget (para. 5.17(b)); and**
 - (f) **report the progress of the OCE project to LegCo with a detailed account of the delay and reduction in scope (para. 5.17(c)).**

Response from the HKAPA and the Government

17. The Director, HKAPA and the Secretary for Home Affairs generally accept the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

1.2 The Hong Kong Academy for Performing Arts (HKAPA) was established in 1984 by The Hong Kong Academy for Performing Arts Ordinance (HKAPA Ordinance — Cap. 1135). It is a tertiary education institution in performing arts. According to the Ordinance, the objects of the HKAPA are to foster and provide training, education and research in the performing arts and related technical arts. According to its mission statement, the HKAPA seeks to capitalise on its position within a dynamic and diverse cultural metropolis and its strong industry and community partnerships to provide students with an innovative, multidisciplinary and globally focused education. Apart from being a higher education institution, the HKAPA has a unique role in the Government's arts and cultural policies. As the only degree-awarding institution that provides professional training for performing arts practitioners, the HKAPA is a key strategic partner of the Government and plays a pivotal role in training performing arts talents. The HKAPA works closely with the local performing arts sector and the Government to ensure that the training would meet the needs of the sector.

Schools and academic programmes

1.3 The HKAPA has six Schools grouped under two Colleges:

- (a) the College of Allied Arts, comprising the School of Chinese Opera, the School of Dance, and the School of Music; and
- (b) the College of Theatre and Media Arts, comprising the School of Drama, the School of Film and Television, and the School of Theatre and Entertainment Arts.

1.4 The HKAPA offers the following academic programmes:

- (a) undergraduate degree programmes for all the six disciplines. These programmes are the core of the HKAPA's academic programmes;

Introduction

- (b) post-secondary programmes (i.e. sub-degree programmes) for Chinese opera, dance, music, and theatre and entertainment arts;
- (c) junior programmes for dance and music; and
- (d) Master's degree programmes for the five disciplines other than Chinese opera. Unlike the programmes mentioned above, the Master's degree programmes are self-financing, i.e. not covered by government subvention.

1.5 According to the HKAPA:

- (a) the HKAPA has developed a unique suite of conservatoire style performing arts programmes (Note 1) to train high quality performing artists to contribute to the development of the cultural life of Hong Kong; and
- (b) the delivery of such programmes requires an institution with a range of unique attributes, including:
 - (i) highly skilled teachers and practitioners with a strong professional and industry background;
 - (ii) talented students selected through a rigorous auditioning and interview process emphasising “quality” over “quantity”;
 - (iii) specialist, discipline-specific facilities;
 - (iv) a curriculum that privileges performance-based training while complementing it with breadth studies in the humanities and areas of professional need; and
 - (v) an intensive teaching model often requiring small classes and one-to-one interaction.

Note 1: *In the HKAPA's view, such programmes, and the nature of its “research” outcomes which are “documented” through the creation of a new work or performance rather than through the university model of publication, differentiate it from a typical university.*

1.6 The HKAPA started to migrate from a three-year to a four-year undergraduate degree structure in the academic year 2012/13, in line with the new academic structure for senior secondary education and higher education academic system. The HKAPA's academic awards are accredited by the Hong Kong Council for Accreditation of Academic and Vocational Qualifications.

1.7 As at 31 October 2015, there were 643 students enrolled for the HKAPA's undergraduate degree programmes, 142 students for sub-degree programmes, 690 for junior programmes, and 133 for Master's degree programmes.

1.8 The HKAPA has two wholly-owned subsidiary companies limited by guarantee, namely the Extension and Continuing Education for Life Limited (the EXCEL), and the Young Academy Cantonese Opera Troupe Company Limited (the Troupe). The EXCEL, set up in 2005, is the continuing education arm of the HKAPA and offers performing arts education programmes to the general public of all age groups. The Troupe, set up in 2011, carries out outreach activities and provides employment opportunities to graduates of the School of Chinese Opera.

Governance and administration

1.9 According to the HKAPA Ordinance:

- (a) the Council is the governing and executive body of the HKAPA. It shall consist of not more than 15 persons (including the Council Chairman) appointed by the Chief Executive of the Hong Kong Special Administrative Region, the Director (see (b) below), and two persons elected by and from among the HKAPA's staff. It may create committees for any general or special purposes;
- (b) the Council shall appoint a Director. The Director is responsible to the Council and is vested with the management, conduct and administration of the HKAPA, the maintenance of academic standards and the discipline of students. The Director is assisted by two deputy directors. Appendix A shows an organisation chart of the HKAPA; and

Introduction

- (c) the Academic Board has the power and duty to review and develop academic programmes, direct and regulate the training, education and research conducted in the HKAPA, and regulate the examinations leading to the conferment of academic awards, etc. It shall consist of the Director (see (b) above) who shall be the Board Chairman, and persons appointed by the Council.

1.10 As at 30 September 2015, there were 404 full-time posts in the HKAPA's establishment, comprising 5 directorate, 116 academic, 63 administrative and 220 supporting posts. There were also 403 part-time teaching staff and a number of part-time staff for other purposes.

1.11 The Home Affairs Bureau (HAB) is responsible for formulating policies and programmes on culture and the arts. It oversees the operations of the HKAPA in delivering training and education programmes in performing arts. In 2001, the HAB and the HKAPA entered into a Memorandum of Administrative Arrangements (MAA). The MAA sets out the framework of administrative arrangements between the Government and the HKAPA, and is founded on the principle that the HKAPA should have autonomy and flexibility in utilising its funds as is compatible with the HKAPA Ordinance.

Government subvention

1.12 The HKAPA receives subventions from the Government, mainly via the HAB. According to the HAB, a suitable subvention policy is vital to enabling the HKAPA to carry out its unique role as the Government's key strategic partner in fostering the arts and cultural development of Hong Kong.

1.13 Unlike tertiary education institutions funded by the University Grants Committee (UGC — Note 2) where student numbers are a key factor for calculating

Note 2: *The UGC is an advisory committee responsible for advising the Government on the development and funding needs of higher education institutions of Hong Kong. Currently, there are eight higher education institutions funded through the UGC, namely, City University of Hong Kong, Hong Kong Baptist University, Lingnan University, The Chinese University of Hong Kong, The Hong Kong Institute of Education, The Hong Kong Polytechnic University, The Hong Kong University of Science and Technology, and The University of Hong Kong.*

subvention, the amount of subvention for the HKAPA in a particular year is determined by taking into account a number of factors, including the HKAPA's baseline expenditure, approved funding for new initiatives, estimated income, impact of civil service pay adjustment, and the overall government budgetary situation, etc. The HAB considers that the subvention arrangement for the HKAPA, instead of being driven solely by student numbers, should take into consideration the unique nature and functions of a quality performing arts education provider.

1.14 Based on the audited financial statements for the financial year 2014-15 (ended on 30 June 2015), government subvention to the HKAPA amounted to \$309.1 million, accounting for 66% of the HKAPA's total income of \$466.7 million. The government subvention in 2014-15 included the following:

- (a) recurrent subvention of \$280.5 million;
- (b) capital subvention of \$13.8 million related to the acquisition of minor capital items (up to \$2 million each); and
- (c) capital subvention of \$8.1 million related to the acquisition of major capital items (over \$2 million each) and works projects.

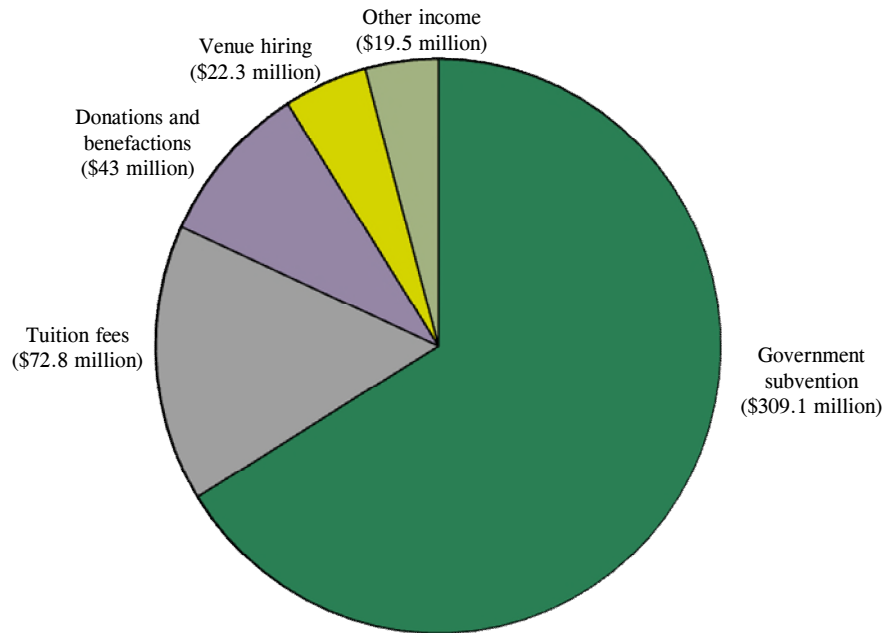
Financial performance

1.15 With a total expenditure of \$436.9 million, the HKAPA recorded a surplus of \$29.8 million in 2014-15. Figure 1 analyses its income and expenditure. Appendix B shows the HKAPA's income and expenditure for the financial years 2010-11 to 2014-15, together with an analysis of the rates of increase/decrease of the individual items.

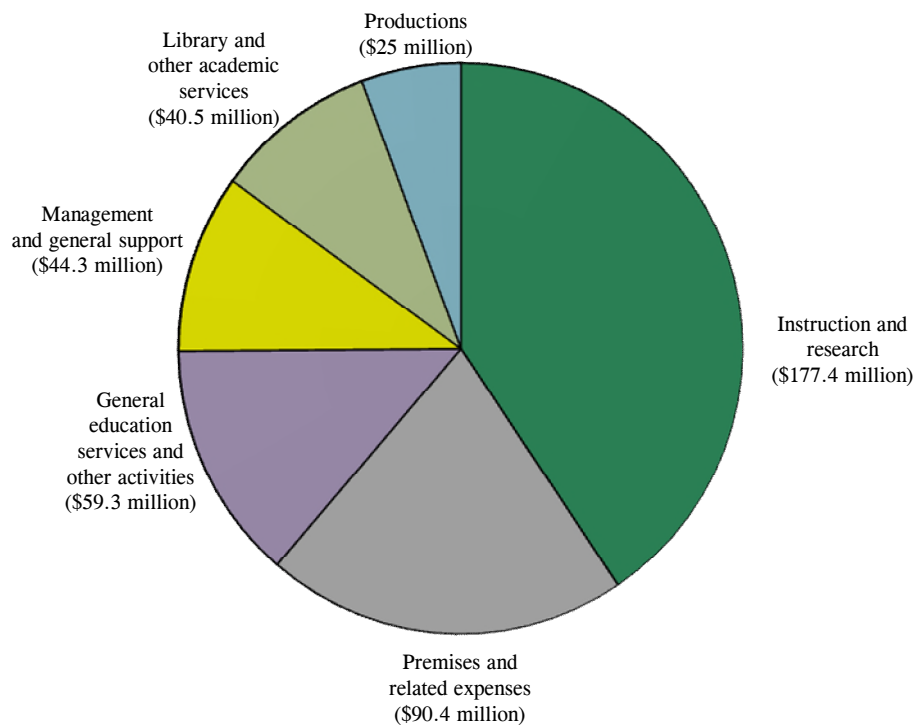
Figure 1

**HKAPA's income and expenditure
(2014-15)**

Income (\$466.7 million)



Expenditure (\$436.9 million)



Source: *Audit analysis of HKAPA records*

Campuses

1.16 The HKAPA has two campuses. The main campus is the Wanchai Campus located in Wanchai waterfront (see Photograph 1), which is now undergoing an expansion project. The other campus is the Bethanie Campus located in Pokfulam (see Photograph 2), which is a heritage site.

Photograph 1

Wanchai Campus



Source: HKAPA records

Photograph 2

Bethanie Campus



Source: HKAPA records

Introduction

Aspirations and awards

1.17 In 2014, the HKAPA celebrated its 30th anniversary. During the three decades, the HKAPA provided training and education to many artists and professionals for the local performing arts sector. According to the HKAPA's strategic plan for 2013 to 2023, it aspires to remain the institution of choice for talented local performing arts students, and to make its graduates the first choice of local performing arts companies. The important role played by the HKAPA in the performing arts sector of Hong Kong will continue to rise in the years to come in view of the development of the West Kowloon Cultural District, bringing about an increasing demand for performing artists. Appendix C shows the awards and achievements of the HKAPA students and graduates in performing arts events in 2015.

Audit review

1.18 In October 2015, the Audit Commission (Audit) commenced a review of the HKAPA. The review has focused on the following areas:

- (a) provision of academic programmes (PART 2);
- (b) governance and government monitoring (PART 3);
- (c) administrative issues (PART 4); and
- (d) campus improvement and expansion (PART 5).

1.19 Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

General response from the HKAPA and the Government

1.20 The Director, HKAPA and the Secretary for Home Affairs generally accept the audit recommendations. The Director, HKAPA has provided Audit with the following comments on the value of the work of the HKAPA:

- (a) while there are effective accounting processes for measuring costs, measuring the value of the work of the HKAPA is a different and, due to the subjective and qualitative elements of the performing arts, a somewhat more challenging process; and
- (b) the HKAPA believes that the value of its work should embrace its contribution to education, culture and society. As a developed economy and knowledge-based society, Hong Kong has a rich cultural life framed within a dynamic and diverse cultural metropolis at a unique point of intersection between the Eastern and the Western cultural practice. The role of the HKAPA, which contributes to the development of the cultural life of Hong Kong, is of significant value. As such, the HKAPA should be continually nurtured and appropriately supported, and its future should never be taken for granted.

Acknowledgement

1.21 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the HKAPA and the HAB during the course of the audit review.

PART 2: PROVISION OF ACADEMIC PROGRAMMES

2.1 This PART examines the following issues relating to the HKAPA's provision of academic programmes:

- (a) student enrolment (paras. 2.6 to 2.19);
- (b) admission of non-local students (paras. 2.20 to 2.33);
- (c) student unit cost (paras. 2.34 to 2.41);
- (d) graduate number and employment survey (paras. 2.42 to 2.54); and
- (e) non-government funded programmes (paras. 2.55 to 2.61).

Academic programmes

2.2 As a tertiary education institution, the HKAPA offers academic programmes in its six Schools:

	<i>College of Allied Arts</i>		<i>College of Theatre and Media Arts</i>
(a)	School of Chinese Opera	(d)	School of Drama
(b)	School of Dance	(e)	School of Film and Television
(c)	School of Music	(f)	School of Theatre and Entertainment Arts

2.3 ***Government-funded programmes.*** All the six Schools offer undergraduate degree programmes which are the core of the HKAPA's academic programmes. Sub-degree programmes (certificate, diploma and advanced diploma programmes) are offered in four Schools (Chinese Opera, Dance, Music, and Theatre and Entertainment Arts). The School of Dance and the School of Music also offer junior programmes (part-time) to talented school students with government funding.

2.4 *Non-government funded programmes.* According to the MAA, the HKAPA is allowed to operate non-government funded programmes on a self-financing basis. The HKAPA has set up a Graduate Education Centre to offer Master's degree programmes on a self-financing basis for five disciplines other than Chinese Opera. The HKAPA's two subsidiary companies also offer non-government funded programmes. The EXCEL provides part-time programmes in performing arts for students of all ages. The Troupe provides continuing education, training and performance opportunities for young Cantonese opera artists (including HKAPA graduates).

2.5 The Academic Board, chaired by the Director and comprising senior academic staff and student representatives, is responsible for reviewing and developing academic programmes, directing and regulating the training, education and research conducted in the HKAPA. The Director reports to the Council on matters decided at the Academic Board for the Council's information or decision.

Student enrolment

2.6 The HKAPA sets student number targets every year. The six Schools set admission targets for first-year students and overall enrolment targets to facilitate tracking of enrolment trends and revealing anomalies, which help the HKAPA monitor performance, evaluate its academic programmes as well as develop future recruitment strategy. The targets are projected figures and take into account the current student enrolment situation and anticipated changes. After approval by the Academic Board, the targets are submitted to the HAB together with the annual budget of the corresponding financial year (Note 3).

Enrolment shortfall in government-funded programmes

2.7 In line with the government education policy on new academic structure, the HKAPA started to migrate from a three-year to a four-year undergraduate degree structure from the academic year 2012/13. The migration was completed by the end of 2014/15. Audit analysed the enrolment targets provided by the HKAPA

Note 3: *The HKAPA updates the targets after completing the auditions and interviews of applicants for its academic programmes, taking into account the number of offer letters issued to applicants.*

Provision of academic programmes

to the HAB and the actual student numbers of the undergraduate degree and sub-degree programmes from 2012/13 to 2015/16. Table 1 shows the results.

Table 1
Target and actual number of students
(2012/13 to 2015/16)

Academic year	Undergraduate degree programmes			Sub-degree programmes			Total		
	Target (No.)	Actual (No.)	Under/ (over)- target (No.)	Target (No.)	Actual (No.)	Under/ (over)- target (No.)	Target (No.)	Actual (No.)	Under/ (over)- target (No.)
2012/13	653	626	27	146	159	(13)	799	785	14
2013/14	634	629	5	171	152	19	805	781	24
2014/15	677	654	23	135	130	5	812	784	28
2015/16	677	643	34	148	142	6	825	785	40

Source: Audit analysis of HKAPA records

Remarks: Each year, the HKAPA may conditionally admit some students who do not meet the general admission requirements. These students are required to retake certain subjects in public examinations within two years in order to fulfil the general admission requirements. For the academic year 2015/16, among the 785 enrolled students, there were 32 first-year students on conditional admission.

2.8 Table 1 shows that, for undergraduate degree programmes, the enrolment targets were not met for all four years. For sub-degree programmes, the enrolment targets were not met for three years (except for 2012/13). Overall, there were enrolment shortfalls, increasing from 14 places (2%) in 2012/13 to 40 places (5%) in 2015/16. It should be noted that the student enrolment figures reported by the HKAPA included non-local students (see paras. 2.20 to 2.27). In 2015/16, the 785 enrolled students comprised 698 (89%) local students and 87 (11%) non-local students. Local students only filled 85% of the enrolment target of 825. The shortfall was partially made up by non-local students.

Provision of academic programmes

2.9 Audit further analysed the 2015/16 enrolment situation of each of the six Schools. Table 2 shows the results.

Table 2
Target and actual number of students
(2015/16)

School	Target (No.)	Actual (No.)	Under/(over)-target	
			(No.)	(%)
Chinese Opera (Note)	62	46	16	26
Music	197	187	10	5
Dance	142	134	8	6
Drama	99	95	4	4
Film and Television	117	113	4	3
Theatre and Entertainment Arts	208	210	(2)	(1)
Total	825	785	40	5

Source: Audit analysis of HKAPA records

Note: In 1998, the HKAPA set up the Centre for the Chinese Traditional Theatre to provide sub-degree programmes in Chinese opera. In 2013, the Centre was upgraded to become the School of Chinese Opera to offer both undergraduate degree and sub-degree programmes starting from the academic year 2013/14.

2.10 Table 2 shows that the School of Chinese Opera had the highest number (16) and percentage (26%) of enrolment shortfall in 2015/16. HKAPA records also showed that:

- (a) in 2012/13, when only sub-degree programmes were offered (see Note to Table 2), the School had 61 students; and

Provision of academic programmes

- (b) since 2013/14, the School has offered both undergraduate degree and sub-degree programmes. The number of students of the School has been decreasing from 57 in 2013/14 to 46 in 2015/16.

In Audit's view, special attention is required to tackle the enrolment shortfall problem in the School of Chinese Opera.

Challenges ahead on enrolling students

2.11 In Audit's view, the HKAPA needs to monitor closely the student enrolment situation. In recent years, in its annual budget submissions to the HAB, the HKAPA explained that the enrolment shortfall was the results of:

- (a) difficulties in recruiting qualified students, especially for the School of Chinese Opera;
- (b) students with good examination results normally applying for places in institutions funded by the UGC; and
- (c) potential candidates withdrawing due to competition from UGC-funded institutions. Many candidates tended to take the offer from the UGC-funded institutions instead of joining the HKAPA. Family pressure often contributed to this decision.

2.12 The HKAPA needs to take measures to address the enrolment shortfall. This is particularly important in view of the recent developments in the higher education sector. In December 2014, the Education Bureau (EDB) informed the Legislative Council (LegCo) that:

- (a) the Government expected a continuous drop in the population of the relevant age cohort proceeding to post-secondary education in the coming decade. The number of local secondary school graduates would drop significantly, from about 62,000 in 2014 to 42,700 in 2022;
- (b) the Government would take a series of measures to further increase subsidised higher education opportunities, in order to provide school leavers with broader and more diversified articulation pathways; and

- (c) on full implementation of these measures, and given the declining student population, the Government envisaged that there would be sufficient publicly-funded and self-financing first-year-first-degree places for all secondary school leavers who meet minimum university entrance requirements by 2016/17.

2.13 These recent developments indicate that there will be increasing competition from the UGC-funded institutions and other higher education institutions against the trend of a falling student population. The HKAPA needs to plan strategically to meet the challenges.

Need for measures to enhance student application

2.14 The HKAPA admits students with results from the Hong Kong Diploma of Secondary Education (HKDSE) Examination to its academic programmes. The admission is by direct application in hardcopy at a fee of \$300. There has been a decreasing trend in the number of applications for undergraduate degree and sub-degree programmes in the last four academic years: 2012/13 (1,901), 2013/14 (1,821), 2014/15 (1,717) and 2015/16 (1,494). The HKAPA admitted 222 first-year students in 2015/16.

2.15 The HKAPA has not joined the Joint University Programmes Admissions System (JUPAS) which is a scheme and the main route of application designed to assist students with HKDSE Examination results to apply for admission to tertiary education programmes. Initially, JUPAS was participated by the eight UGC-funded institutions. In 2007, the Open University of Hong Kong joined JUPAS in respect of its self-financing programmes. In 2015, five private tertiary institutions also joined JUPAS in respect of their programmes funded by the EDB. JUPAS makes use of an online platform to streamline the application process and charges a fee of \$420 per applicant.

2.16 Audit considers that the HKAPA needs to explore measures to improve its admission procedures with a view to attracting more applicants for its academic programmes, making reference to operations of JUPAS.

Audit recommendations

2.17 **Audit has recommended that the HKAPA, in consultation with the Secretary for Home Affairs, should:**

- (a) **closely monitor the student enrolment situation and address the enrolment shortfall, particularly for the School of Chinese Opera;**
- (b) **plan strategically to meet the challenges presented by the decreasing population of secondary school graduates and the increasing competition from other higher education institutions; and**
- (c) **explore measures to attract more suitably qualified students to apply for its academic programmes, including ways to improve its admission procedures.**

Response from the HKAPA

2.18 The Director, HKAPA generally accepts the audit recommendations. He has said that:

- (a) the HKAPA is taking steps to address the key issues relating to enrolment numbers, including reviewing the relevant entry and articulation pathways. Separately, the HKAPA is planning to develop an online web-based platform for local and international students to submit their applications with a view to reaching out to a wider pool of suitably qualified candidates and facilitating their applications; and
- (b) since the School of Chinese Opera is the youngest school of the HKAPA and still in its fledging phase, its impact and potential has yet to be fully realised. Also, training in Chinese opera at a pre-tertiary level in Hong Kong has not been widely developed.

Response from the Government

2.19 The Secretary for Home Affairs generally accepts the audit recommendations.

Admission of non-local students

Government policy on non-local students

2.20 Under the Government's education hub policy, Hong Kong is to be developed as a regional education hub. It aims to attract quality non-local students to study in Hong Kong and, through this process, further internationalise the local higher education sector and increase the exposure of local students. Under this policy, higher education institutions enrol non-local students in accordance with the Government's admission policy and admission quota.

2.21 In October 2007, the Government decided to increase the non-local student quota for publicly-funded programmes at the sub-degree, undergraduate degree and taught postgraduate level in phases, from 10% to 20% of the approved student number targets. The 20% would be split into 4% ("4%-in policy") within approved student number targets and 16% outside approved student number targets in respect of the UGC-funded institutions. In other words, the approved student number targets of UGC-funded institutions might include up to 4% of non-local students with government funding.

2.22 In recent years, some LegCo Members and members of the public expressed concerns that all approved UGC-funded places should be fully utilised to admit local students, so as to maximise the use of public resources for the benefit of local students. Even though the majority of non-local students were admitted to UGC-funded institutions through over-enrolment, they remained concerned whether the "4%-in policy" would displace local students.

2.23 In December 2014, the Chief Executive-in-Council approved to refine the policy and the Government announced that:

- (a) starting from the academic year 2016/17, all new non-local students should be admitted through over-enrolment outside the approved UGC-funded student number targets, capped at a level equivalent to 20% of the approved UGC-funded student number targets for sub-degree, undergraduate degree and taught postgraduate programmes by study level; and

Provision of academic programmes

- (b) non-local students would continue to be required to pay tuition fee at a level that was at least sufficient to recover all additional direct costs but not the full cost (Note 4).

The refined policy on non-local students is to ensure that, starting from the academic year 2016/17, all UGC-funded places are for local students only. Non-local students would be admitted through over-enrolment outside the student number targets.

2.24 In its letter of February 2015 to the HKAPA, the HAB drew the HKAPA's attention to the refined policy for UGC-funded institutions. The HAB informed the HKAPA that the refined policy highlighted the policy intention that:

- (a) publicly-funded higher education places should entirely be allocated to local students; and
- (b) all non-local students enrolling in publicly-funded programmes should be charged at a level which was at least sufficient to recover all additional direct costs.

2.25 In the letter of February 2015, the HAB also said that while the funding and student enrolment mechanism for UGC-funded institutions did not automatically apply to the HKAPA, the HAB suggested the HKAPA to duly take into account the above new development in the UGC sector in conducting its review on the tuition fee charging policy for non-local students so that it would become more compatible with the policy applicable to the local tertiary education sector at large.

Admission of non-local students at HKAPA

2.26 The HKAPA has adopted a policy of admitting non-local students, up to 20% of the total student number. The non-local students were counted as intake in

Note 4: *In its 2011 report on the development of education services in Hong Kong, the Education Commission recommended that education institutions, both within and outside the UGC-funded sector, should charge non-local students at a level that could at least recover all additional direct costs and could consider charging non-local students at the full cost level.*

meeting the student number target and thus were funded by the Government. In 2015/16, the number of non-local students was 87, or 11% of the total student number of 785. Compared with an overall enrolment target of 825 students, there was an overall shortfall of 40 (5%) students if non-local students were counted, or an overall shortfall of 127 (15%) students if non-local students were not counted (see para. 2.8).

2.27 From HAB and HKAPA records, there was no differentiation of the student number target between local students and non-local students. Since the HKAPA is also providing publicly-funded places in tertiary education, the HAB needs to review whether and to what extent the principles of the government policy on admission of non-local students in UGC-funded institutions (see para. 2.24) would apply to the HKAPA, and to draw up a policy on admission of non-local students for the HKAPA.

Tuition fee for non-local students not recovering all additional direct costs

2.28 The HKAPA has adopted a policy of aligning the tuition fee of undergraduate degree programmes with that of the UGC-funded institutions. The tuition fee for undergraduate degree programmes has been set for some years at \$42,100 a year. The HKAPA has also adopted a policy of charging non-local students the same tuition fee as local students. By contrast, for the academic year 2015/16, UGC-funded institutions charged non-local students tuition fee at a level ranging from \$110,000 to \$146,000, on the basis that the fee level was at least sufficient to recover all additional direct costs.

2.29 In February 2015, the HAB requested the HKAPA to review its tuition fee policy for non-local students (see para. 2.24). In July 2015, the HKAPA explained to the HAB that the existing policy would allow it to attract talented non-local students given that the HKAPA did not provide a hostel to non-local students. The HKAPA proposed to move towards full implementation of the new tuition fee policy for non-local students after the completion of a student hostel in the academic year 2024/25. The HKAPA was formulating a proposal of phased introduction of fee increase for consideration by the HAB. In late 2015, the HKAPA initiated the admission procedures for the academic year 2016/17 and published fees of undergraduate degree programmes for local and non-local students, both at \$42,100.

Provision of academic programmes

2.30 In Audit's view, the HAB should pursue further with the HKAPA on the review of its tuition fee policy for non-local students, having regard to the policy applicable to UGC-funded institutions. The HAB should also take into account the views of the EDB on this matter.

Audit recommendations

2.31 **Audit has recommended that the Secretary for Home Affairs should:**

- (a) **in consultation with the Secretary for Education, draw up a policy on admission of non-local students for the HKAPA, making reference to the principles of the policy applicable to UGC-funded institutions; and**
- (b) **in consultation with the Secretary for Education, pursue further with the HKAPA on setting a tuition fee level for non-local students to recover all additional direct costs.**

Response from the Government

2.32 The Secretary for Home Affairs generally accepts the audit recommendations. He has said that the HAB will continue to follow up with the HKAPA with a view to working out a set of clear enrolment and tuition fee policy for non-local students, having regard to the academic needs of the HKAPA for a satisfactory international mix of student population, the overall quality of the learning environment and experience for HKAPA students, cost-effectiveness of the use of public funds as well as the rationale behind the policy adopted by UGC-funded institutions.

2.33 The Secretary for Financial Services and the Treasury has said that the HAB should, in consultation with the EDB, follow up the audit observations regarding the inconsistency between the HKAPA and UGC-funded institutions on admission of non-local students.

Student unit cost

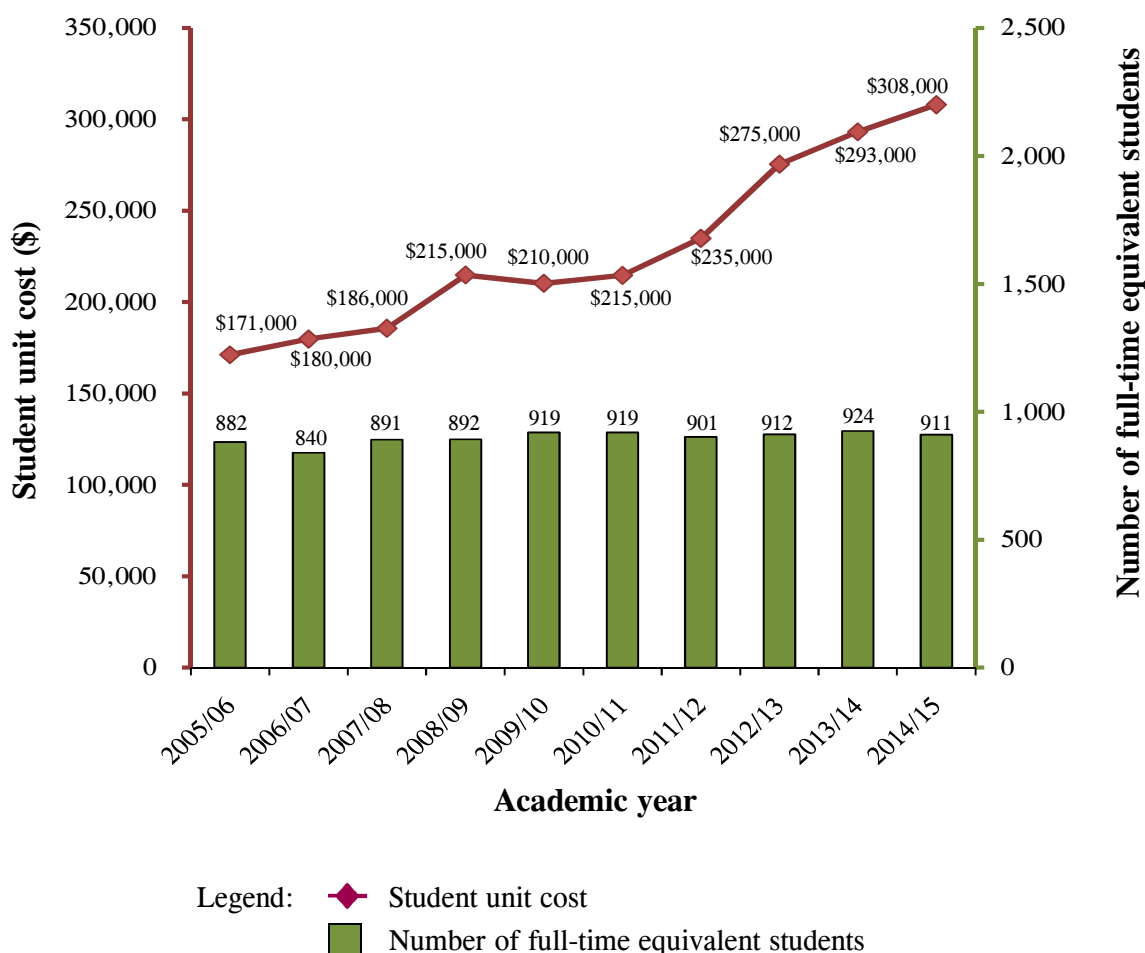
2.34 According to government subvention guidelines, the Controlling Officer of subvention should, in consultation with the subvented organisation, formally define the objectives (with quantifiable results) to be achieved through the provision of subvention, and review achievements against those objectives to assess the value for money obtained from the subvention provided. While other factors are considered in the subvention arrangement for the HKAPA (see para. 1.13), the student unit cost is an important performance indicator, as for UGC-funded institutions. The HKAPA's student unit cost is published in the Controlling Officer's Report of the HAB.

Need to address the increasing student unit cost

2.35 In calculating the student unit cost, the HAB and the HKAPA take the government recurrent subvention as the cost element and divide it by the number of full-time equivalent students of all the subvented programmes, i.e. undergraduate degree, sub-degree and junior programmes. Figure 2 shows the HKAPA's student unit cost over the 10-year period from 2005/06 to 2014/15.

Figure 2

HKAPA's student unit cost
(2005/06 to 2014/15)



Source: HAB records

2.36 Figure 2 shows that there has been an increasing trend in the HKAPA's student unit cost. It increased by 80% from \$171,000 in 2005/06 to \$308,000 in 2014/15. The Consumer Price Index increased by only 34% over the same period. The HAB and the HKAPA need to examine the underlying reasons and monitor the student unit cost closely.

2.37 The UGC compiles and publishes average student unit costs of all UGC-funded institutions, in total and by different academic programme categories based on information provided by institutions. In Audit's view, the student unit costs of UGC-funded institutions provide a useful reference for the HAB and the

HKAPA in analysing the student unit cost of the HKAPA. According to the available information on the UGC's website, from 2009/10 to 2014/15, for the programme category of arts, design and performing arts, the average student unit cost of undergraduate degree programmes decreased by 5% from \$213,000 to \$203,000. Over the same period, the student number in this programme category increased by 67% from 1,667 to 2,782. For the HKAPA, from 2009/10 to 2014/15, its student unit cost increased by 47% while the student number decreased by 1% from 919 to 911.

Audit recommendation

2.38 **Audit has recommended that the HKAPA and the Secretary for Home Affairs should closely monitor the student unit cost and take effective measures to contain the increasing trend, making reference to student unit costs of UGC-funded institutions.**

Response from the HKAPA

2.39 The Director, HKAPA generally accepts the audit recommendation. He has said that:

- (a) the HKAPA will continue to review the student unit cost and the overall cost-effectiveness of its programmes; and
- (b) the university-based arts programmes offered by UGC-funded institutions are very different from the conservatoire style performing arts programmes offered by the HKAPA, mainly in terms of the specialised delivery methodologies of the latter which requires a higher faculty staff ratio than that of a university, as well as the incorporation of productions and performances as a core component of the HKAPA's curriculum which entails higher costs.

Response from the Government

2.40 The Secretary for Home Affairs generally accepts the audit recommendation. He has said that:

Provision of academic programmes

- (a) the Government will continue to monitor the cost effectiveness of the HKAPA's programmes and consider differentiating the student unit costs for different types of programmes to facilitate benchmarking with similar courses; and
- (b) on average, the student unit cost of the HKAPA has increased by around 5% to 6% per year, except for 2012/13. The more substantial increase (about 17%) in 2012/13 was primarily due to the provision of additional recurrent funding to the HKAPA for implementing the four-year undergraduate degree structure and meeting the fixed costs investment required for the migration.

2.41 The Secretary for Financial Services and the Treasury has said that the HAB should, in consultation with the EDB, follow up the audit observations on student unit cost.

Graduate number and employment survey

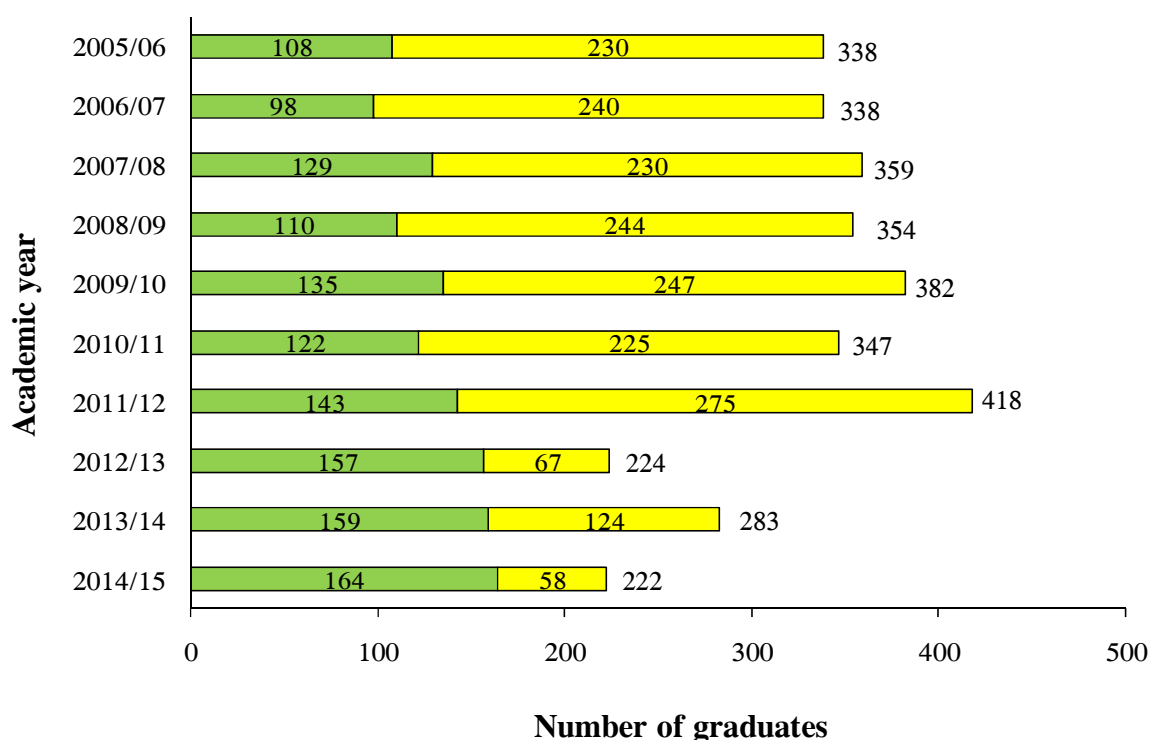
2.42 In 1985/86, the HKAPA started to offer sub-degree programmes. In 1991/92, the HKAPA introduced three-year undergraduate degree programmes. In line with the new academic structure, the HKAPA started in 2012/13 to migrate to the four-year undergraduate degree structure. The migration was completed by the end of 2014/15.

Decrease in the total number of graduates

2.43 In its transition to the four-year undergraduate degree structure, the HKAPA expanded its enrolment of undergraduate degree programmes while keeping the total student enrolment at about the same level. As a result, some sub-degree programmes were phased out and the student number of sub-degree programmes (with a normal study period of two years) had substantially reduced. Figure 3 shows the numbers of graduates of the HKAPA from 2005/06 to 2014/15.

Figure 3

Number of graduates of the HKAPA
(2005/06 to 2014/15)



Legend: Undergraduate degree programmes
 Sub-degree programmes

Source: HKAPA records

2.44 Figure 3 shows that since the migration to the four-year undergraduate degree structure in 2012/13, the total number of graduates had decreased by 47% from the peak of 418 in 2011/12 to 222 in 2014/15. This was mainly due to the substantial decrease of the number of graduates of sub-degree programmes from 275 in 2011/12 to 58 in 2014/15. The decrease in the number of graduates of sub-degree programmes and hence the overall number of graduates has reduced the supply of HKAPA graduates entering the performing arts sector. The HAB and the HKAPA need to review the effects of the reduction in number of graduates arising from the migration to the four-year undergraduate degree structure.

Provision of academic programmes

Graduate employment survey

2.45 Employment survey is commonly used by tertiary education institutions to gauge the prospect and destination of their graduates. However, the HKAPA did not have the practice to conduct graduate employment survey. In a meeting held in December 2011, the HKAPA Council was informed that:

- (a) an important criterion for assessing the quality and applicability of a higher education system was the employability of its graduates. All UGC-funded institutions had been conducting for many years graduate employment survey on an annual basis; and
- (b) the HKAPA did not have the resources in the past to conduct graduate employment survey. If a graduate employment survey was of any meaningful impact, efforts had to be made to ensure a decent response rate of 75% or above.

2.46 In the meeting, the Council approved the appointment of a consultant to conduct graduate employment survey. The Council suggested that the survey should keep track of the whereabouts of the HKAPA graduates in the past five years, and should identify the number of graduates employed by the nine major performing arts groups funded by the Government in Hong Kong (Note 5).

2.47 In April 2013, the HKAPA management informed the Council on the results of the graduate employment survey covering graduates of the years 2010 to 2012. The management suggested that future survey should cover the employment situation of graduates of different Schools, graduates from the Mainland and overseas countries, and employment with performing arts groups other than the nine major performing arts groups. Thereafter, the HKAPA had completed graduate employment survey for 2013 and 2014 graduates. As at January 2016, the survey for graduates of 2015 was still in progress.

Note 5: *The nine major performing arts groups funded by the Government are, namely Hong Kong Philharmonic Orchestra, Hong Kong Chinese Orchestra, Hong Kong Dance Company, Hong Kong Repertory Theatre, Hong Kong Sinfonietta, Hong Kong Ballet, City Contemporary Dance Company, Chung Ying Theatre Company and Zuni Icosahedron.*

Need to disclose more graduate employment information

2.48 The HKAPA has published the results of surveys covering graduates of 2013 and 2014 on its website. However, only limited information was disclosed. There was no disclosure of important information as mentioned in paragraphs 2.46 and 2.47, e.g. graduates employed by the nine major local performing arts groups, and analyses of graduates of different Schools and graduates from the Mainland and overseas countries were not disclosed. The HKAPA needs to disclose more employment information of its graduates on the website.

Low response rate of graduate employment survey

2.49 It is generally considered that information collected from graduate employment survey is useful and representative only if the response rate is high (at 75% or above — see para. 2.45(b)). Audit examined the response rates of graduate employment surveys conducted by the HKAPA and two selected UGC-funded institutions. It was noted that the survey response rates of the HKAPA were 15%, 27% and 24% for the years 2012, 2013 and 2014 respectively, while those of the two selected UGC-funded institutions were all at or above 85%.

2.50 The response rate of the HKAPA's graduate employment survey was very low compared with those of the two institutions. In 2014, the HKAPA invited 329 graduates (of Master's degree, undergraduate degree and sub-degree) to participate in the survey but only 79 (24%) responded. This was far below the desired response rate of 75%. The HKAPA needs to improve the response rate of graduate employment survey.

Audit recommendations

2.51 **Audit has recommended that the HKAPA and the Secretary for Home Affairs should review the effects of the reduction in number of graduates arising from the migration to a four-year undergraduate degree structure.**

2.52 **Audit has recommended that the HKAPA should:**

- (a) **disclose more graduate employment information collected from graduate employment survey on its website; and**

Provision of academic programmes

- (b) **take measures to improve the response rate of graduate employment survey.**

Response from the HKAPA

2.53 The Director, HKAPA generally accepts the audit recommendations in paragraphs 2.51 and 2.52. He has said that:

- (a) in mapping out its strategic direction of migrating to four-year degree programmes and phasing out sub-degree programmes, the HKAPA has kept in close contact with the arts and cultural sector through its discipline-based advisory committees, which has enabled the HKAPA to gauge the views of the stakeholders and assess the implications of the strategic direction on the supply of appropriately qualified graduates; and
- (b) the HKAPA is in the process of conducting a comprehensive review of its four-year degree programmes and has set up a Task Force in December 2015 for this purpose.

Response from the Government

2.54 The Secretary for Home Affairs generally accepts the audit recommendation in paragraph 2.51. He has said that:

- (a) the HAB will continue to monitor the graduate number of the HKAPA taking into account the review being undertaken by the HKAPA on its four-year degree programmes and the needs of the arts sector; and
- (b) the number of graduates of sub-degree programmes had decreased due to the phasing out of some of these programmes as part of the HKAPA's strategy to migrate to four-year degree programmes. In deciding on such strategic direction, the HKAPA had taken into account the views and needs of the arts and cultural sector.

Non-government funded programmes

2.55 Besides government-funded academic programmes (see paras. 2.2 and 2.3), the MAA allows the HKAPA to conduct additional full-time and part-time programmes, junior programmes, summer courses and continuing education courses, etc. on a self-financing basis. Government subvention shall not be used on programmes operating on a self-financing basis to avoid cross-subsidisation. The HKAPA's non-government funded programmes include its Master's degree programmes (see para. 1.4(d)) and programmes operated by its two subsidiaries, i.e. the EXCEL and the Troupe (see para. 1.8). Table 3 is a summary of these programmes.

Table 3

**Non-government funded programmes operated by the HKAPA
(2014-15)**

	EXCEL programmes	Master's degree programmes	Troupe programmes
History	EXCEL was incorporated in 2005, limited by guarantee	Programmes provided since 2006-07	The Troupe was incorporated in 2011, limited by guarantee
Major programmes/ activities	Over 400 short courses for 5,000 part-time students	91 full-time and 46 part-time students	Outreach activities and performances
Operating results: (\$ million)			
Income	13.2	10.4	1.96
Expenditure	<u>11.7</u>	<u>9.3</u>	<u>1.94</u>
Surplus	<u><u>1.5</u></u>	<u><u>1.1</u></u>	<u><u>0.02</u></u>

Source: Audit analysis of HKAPA records

Provision of academic programmes

Different arrangements and different practices for cost recovery

2.56 The non-government funded programmes are conducted using services and facilities provided by the HKAPA. Under the principle of no cross-subsidisation of self-financing activities, the HKAPA should recover relevant costs from these programmes. However, Audit noted that there were different arrangements for recovering costs from the non-government funded programmes:

- (a) in 2007, with reference to the UGC guidelines, the HKAPA made a deed of arrangements with the EXCEL, outlining the bases for cost recovery;
- (b) in 2005, the HKAPA laid down a set of financial rules and procedures for recovering costs from the Master's degree programmes; and
- (c) no formal arrangements had been made for recovering costs from the Troupe programmes.

The HKAPA needs to lay down formal arrangements on a consistent basis for recovering costs from non-government funded programmes.

2.57 Apart from the different arrangements, Audit also noted that there were different practices in recovering costs from the non-government funded programmes, as shown in Table 4.

Table 4
Costs charged to non-government funded programmes
(2014-15)

Costs	Costs charged by HKAPA		
	EXCEL programmes	Master's degree programmes	Troupe programmes
Directly employed staff	Yes	Yes	Yes
Direct expenses	Yes	Yes	Yes
Staff provided by the HKAPA	Not applicable (Note)	Yes	No
Accommodation (e.g. teaching and performance venues, and staff offices)	Yes	No	No
Support services (e.g. information technology, accounting and staff training)	Yes	No	No
Royalties for using the HKAPA trademark	Yes	No	No

Source: Audit analysis of HKAPA records

Note: In 2014-15, the HKAPA did not provide staff to the EXCEL.

2.58 Table 4 shows that the HKAPA did not recover the costs of some services and facilities provided for Master's degree programmes and the Troupe programmes. The HKAPA needs to examine the cost-recovery bases to ensure that there is no cross-subsidisation of programmes operated on a self-financing basis.

Audit recommendations

2.59 **Audit has recommended that the HKAPA should:**

Provision of academic programmes

- (a) **lay down formal arrangements for recovering costs from all non-government funded programmes on a consistent basis; and**
- (b) **examine the current bases for recovering costs from the EXCEL, Master's degree programmes and the Troupe, and make necessary revisions to ensure that there is no cross-subsidisation of programmes operated on a self-financing basis.**

Response from the HKAPA

2.60 The Director, HKAPA generally accepts the audit recommendations. He has said that:

- (a) he agrees to the basic principle that self-financing programmes should be fully charged the relevant costs incurred by them; and
- (b) the Master's degree programmes and the Troupe programmes offer synergy to enrich the publicly-funded programmes as well as provide internship and employment opportunities for HKAPA graduates to enhance their performance skills and experiences. Furthermore, the surplus generated by the EXCEL programmes is ploughed back to the HKAPA for furtherance of its vision, mission and objectives.

Response from the Government

2.61 The Secretary for Financial Services and the Treasury has said that the HKAPA should put in place formal and consistent arrangements to ensure no cross-subsidisation of self-financing programmes.

PART 3: GOVERNANCE AND GOVERNMENT MONITORING

3.1 This PART examines the governance and government monitoring of the HKAPA. Audit has found room for improvement in the following areas:

- (a) Council and committee proceedings (paras. 3.6 to 3.21); and
- (b) government monitoring (paras. 3.22 to 3.44).

Governance structure

3.2 The HKAPA was established by the HKAPA Ordinance. According to the Ordinance, the Council is the governing body of the HKAPA, while the Academic Board is responsible for reviewing, developing, directing and regulating academic programmes. In addition, the Director is responsible to the Council and is vested with the management, conduct and administration of the HKAPA. As at January 2016, there were 18 Council members, comprising:

- (a) 15 persons appointed by the Chief Executive of the Hong Kong Special Administrative Region, including the Council Chairman, the Secretary for Home Affairs or his representative, and the Secretary for Education or his representative;
- (b) the Director (the ex-officio Council member); and
- (c) two members elected by and from among the HKAPA's staff.

3.3 The Council may create committees for any general or special purposes. As at January 2016, there were seven committees under the Council. Table 5 shows the major functions of the committees.

Governance and government monitoring

Table 5
Committees under the Council
(January 2016)

Committee	Major functions
Finance Committee	To advise and make recommendations on the management and regulation of the HKAPA's finance
Audit Committee	To monitor and make recommendations on the development and implementation of the HKAPA's audit policies and system, internal control, financial reporting and risk management framework
Senior Staff Appointments and Remuneration Committee	To consider and approve recommendations on the appointment of senior staff
Staff Retirement Benefit Schemes Management Committee	To advise and make recommendations on the management of staff retirement schemes (i.e. the HKAPA Provident Fund Scheme and the HKAPA Mandatory Provident Fund Scheme)
Main Tender Board	To consider and approve tenders of value above \$1 million
General Tender Board	To consider and approve tenders of value between \$200,001 and \$1 million
Honorary Awards Committee	To consider and advise on the conferment of honorary awards on suitably qualified persons

Source: HKAPA records

3.4 The HKAPA has prepared an Academy Committee Handbook (the Handbook) which provides operational guidelines and procedures for meetings of the Council and its committees, based on governance principles of integrity, accountability and transparency.

Best practices for corporate governance

3.5 In May 2010, the Efficiency Unit under the Chief Secretary for Administration's Office issued the "Guide to Corporate Governance for Subvented Organisations". The Guide sets out principles and best practices relating to the corporate governance of subvented organisations, advises on matters that have raised concern and provides checklists. The goal is to help sustain public trust in organisations which receive public funds. The Guide aims primarily at organisations which receive recurrent subventions, such as the HKAPA.

Council and committee proceedings

Attendance rates at Council/committee meetings

3.6 The effectiveness of an organisation's governing body in fulfilling its governing responsibilities is dependent on its members' knowledge, experience, competence and commitment to serving the organisation. Attendance at meetings is a key indicator to reflect members' commitment to serving the organisation and the organisation benefitting from members' experience and expertise. Table 6 shows the overall attendance rates at Council/committee meetings from 2011 to 2015.

Table 6

**Overall attendance rates at Council/committee meetings
(2011 to 2015)**

Council/committee (Note)	Overall attendance rate				
	2011	2012	2013	2014	2015
Council	82%	78%	79%	79%	78%
Finance Committee	71%	70%	75%	74%	85%
Audit Committee	90%	100%	80%	73%	88%
Senior Staff Appointments and Remuneration Committee	90%	80%	60%	80%	80%
Staff Retirement Benefit Schemes Management Committee	63%	81%	69%	71%	69%
Main Tender Board	100%	100%	100%	100%	100%
Honorary Awards Committee	71%	86%	83%	100%	83%

Source: Audit analysis of HKAPA records

Note: The General Tender Board conducts its business mainly by circulation of papers and seldom holds meetings (e.g. no meeting in 2015). Therefore, it was not included in the analysis.

***Lower attendance rates at the Staff Retirement Benefit Schemes
Management Committee meetings***

3.7 As shown in Table 6, the overall attendance rates from 2011 to 2015 were generally above 70% at meetings of the Council and its committees, except for the Senior Staff Appointments and Remuneration Committee (in 2013) and the Staff Retirement Benefit Schemes Management Committee (in 2011, 2013 and 2015). Audit further analysed the attendance rates at the Staff Retirement Benefit Schemes Management Committee meetings. The committee comprised five Council members and 10 to 12 staff representatives elected by and from among various groups of

staff. In 2011 to 2015, the overall attendance rates of Council members ranged from 33% to 67%, while those of staff representatives ranged from 74% to 88%. There is scope for improving the attendance rates at the Staff Retirement Benefit Schemes Management Committee meetings, particularly for Council members.

Low attendance rates of two Council members

3.8 From 2011 to 2015, the Council had 18 members. Two Council members had low attendance rates at Council meetings during their term from 2013 to 2014. They attended only two (29%) of the seven Council meetings held. However, the HAB nominated them for re-appointment and both were re-appointed for another term from 2015 to 2016. They each attended respectively one (33%) and none (0%) of the three Council meetings held in 2015.

3.9 According to the Handbook, the HKAPA should take actions (e.g. making enquiries and issuing reminders) to improve the attendance rates at Council/committee meetings of individual members with low attendance rates. However, there were no records showing that such actions had been taken. Furthermore, the HAB needs to take into account the meeting attendance rates of individual Council members in nominating them for re-appointment.

Vacancies in two committees

3.10 In 2015, there were vacancies in the Audit Committee and the Staff Retirement Benefit Schemes Management Committee, as follows:

- (a) according to the Handbook, the Audit Committee should comprise the chairman (who should be a Council member) and four other members appointed by the Council. In 2015, there were only three members other than the chairman. There was one vacancy throughout the year; and
- (b) according to the Handbook, the Staff Retirement Benefit Schemes Management Committee should comprise the chairman (who should be the Council Deputy Chairman), four other Council members, and 12 staff representatives elected by and from among various groups of staff (e.g. academic, administrative, and technical staff). In 2015, there were only 10 staff representatives. There were two vacancies throughout the year.

Insufficient disclosure of information on corporate governance

3.11 According to the Guide to Corporate Governance for Subvented Organisations (see para. 3.5), subvented organisations have an obligation to be accountable and transparent. The Guide advocates the public disclosure of the following information:

- (a) the composition of the governing body;
- (b) the key work carried out by the governing body, the number of meetings held, and the attendance rates of individual members; and
- (c) the terms of reference of the committees established under the governing body, the key work carried out by them, the number of meetings held, and the attendance rates of individual members.

3.12 For the HKAPA, there was no disclosure of information pertaining to paragraph 3.11(b) and (c) on its website or annual reports.

Late circulation of meeting papers and draft minutes

3.13 According to the Handbook, the agenda and meeting papers of a meeting should be circulated at least one week (7 days) in advance of the meeting, and the draft minutes should be circulated not more than two weeks (14 days) after the meeting. Audit carried out a sample check on the circulation of meeting papers and draft minutes for the Council and Finance Committee meetings in 2014 and 2015. Table 7 shows the checking results.

Table 7

**Circulation of meeting papers and draft minutes
(2014 and 2015)**

Council/committee	Circulation of agenda and first batch of meeting papers (Note)	Circulation of draft minutes
Council	7 days in advance for 4 meetings 6 days in advance for 2 meetings	61 to 156 days after a meeting (94 days on average)
Finance Committee	7 days in advance for 1 meeting 3 to 5 days in advance for 5 meetings	17 to 55 days after a meeting (32 days on average)

Source: Audit analysis of HKAPA records

Note: Meeting papers were normally circulated in two batches. Audit analysis of the number of papers circulated at the Council meetings revealed that, on average, 59% of meeting papers were circulated in the first batch together with the agenda.

3.14 As shown in Table 7, the agenda and meeting papers of a meeting were generally not circulated early enough to facilitate Council/committee members to prepare for the meeting. The draft minutes were also not circulated early enough to facilitate Council/committee members to confirm the minutes.

Annual declarations of interests not obtained

3.15 The Council resolved in June 1995 to adopt a two-tier reporting system for Council members in managing conflicts of interest, though the practice has not been incorporated in the Handbook. According to the adopted practice:

Governance and government monitoring

- (a) *Annual declaration.* A Council member has to declare his personal interests when he first joins the Council, and annually thereafter. The declaration has to be made on a standard form and shall be available for inspection by members of the public; and
- (b) *Declaration at meetings.* If a Council member (including the Chairman) has any direct interest in any matter under consideration, he has to declare the interest prior to the consideration of the matter. It shall then be decided whether the member concerned has to withdraw from the consideration of the matter.

3.16 The HKAPA usually requested annual declarations of interests from Council members in the first quarter of a year. However, in 2015, the HKAPA did not request such annual declarations from Council members (who were all existing members). It turned out that annual declarations were not submitted by Council members except the Council Chairman. Furthermore, in 2012 and 2013, the HKAPA did not have on file the annual declarations of two and six Council members respectively. The HKAPA needs to make efforts to obtain annual declarations of interests from all Council members.

Insufficient guidelines for Council/committee members

3.17 The Handbook provides operational guidelines and procedures for Council/committee meetings. However, the Handbook does not provide guidelines on such matters as duties and responsibilities of Council/committee members, confidentiality requirements, and management of conflicts of interest. These guidelines are essential to remind Council/committee members of their duties. The HKAPA needs to supplement the Handbook with these guidelines.

Audit recommendations

- 3.18 **Audit has recommended that the HKAPA should:**
- (a) **take measures to improve the attendance rates at the Staff Retirement Benefit Schemes Management Committee meetings, particularly for Council members;**

- (b) **take appropriate actions (e.g. making enquiries and issuing reminders) to improve the attendance rates at Council/committee meetings of individual members with low attendance rates;**
 - (c) **fill the vacancies of committees in a timely manner;**
 - (d) **on its website or annual reports, disclose the terms of reference, the key work carried out and the number of meetings held of the Council and its committees, and the attendance rates of individual members;**
 - (e) **circulate the agenda, meeting papers and draft minutes of Council/committee meetings in a timely manner;**
 - (f) **make efforts to obtain annual declarations of interests from all Council members; and**
 - (g) **supplement the Academy Committee Handbook with guidelines on such matters as duties and responsibilities of Council/committee members, confidentiality requirements, and management of conflicts of interest.**
- 3.19 **Audit has *recommended* that the Secretary for Home Affairs should take into account the meeting attendance rates of individual members in nominating them for re-appointment to the Council.**

Response from the HKAPA

3.20 The Director, HKAPA generally accepts the audit recommendations in paragraph 3.18. He has said that the HKAPA is reviewing the structure and composition of some of its committees with a view to improving members' attendance rates and enhancing efficiency. The HKAPA will also review the Academy Committee Handbook to improve arrangements for Council/committee operation, especially the system of declaring interests, and the guidelines and procedures of meetings.

Response from the Government

3.21 The Secretary for Home Affairs generally accepts the audit recommendation in paragraph 3.19. He has said that the Government has all along appointed non-official members to advisory and statutory bodies based on the merit of the individuals concerned. When appointing or re-appointing a member to serve on the HKAPA Council, the attendance record is one of the factors considered. In addition, the HAB takes into consideration the candidate's ability, expertise, experience, integrity and commitment to public service, so as to ensure that the Council has the right mix of members to enable it to carry out its functions effectively. The HAB will continue to take into account the above-mentioned factors in considering appointment and re-appointment to the HKAPA Council.

Government monitoring

3.22 The HAB is responsible for formulating policies and programmes on culture and the arts. It oversees the operations of the HKAPA. The Secretary for Home Affairs or his representative is a Council member. In 2001, the HAB and the HKAPA entered into an MAA setting out the framework of administrative arrangements between the Government and the HKAPA. The MAA provides for the following:

- (a) the Government will fund degree, sub-degree and junior programmes. The HKAPA may conduct additional programmes on a self-financing basis. Government subvention shall not be used to fund the HKAPA's self-financing activities;
- (b) the HKAPA may keep as reserve any savings from its annual recurrent subvention. The level of this reserve shall not exceed 15% of its annual recurrent subvention. Amount in excess of the limit should be returned to the Government. Subject to the HAB's prior approval, the HKAPA may use its reserve for any activities permitted under the HKAPA Ordinance;
- (c) on an annual basis, the HKAPA may be invited to submit bids for additional funds for introducing new or improved services/activities. Such bids will be considered by the HAB along with other bids in the HAB's policy areas;

- (d) on an annual basis, the HKAPA shall submit to the HAB its estimates of expenditure for the next financial year. The estimates should provide details of the HKAPA's requirements for the next financial year to enable the HAB to perform the role of controlling the recurrent and capital subventions; and
- (e) for subject matters not specially covered in the MAA, the HKAPA undertakes to observe the Government's overall subvention policy and guidelines prevailing at the time.

3.23 In addition, according to the HKAPA Ordinance, the HKAPA has to submit annually to the Government a report of its activities and audited financial statements, which will be tabled in LegCo.

Additional requirements need to be included in the MAA

3.24 In 2004, the Government issued Financial Circular No. 9/2004 on "Guidelines on the Management and Control of Government Funding for Subvented Organisations". There are some important requirements specified in the Financial Circular that are missing from the MAA, as follows:

- (a) a subvented organisation should submit, besides the audited annual financial statements of the organisation, an audited annual financial report showing:
 - (i) the income and expenditure of the organisation's subvented programmes; and
 - (ii) the movements in the reserve of unspent subvention retained and assets acquired under the subvented programmes; and
- (b) the auditors' report accompanying the annual financial statements and annual financial report submitted should contain an opinion:
 - (i) on the annual financial statements as to whether they give a true and fair view of the state of affairs and the financial results and cashflows of the subvented organisation; and

Governance and government monitoring

- (ii) on the annual financial report as to whether the subvented organisation has complied with, in all material respects, the requirements set by the Government and all the terms and conditions of the subvention as specified in the relevant subvention guidelines and other relevant documents.

3.25 In the absence of the relevant requirements in the MAA, the HKAPA has not submitted to the HAB an audited financial report on its subvented programmes (see para. 3.24(a)) and the report of its auditors has not contained an opinion as to whether it has complied with all the subvention requirements, terms and conditions (e.g. no cross-subsidisation of self-financing activities — see para. 3.24(b)). Audit notes that an HAB officer is a member of the HKAPA Council and Finance Committee who regularly receives detailed financial information. Nevertheless, Audit considers that the requirements as mentioned in paragraph 3.24 need to be followed to ensure effective management and control of government subvention to the HKAPA. As at January 2016, the HAB was in the process of reviewing and updating the MAA. The HAB needs to include such requirements in the MAA for compliance by the HKAPA.

Monitoring of reserve allocations needs to be strengthened

3.26 As mentioned in paragraph 3.22(b), the HKAPA may keep as reserve any savings from its annual recurrent subvention, up to a limit of 15% of its annual recurrent subvention. Amount in excess of the limit should be returned to the Government. Subject to the HAB's prior approval, the HKAPA may use its reserve for any activities permitted under the HKAPA Ordinance. Table 8 shows the movements in the HKAPA's reserve in 2014-15.

Table 8
Movements in the HKAPA's reserve
(2014-15)

		Amount (\$ million)	Remarks
(A)	Opening balance	40.63	
(B)	Less: allocations made from reserve	0.83	Allocation made in May 2015 for leasing additional accommodation
		16.00	Allocation made in June 2015 for expanding the e-learning platform, etc. (see para. 3.28(b))
(C)	Add: unspent subvention	20.07	
(D)	Subtotal (D) = (A) - (B) + (C)	43.87	
(E)	Excess over reserve limit returned to Government (E) = (D) - reserve limit	1.57	The reserve limit is \$42.30 million (15% of 2014-15 recurrent subvention of \$282.03 million — Note)
(F)	Ending balance (F) = (D) - (E)	42.30	

Source: HKAPA records

Note: After returning the excess to the Government, the net recurrent subvention for 2014-15 was \$280.46 million (\$282.03 million less \$1.57 million).

3.27 Audit examined the HAB's monitoring of the HKAPA's reserve and allocations made from it. Audit found room for improvement in the monitoring of reserve allocations (see paras. 3.28 and 3.29).

3.28 ***HAB's approvals not obtained in a timely manner.*** Audit noted two cases in which the HKAPA did not obtain the HAB's approval in a timely manner for making allocation from the reserve:

Governance and government monitoring

- (a) on 19 June 2012, the Council endorsed to allocate \$7.2 million from the reserve to finance the costs for review and validation of academic programmes. The allocation was recorded in the financial year 2011-12. However, the HKAPA sought the HAB's approval only on 3 December 2012, about six months after the allocation had been made. On 14 February 2013, the HAB gave covering approval and reminded the HKAPA to obtain the HAB's prior approval in writing before deploying funds from the reserve in future; and

- (b) on 17 June 2015, the Council endorsed to allocate \$16 million from the reserve for various purposes (e.g. expanding the e-learning platform). On 18 June 2015, the HKAPA sought the HAB's approval, which was given on 7 August 2015, after the end of the financial year 2014-15 (i.e. 30 June 2015). However, in determining the reserve in excess of the limit as at the end of 2014-15, the HKAPA treated the \$16 million as allocation from the reserve (prior to the HAB's approval). As its approval was not given within the financial year 2014-15, the HAB needs to examine whether the \$16 million should be treated as allocation made in the year, or as part of the reserve in excess of the limit as at the end of 2014-15 for refund to the Government.

3.29 *Unspent balances not returned to the reserve.* From time to time, the HKAPA might make allocation from the reserve for a specific purpose. When the purpose was accomplished, the unspent balance should be returned to the reserve. However, Audit noted two cases where the unspent balance was not duly returned to the reserve:

- (a) in April 2013, the HKAPA allocated \$6.5 million from the reserve for financing part of the expenditure of the HKAPA's 30th anniversary celebration activities. In March 2015, after the completion of the celebration activities, the Council decided to return the unspent balance of \$1.4 million to the reserve. However, up to January 2016, the HKAPA had not done so; and

- (b) in November 2003 and December 2004, the HKAPA allocated from the reserve \$15 million and \$5 million respectively to set up a Bethanie Maintenance Reserve Fund for financing the initial operation and maintenance of the Bethanie Campus. At that time, the HAB was unable to provide recurrent subvention for that purpose. Nevertheless, in

2008-09, the HAB started to provide recurrent subvention for the operation and maintenance of the Bethanie Campus. Since 2007-08, there had been no spending from the Fund. The Fund balance stood at \$16.5 million as at the end of 2014-15. The HKAPA needs to review whether there is still a need to retain the Fund or to return the Fund balance to the reserve. As at January 2016, the HKAPA was planning to carry out a comprehensive survey on the building health, safety and stability of the Bethanie to determine the future maintenance needs. The HKAPA should take into account the outcome of the survey in the review.

Arrangement for funding and monitoring

3.30 In December 2008, the EDB commissioned the UGC to review the higher education system, with a view to recommending strategies for future development. In December 2010, the UGC published a review report entitled “Aspirations for the Higher Education System in Hong Kong”. In November 2011, the EDB submitted a LegCo brief stating the Government’s responses to the recommendations of the review report.

3.31 The UGC’s review report contained an observation on the arrangement for funding and overseeing the HKAPA:

- (a) to ensure consistency in allocating public resources in the publicly-funded degree sector, it would be logical to entrust the UGC with the responsibility of funding the HKAPA. This arrangement would have the added benefit of facilitating cooperation between the HKAPA and the eight UGC-funded institutions; and
- (b) the UGC recognised the unique nature of the HKAPA, and foresaw that the UGC’s funding and oversight regime would be able to accommodate that.

3.32 In a meeting held in March 2011, the HKAPA Council was briefed on the UGC’s suggestion. The Council supported the views stated in the relevant council paper as follows:

Governance and government monitoring

- (a) ***Governance.*** The HAB monitored the HKAPA through the perspective of supervising non-government organisations. The HKAPA might have closer affinity to the UGC as it saw itself as a higher education institution;
- (b) ***Funding formula.*** The UGC funding formula was adverse to the HKAPA as the HKAPA could not claim research funding. It could only await the UGC's special treatment; and
- (c) ***Academic planning and institutional development.*** The migration to the UGC's systems would undoubtedly require an adjustment of the HKAPA's current systems to meet the UGC's requirements.

3.33 In the meeting, the HAB considered that whatever option the HKAPA would eventually take in response to the UGC suggestion, as a key player in the arts and cultural development of Hong Kong and in providing training ground for performing arts talents, the HKAPA would be expected to continue its dialogue with the arts industry and its work in tandem with the arts and cultural policy of Hong Kong.

3.34 In the same meeting, the Council endorsed a statement on its interim response to the UGC's suggestion, which was subsequently submitted to the EDB. The statement mentioned that the HKAPA welcomed the opportunity for dialogue with stakeholders on the feasibility of the UGC's suggestion. The HKAPA recognised that joining the UGC system would impact on its institutional functions, infrastructural capacity and present activities. The HKAPA would wish to take an appropriate future opportunity to offer a more considered formal response in the eventuality of a concrete proposal from the UGC.

3.35 In November 2011, the EDB submitted a LegCo brief with the following views:

- (a) the HKAPA, as an institution specialised in training performing arts talent, had a unique mode of operation;

- (b) since the UGC would be heavily engaged in implementing the new academic structure, and since the HKAPA's current funding mode did not fit in the UGC's established funding methodology, the EDB saw no urgent need to rush to a conclusion; and
- (c) the EDB had an open mind and would welcome dialogue with the HKAPA if it was interested in exploring the UGC's idea further.

3.36 Since November 2011, there has not been further development on the issue of transferring the responsibility of funding and overseeing the HKAPA from the HAB to the UGC. For identifying the optimal arrangement, the HKAPA, the HAB and the EDB need to maintain dialogue with stakeholders and among themselves on the feasibility and desirability of transferring the responsibility of funding and overseeing the HKAPA from the HAB to the EDB/UGC.

Making reference to the UGC's policies/guidelines

3.37 From time to time, the HAB and the HKAPA referred to some of the UGC's policies/guidelines in handling matters faced by the HKAPA as a higher education institution. For example, the HAB/HKAPA followed the UGC's policies/guidelines when assessing space requirements (see para. 5.24) and setting the tuition fee of local students (see para. 2.28). However, there were also instances that the HAB/HKAPA's practices differed from the UGC's policies/guidelines. For example, the HKAPA decided to charge local and non-local students the same tuition fee, rather than to charge non-local students tuition fee at a level which was sufficient to recover all additional direct costs (see para. 2.28).

3.38 It appears that the HAB/HKAPA adopted a case-by-case approach in deciding whether to follow the UGC's policies/guidelines. In Audit's view, in order to obtain optimal results, the HAB needs to, in consultation with the EDB, draw up suitable guidelines for the HKAPA on making reference to the UGC's policies/guidelines.

Audit recommendations

- 3.39 **Audit has *recommended* that the HKAPA should:**
- (a) **obtain the HAB's approval in a timely manner for making allocation from the reserve; and**
 - (b) **return to the reserve the unspent balance of an allocation when the purpose of the allocation has been accomplished.**
- 3.40 **Audit has *recommended* that the Secretary for Home Affairs should:**
- (a) **update the MAA with the Government's prevailing subvention guidelines;**
 - (b) **monitor the movements in the reserve to ensure that an allocation is made only with the HAB's approval, and follow up unspent balance of an allocation made;**
 - (c) **examine whether the allocation made by the HKAPA as mentioned in paragraph 3.28(b) has been properly accounted for and take necessary follow-up action; and**
 - (d) **in consultation with the Secretary for Education, draw up guidelines for the HKAPA on making reference to the UGC's policies/guidelines.**
- 3.41 **Audit has *recommended* that the Secretary for Home Affairs should maintain dialogue with the HKAPA, the Secretary for Education and other stakeholders on the feasibility and desirability of transferring the responsibility of funding and overseeing the HKAPA from the HAB to the EDB/UGC.**

Response from the HKAPA

3.42 The Director, HKAPA generally accepts the audit recommendations in paragraph 3.39.

Response from the Government

3.43 The Secretary for Home Affairs generally accepts the audit recommendations in paragraph 3.40. He has said that:

- (a) the HAB will finalise the review of the MAA as soon as practicable and incorporate the relevant requirements in the prevailing subvention guidelines; and
- (b) the HAB has already examined the allocation made by the HKAPA as mentioned in paragraph 3.28(b), and noted that the HKAPA had made reference to the Council approval date instead of the HAB approval date in determining whether this allocation should be made from the reserve for the year 2014-15. The HAB will take appropriate follow-up action and remind the HKAPA that in future, it should account for the deployment of reserve funds in the financial year in which the HAB's formal approval was given.

3.44 Regarding the audit recommendation in paragraph 3.41, the Secretary for Home Affairs has said that:

- (a) the HAB is of the view that, given the unique role and functions of the HKAPA in implementing and furthering the Government's arts and cultural policies, it will be beneficial for the HAB to continue to provide subvention to the HKAPA direct rather than transferring it to the EDB/UGC;

Governance and government monitoring

- (b) the present funding arrangement reflects and reinforces the strategic partnership between the HAB and the HKAPA, and caters to the needs and aspirations of the stakeholders in the arts and cultural sector. Under the established funding arrangement, the HKAPA has a stable source of funding from the HAB such that it can continue to strive for excellence in the delivery of performing arts education programmes and the grooming of performing arts talents for Hong Kong, particularly in preparation for the commissioning of the world-class venues in the West Kowloon Cultural District; and

- (c) the HAB will seek the endorsement of the HKAPA Council and other relevant bureaux on maintaining the current funding arrangement for the HKAPA.

PART 4: ADMINISTRATIVE ISSUES

4.1 This PART examines the following administrative issues:

- (a) utilisation of teaching venues (paras. 4.2 to 4.11);
- (b) utilisation of performance venues (paras. 4.12 to 4.18);
- (c) electricity charges and energy management (paras. 4.19 to 4.25);
- (d) management of fixed assets (paras. 4.26 to 4.35); and
- (e) investment of surplus funds (paras. 4.36 to 4.40).

Utilisation of teaching venues

4.2 The HKAPA has various types of teaching venues at the Wanchai Campus and the Bethanie Campus, e.g. classrooms, studios, practice rooms and workshops. Teaching venues at the Wanchai Campus are mainly used by the five Schools other than the School of Film and Television, while those at the Bethanie Campus are mainly used by the School of Film and Television. The HKAPA also rents premises at three commercial buildings, close to the Wanchai Campus, to provide additional teaching venues.

4.3 The HKAPA has set up a computerised Central Timetabling System to optimise the allocation of timeslots of teaching venues among various Schools. The Central Timetabling System produces a central timetable at the beginning of each semester after accepting block bookings from Schools of teaching sessions. Any timeslots not occupied are available for booking by students and staff, which should also be input to the System.

Need to monitor utilisation of teaching venues

4.4 The Central Timetabling System contains useful data for analysing the utilisation rates of teaching venues. However, the HKAPA did not compile

Administrative issues

statistics from the System to monitor the utilisation rates of teaching venues on a regular basis. Audit noted from the minutes of the first meeting of the Learning Spaces Committee (Note 6) held in December 2015 that:

- (a) statistics from the Central Timetabling System showed that the utilisation rates of classrooms, conference rooms and dance studios during 9:00 a.m. to 7:00 p.m. were 60% to 76%; and
- (b) bookings of some other rooms were kept by respective Schools and Departments. There was no central mechanism that monitored the overall booking of these facilities.

Audit considers that the HKAPA needs to compile statistics, from both the Central Timetabling System and records kept by Schools and Departments, to monitor the utilisation rates of teaching venues.

Low utilisation rates of some teaching venues

4.5 Based on bookings recorded in the Central Timetabling System, and bookings not recorded in the System but manually kept by the School of Music and the School of Theatre and Entertainment Arts, Audit compiled an analysis of the utilisation rates of the HKAPA's teaching venues in 2014-15. Table 9 shows the results.

Note 6: *The Learning Spaces Committee was formed in October 2015 to explore and monitor the appropriate and effective use of physical and virtual learning spaces in the HKAPA.*

Table 9
Utilisation rates of teaching venues
(2014-15)

Venue		Utilisation rate (Note 1)		Percentage of days below 30% utilisation rate
		Daily maximum	Average	
<i>Wanchai Campus</i>				
1.	25 classrooms (Note 2)	89%	79%	7%
2.	11 practice rooms (Note 2)	76%	69%	9%
3.	27 studios (Note 2)	78%	68%	13%
4.	13 workshops	63%	32%	54%
<i>Bethanie Campus</i>				
5.	4 workshops	78%	28%	64%
6.	11 classrooms	30%	14%	76%
7.	2 studios	38%	3%	97%
<i>Leased premises</i>				
8.	3 studios	100%	35%	53%
9.	1 studio	75%	22%	52%
10.	1 classroom	67%	12%	94%

Source: *Audit analysis of HKAPA records*

Note 1: *The utilisation rates were based on the hours available for use from 9:00 a.m. to 7:00 p.m. on Mondays to Fridays, and from 9:00 a.m. to 1:00 p.m. on Saturdays during the term time in 2014-15 from July 2014 to June 2015 (a total of 206 days, excluding Sundays, school holidays and term breaks).*

Note 2: *For the School of Music, manual records of student bookings in 2014-15 were not available. Audit estimated the student bookings in 2014-15 based on those in the period from September to November 2015 with projection to a full-year basis.*

4.6 Table 9 shows that the average utilisation rates of the HKAPA's teaching venues in 2014-15 were:

- (a) 32% to 79% for venues at the Wanchai Campus;

Administrative issues

- (b) 3% to 28% for venues at the Bethanie Campus; and
- (c) 12% to 35% for leased premises at commercial buildings.

4.7 It appears that, according to available records for compiling Table 9, the utilisation recorded for some teaching venues was low, particularly for those at the Bethanie Campus and leased premises. The HKAPA needs to review the utilisation rates of teaching venues and examine how to improve their utilisation. According to HKAPA records, there have been repeated comments that there was an acute shortage in teaching space. Capital works projects are on-going or under planning for expansion and improvement of the campus (see PART 5). However, this is not supported by the low utilisation recorded for some of the teaching venues. The HKAPA needs to examine this inconsistency.

No detection and follow up on unused bookings

4.8 The analysis of utilisation rates shown in Table 9 was compiled by Audit based on the bookings recorded in the Central Timetabling System and bookings on manual records. The HKAPA has not put in place a mechanism to check whether the user has actually used the venue at the booked session. To ascertain whether the venues were actually used as booked, Audit conducted site inspections at the Wanchai Campus for 5 days in January 2016, covering a number of selected venues (10 practice rooms and 6 classrooms) at 8 selected timeslots (4 in the morning and 4 in the afternoon). Results of the inspections were as follows:

- (a) there were 85 bookings among the 128 selected timeslots (16 venues times 8 timeslots); and
- (b) among the 85 bookings, there were 15 cases (18%) where the users did not show up and the venues were left unused.

4.9 It is undesirable that booked venues were not utilised as noted from the site inspections. If the utilisation rates of teaching venues are further discounted by this factor, they would become even lower than those shown in Table 9. The HKAPA needs to put in place a system to detect and follow up booked venues which were eventually not utilised.

Audit recommendations

- 4.10 **Audit has recommended that the HKAPA should:**
- (a) **regularly compile statistics to monitor the utilisation rates of teaching venues to ensure that they are optimally utilised;**
 - (b) **review the utilisation rates of teaching venues and examine how to improve the utilisation of those teaching venues with low utilisation rates; and**
 - (c) **put in place a system to detect and follow up cases of booked venues not utilised.**

Response from the HKAPA

4.11 The Director, HKAPA generally accepts the audit recommendations. He has said that the analysis in Table 9 in paragraph 4.5 does not fully reflect the utilisation situation due to incomplete utilisation records. The HKAPA is reviewing the utilisation rates of all its venues, and will enhance the Central Timetabling System to streamline the room booking operation. Since many teaching venues are specialised facilities catering for divergent training needs of different performing arts disciplines, they are only suitable for designated usage. Hence, the utilisation rates of these facilities should be considered in a different light, and reported separately under the Central Timetabling System.

Utilisation of performance venues

4.12 The HKAPA has a number of performance venues in its Wanchai Campus and Bethanie Campus. Under an established arrangement, these performance venues are available for hiring by outside parties when they are not being used for teaching purposes. The HKAPA's Customer Services Department handles the hiring of these performance venues under a set of procedures and guidelines, with published rate cards for individual venues.

Administrative issues

Low utilisation rates of some performance venues

4.13 The Customer Services Department maintains hiring records of all performance venues and compiles annual utilisation statistics for management information and submission to the HAB. Based on the annual utilisation statistics, Audit analysed the utilisation rates of the HKAPA's performance venues in 2014-15. The results are shown in Table 10.

Table 10
Utilisation rates of performance venues
(2014-15)

	Performance venue	Capacity (no. of seats)	Utilisation rate (Note 1)		
			By HKAPA	By external hirers	Total
<i>Wanchai Campus</i>					
1.	Recital Hall	202	90%	4%	94%
2.	Concert Hall	382	79%	6%	85%
3.	Lyric Theatre	1,181	11%	73%	84%
4.	Studio Theatre	200	70%	5%	75%
5.	Drama Theatre	415	31%	39%	70%
6.	Dance Studio	100	53%	3%	56%
7.	Amphitheatre	600	38%	12%	50%
<i>Bethanie Campus</i>					
8.	Chapel (Note 2)	100	2%	29%	31%
9.	Wellcome Theatre	153	23%	3%	26%
10.	Sir Y K Pao Studio	100	18%	1%	19%

Source: HKAPA records

Note 1: The utilisation rates were calculated based on the number of hours available for use in 2014-15 from July 2014 to June 2015. The utilisation by the HKAPA included all academic-related activities, such as teaching, rehearsal, and performance activities.

Note 2: The Chapel is not a performance venue. It is available for hiring, mainly for wedding and religious services.

4.14 Table 10 shows that, for the performance venues at the Wanchai Campus, their utilisation rates ranged from 50% to 94%. The utilisation rates of the Dance Studio (56%) and the Amphitheatre (50%) were relatively low. For the Bethanie Campus, the utilisation rates of all three venues were low, ranging from 19% to 31%. There is scope for promoting the hiring of the performance venues with low utilisation rates.

4.15 In March 2016, upon enquiry, the HKAPA informed Audit that all performance venues were also teaching spaces, and were assigned to educational activities as the topmost priority. The HKAPA would benchmark with similar performance venues in Hong Kong and elsewhere, and adopt a best-practice and consistent utilisation calculation methodology, taking into account venue maintenance requirements, the available hireable hours, and the number of allowable external hires per day, etc., for monitoring the utilisation rates of these performance venues. The HKAPA also said that:

- (a) the Dance Studio was available for public hire only on Sundays and term breaks. It was often difficult for hirers to mount a public performance when only one day of the weekend of the venue was available;
- (b) the Amphitheatre was commonly used for conferences, seminars, workshops and mini-events the duration of which was usually several hours instead of a full day. Given the current policy of allowing only one external hire of each venue per day, it would be difficult for the Amphitheatre to achieve high utilisation rate;
- (c) the Wellcome Theatre had recently been upgraded. It was expected that both the HKAPA's and external hirers' utilisation would increase gradually in the near future; and
- (d) as for the Sir Y K Pao Studio, the HKAPA was considering bundling it with the Chapel for wedding reception purposes as a hiring package in order to improve its utilisation.

Need for effective measures for improving utilisation

4.16 In early 2014, after noting the low utilisation rates of performance venues, the HAB requested the HKAPA to look into the possibility of improving the

Administrative issues

utilisation rates to promote cultural development and to build audience. The HKAPA conducted a review and, in mid-2014, implemented improvement measures to:

- (a) provide discounts for vacant timeslots of performance venues; and
- (b) reduce the hiring rates of the Wellcome Theatre and the Sir Y K Pao Studio at the Bethanie Campus.

The HKAPA needs to monitor the effectiveness of these measures and explore additional measures to improve the utilisation of performance venues.

Audit recommendations

4.17 **Audit has *recommended* that the HKAPA should:**

- (a) **monitor the utilisation rates of performance venues; and**
- (b) **monitor the effectiveness of the measures taken to improve utilisation of performance venues and explore additional measures for further improvement.**

Response from the HKAPA

4.18 The Director, HKAPA generally accepts the audit recommendations.

Electricity charges and energy management

Electricity accounts not using the more economical tariff

4.19 The electricity supply company on the Hong Kong Island, where the HKAPA's campuses are located, offers two tariffs to its non-domestic customers, i.e. the maximum demand tariff and the block rate tariff. The maximum demand tariff offers lower charging rates for the energy charge, but is only available for high-consumption electricity accounts (i.e. accounts with a monthly consumption over 24,000 kilowatt-hours).

4.20 The HKAPA incurred electricity charges of \$14 million in 2014-15. It has nine electricity accounts, comprising six for the Wanchai Campus and three for the Bethanie Campus. Audit examined the electricity consumption in 2015 of these nine electricity accounts and noted that there were seven high-consumption accounts, but only two accounts were using the maximum demand tariff. For the five high-consumption electricity accounts using the block rate tariff, selecting the more economical maximum demand tariff would achieve savings in electricity charges. Audit estimated that, if the maximum demand tariff had been used for these five accounts, electricity charges of \$0.35 million (or 5.5%) could have been saved from their electricity charges of \$6.28 million in 2015 (Note 7). In November 2015, Audit advised the HKAPA to apply to the electricity supply company for selecting the maximum demand tariff for these five accounts. In the same month, the HKAPA made enquiries with the company for determining the more economical tariff type for its high-consumption electricity accounts.

4.21 The electricity supply company also offers summation metering for combining individual electricity accounts in the same premises into one account. This can achieve further savings in overall electricity charges by reducing both the energy charge and demand charge. The HKAPA may explore the opportunities for using summation metering for its electricity accounts.

Energy conservation measures under implementation

4.22 The Government has advocated the conduct of energy audits and issued guidelines for public information. An energy audit is an examination of an energy-consuming equipment/system to ensure that energy (particularly electricity) is used efficiently and to identify opportunities to save energy. In 2013, the HKAPA commissioned a consultant to conduct an energy-cum-carbon audit (i.e. an energy audit with an additional objective to identify opportunities to reduce greenhouse gas emission) on both the Wanchai and the Bethanie Campuses. The audit started in March 2013. During the site inspections, the consultant found areas where electricity consumption could be reduced by good housekeeping measures, e.g. empty rooms with lights and air-conditioning switched on. The consultant also

Note 7: *The two electricity accounts using the maximum demand tariff achieved a saving of 5.5% in electricity charges in 2015 by using such tariff. Applying this percentage to the five high-consumption electricity accounts using the block rate tariff would arrive at a potential saving of \$0.35 million (i.e. 5.5% × \$6.28 million).*

Administrative issues

examined the various building services installations to identify energy conservation measures through adjustments and retrofitting old and inefficient equipment.

4.23 The energy-cum-carbon audit was completed in March 2015 with the production of a Full Action Report in which the consultant recommended a number of energy conservation measures for reducing electricity consumption. Some of the measures were administrative measures involving no capital investment while some involved capital investment and payback considerations (e.g. replacing T8 fluorescent tubes with more energy-efficient T5 fluorescent tubes, and retrofitting an old and inefficient chiller plant). Audit noted that, as at January 2016, the HKAPA was implementing the recommended energy conservation measures.

Audit recommendations

4.24 **Audit has *recommended* that the HKAPA should:**

- (a) **follow up with the electricity supply company for selecting the more economical tariff for the high-consumption electricity accounts, and using summation metering to achieve further savings in electricity charges; and**
- (b) **continue to implement the energy conservation measures with a view to reducing electricity consumption.**

Response from the HKAPA

4.25 The Director, HKAPA generally accepts the audit recommendations. He has said that the HKAPA is taking steps to review and determine the more economical tariff type for its high-consumption electricity accounts and is following up the opportunities to use summation metering for its electricity accounts. Whether or not the HKAPA could take advantage of the maximum demand tariff depends on a number of factors such as the HKAPA's seasonal demand change. The HKAPA will also continue to adopt appropriate energy conservation and housekeeping measures with a view to further optimising energy consumption.

Management of fixed assets

4.26 The HKAPA has laid down a set of Fixed Assets Management and Control Procedures (the Fixed Asset Procedures). According to the Fixed Asset Procedures, fixed assets include buildings, furniture, equipment and other assets which have an estimated useful life of over 12 months and a unit cost of over \$2,000. Schools and Departments are responsible for the management (i.e. custody, care, maintenance and control) of their fixed assets. The Supplies Office under the Finance Department is responsible for the overall management of fixed assets. It maintains a computerised Fixed Asset Register. As at June 2015, the Fixed Asset Register contained about 15,100 items of fixed assets (excluding buildings) with a total cost of about \$540 million.

Physical checks of fixed assets

4.27 Physical check of fixed assets on a regular basis is essential for the management of fixed assets. According to the Fixed Asset Procedures:

- (a) every School/Department conducts a physical check of its fixed assets at least once every year; and
- (b) the Supplies Office coordinates and conducts a physical check of the fixed assets of all Schools/Departments once every three years.

4.28 Audit examined the HKAPA's physical checks of fixed assets and found room for improvement in the following areas:

- (a) ***Annual physical checks not conducted.*** Each year, the Supplies Office should issue a memorandum to every School/Department, attaching a list of the School/Department's fixed assets and requesting it to conduct an annual physical check. Audit noted that the Supplies Office had not issued the memoranda in 2015. In the event, annual physical checks of fixed assets were not conducted by Schools/Departments in 2015; and

Administrative issues

- (b) *Follow-up actions on discrepancies not fully documented.* The Supplies Office completed the last triennial physical check in September 2014 and documented the results, including discrepancies found. However, follow-up actions taken on the discrepancies found were not fully documented. Furthermore, the Supplies Office did not compile a report of the results of the triennial physical check to senior management.

Need to minimise loss of fixed assets

4.29 According to the Fixed Asset Procedures, when a fixed asset no longer meets operational needs, is beyond economic repair, or is lost, the School/Department concerned has to forward a Fixed Asset Disposal Requisition Form to the Supplies Office. The Supplies Office will check whether the disposal is reasonable. The disposal of a fixed asset has to be approved by the Head of the Finance Department. In 2014-15, the HKAPA disposed of 981 fixed assets with a total cost of \$18 million, including 118 fixed assets reported lost with a total cost of \$707,000. The HKAPA needs to strengthen its control on fixed assets to minimise loss.

Inconsistencies between fixed asset records

4.30 In the Fixed Asset Procedures, the HKAPA defines its fixed assets as capital items each costing over \$2,000. On the other hand, the HKAPA's accounting policy stipulates that fixed assets are capital items each costing over \$8,000. The Accounts Office under the Finance Department maintains a separate set of fixed asset records based on this accounting policy. Audit examined the two sets of fixed asset records of the Supplies Office and the Accounts Office. Although both sets of records were generated from the Fixed Asset Register, there were discrepancies between them, as follows:

- (a) 177 items each costing over \$8,000 (with a total cost of \$6.1 million) were found in the Supplies Office's records but not in the Accounts Office's records;
- (b) 20 items (with a total cost of \$1.1 million) were found in the Accounts Office's records but not in the Supplies Office's records; and

- (c) 27 items already disposed of (with a total cost of \$1.2 million) were still found in the Accounts Office’s records.

The HKAPA needs to reconcile the discrepancies and make necessary adjustments in the fixed asset records and accounting records.

Need to enhance control on loaned items

4.31 According to the Fixed Asset Procedures, when an asset is loaned to students, teachers or other parties for the HKAPA’s activities, the School/Department concerned shall have procedures in place to record the details and to ensure that the asset is returned in good condition. Audit selected two schools (the School of Chinese Opera and the School of Drama) and examined their control on loaned items. Audit found that there were many items on loan for a long period. Table 11 shows an age analysis of items loaned during the period from January 2012 to June 2015 which had not been returned as at December 2015.

Table 11

**Age analysis of items on loan
(December 2015)**

Loan period	School of Chinese Opera	School of Drama
0.5 to <1 year	25 (7%)	25 (14%)
1 to <2 years	129 (35%)	79 (44%)
2 to <3 years	148 (41%)	40 (22%)
3 to <4 years	62 (17%)	37 (20%)
Total	364 (100%)	181 (100%)

Source: Audit analysis of HKAPA records

4.32 As shown in Table 11, for items loaned during the period January 2012 to June 2015:

Administrative issues

- (a) for the School of Chinese Opera, there were 364 items on loan as at December 2015. Of them, 62 items (17%) had already been on loan for 3 to 4 years; and
- (b) for the School of Drama, there were 181 items on loan as at December 2015. Of them, 37 items (20%) had already been on loan for 3 to 4 years.

The HKAPA needs to strengthen control over items on loan for a long period.

4.33 Audit also noted that different Schools/Departments had different procedures on controlling loaned items. The School of Chinese Opera used a standard form, while the School of Drama used a register to record loaned items. In comparison, the School of Drama's register did not record information necessary for controlling loaned items (such as the borrower's particulars, and the loan period). The HKAPA needs to lay down more guidelines on loaning of assets, covering such areas as the maximum loan period, the approving authority and the required documentation. Such guidelines are necessary for providing guidance to Schools/Departments to protect the assets of the HKAPA.

Audit recommendations

4.34 **Audit has *recommended* that the HKAPA should:**

- (a) **conduct annual physical checks of fixed assets in accordance with laid-down procedures;**
- (b) **require the Supplies Office to fully document follow-up actions taken on the discrepancies found during the triennial physical check of all fixed assets, and compile a report to senior management;**
- (c) **strengthen the control on fixed assets to minimise loss;**
- (d) **reconcile the discrepancies between the two sets of fixed asset records kept by the Supplies Office and the Accounts Office respectively; and**
- (e) **lay down formal guidelines on loaning of assets to students and staff, and strengthen controls to ensure timely return of loaned items.**

Response from the HKAPA

4.35 The Director, HKAPA generally accepts the audit recommendations. He has said that the HKAPA is enhancing the guidelines and procedures on fixed asset management. The HKAPA will also improve the procedures to ensure timely return of loaned items.

Investment of surplus funds

4.36 The HKAPA invests surplus funds in time deposits. As at 30 June 2015, the total cash amounted to \$21 million and the total time deposits amounted to \$436 million. In 2014-15, annual interest rates of time deposits placed by the HKAPA ranged from 0.22% to 1.52%. The interest income in 2014-15 was \$5.2 million.

Areas for improvement in placing time deposits

4.37 The HKAPA has not laid down procedures in placing time deposits. Under the existing practice, when there was surplus cash or maturity of time deposits, the Finance Department would carry out cashflow forecast and determine appropriate deposits amounts, with decisions made by the Head of the Finance Department. Audit noted that there was room for improvement as follows:

- (a) ***Insufficient number of banks for inviting quotations.*** The HKAPA maintains a list of banks for inviting interest rate quotations and placing time deposits. For some years, the list has contained the same four banks. In order to obtain more competitive interest rates, the HKAPA needs to expand its list of banks for placing time deposits and select banks from the list by rotation for inviting interest rate quotations; and
- (b) ***Scope for increasing deposit amounts.*** Audit examined the HKAPA's daily balances of cash (including balances of savings and current accounts and cash on hand) for the period from January to June 2015. The average daily balance amounted to \$27 million (ranging from \$7 million to \$58.5 million). There might be scope for increasing the amount of time deposits for earning more interest income.

Investment guidelines not yet finalised

4.38 The HKAPA has not developed investment guidelines. In March 2014, the HKAPA prepared a draft on investment guidelines. After discussion in the Council, it was decided that an Investment Group would be formed under the Finance Committee to help modify the draft. In May 2014, the Investment Group held its first meeting and considered that it was necessary to make reference from more sample investment guidelines from the Government. Up to January 2016, there has not been further progress in finalising the investment guidelines. There is a need for the HKAPA to finalise its investment guidelines for providing guidance on investing surplus funds.

Audit recommendations

4.39 **Audit has *recommended* that the HKAPA should:**

- (a) **expand its list of banks for obtaining interest rate quotations and placing time deposits;**
- (b) **explore the possibilities of increasing the amount of time deposits for earning more interest income; and**
- (c) **finalise its investment guidelines for investing surplus funds.**

Response from the HKAPA

4.40 The Director, HKAPA generally accepts the audit recommendations. He has said that the HKAPA will expand its list of banks for obtaining interest rate quotations and placing time deposits, with a view to enhancing interest income while ensuring sufficient liquidity for operational needs.

PART 5: CAMPUS IMPROVEMENT AND EXPANSION

5.1 This PART examines the planning and implementation of works projects for improvement and expansion of the HKAPA's campus, focusing on the following areas:

- (a) Wanchai Campus expansion project (paras. 5.2 to 5.21); and
- (b) planning for further campus expansion (paras. 5.22 to 5.34).

Wanchai Campus expansion project

5.2 The main campus of the HKAPA in Wanchai is composed of the Academy Block, the Theatre Block and the Administration Block. When the campus was completed in 1984, the design capacity was to house 600 full-time students. With the development of the HKAPA's academic programmes and gradual expansion of student populations over the years, the number of students had exceeded the original capacity of the Wanchai Campus, resulting in a space shortage problem. Although the HKAPA was offered in 2003 the Bethanie in Pokfulam as a second campus, the space shortage problem could only be partly relieved. In 2009, the HKAPA proposed to migrate to a four-year undergraduate degree structure under the new academic structure and estimated that the number of full-time equivalent students would increase to 997 by the academic year 2015/16. The HKAPA estimated that the shortfall of space would increase to 8,287 square metres (m²) in net operational floor area (NOFA — Note 8).

5.3 In June 2012, to relieve the HKAPA's space shortfall and to support the implementation of the four-year undergraduate degree structure, the Finance Committee of LegCo approved a funding of \$444.8 million for the HKAPA to carry out an expansion and improvement project of Wanchai Campus of the HKAPA. The scope of the project comprised three components, namely:

Note 8: *NOFA refers to the total internal areas of rooms/spaces within the approved schedule of accommodation, excluding all structures and partitions, circulation areas, staircases, staircase halls, lift landings, and the space occupied by toilet facilities, mechanical and electrical services such as lift and air-conditioning systems.*

Campus improvement and expansion

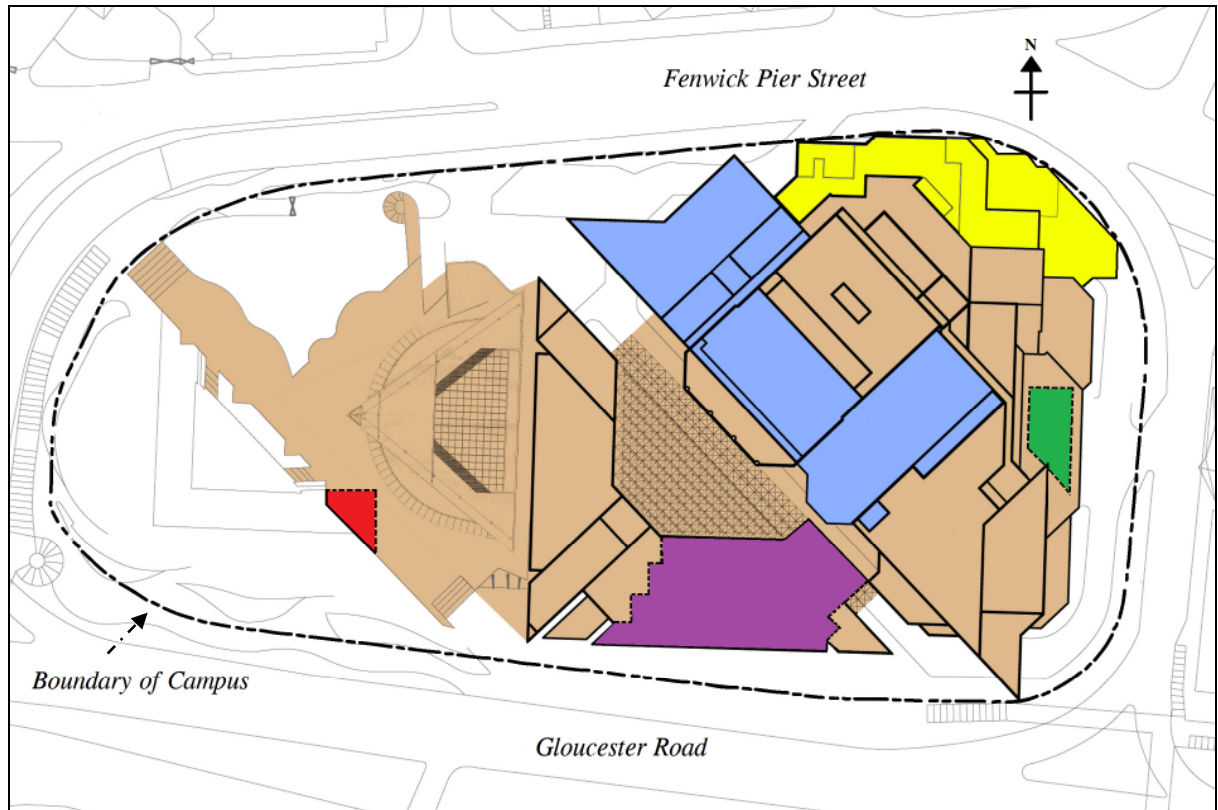
- (a) an on-campus expansion (OCE) project, at an estimated cost of \$422.1 million, to provide an additional 5,020 m² in NOFA to accommodate classrooms, studios, laboratories, music rooms, offices, workshops and support facilities by the construction of:
 - (i) a nine-storey annex building block adjoining the Theatre Block;
 - (ii) a one-storey lightweight structure on the roof of the Theatre Block;
and
 - (iii) an additional floor at the void space on the upper ground floor of the Theatre Block;
- (b) conversion of the existing fountain pump room to provide an additional 100 m² in NOFA for an administration office and a store room, at an estimated cost of \$3.3 million; and
- (c) redesign and reconfiguration of the existing library, at an estimated cost of \$19.4 million.

With a total construction floor area of 10,889 m², the project would provide an additional 5,120 m² in NOFA.

5.4 Figure 4 shows a layout of the expansion and improvement project of Wanchai Campus.

Figure 4

Expansion and improvement of HKAPA Wanchai Campus



- Legend:
- Nine-storey annex building adjoining Theatre Block
 - One-storey lightweight structure on roof of Theatre Block
 - Additional floor at void space on upper ground floor of Theatre Block
 - Conversion of pump room at basement of Administration Block
 - Reconfiguration of library on ground floor of Academy Block

Source: *Audit analysis of HKAPA records*

Progress of project implementation

5.5 The whole expansion and improvement project was scheduled for completion in December 2015. In the event, as at January 2016, the conversion of the pump room and the reconfiguration of the library (see para. 5.3(b) and (c)) had been completed on schedule and within budget. On the other hand, the core part of the whole project, i.e. the OCE project (see para. 5.3(a)) was experiencing an estimated delay of two years. The progress of the OCE project is summarised in Table 12.

Table 12

**Progress of the OCE project
(As of January 2016)**

Work programme	Planned date (Note)	Actual/(Expected) date	Delay (month)
Tender invitation	January 2013	October 2013	9
Tender return	February 2013	December 2013	10
Contract award	March 2013	August 2014	17
Works commencement	April 2013	August 2014	16
Works completion	December 2015	(December 2017)	24

Source: HKAPA records

Note: Planned dates are based on information provided by the HKAPA to the HAB as summarised in the June 2012 Finance Committee paper (see para. 5.3).

Change in project design after funding approval

5.6 When funding approval was obtained from the Finance Committee of LegCo in June 2012, the original plan was to invite tenders for the main contract of the OCE project in January 2013 and award the contract in March 2013. However, due to changes in project design after funding approval, the HKAPA only invited tenders in October 2013 and awarded the contract in August 2014. A summary of the key events leading to the delay is as follows:

- (a) ***Strategic review.*** In November 2012, the HKAPA initiated a comprehensive review of the strategic development of the HKAPA. In April 2013, the review concluded that the provision of a digital technology enhanced educational environment would be a key priority in the strategic direction. The HKAPA considered that there was room to further optimise the facilities and provisions under the OCE project to facilitate this strategic direction;

- (b) ***Value re-engineering exercise.*** In December 2012, the HKAPA found that the pre-tender estimate of the main contract was higher than the original estimate and might cause the approved project estimate (APE) of \$444.8 million to be exceeded. From January to March 2013, it conducted a value re-engineering exercise with a view to reducing the project cost;
- (c) ***Proposal to seek additional funding.*** In October 2013, the HKAPA invited tenders for the main contract after making design changes found necessary in the strategic review (see (a) above) and value re-engineering exercise (see (b) above). In December 2013, noting that the returned tender prices were still higher than the original estimates in spite of the attempts made in cost cutting, the HKAPA started to explore various options to proceed with the project, including tender negotiation, re-tendering, further cost cutting, and application for increase in APE. In March 2014, the HAB, with input from the HKAPA, proposed to seek approval from the Finance Committee for a supplementary provision of \$149.6 million to increase the APE of \$444.8 million to \$594.4 million by 34%. The additional amount was to cover the increased cost of the OCE project (about \$104.7 million), and to meet the expenditure for specialist equipment (about \$44.9 million) not included in the original project scope; and
- (d) ***Reduction in project scope.*** In late April 2014, the HAB's application for supplementary provision was declined. The Financial Services and the Treasury Bureau (FSTB) asked the HAB and the HKAPA to critically review the project scope and works specifications of the project, with a view to containing the project cost within the APE (Note 9). In mid-June 2014, the HAB worked out a cost containment proposal with the HKAPA, as follows:

Note 9: *The FSTB also asked the HAB and the HKAPA to consider the possibility of further tender negotiation or re-tendering the contract. The HAB and the HKAPA considered this option not desirable having regard to the then market trend of rising construction costs and the further delay that would be caused to the project.*

Campus improvement and expansion

- (i) taking into consideration the lowest conforming tender and related discount offer, savings from cost cutting exercise, and the associated adjustment for contract fluctuation, the HKAPA calculated that the scope of the main contract had to be reduced to bring about savings of \$68 million so that the project cost could stay within the APE;
- (ii) after careful consideration of the needs to meet the savings of \$68 million and to attain the objective of the OCE project as far as possible, the HKAPA proposed to exclude the construction of the one-storey lightweight structure on the roof of the Theatre Block (see para. 5.3(a)(ii)). As a result, the original total construction floor area of 10,889 m² would be reduced by 1,132 m², or about 10% (Note 10); and
- (iii) the HKAPA also proposed alternatives, through reassignment of space and converting the new space into multi-use facilities, to minimise the impact of the reduction in space such that the project objective could still be met.

The HAB forwarded the cost containment proposal to the FSTB for consideration. In parallel, the HAB also sought technical advice from the Development Bureau and the Architectural Services Department. In late June 2014, with the consent of the FSTB, the HAB advised the HKAPA to proceed with the proposed change in project scope. In August 2014, the HKAPA awarded the contract according to the cost containment proposal.

5.7 Requirements on project implementation. Financial Circular No. 3/2012 on “Capital Works Programme” stipulates procedures for creating and managing capital works projects under the Capital Works Programme. According to the Circular, the Directors of Bureaux and works directors must ensure that each project is implemented in strict accordance with the scope of the project as approved by the Finance Committee. As a general rule, they are responsible for ensuring that

Note 10: *HKAPA records showed that the corresponding reduction in NOFA was about 700 m², or 14% of the total NOFA of 5,120 m² of the whole project (see para. 5.3).*

projects should be implemented without delay and within budget. Any delay in implementation timetable and revision of project requirements that may lead to increase in the APE should be avoided.

5.8 In April 2014, in processing the HAB's proposal for supplementary provision (see para. 5.6(c)), the FSTB drew the HAB's attention to relevant provisions of Financial Circular No. 3/2012. The FSTB also commented that the OCE project had been substantially delayed and new requirements for specialist equipment had been added as a result of the strategic review by the HKAPA. From the financial management perspective, it was highly undesirable for the HKAPA to initiate changes that would affect the APE after funding was approved. In March 2016, in response to Audit's enquiry, the HAB and the HKAPA said that:

- (a) the HAB and the HKAPA had been mindful of the need to implement the project within the APE and without delay;
- (b) it was a necessary step for the HKAPA to conduct the value re-engineering exercise when the pre-tender estimate was found to be exceeding the APE in December 2012, although it might cause further delay. Unfortunately, the returned tender prices had still exceeded the APE; and
- (c) after consulting the technical departments, the HAB noted that, given the specific site constraints of the project, it was difficult to accurately estimate the project cost at the funding application stage.

Audit concurs with the FSTB that each capital works project should be implemented in strict accordance with the approved project scope, and should be completed without delay and within budget. It was highly undesirable for the HKAPA to make changes that would affect the completion date and the APE. The HAB should also have provided prompt guidance to the HKAPA in implementing the OCE project.

Project scope reduction not reported to LegCo

5.9 ***Requirements on changes in project scope.*** According to Financial Circular No. 3/2012, when the APE and/or the approved scope of a project require a substantial change, approval should be sought from the Finance Committee. The Circular defines that "substantial change" includes all changes causing an increase

Campus improvement and expansion

in the APE by more than \$15 million or changes which, albeit not increasing the APE by more than \$15 million, constitute a significant deviation from the approved scope of the project. The FSTB may approve, under delegated authority from the Finance Committee, minor changes to project scope or increase in APE which does not exceed \$15 million.

5.10 In May 2014, the HAB sought advice from the FSTB whether LegCo approval was required for the reduction in project scope to contain the project cost (see para. 5.6(d)). The FSTB drew the HAB's attention to relevant provisions of Financial Circular No. 3/2012 and reminded the HAB to consider the need to inform or seek approval from LegCo. In June 2014, the FSTB said that it would defer to the HAB to consider whether and, if so, how to report the reduction in project scope to LegCo. The HAB considered that the key elements of the OCE project would continue to be implemented and the change in project scope would not compromise the delivery of the project's intended functions to provide additional space. In late June 2014, in its reply to the FSTB, the HAB considered it not necessary to report to LegCo as the proposal would not constitute a substantial change in project scope. The HAB also said that it would consider whether and, if so, how to keep LegCo informed of the change at a suitable juncture.

5.11 Audit notes that, up to February 2016, the HAB has not yet informed LegCo of the progress of the OCE project. Under the current schedule, the completion of the OCE project has been delayed for two years with a reduced project scope. Audit considers that the HAB needs to provide a detailed account of the project progress to LegCo.

5.12 According to Financial Circular No. 3/2012, the FSTB may approve, under delegated authority from the Finance Committee of LegCo, minor changes to project scope or an increase in the APE which does not exceed \$15 million (see para. 5.9). However, after examining the relevant records, Audit could not find any formal documents for seeking and giving approval for the reduction in scope of the OCE project. All the discussions between the HAB and the FSTB about the reduction in project scope were conducted by means of e-mails, without formal documents. In contrast, Audit notes that there are detailed procedures and formal documents for the FSTB to process requests for supplementary provision of not more than \$15 million, recording the application, justifications and approval. However, there are no formal arrangements for

considering and approving minor changes in project scope by the FSTB. The FSTB needs to develop such arrangements and procedures.

5.13 In this case, the FSTB, as the approving authority for minor changes in project scope, had deferred to the HAB to decide whether the reduction in scope was significant for reporting to LegCo (see para. 5.10). In the event, the reduction in scope was considered by the HAB and the HKAPA as not significant as it only reduced the total construction floor area by 10% (see para. 5.6(d)(ii)). However, in terms of project cost, the reduction in scope involved cost savings of about \$68 million. This amount is higher than the \$15 million threshold for seeking approval for supplementary provision from the Finance Committee. Nevertheless, there are currently no guidelines and procedures for determining what constitutes a significant change in project scope where LegCo approval has to be sought. This case has highlighted the need for the FSTB to consider issuing such guidelines.

Impact of project slippage and scope reduction

5.14 As at January 2016, the OCE project was still in progress and was scheduled for completion by December 2017, two years behind the original schedule of December 2015. The project scope was also reduced with a decrease of 1,132 m² in construction floor area. The project delay and reduction in scope might have a significant impact on the space shortage problem of the HKAPA. Moreover, the HKAPA had to extend its leases for commercial premises in Wanchai (with a monthly rental of \$166,710) for providing necessary accommodation. A two-year project delay would result in additional rental of \$4 million. The HKAPA needs to make plans to deal with the impact of the delay and reduction in scope of the OCE project on delivering its academic programmes and other services.

5.15 In February 2016, in response to Audit's enquiry, the HKAPA said that, apart from the delay in tender invitation and contract award, the project delay was also attributable to inclement weather and unforeseeable additional requirements on the foundation works.

Audit recommendations

5.16 Audit has *recommended* that the HKAPA should:

- (a) endeavour to complete the OCE project within budget by December 2017;
- (b) for future government-subsented capital works projects, implement the project in strict accordance with the scope of the project as approved by the Finance Committee of LegCo, and avoid making changes to the design and specifications of the project that would increase the APE after funding approval; and
- (c) make necessary arrangements to deal with the impact of the delay and reduction in scope of the OCE project on delivering its academic programmes and other services.

5.17 Audit has *recommended* that the Secretary for Home Affairs should:

- (a) monitor closely the progress of the OCE project to ensure that the HKAPA completes it within budget by December 2017;
- (b) in performing the role of vote controller of subsented capital works projects, provide timely guidance to subsented organisations to remind them to implement subsented projects in strict accordance with the approved scope of the projects, and complete the projects on time and within budget; and
- (c) report the progress of the OCE project to LegCo with a detailed account of the delay and reduction in project scope.

5.18 Audit has *recommended* that the Secretary for Financial Services and the Treasury should consider developing suitable guidelines and procedures for approving changes in scope of capital works projects, with criteria for assessing whether a change in scope is significant and requires the approval of LegCo.

Response from the HKAPA

5.19 The Director, HKAPA generally accepts the audit recommendations in paragraph 5.16. He has said that the HKAPA has already put in place additional measures in project monitoring and management to ensure that the OCE project would be implemented within budget by December 2017. It has also adopted measures to enable the smooth delivery of academic programmes and other services pending completion of the OCE project.

Response from the Government

5.20 The Secretary for Home Affairs generally accepts the audit recommendations in paragraph 5.17. He has said that, to contain the overall budget within the APE approved by the Finance Committee, the HKAPA had no choice but to adopt cost containment measures. It has been the HAB's plan to submit a paper to the LegCo Panel on Home Affairs in early 2016 to report on the progress of the OCE project. The HAB will continue to closely monitor the progress of the OCE project to ensure that the HKAPA will complete it within budget by December 2017. The HKAPA is required to submit quarterly reports on the progress of the project and report to the HAB any irregularities in the first instance.

5.21 The Secretary for Financial Services and the Treasury agrees with the audit recommendation in paragraph 5.18. He has said that, in reality, the scope of a project might need to be adjusted to cater for unforeseen circumstances after funding approval. The assessment on whether a change in project scope is significant should be guided by the principle of prudent use of public money. Whether the primary objectives of a project could still be met despite the change is also a pertinent consideration. The FSTB is prepared to offer guidance on principles.

Planning for further campus expansion

5.22 In 2009, the HKAPA conducted an assessment on space requirements for migration from a three-year to a four-year undergraduate degree structure under the

Campus improvement and expansion

new academic structure (see para. 5.2). The assessment indicated that the space shortfall would be 7,201 net assignable square metres (NASM — Note 11), as follows:

Estimated space requirements	18,716 NASM
Less: Total space provision	<u>11,515 NASM</u>
Estimated space shortfall	<u><u>7,201 NASM</u></u>

5.23 The estimated space shortfall of 7,201 NASM corresponded to 8,287 m² in NOFA which formed the basis of the expansion and improvement project of Wanchai Campus approved in June 2012 (see para. 5.3). According to the HKAPA's calculation, after the implementation of the project which would provide 5,120 m² in NOFA, there would still be a shortfall of 3,167 m² in NOFA. To meet the remaining space shortfall and space requirements for additional facilities not included in the space requirements (including a student hostel), the HKAPA put forward a proposal in 2014 to redevelop the west wing of its Wanchai Campus. The project is currently under planning and pending allocation of resources.

Need to review student number for estimating space requirements

5.24 Under the UGC space planning standards, the number of students was the key parameter in determining the space requirements for different categories of facilities, including classrooms, study spaces, specialist teaching facilities, libraries, amenities and indoor sports facilities, etc. In assessing its space requirements in 2009, the HKAPA adopted the UGC space planning standards, with adjusted calculation bases to cater for its practice-based teaching method. In the process, the HKAPA projected the student number for the academic year 2015/16 under a four-year undergraduate degree structure. Table 13 shows a 9% over-estimation of the projected over actual number of full-time equivalent students in 2015/16.

Note 11: *NASM refers to the spaces/rooms assignable for teaching, learning, academic and related administration activities. In the UGC's Space Inventory Manual, NASM is equivalent to NOFA (see para. 5.2). The HKAPA has adopted NASM as NOFA excluding dressing rooms and stores which are specific to its operations.*

Table 13

Projected and actual number of full-time equivalent students in 2015/16

Programme	Projection (A)	Actual (B)	Over/(Under) estimation (C) = (A)-(B)
Undergraduate degree programmes	721	643	78
Sub-degree programmes	122	142	(20)
Subtotal	843	785	58
Master's degree programmes	154	133	21
Total	997	918	79 (9% over-estimation)

Source: Audit analysis of HKAPA records

5.25 The HKAPA had included the student numbers of its undergraduate degree, sub-degree and Master's degree programmes in applying the space planning standards to calculate the space requirements (Note 12). The total number of students was 997. However, it should be noted that all along the HKAPA runs its Master's degree programmes on a self-financing basis without subvention from the HAB. It is not appropriate to include student number from non-subsented programmes in the calculation of space requirements for government-funded accommodation. If the student number of Master's degree programmes was excluded, the projected number of students in the assessment would be 843, or 85% of the adopted number of 997. The estimated space requirements would be considerably reduced. The HAB needs to examine whether it is appropriate for the

Note 12: *The HKAPA did not include students of the government-funded junior programmes (for young people aged from 5 to 18) in calculating the space requirements. As at October 2015, there were 690 part-time students (a full-time equivalent of 115 students) under such programmes. These students attended classes mostly on Saturdays when there were few scheduled classes for students of undergraduate degree and sub-degree programmes. The UGC's space planning standards do not mention space requirements for students of junior programmes.*

Campus improvement and expansion

HKAPA to include the number of students of self-financing Master's degree programmes in the HKAPA's assessment of space requirements.

5.26 Regarding the undergraduate degree and sub-degree programmes, the projected 2015/16 total student number was 843. Table 13 shows that the actual enrolment number was 785, with a shortfall of 58 (or 7%) from the projection. The reduction in student number would also reduce the space requirements correspondingly. The HKAPA needs to make use of up-to-date student numbers and projections in its estimation of space requirements.

Existing space provision without underlying records

5.27 To facilitate the UGC's assessment on institutions' space and accommodation needs, all institutions are required to compile a space inventory and submit it to the UGC every three years for checking. The space inventory provides useful information for the UGC's assessment on proposals for capital works projects from the institutions. In the government context, government bureaux and departments are required to compile and maintain similar records of the premises allocated for their use, called a schedule of accommodation (SoA). If additional accommodation is required, they are required to submit full details of the SoA for consideration by the relevant authorities (i.e. the Government Property Agency and the Property Vetting Committee).

5.28 In the HKAPA's 2009 estimation of space shortfall, it was stated that the space provision at the time was 11,515 NASM (see para. 5.22). The information was recorded on a one-page summary spreadsheet with breakdown of the total space provision into several broad categories. In December 2015, Audit requested the underlying records of the 2009 spreadsheet, i.e. a detailed SoA, supporting the space provision of 11,515 NASM. Up to January 2016, the HKAPA was not able to provide a detailed SoA for Audit's review. This is less than satisfactory and the HKAPA needs to compile and maintain a detailed SoA of its space provision for management and allocation of accommodation, for management information, and as supporting documents in requesting additional accommodation.

5.29 From the HAB records, Audit was able to find a set of detailed SoA (with 18 pages) of the HKAPA dated back to 1999 when the HKAPA bid for the Bethanie as its second campus to relieve its space shortage problem. This 1999 SoA provided

Campus improvement and expansion

detailed information of the individual teaching facilities, performance venues and supporting facilities, including the size, location and usage. Audit has compiled a summary of the 1999 SoA to compare with the information in the 2009 spreadsheet as shown in Table 14.

Table 14

Space provision between the 1999 SoA and the 2009 spreadsheet

Facility	Space provision (NASM — Note 1)		
	1999 SoA (A)	2009 spreadsheet (B)	Discrepancy (C) = (A) – (B)
Classrooms	1,341	537	804
Specialist teaching areas (Note 2)	8,412	8,131	281
Offices	2,521	1,325	1,196
Library	733	873	(140)
Amenities and sport facilities	585	649	(64)
Total	13,592	11,515	2,077

Source: Audit analysis of HAB and HKAPA records

Note 1: The areas included the space provided at both the Wanchai Campus and the Bethanie Campus.

Note 2: Specialist teaching areas include all the specialist teaching space such as dance studios, music rooms, television studios, computer rooms, etc.

5.30 Table 14 shows that the 1999 SoA recorded a total space provision of 13,592 NASM, which is 2,077 NASM (or 18%) more than the 11,515 NASM as recorded in the 2009 spreadsheet, mainly in such facilities as classrooms, specialist teaching areas and offices. Audit considers that the HKAPA should, in compiling its SoA for its current space provision, taking account of the discrepancies between the information in the 1999 SoA and the 2009 spreadsheet to ensure that the SoA so compiled is accurate and reliable.

Audit recommendations

- 5.31 Audit has *recommended* that the HKAPA should:
- (a) re-examine its assessment of space requirements, using the up-to-date projection of student numbers, to provide a more accurate estimate;
 - (b) compile a detailed SoA of its current space provision, taking account of the discrepancies between the 1999 SoA and the 2009 spreadsheet; and
 - (c) update its space shortfall for planning future development projects, taking account of the results of (a) and (b) above.

5.32 Audit has *recommended* that the Secretary for Home Affairs should, in consultation with the Secretary for Education, examine the basis adopted by the HKAPA in its assessment of space requirement, including whether it should include the number of students of self-financing Master's degree programmes.

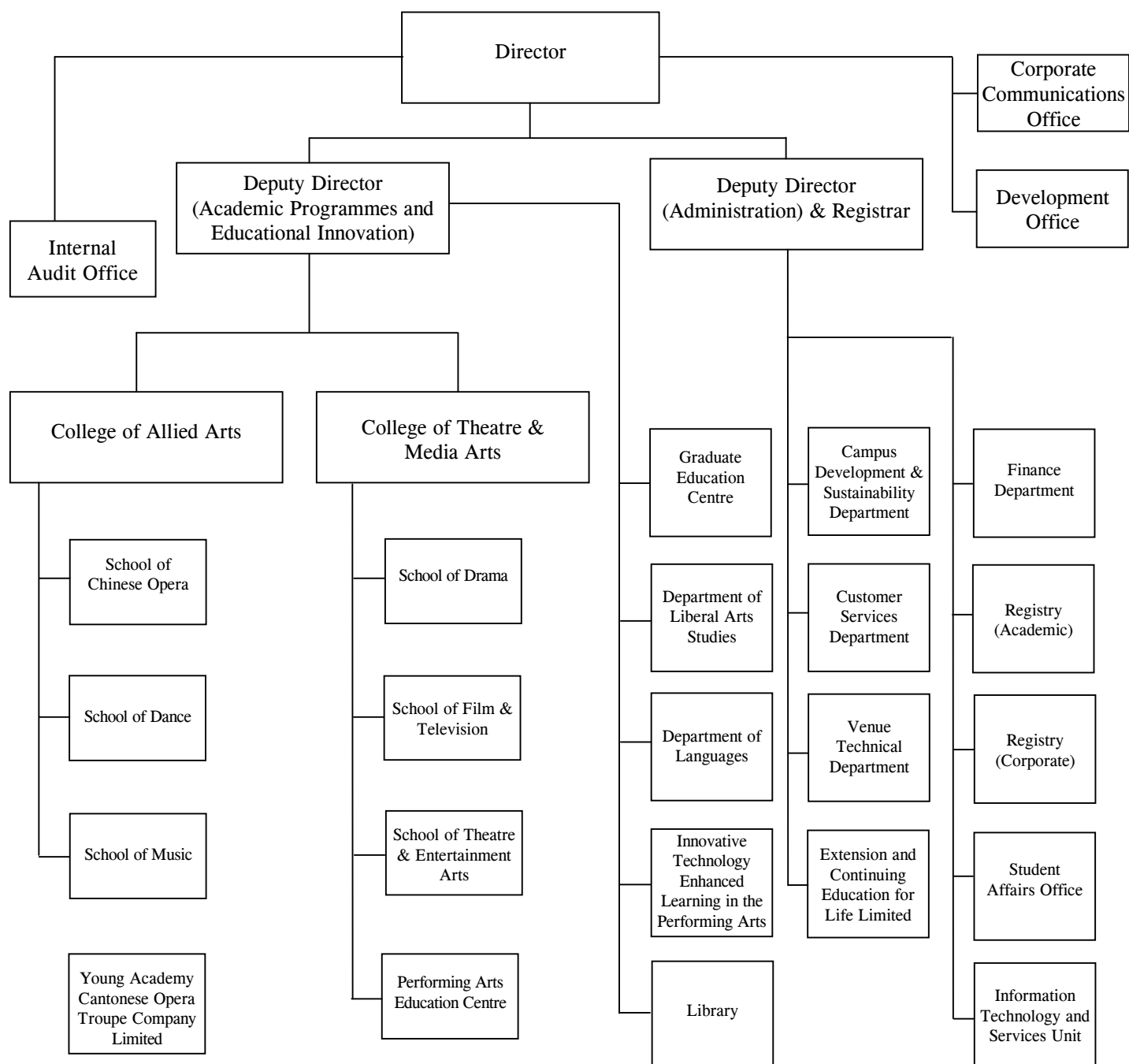
Response from the HKAPA

5.33 The Director, HKAPA generally accepts the audit recommendations in paragraph 5.31.

Response from the Government

5.34 The Secretary for Home Affairs generally accepts the audit recommendation in paragraph 5.32. He has said that the HAB will re-examine the basis on which space requirements for the HKAPA should be assessed having regard to all relevant factors including the nature of the programmes, performance/production requirements, and other teaching and learning needs.

**HKAPA: Organisation chart
(December 2015)**



Source: HKAPA records

**HKAPA's income and expenditure
(2010-11 to 2014-15)**

	Amount (\$ million)					Increase/ (decrease) from 2010-11 to 2014-15
	2010-11	2011-12	2012-13	2013-14	2014-15	
<i>Income</i>						
Recurrent government subvention	187.4	211.5	251.2	260.5	280.5	50%
Other government subvention	66.9	30.1	53.4	38.0	28.6	(57%)
Tuition fees	63.2	67.1	70.5	72.9	72.8	15%
Donations and benefactions	56.6	42.8	48.6	48.3	43.0	(24%)
Venue hiring	20.7	24.1	22.0	19.7	22.3	8%
Other income	11.4	17.2	14.3	15.8	19.5	71%
Total income	406.2	392.8	460.0	455.2	466.7	15%
<i>Expenditure</i>						
Instruction and research	135.6	144.7	159.4	169.3	177.4	31%
Premises and related expenses	91.8	90.0	99.7	85.9	90.4	(2%)
General education services and other activities	46.6	51.1	50.5	56.1	59.3	27%
Management and general support	31.5	36.6	42.2	39.1	44.3	41%
Library and other academic services	25.5	29.8	33.8	37.5	40.5	59%
Productions	20.3	20.3	21.7	23.2	25.0	23%
Total expenditure	351.3	372.5	407.3	411.1	436.9	24%
Surplus	54.9	20.3	52.7	44.1	29.8	(46%)

Source: Audit analysis of HKAPA records

**Awards and achievements of
HKAPA students and graduates in performing arts events
(2015)**

Performing arts event	No. of awards
16th International Chopin Piano Competition in Asia	8
2015 Hong Kong Dance Awards	7
24 Frames & Creative Media Festival	1
Fresh Wave 2015 - International Short Film Festival	7
HK4As Kam Fan Student Merit Award	1
Hong Kong Arts Development Awards 2014	5
International Competition of YOUKI 16 International Youth Media Festival in Austria	1
The 9th Shenzhen Hong Kong Life Awards	1
The 16th Osaka International Music Competition	1
The 52nd Golden Horse Awards in Taiwan	1
The 64th ARD International Music Competition in Munich	1
The 79th Steinway & Sons International Youth Piano Competition (China Final)	5
TVB Anniversary Awards 2015	1

Source: HKAPA records

Acronyms and abbreviations

APE	Approved project estimate
Audit	Audit Commission
EDB	Education Bureau
EXCEL	Extension and Continuing Education for Life Limited
FSTB	Financial Services and the Treasury Bureau
HAB	Home Affairs Bureau
HKAPA	Hong Kong Academy for Performing Arts
HKDSE	Hong Kong Diploma of Secondary Education
JUPAS	Joint University Programmes Admissions System
LegCo	Legislative Council
m ²	Square metres
MAA	Memorandum of Administrative Arrangements
NASM	Net assignable square metres
NOFA	Net operational floor area
OCE	On-campus expansion
SoA	Schedule of accommodation
Troupe	Young Academy Cantonese Opera Troupe Company Limited
UGC	University Grants Committee

CHAPTER 6

Electrical and Mechanical Services Department

**Monitoring of safe operation
of lifts and escalators**

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

MONITORING OF SAFE OPERATION OF LIFTS AND ESCALATORS

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1
Background	1.2 – 1.15
Audit review	1.16
Acknowledgement	1.17
PART 2: MONITORING WORK OF REGISTERED PERSONS	2.1
Responsible Persons	2.2 – 2.3
Monitoring Registered Contractors' work	2.4 – 2.33
Audit recommendations	2.34
Response from the Government	2.35
Monitoring Registered Engineers' work	2.36 – 2.48
Audit recommendations	2.49
Response from the Government	2.50

	Paragraph
PART 3: SITE INSPECTIONS AND OTHER REGULATORY ACTIONS	3.1
Conduct of site inspections	3.2 – 3.11
Audit recommendations	3.12
Response from the Government	3.13
Issuance of prohibition orders	3.14 – 3.30
Audit recommendations	3.31
Response from the Government	3.32
Monitoring of reportable incidents	3.33 – 3.40
Audit recommendations	3.41
Response from the Government	3.42
Retrofitting new lift safety devices	3.43 – 3.47
Audit recommendations	3.48
Response from the Government	3.49
 PART 4: MANAGEMENT INFORMATION SYSTEM	 4.1
Lift and Escalator Ordinance System	4.2 – 4.6
Audit recommendations	4.7
Response from the Government	4.8

	Paragraph
PART 5: WAY FORWARD	5.1
Major audit observations	5.2 – 5.3
Way forward	5.4 – 5.13
Audit recommendations	5.14
Response from the Government	5.15

Appendices	Page
A : Installations not regulated under the Lifts and Escalators Ordinance	67
B : Reportable lift and escalator incidents	68
C : Electrical and Mechanical Services Department Organisation chart (extract) (31 December 2015)	69
D : EMSD actions to enhance Responsible Persons' knowledge of their roles and responsibilities	70
E : Performance monitoring points for non-compliance issues	71
F : Seven new lift safety devices	72
G : Acronyms and abbreviations	73

MONITORING OF SAFE OPERATION OF LIFTS AND ESCALATORS

Executive Summary

1. The Lifts and Escalators Ordinance (Cap. 618 — the L&E Ordinance), effective from 17 December 2012, regulates the installation, maintenance and operation of lifts or escalators (L/Es). The Electrical and Mechanical Services Department (EMSD), under the policy directives of the Development Bureau (DEVB), is responsible for administration and enforcement of the L&E Ordinance. As of December 2015, Hong Kong had 72,486 L/Es (comprising 63,561 lifts and 8,925 escalators) which were regulated under the L&E Ordinance.

2. The L&E Ordinance stipulates that every L/E should have a Responsible Person (RP) who is the owner or a person responsible for its management. The RP of an L/E should appoint a Registered Contractor (RC) for installation and maintenance of the L/E, and a Registered Engineer (RE) for conducting examination and certification of the safe working condition of the L/E. An L/E needs to be maintained by an RC at least once a month, and a use permit needs to be renewed annually for a lift and bi-annually for an escalator. An RC needs to employ Registered Workers (RWs) to perform L/E work (RCs, REs and RWs are hereinafter referred to as registered persons). As of December 2015, 40 RCs, 332 REs and 5,311 RWs were providing L/E examination and maintenance services. In 2015, there were 439 reportable lift incidents involving 457 injuries and 1,590 reportable escalator incidents involving 1,780 injuries. The Audit Commission (Audit) has recently conducted a review to examine the EMSD's work in monitoring the safe operation of L/Es.

Monitoring work of registered persons

3. *Delays in considering disciplinary actions against RCs.* The L&E Ordinance (effective from 17 December 2012) and an EMSD circular issued in March 2013 have respectively stipulated that if an RC has been convicted of an offence under the Ordinance, or has received three or more warning letters within a 12-month period, the EMSD may refer the RC to the DEVB for establishing a disciplinary board to consider taking disciplinary actions. However, the EMSD only set up a Disciplinary Action Review Panel (DAR Panel) in April 2015 to

Executive Summary

review the seriousness of misconducts of related RCs and to decide whether a disciplinary hearing should proceed. In addition, Audit examination revealed that, up to 31 December 2015, the DAR Panel had not conducted reviews of the need for disciplinary hearings for two RCs who had been convicted of offences under the L/E Ordinance in December 2013 and July 2015 respectively, and for another RC who had received four warning letters from June to September 2015 (paras. 2.10 to 2.17).

4. ***Performance monitoring points not accorded on significant non-compliance issues.*** The EMSD has set up the Performance Assessment Scheme (PA Scheme) to facilitate assessment of the performance of RCs and help RPs to choose appropriate RCs. Under the PA Scheme, performance monitoring (PM) points would be accorded to an RC for defined types of non-compliance issues. However, Audit examination revealed that, notwithstanding that warning letters had been issued to two RCs for non-compliance with significant EMSD requirements, no PM point was accorded to them because the non-compliance issues were not covered under the PA Scheme. Audit examination also revealed that in one case, the EMSD only accorded 88 PM points to an RC 26 months after noting that the RC had not complied with an EMSD requirement on updating L/E log books with details of maintenance works carried out (paras. 2.8 and 2.18 to 2.22).

5. ***Need to strengthen actions on EMSD surveillance audits.*** The EMSD conducted surveillance audits on RCs to examine their manpower resources, facilities available, work scheduling systems and readiness for handling emergency situations. The EMSD had set a target of conducting surveillance audits on all RCs within a two-year period from November 2013 to October 2015. However, Audit examination revealed that surveillance audits on only 20 or 49% of the total number of RCs had been completed during the two-year period (paras. 2.7 and 2.23 to 2.27).

6. ***Omissions and delays in submitting RC change-over examination reports.*** According to EMSD Code of Practice, the incoming RC of an L/E needs to submit a change-over examination report to the EMSD within one month after taking over the maintenance work. Audit sample checks of 70 change-over examination reports revealed that three incoming RCs had not submitted to the EMSD change-over examination reports as of December 2015. The time lapses from the change-over dates to 31 December 2015 ranged from 548 to 729 days. For the remaining 67 change-over examination reports submitted to the EMSD, Audit noted that 15 (22%) were submitted 32 to 110 days after the RCs taking over the maintenance work, at variance with the one-month requirement (paras. 2.28 to 2.30).

Executive Summary

7. *Need to strengthen actions on conducting EMSD surprise inspections.* From January to September 2015, the EMSD was notified by REs of their schedules for 63,112 L/E examinations. However, 3,639 (6%) of the 63,112 examinations were carried out on dates other than the original scheduled dates. Moreover, from January to December 2015, EMSD staff conducted 3,200 surprise inspections and they were unsuccessful in finding REs on site in 81 inspections (3%). Changes of RE examination dates without prior notifying the EMSD would undermine the efficiency and effectiveness of EMSD surprise inspections to check the physical attendance of REs in conducting examinations (paras. 2.38 to 2.43).

8. *Inadequate monitoring of excessive number of L/Es examined by REs on a single day.* From January 2014 to September 2015, according to EMSD records, 62 REs had conducted lift examination and certification work covering 7 to 13 lifts on a single day on a total of 146 occasions. The EMSD had issued letters to 4 of the 62 REs requesting them to provide explanations and the EMSD subsequently accepted the explanations provided. However, the EMSD had not issued guidelines on the maximum number of L/Es to be examined and certified by an RE on a single day (paras. 2.45 to 2.48).

Site inspections and other regulatory actions

9. *Need to strengthen actions on non-compliance with advisory letters.* From January 2014 to September 2015, the EMSD had issued 26 improvement orders and 1,103 advisory letters requesting the RPs concerned to take remedial actions within a given timeframe. However, Audit sample examination of 50 advisory letters revealed that, as of December 2015, the RPs of 23 (46%) L/Es concerned had not informed the EMSD of whether the rectification works as specified in the advisory letters had been carried out, with time lapses ranging from 2 to 21 months. Moreover, the EMSD had not issued guidelines specifying the criteria for issuing improvement orders and advisory letters (paras. 3.7 to 3.11).

10. *Delays and omissions in issuing prohibition orders.* Under the L&E Ordinance, an L/E is required to be subject to maintenance by an RC at least once a month, and the EMSD may issue a prohibition order to suspend the operation of an L/E for non-compliance with this requirement. Audit examination revealed that, from January 2014 to September 2015, 137 L/Es involving changes of RCs where the incoming RCs assumed maintenance service more than one month after termination of service contracts of the outgoing RCs. Of these 137 L/Es, the EMSD had only promptly issued prohibition orders or had received written L/E

Executive Summary

suspension notifications within one month from service termination of the outgoing RCs on 80 L/Es (59%). However, the EMSD had issued prohibition orders on 36 L/Es (26%) 34 to 298 days after termination of the original maintenance contracts, and had not issued prohibition orders on 21 L/Es (15%) as of December 2015 (paras. 3.22 to 3.26).

11. ***Delays in serving prohibition orders.*** From January 2014 to June 2015, the EMSD had issued 678 prohibition orders on L/Es. However, Audit sample check of 50 prohibition orders issued during the period revealed that 41 orders had been served 1 to 63 days after the effective dates of the orders, and there were no EMSD records on the serving dates of 4 orders and on the effective dates of 5 orders (paras. 3.27 to 3.30).

12. ***Need to consider expanding the scope of reportable L/E incidents.*** The L&E Ordinance specifies six types of lift incidents and three types of escalator incidents as reportable incidents. For non-reportable L/E incidents that had come to EMSD notice either through public reports or media reports, their number and details were not readily available because these records were not centrally maintained in the Lift and Escalator Ordinance System (LEO System). In 2015, the EMSD conducted investigations on 23 non-reportable incidents, of which 9 incidents involved fire occurrence, 6 involved damage to escalator steps caused by an external object, 2 were caused by overheat or short-circuit of lift motors, and 6 were caused by various reasons, including a passenger deliberately forcing the opening of a lift door, and failure of a cable connector of a lift. Some significant non-reportable incidents may pose safety risk to passengers and may warrant classifying them as reportable incidents (paras. 3.34 to 3.37).

13. ***Delays in submitting incident reports.*** Under the L&E Ordinance, after occurrence of a reportable incident, the RC concerned needs to submit an incident report to the EMSD within seven days after the date on which he is notified of the incident. Audit examination of all the 561 incident reports submitted to the EMSD from April to June 2015 revealed that 41 reports (7%) were submitted to the EMSD 8 to 36 days after the related RCs having been notified of the incidents, at variance with the seven-day reporting requirement. However, the EMSD did not take any follow-up action on these cases (paras. 3.38 to 3.40).

Executive Summary

14. *Delays in retrofitting new safety devices for government lifts.* Notwithstanding that the EMSD had set a target to complete retrofitting 520 government lifts with one or more of the seven new safety enhancement devices by 2015-16, as of December 2015, works on 106 lifts (20%) were in progress and works on 153 lifts (30%) had not commenced (paras. 3.45 to 3.47).

Management Information System

15. *Lack of periodic management reports on long-outstanding cases.* The LEO System was first developed in 1989 to support the EMSD in monitoring the safe operation of L/Es and enforcing compliance with the requirements of the L&E Ordinance. It was however not equipped to generate periodic management reports on long-outstanding cases on issuance of prohibition orders, warning letters and advisory letters, and on submission of incident reports which may require directives from the EMSD's senior management (paras. 4.2 to 4.4).

16. *Incomplete data in LEO System.* Audit examination revealed that 76% of the model numbers and/or manufacturer names of L/Es had not been input into the LEO System, at variance with an EMSD requirement. Furthermore, the numbers of EMSD inspections of lifts and escalators conducted in 2014 as published on the Controlling Officer's Report were respectively 7% and 17% greater than those reflected in the LEO System (paras. 4.5 and 4.6).

Audit recommendations

17. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Government should:**

Monitoring work of registered persons

- (a) **take measures to ensure that all convicted RCs and RCs having been issued with three or more warning letters within a 12-month period are reviewed by the DAR Panel in a timely manner to decide whether the related RCs should be referred to the DEVB for disciplinary hearing (para. 2.34(a));**
- (b) **periodically review the PA Scheme with a view to including all significant RC non-compliance issues in the Scheme (para. 2.34(b));**

Executive Summary

- (c) **strengthen actions with a view to meeting EMSD target on conducting surveillance audits on all RCs within a two-year period (para. 2.34(c));**
- (d) **monitor changes of RE examination dates and consider issuing advisory letters to REs who repeatedly change their examination dates without promptly notifying the EMSD (para. 2.49(a));**
- (e) **issue guidelines on the maximum number of L/Es to be examined and certified by an RE on a single day (para. 2.49(c));**

Site inspections and other regulatory actions

- (f) **take follow-up action to ascertain the reasons for not keeping records on the serving dates of four prohibition orders and on the effective dates of five prohibition orders (para. 3.31(b));**
- (g) **keep in view whether some significant non-reportable incidents posing safety risk to passengers warrant classifying them as reportable incidents (para. 3.41(a));**
- (h) **take appropriate actions against RCs for not complying with the seven-day incident reporting requirement (para. 3.41(d));**
- (i) **expedite actions on completing major retrofitting works for government lifts (para. 3.48(a)); and**

Management Information System

- (j) **make enhancements to the LEO System with a view to periodically generating management reports on safe operation of L/Es to EMSD senior management and take measures to ensure that essential information is input into the LEO System (para. 4.7(a) and (b)).**

Response from the Government

18. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Lifts and Escalators Ordinance (Cap. 618 — L&E Ordinance — Note 1) came into force and repealed the former Lifts and Escalators (Safety) Ordinance (Cap. 327) on 17 December 2012. The L&E Ordinance regulates the installation, maintenance and operation of lifts or escalators (L/Es), including those owned by the Government and the Housing Authority, with the exception of installations listed in Appendix A.

1.3 The Electrical and Mechanical Services Department (EMSD) is responsible for administration and enforcement of the L&E Ordinance. As of December 2015, Hong Kong had 72,486 L/Es (comprising 63,561 lifts and 8,925 escalators) which were regulated under the L&E Ordinance.

1.4 The L&E Ordinance specifies the duties and responsibilities of the following persons:

- (a) ***Responsible Person (RP)***. Every L/E should have an RP who is the owner or a person responsible for its management (such as an owners' corporation) or having the control of it (such as a property management agency). The RP of an L/E is mainly responsible for ensuring that the L/E in operation is kept in a proper state of repair and in safe working order. The RP must ensure that the L/E is not used or operated if there is no use permit in force;

Note 1: *Two Regulations were enacted under the L&E Ordinance, namely the Lifts and Escalators (General) Regulation (Cap. 618A) and the Lifts and Escalators (Fees) Regulation (Cap. 618B).*

Introduction

- (b) **Registered Contractor (RC).** The RP of an L/E should appoint an RC for installation and maintenance of the L/E. An RC is a company having recruited registered engineers, registered workers and general workers. An RP shall cause an RC to carry out periodic maintenance of an L/E at least once a month;
- (c) **Registered Engineer (RE).** The RP of an L/E should also appoint an RE for conducting examination and certification of the safe working condition of it before putting it into use and operation, of a lift on an annual basis and of an escalator on a bi-annual basis, and after completion of major alteration work as specified in the L&E Ordinance; and
- (d) **Registered Worker (RW).** An RW, an employee of an RC, is responsible for performing L/E work under the supervision of an RC.

1.5 Under the L&E Ordinance, the EMSD has issued a code of practice (CoP) which provides practical guidance to registered persons (comprising RCs, REs and RWs) and RPs in respect of the installation, maintenance, use and operation of L/Es. Every registered person needs to meet the registration requirements under the L&E Ordinance, register with the EMSD and renew his registration every five years. As of December 2015, 40 RCs, 332 REs and 5,311 RWs were providing L/E maintenance and examination services.

1.6 **Use permit.** For an L/E newly installed by an RC and certified to be in a safe working condition by an RE, the RP concerned needs to apply to the EMSD for a new use permit before the L/E is put into use and operation, and to apply to the EMSD for the renewal of a use permit for a lift annually and for an escalator bi-annually. Every L/E should be maintained by an RC at least once a month with details of maintenance recorded in a log book. In applying for renewal of a use permit for an L/E, the RP shall cause an RE to conduct examination and certify that the L/E is in a safe working condition.

1.7 ***Prohibition order.*** Under the L&E Ordinance, the EMSD may issue a prohibition order to prohibit an L/E from being used or operated if it has reasonable grounds to believe that the L/E is, among others:

- (a) having no use permit in force;
- (b) not complying with the monthly-maintenance requirement; or
- (c) not in safe working order.

1.8 ***Improvement order.*** Under the L&E Ordinance, the EMSD may issue an improvement order to the RP of an L/E if the L/E is in a state that will cause or be likely to cause a risk of injury to any person or damage to any property, demanding the RP to take necessary actions within a given timeframe.

1.9 ***Warning letter and advisory letter.*** The EMSD may issue a warning letter to an RC if a safety-related non-compliance issue is found during an EMSD site inspection, or 12 performance monitoring (PM) points (see para. 2.8) or more are accorded to the RC. The EMSD may also issue an advisory letter to the RP of an L/E if an unsatisfactory but not safety critical issue is found during an EMSD site inspection, requesting the RP to take remedial actions within a given timeframe.

1.10 ***Reportable incident.*** The L&E Ordinance specifies six types of lift incidents and three types of escalator incidents (known as reportable incidents — see Appendix B), and the RP of an L/E needs to report to the EMSD within 24 hours after a reportable incident relating to the L/E has come to his knowledge. In 2015, there were 439 reportable lift incidents involving 457 injuries and 1,590 reportable escalator incidents involving 1,780 injuries (Note 2).

Note 2: *According to the EMSD, the majority of these incidents were caused by passenger behaviours and external factors, such as a hand being trapped due to it being placed too close to the gap between the lift door and the door frame of a lift, and wedging of foreign objects at escalator comb plates. Of these incidents, 11 lift incidents involving 10 injuries and 8 escalator incidents involving 12 injuries were caused by equipment failure in 2015.*

Introduction

Responsible government bureau and department

1.11 Under the policy directives of the Development Bureau (DEVB), the EMSD is responsible for implementing policies and strategies on the safe operation of L/Es, and taking actions to enforce compliance with requirements of the L&E Ordinance by registered persons and RPs. The EMSD's roles in these areas include:

- (a) registration of RCs, REs and RWs;
- (b) approval of new brands and models of L/E equipment;
- (c) preparation of CoP to provide guidance on matters relating to the safety of L/Es for reference of trade practitioners;
- (d) conduct of site inspections of examination work carried out by REs;
- (e) investigation of L/E complaints and incidents, and taking enforcement actions on cases involving non-compliance with the L&E Ordinance; and
- (f) carrying out publicity work, such as conducting seminars and exhibitions, and informing registered persons and RPs of their duties and obligations under the L&E Ordinance.

1.12 In 2015, the EMSD processed 82,559 applications for new and renewal of L/E use permits, conducted 11,798 site inspections, carried out investigations of 269 reportable incidents (13% of the total 2,029 reportable incidents in the year), and handled 1,289 related public enquiries and complaints.

1.13 The General Legislation Division (Note 3) of the Gas and General Legislation Branch of the EMSD is responsible for enforcing compliance with the requirements of the L&E Ordinance by registered persons and RPs. For 2015-16,

Note 3: *The Division is also responsible for performing other duties, such as administration and enforcing compliance with the requirements of various ordinances related to builders' lifts and tower working platforms, aerial ropeways and amusement rides.*

the budgeted expenditure of the General Legislation Division is \$36 million. As of December 2015, the General Legislation Division had 40 staff (Note 4), comprising senior engineers, engineers and inspectors. Appendix C shows an extract of the organisation chart of the EMSD.

Management information system

1.14 The EMSD has maintained a computerised management information system for L/Es, known as the Lift and Escalator Ordinance System (LEO System). The System maintains information of L/Es in operation and performance records of registered persons and RPs. The EMSD has also maintained an e-platform system which is an on-line facility into which RCs and REs are required to input their RE examination schedules for facilitating the EMSD's surprise site inspections. In addition, the EMSD also makes use of an electronic document system to keep some of the operation data.

Lift and Escalator Safety Advisory Committee

1.15 The Lift and Escalator Safety Advisory Committee is a non-statutory body set up in July 2013 to collect advice from the trade and members of the public on the administration and enforcement of L/E safety measures. The Committee comprises representatives from the EMSD, the Home Affairs Department, the L/E trade, professional bodies, the property management sector and laypersons. The chairman and members of the Committee, each with a two-year term, are appointed by the Secretary for Development. The Committee normally meets bi-annually.

Audit review

1.16 In April 2015, the Audit Commission (Audit) commenced a review to examine the EMSD's work in monitoring the safe operation of L/Es. The duties and responsibilities of registered persons and RPs are stipulated in the L&E Ordinance and CoP. In this regard, the EMSD has established mechanisms and systems to facilitate and monitor the proper discharge of responsibilities of

Note 4: *Of the 40 posts, 9 (23%) were created for undertaking additional duties subsequent to the L&E Ordinance coming into effect in December 2012. The 9 posts would lapse in April 2016.*

Introduction

registered persons and RPs. In addition, the EMSD also conducts site inspections and takes regulatory actions, including issuing prohibition orders, improvement orders, warning letters and advisory letters, and conducting investigation of L/E incidents. This review focuses on the following areas:

- (a) monitoring work of registered persons (PART 2);
- (b) site inspections and other regulatory actions (PART 3);
- (c) management information system (PART 4); and
- (d) way forward (PART 5).

Audit has identified areas where improvements can be made by the EMSD in the above areas, and has made a number of recommendations to address the issues.

Acknowledgement

1.17 Audit would like to acknowledge with gratitude the cooperation of the staff of the DEVB and the EMSD during the course of the audit review.

PART 2: MONITORING WORK OF REGISTERED PERSONS

2.1 This PART examines the actions taken by the EMSD in monitoring the work of RCs and REs (Note 5) in discharging their duties under the L&E Ordinance and the CoP for ensuring safe operation of L/Es, focusing on:

- (a) monitoring RCs' work (see paras. 2.4 to 2.35); and
- (b) monitoring REs' work (see paras. 2.36 to 2.50).

Responsible Persons

2.2 Under the L&E Ordinance, the RP of an L/E, who is normally the related property owner, the owners incorporation or the property management agency, must ensure that the L/E and its associated equipment or machinery are kept in a proper state of repair and in safe working order. The major duties of the RP of an L/E as stipulated in the L&E Ordinance include:

- (a) causing an RC to undertake the maintenance works of the L/E and ensuring that maintenance works are carried out at least once a month;
- (b) causing an RE to thoroughly examine the L/E before it is put into use at an interval not exceeding one year for a lift and six months for an escalator;
- (c) if there is a reportable incident related to the L/E, notifying the EMSD and the RC in writing within 24 hours after the incident comes to the RP's knowledge; and

Note 5: *RWs are employees of RCs and their work is under the supervision of RCs. Therefore, the EMSD monitors RWs' work mainly through monitoring RCs' work.*

Monitoring work of registered persons

- (d) keeping a log book for the L/E in a specified form containing information (Note 6) as stipulated in the L&E Ordinance.

2.3 For the purpose of assisting RPs to better understand their roles and responsibilities, the EMSD has issued guidebooks and organised talks and seminars for RPs on their roles and responsibilities. Appendix D shows details of EMSD actions to enhance RPs' knowledge of their roles and responsibilities.

Monitoring Registered Contractors' work

2.4 Under the L&E Ordinance, a person or a company meeting related requirements (Note 7) may be approved by the EMSD for registration as an RC. An RC needs to apply to the EMSD for renewal of his registration every 5 years. As of December 2015, there were 40 RCs. The major duties of an RC as stipulated in the L&E Ordinance include:

- (a) carrying out L/E works properly and safely;
- (b) taking safety precaution measures to prevent injuries to any person or damage to any property while works are being carried out;
- (c) maintaining sufficient workforce and adequate equipment and tools for carrying out L/E works;
- (d) causing an RE to investigate a reportable incident and prepare and complete a full investigation report and submit it to the EMSD within seven days after the date on which the RC is notified;

Note 6: *Information that is required to be recorded in an L/E log book includes the name of the RC responsible for the maintenance work, names of RWs participating in the L/E work, the name of the RE participating in the RE examination, and details of L/E works carried out.*

Note 7: *Among other things, an RC must be capable of (a) maintaining the necessary facilities, resources and workforce to carry out L/E works; and (b) obtaining necessary technical assistance or support from related persons, including L/E manufacturers.*

Monitoring work of registered persons

- (e) notifying the EMSD if he is unable or unwilling to continue to undertake the maintenance works of an L/E in a specified form within 14 days after the date on which he ceases to undertake the works; and
- (f) entering into an L/E log book information as stipulated in the L&E Ordinance, such as lift failure events.

An RC failing to comply with pertinent requirements under the L&E Ordinance commits an offence and is liable on conviction to a fine of up to \$100,000 and imprisonment for up to one year.

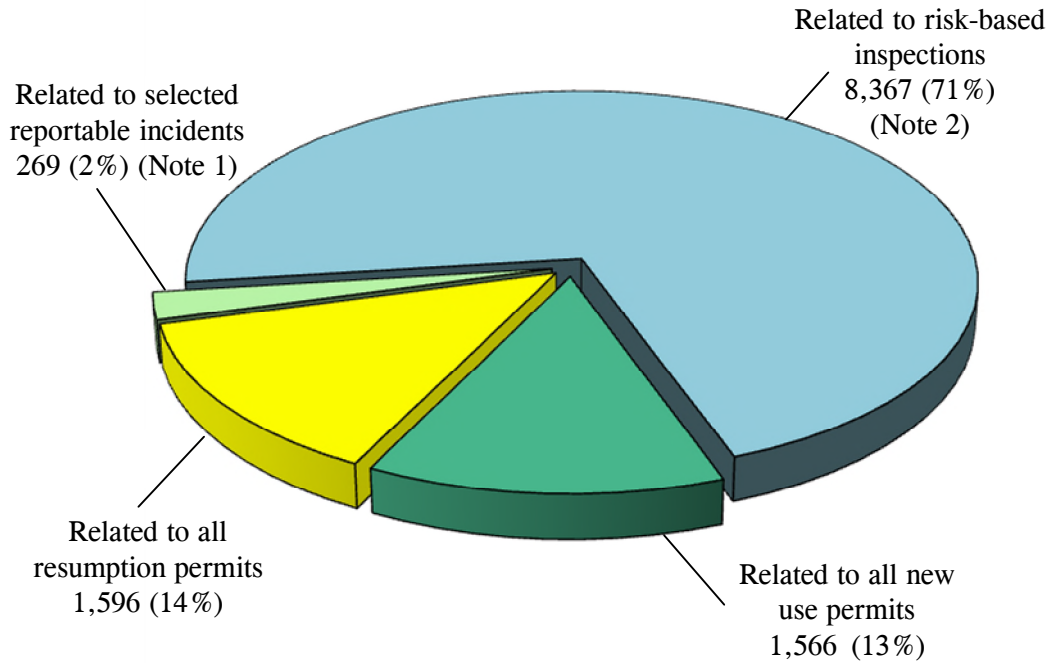
2.5 Under the L&E Ordinance, a registered person (an RC, RE or RW) commits a disciplinary offence if he:

- (a) commits misconduct or neglect in any professional respect; or
- (b) has been convicted of an offence under the Ordinance.

2.6 ***EMSD site inspections.*** The EMSD monitors the work of RCs and REs mainly through conducting site inspections by adopting a risk-based approach. In 2015, the EMSD conducted 11,798 site inspections. Details are shown in Figure 1.

Figure 1

11,798 EMSD site inspections of L/Es
(2015)



Source: EMSD records

Note 1: In 2015, the EMSD selected 269 (13%) of the total 2,029 reportable incidents for site inspections.

Note 2: Of these 8,367 site inspections, 3,200 (38%) were surprise inspections to check the physical attendance of REs in conducting examinations and observe their examination work.

2.7 ***EMSD surveillance audits.*** The EMSD also carries out surveillance audits on RCs to examine their manpower resources, facilities available, work scheduling systems and readiness for handling emergency situations. This is an administrative measure aiming to enhance RC performance.

2.8 ***Performance Assessment Scheme.*** The EMSD has set up the Performance Assessment Scheme (PA Scheme), which is an administrative system to facilitate assessment of the performance of RCs and help RPs to choose appropriate RCs. Under the PA Scheme, 2 to 15 PM points would be accorded to an RC for defined types of non-compliance issues found during EMSD site inspections or revealed in other circumstances to reflect the performance shortfalls of RCs in carrying out L/E works. For example, 15 PM points would be accorded for noting an ineffective machine brake of a lift, and 4 PM points for noting an ineffective ventilation fan. PM points accorded in periods longer than preceding 12 months are discarded. Examples of PM points accorded for non-compliance issues are shown in Appendix E.

2.9 ***RCs' Performance Rating System.*** The EMSD has established an administrative Registered Lift and Escalator Contractors' Performance Rating System (CPR System) for assisting RPs to choose appropriate RCs for the provision of L/E maintenance and repair services. The CPR System makes use of a formula to convert PM points into quality star ratings (depicted by blue stars). The lower the PM points accorded to an RC, the more blue stars will be awarded to the RC. Up to five blue stars will be awarded to an RC if there is no non-compliance issues observed in both the safety and service quality aspects in two consecutive quarters. In addition, a green safety star will be awarded to an RC if no safety non-compliance issues have been found during the recent 12 months' site inspections of L/Es under the RC's maintenance. In case of any non-compliance issue found in relation to safety, no safety nor quality star will be awarded to the RC. The EMSD publishes on its website the green and blue stars awarded to each RC on a quarterly basis. Historical performance records of RCs and information on warning letters issued to RCs are also published on the EMSD's website.

Monitoring work of registered persons

Delays in considering disciplinary actions against RCs (RCs 1 to 7)

2.10 *Convicted cases.* Under the L&E Ordinance:

- (a) if an RC has been convicted of an offence under the Ordinance, he is considered having committed a disciplinary offence; and
- (b) the EMSD may refer the case to the DEVB for establishing a disciplinary board (Note 8) to consider taking disciplinary actions (e.g. reprimand, fine, or suspension or cancellation of registration) against the related RC.

2.11 From December 2012 (effective date of the L&E Ordinance) to December 2015, the EMSD had completed prosecution actions against seven RCs, three REs (Note 9), six RWs (Note 10) and one RP (see Case 1 in para. 3.27) for malpractices. Of the seven RCs, five (RCs 1 to 5) were convicted and two were acquitted by the court. Details relating to the five convicted RCs are as follows:

- (a) in December 2013, RC 1 of two escalators of a building in North Point was convicted for not properly maintaining the escalators, and he was fined \$9,900;
- (b) in December 2014 and April 2015, RC 2 of a lift of a building in North Point was convicted for unauthorised subcontracting lift work and failure in maintaining suspension ropes, and he was fined \$2,000 and \$50,000 respectively;

Note 8: *A disciplinary board comprises members from the Hong Kong Institute of Engineers, RCs, REs, RWs and lay persons appointed by the DEVB.*

Note 9: *Of the three REs, two were respectively involved in cases relating to RCs 1 and 2 (see 2.11(a) and (b)). They were convicted and were respectively fined \$16,000 and given a sentence of five-month imprisonment. The remaining RE involving in another case was acquitted.*

Note 10: *Of the six RWs, four were acquitted. The remaining two RWs were convicted and were fined \$2,500 and \$3,000 respectively.*

Monitoring work of registered persons

- (c) in March 2014, RC 3 of a lift of a building in Sai Ying Pun was convicted for failure to notify the EMSD of major alteration works of the lift, and he was fined \$5,000;
- (d) in January 2015, RC 4 of a lift of a building in Tsuen Wan was convicted for not recording information of a lift failure event in a log book, and he was fined \$3,000; and
- (e) in July 2015, RC 5 of a lift of a building in Sham Tseng was convicted for not taking adequate safety precautions to prevent injuries to persons while carrying out the maintenance work of the lift, and he was fined \$6,000.

2.12 ***Warning letters.*** According to an EMSD circular issued in March 2013 on performance assessment of RCs:

- (a) the EMSD will issue a warning letter to an RC if, during an EMSD site inspection, a safety-related non-compliance issue is found, or 12 PM points or more are accorded to the RC; and
- (b) if an RC has received three or more warning letters within a 12-month period, the EMSD may refer the case to the DEVB for setting up a disciplinary board under the L&E Ordinance to hear the case and consider taking necessary disciplinary actions (see para. 2.10(b)) against related persons.

Monitoring work of registered persons

2.13 From January 2013 to September 2015, the EMSD had issued 32 warning letters to 16 RCs. Audit examination revealed that, during the 33-month period, three RCs (RCs 1, 6 and 7) each had received three or more warning letters within a 12-month period, as follows:

RC	Period	No. of warning letters received
1	February to June 2013	3
6	July to August 2014	3
7	June to September 2015	4

2.14 In April 2015, the EMSD set up a Disciplinary Action Review Panel (DAR Panel) to review:

- (a) the seriousness of misconduct of related RCs (see paras. 2.10(b) and 2.12(b)); and
- (b) whether an RC had repeatedly committed misconduct, and whether the RC had been prosecuted and convicted, in deciding whether a disciplinary hearing should proceed.

From April to December 2015, the DAR Panel had referred an RC (Note 11) to the DEVB for setting up a disciplinary board for hearing the case.

2.15 Regarding the cases involving RCs 1 to 7 (see paras. 2.11 and 2.13), up to 31 December 2015, the EMSD DAR Panel had reviewed three (RCs 3, 4 and 6) of the seven RCs and decided to take disciplinary action against RC 3. The EMSD considered that no further action was needed for RCs 4 and 6, but it had not taken action to review RCs 1, 5 and 7. Table 1 shows the details.

Note 11: *The RC was involved in a lift incident occurring at an industrial building in Kwun Tong in late 2014. This case did not involve prosecution nor issuing three or more warning letters.*

Monitoring work of registered persons

Table 1

**DAR Panel review of seven RCs (RCs 1 to 7)
(31 December 2015)**

RC	Date		
	Convicted by court	Warning letters issued	Reviewed by DAR Panel
1	December 2013	3 warning letters from February to June 2013	Not yet reviewed
2	December 2014 and April 2015	1 warning letter in March 2013	Not applicable (Note 1)
3	March 2014	1 warning letter in September 2014	Reviewed in April 2015 and decided to take disciplinary action against RC 3 (Note 2)
4	January 2015	1 warning letter in January 2015	Reviewed in April 2015 and concluded that no disciplinary action was required
5	July 2015	1 warning letter in July 2015	Not yet reviewed
6	Not applicable	3 warning letters in July and August 2014	Reviewed in April 2015 and concluded that no disciplinary action was required
7	Not applicable	4 warning letters from June to September 2015	Not yet reviewed

Source: EMSD records

Note 1: According to the EMSD, disciplinary proceedings are not applicable to de-registered RCs under the L&E Ordinance.

Note 2: The EMSD referred RC 3 to the DEVB in February 2016 for setting up a disciplinary board (see para. 2.35(a)).

Remarks: The DAR Panel reviewed the cases related to RCs 1, 5 and 7 in February 2016 (see para. 2.35(a)).

Monitoring work of registered persons

2.16 According to the EMSD:

- (a) the EMSD was duty bound to review each case before a case was referred to the DEVB for setting up a disciplinary board under the L&E Ordinance, and it was not a mandatory requirement for the EMSD to refer each case relating to disciplinary offences to the DEVB for establishing a disciplinary board; and
- (b) each case would be reviewed by the DAR Panel to decide whether a disciplinary hearing should proceed. The Department of Justice's view might also be sought on individual cases where necessary.

2.17 As of December 2015, the DAR Panel had not conducted reviews of the need for disciplinary hearings for RCs 1, 5 and 7 (see Table 1 in para. 2.15). Audit considers that the EMSD needs to take measures to ensure that all convicted RCs and RCs having been issued with three or more warning letters within a 12-month period are reviewed by the DAR Panel in a timely manner to decide whether related RCs should be referred to the DEVB for hearing by disciplinary boards.

PM Points not accorded on significant non-compliance issues (RCs 8 and 9)

2.18 The EMSD has stipulated the number of PM points to be accorded to an RC for different types of non-compliance issues found during an EMSD site inspection (see Appendix E). From January 2013 to September 2015, the EMSD had issued 32 warning letters to 16 RCs for non-compliance with the L&E Ordinance and the CoP. However, Audit examination revealed that, notwithstanding warning letters had been issued to two RCs (RCs 8 and 9) for unsatisfactory performance, owing to the fact that the issues were not covered under the PA Scheme, no PM points were accorded to RCs 8 and 9. Details are as follows:

- (a) under the L&E Ordinance, an RC has to ensure that lift work is carried out properly and safely, and he has sufficient workforce to carry out the lift work. The CoP has also stipulated that certain periodic maintenance work (for example, checking of electrical and mechanical interlocks for car doors and landing doors) should be carried out by two or more RWs so as to ensure that the workers would receive prompt support and help in

Monitoring work of registered persons

case of an accident. However, during an EMSD site inspection of a building lift in Mong Kok in April 2013, the EMSD found that only one RW of RC 8 had signed against most of the maintenance work entries in a log book in the preceding 12 months. In June 2013, the EMSD issued a warning letter to RC 8 on the issue; and

- (b) in January 2014, the EMSD issued a warning letter to RC 9 who was responsible for maintaining 48 lifts at a residential complex in Kowloon Bay for not complying with the L&E Ordinance on:
 - (i) notifying the EMSD on carrying out major lift alteration works and engaging an RE to test and examine the lifts; and
 - (ii) obtaining prior approval from the EMSD before resumption of use and operation of the lifts.

The EMSD considered the non-compliance acts highly unacceptable.

2.19 In March 2016, the EMSD informed Audit that:

- (a) PM points were not applicable for the non-compliance acts mentioned in paragraph 2.18(a) and (b); and
- (b) issuing warning letters to RCs 8 and 9 was an appropriate and more serious sanction for the non-compliance acts.

2.20 In Audit's view, in order to effectively reflect RCs' performance in the PA Scheme for reference by members of the public, PM points should be accorded to RCs who have conducted serious non-compliance acts and received warning letters from the EMSD. While the issuance of warning letters may lead to disciplinary actions (see para. 2.12(b)), the EMSD should review the PA Scheme with a view to including all significant RC non-compliance issues in the Scheme. For example, issues attracting the issuance of warning letters (which are serious sanctions — see para. 2.19(b)) should be accorded PM points.

Monitoring work of registered persons

Delays in according PM points (RC 10)

2.21 In August 2013, during site inspections of 44 lifts at two housing estates in Sheung Shui and Fanling, the EMSD found that the responsible RC (RC 10) had not updated the log books of the L/Es for the maintenance work carried out. According to EMSD guidelines, the RC of each L/E not complying with this requirement should be accorded 2 PM points, namely a total of 88 PM points should be accorded to RC 10. However, at that time, the EMSD only issued a warning letter to RC 10 for the non-compliance issues but did not accord PM points to him. In October 2015, the EMSD retrospectively accorded 88 PM points to RC 10.

2.22 The EMSD informed Audit in February 2016 that:

- (a) the above case was a one-off special case; and
- (b) PM points were accorded to RC 10 after noting the omission.

In Audit's view, the EMSD needs to take measures to ensure that PM points are accorded to RCs for non-compliance issues in a timely manner.

Need to strengthen actions on EMSD surveillance audits (RCs 11 to 17)

2.23 In November 2013, the EMSD commenced conducting surveillance audits (see para. 2.7) on RCs with a target of reviewing all RCs in a two-year period. However, Audit noted that, during the two-year period from November 2013 to October 2015, the EMSD had only completed surveillance audits on 20 (49%) of the total 41 RCs. Details are as follows:

Progress of surveillance audits as of October 2015	RC (No.)
Audit work completed and reports issued	20
Audit work in progress	6
Audit work not yet commenced	15
Total	41

Monitoring work of registered persons

2.24 In Audit's view, the EMSD needs to strengthen actions with a view to meeting EMSD target on conducting surveillance audits on all RCs within a two-year period as far as possible.

2.25 Furthermore, Audit also noted that, during seven surveillance audits conducted by the EMSD from November 2013 to December 2014, the EMSD made recommendations on implementing 73 improvement measures to 7 RCs (RCs 11 to 17). However, as of December 2015, of the 73 improvement measures, 36 (49%) had not been fully implemented (see Table 2).

Table 2
Implementation of improvement measures arising
from EMSD surveillance audits
(as of December 2015)

RC	Date of surveillance audit (Month/Year)	Improvement measures (No.)	Dates of EMSD follow-up reminders (Month/Year)	Improvement measures not fully implemented (No.)
11	11/2013	8	4/2015 1/2016	4
12	12/2013	8	4/2015	3
13	2/2014	18	Not applicable (Note)	Not applicable (Note)
14	2/2014	6	4/2015 1/2016	4
15	3/2014	12	4/2015 1/2016	11
16	4/2014	10	4/2015 1/2016	4
17	12/2014	11	1/2016	10
Total		73		36

Source: Audit analysis of EMSD records

Note: The RC ceased business in 2015.

Monitoring work of registered persons

2.26 In February 2016, the EMSD informed Audit that the 73 improvement measures in Table 2 were related to RCs' service quality rather than L/E safety, and the RCs were not bound by the L&E Ordinance to implement such measures.

2.27 In Audit's view, the EMSD needs to keep in view implementation of the improvement measures and consider taking appropriate follow-up actions, such as issuing advisory letters in warranted cases.

Omissions and delays in submitting RC change-over examination reports (RCs 18 to 20)

2.28 According to the CoP, the outgoing RC of an L/E needs to inform the EMSD of his withdrawal of service within 14 days from the effective date, and the incoming RC needs to inform the EMSD of his assumption of maintenance service at least 7 days before the effective date and submit a change-over examination report (certified by an RE) to the EMSD within one month after taking over the maintenance work. From January 2014 to September 2015, the RPs of 2,974 L/Es had approved change-over of RCs.

2.29 Of the 2,974 RC change-over cases from January 2014 to September 2015, Audit randomly selected 70 cases for examination. Of the 70 change-over cases examined by Audit, Audit noted that, as of December 2015, the incoming RCs (RCs 18 to 20) of three cases had not submitted the change-over examination reports to the EMSD. The time lapses from the change-over dates to 31 December 2015 were:

- (a) RC 18 : 729 days;
- (b) RC 19 : 729 days; and
- (c) RC 20 : 548 days.

Regarding the 67 (70 less 3) change-over examination reports submitted to the EMSD, Audit noted that 15 (22%) were submitted to the EMSD more than one month after the RCs taking over the maintenance work, ranging from 32 to 110 days (on average 59 days) after the change-over dates.

- 2.30 In February and March 2016, the EMSD informed Audit that:
- (a) the CoP requirements for an RC to arrange an examination after taking-over the maintenance of an L/E and to submit to the EMSD a change-over examination report were not statutory requirements but guidance to the RCs and RPs for them to set aside resources to arrange examinations so as to minimise possible contractual disputes involving L/E defects; and
 - (b) there were cases in which change-over examinations were not conducted and no change-over examination reports were provided to the EMSD due to various reasons. For instance, the RP and/or the RC of an L/E might consider a change-over examination being unnecessary or not financially viable, or the L/Es concerned were in good condition and there were no disputes in the handing over of maintenance work. The RP of an L/E might not ask the RC to carry out a change-over examination or might only ask the incoming RC to conduct some checking in the routine inspections or annual examinations. These could be reasons for the concerned parties not complying with the CoP.

In Audit's view, the EMSD needs to take measures with a view to ensuring that change-over examinations are timely carried out in accordance with the CoP, and issue advisory letters to RPs and RCs in warranted cases.

No EMSD follow-up actions on defects identified in RC change-over examination reports

2.31 Audit noted that 16 (24%) of the 67 change-over examination reports contained L/E defects requiring rectification, such as the presence of rusty suspension cables, intercom equipment being out of service and oil leakage from gearboxes. However, the EMSD did not take follow-up actions on the defects disclosed in change-over examination reports.

- 2.32 In February and March 2016, the EMSD informed Audit that:
- (a) in case there were critical safety issues involved, it was the statutory duty of the RE of an L/E to notify the RP and the EMSD in writing in accordance with the L&E Ordinance. In the circumstances, the RP should cease operation of the L/E; and

Monitoring work of registered persons

- (b) for other defects found in a handover of maintenance service, it was the responsibility of the RC and the RP to follow up the rectification of the defects.

2.33 Audit considers that change-over examinations are an effective tool for monitoring the safe operation of L/Es. Therefore, the EMSD needs to:

- (a) request RCs taking over L/E maintenance work to highlight safety-related defects and monitor rectification of such defects; and
- (b) take enforcement actions on L/Es having safety-related defects.

Audit recommendations

2.34 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **take measures to ensure that all convicted RCs and RCs having been issued with three or more warning letters within a 12-month period are reviewed by the DAR Panel in a timely manner to decide whether the related RCs should be referred to the DEVB for disciplinary hearing;**
- (b) **periodically review the PA Scheme with a view to including all significant RC non-compliance issues in the Scheme;**
- (c) **strengthen actions with a view to meeting EMSD target on conducting surveillance audits on all RCs within a two-year period as far as possible;**
- (d) **keep in view implementation of improvement measures arising from EMSD surveillance audits and consider taking appropriate follow-up actions in warranted cases; and**
- (e) **request RCs taking over L/E maintenance work to:**

- (i) **highlight safety-related defects and monitor rectification of such defects; and**
- (ii) **take enforcement actions on L/Es having safety-related defects.**

Response from the Government

2.35 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that:

- (a) for the recommendation in paragraph 2.34(a), in February 2016, the DAR Panel conducted reviews of the malpractices of RCs 1, 5 and 7 (see Table 1 in para. 2.15) and considered that no disciplinary proceedings were required for these three RCs. The EMSD referred RC 3 to the DEVB in February 2016 for setting up a disciplinary board. The EMSD will continue the current established practice to document justifications for not referring RCs to the DEVB for hearing by disciplinary boards;
- (b) for the recommendation in paragraph 2.34(b), the EMSD will continue the current established practice to periodically review the PA Scheme with a view to according PM points on significant RC non-compliance acts. The last review was conducted in December 2015 and the revised Scheme has been adopted with effect from February 2016;
- (c) for the recommendation in paragraph 2.34(c), the EMSD had taken action to expedite conducting surveillance audits to ensure their completion in December 2015, two months behind the target two-year cycle. The EMSD will continue to strengthen action with a view to meeting EMSD target on conducting surveillance audits on all RCs within a two-year period as far as possible;
- (d) for the recommendation in paragraph 2.34(d), the EMSD will continue to monitor RCs in implementing improvement measures arising from EMSD surveillance audits and take appropriate follow-up actions in warranted cases; and
- (e) for the recommendations in paragraph 2.34(e), the EMSD will take appropriate enforcement action on safety-related defects of L/Es.

Monitoring Registered Engineers' work

2.36 Under the L&E Ordinance, a person meeting the related requirements (Note 12) may be approved by the EMSD for registration as an RE. An RE needs to apply for renewal of his registration every five years. As of December 2015, there were 332 REs, of whom 302 (91%) were employees of RCs. The major duties of the RE of an L/E as stipulated in the L&E Ordinance include:

- (a) carrying out L/E work properly and safely;
- (b) conducting examination and certification of the L/E upon its installation, of the lift on an annual basis and of the escalator on a bi-annual basis; and
- (c) notifying the related RP and the EMSD within 24 hours if the L/E, after an examination, is found to be not in a safe operating condition.

2.37 An RE failing to comply with pertinent requirements under the L&E Ordinance commits an offence and is liable on conviction to a fine of up to \$100,000 and imprisonment for up to six months. For an RE who has committed misconduct or neglect in any professional respect, the EMSD may refer the case to the DEVB for setting up a disciplinary board for hearing and taking disciplinary actions. From January 2013 to December 2015, one related disciplinary board had been convened. The case was related to a lift incident occurring in January 2009 in Ma On Shan. The disciplinary board hearing was completed in September 2013 and the RE concerned was reprimanded and required to pay the cost of the disciplinary proceedings of \$56,100.

Need to strengthen actions on conducting EMSD surprise inspections

2.38 Before applying for renewal of the use permit of a lift on an annual basis and of an escalator on a bi-annual basis, the related L/E must be examined and certified by an RE that it is in a safe working condition. According to EMSD

Note 12: *An RE must: (a) be a registered professional engineer in related disciplines and have at least 2 years' relevant working experience; (b) hold a bachelor degree in related disciplines and have at least 4 years' relevant working experience; or (c) hold any other equivalent qualifications recognised by the EMSD and have at least 3 to 5 years' (subject to the qualification held) relevant working experience.*

Monitoring work of registered persons

guidelines to REs, an RE is required to notify the EMSD of his RE examination schedule at least seven days in advance of the related examinations and of any change of the schedule at least one day in advance of an examination. The EMSD has provided an on-line e-platform system for REs to input their examination schedules. Based on the examination schedules, the EMSD would select RE examinations by adopting a risk-based approach for conducting surprise inspections. During surprise inspections, the EMSD would:

- (a) check the physical attendance of the REs in conducting RE examination;
- (b) observe RE examination work; and
- (c) examine the L/E log books.

2.39 In 2015, the EMSD conducted 8,367 site inspections by adopting a risk-based approach (see Figure 1 in para. 2.6). Of these 8,367 inspections, 3,200 (38%) were surprise inspections of RE examinations. According to the EMSD, from January to September 2015:

- (a) the EMSD was notified by REs of their schedules for 63,112 RE examinations; and
- (b) of the 63,112 RE examinations, 3,639 (6%) were carried out on dates (Note 13) other than the original scheduled dates. Of the 3,639 examinations, the REs of 2,100 (58%) examinations only notified the EMSD after the original scheduled dates of changes of the examination dates.

2.40 Furthermore, according to the EMSD, from January to December 2015:

- (a) EMSD staff conducted 3,200 surprise inspections and they were unsuccessful in finding the REs on site in 81 (3%) inspections; and
- (b) of these 81 unsuccessful inspections:

Note 13: *The actual RE examination dates were notated in L/E permit application documents.*

Monitoring work of registered persons

- (i) 62 (77%) were carried out from January to May 2015 where the EMSD inspectors left the sites after noting that the REs were not on site; and
- (ii) for the remaining 19 (23%) unsuccessful inspections, they were carried out from June to December 2015 where the EMSD inspectors continued the inspections in the absence of the REs.

2.41 In Audit's view, changes of examination dates without prior notifying the EMSD would undermine the efficiency and effectiveness of the EMSD's surprise inspections of RE examinations. However, the EMSD did not take any follow-up actions on the changes of examination dates.

2.42 According to the EMSD:

- (a) the submission of examination schedules by REs to the EMSD was an administrative measure instead of a statutory requirement. The actual dates of RE examinations may differ from the scheduled dates due to L/Es not being ready for examination and personal health issues of REs;
- (b) changes of examination dates did not affect the EMSD's surprise inspections of the L/Es concerned because the inspections also aimed at checking the conditions of the L/Es. From June 2015, if an RE did not show up according to his schedule, EMSD staff would continue the inspection of an L/E in the absence of the RE; and
- (c) the EMSD had found no evidence that REs changed the examination dates intentionally to evade the EMSD's surprise inspections.

2.43 Audit noted that the main purposes of the EMSD's surprise inspections were to check the physical attendance of the REs in conducting examination and observe their examination work (see para. 2.38). Continuing an EMSD inspection of an L/E in the absence of an RE (see para. 2.42(b)) will render the inspection ineffective in achieving its objectives. In Audit's view, the EMSD needs to keep in view REs who repeatedly change the examination dates without promptly notifying the EMSD and take appropriate actions against these REs.

Monitoring work of registered persons

2.44 Moreover, of the scheduled 63,112 RE examinations carried out from January to September 2015, 51,147 (81%) were scheduled to be carried out during EMSD office hours (namely Monday to Friday (except public holidays) from 8:30 am to 6:00 pm) and the remaining 11,965 (19%) outside office hours. According to EMSD guidelines, its surprise inspections should be carried out both during and outside EMSD office hours. However, Audit noted that, of the 2,611 EMSD surprise inspections carried out during the period, 2,591 (99%) were carried out during EMSD office hours and the remaining 20 (1%) outside office hours. Audit considers that, with a view to enhancing the effectiveness of EMSD surprise inspections, it needs to increase the proportion of surprise inspections of RE examinations outside EMSD office hours.

Inadequate monitoring of excessive number of L/Es examined by REs on a single day

2.45 Audit noted that, from January 2014 to September 2015, the EMSD had issued letters to four REs requesting them to provide explanations for conducting seven or more lift examinations on a single day. However, the EMSD had not issued similar letters to REs of escalators. Audit noted that, other than the four letters requesting explanations on conducting “seven or more lift examinations on a single day”, there was no EMSD guideline on the criteria for issuing letters to request REs to provide explanations for conducting excessive number of RE examinations on a single day. From January 2014 to September 2015, based on information maintained in LEO System, Audit noted that 62 REs had conducted lift examination and certification work on seven or more lifts on a single day on a total of 146 occasions. Details are as follows:

Lifts examined by an RE on a single day (No.)	Occasions from January 2014 to September 2015 (No.)
7	112
8	27
9	3
10	1
11	1
12	1
13	1
Total	146

Monitoring work of registered persons

2.46 The four REs mentioned in paragraph 2.45 subsequently submitted their explanations and supporting documents to the EMSD. The explanations included working overtime and the lifts concerned were in close locations. The EMSD accepted the explanations and took no further action. However, the EMSD did not issue letters to request the remaining 58 (62 less 4) REs to provide explanations and supporting documents.

2.47 In February and March 2016, the EMSD informed Audit that:

- (a) depending on the proximity and complexity of the lifts to be examined, an RE with the assistance of supporting workers could have adequate time to examine up to eight lifts on a single day; and
- (b) the EMSD adopted “nine lifts or more on a single day” instead of “seven lifts or more on a single day” as the current benchmark for follow-up action. Moreover, some RE examinations conducted after major alterations only covered certain components of a lift and were not counted for the “nine lifts or more on a single day” purpose. Thus, only four REs whose work had exceeded the “nine lifts or more on a single day” benchmark were required to provide explanations.

2.48 To uphold high standards of REs’ examination and certification work, Audit considers that the EMSD needs to monitor the number of L/Es examined by an RE on a single day to ensure that the work load is not excessive and would not compromise the quality of examination. In this connection, the EMSD needs to issue guidelines on the maximum number of L/Es to be examined and certified by an RE on a single day, and take follow-up actions on REs who regularly perform excessive number of RE examinations on a single day.

Audit recommendations

2.49 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **monitor changes of RE examination dates and consider issuing advisory letters to REs who repeatedly change their examination dates without promptly notifying the EMSD;**
- (b) **increase the proportion of EMSD surprise inspections of RE examinations outside EMSD office hours; and**
- (c) **issue guidelines on the maximum number of L/Es to be examined and certified by an RE on a single day, and take follow-up actions on REs not following the guidelines without acceptable justifications.**

Response from the Government

2.50 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that:

- (a) the EMSD will monitor changes of examination dates by REs and consider issuing advisory letters to REs who repeatedly change their examination dates without justifications within a specified time period;
- (b) surprise inspections carried out outside EMSD office hours from October to December 2015 had increased to about 5%. There is no evidence showing that RE examinations carried out outside office hours are of lower quality. The proportion of surprise inspections conducted outside EMSD office hours will be regularly reviewed, taking into account special findings during inspections, by adopting a risk-based approach; and
- (c) the EMSD would consider issuing guidelines on the maximum number of L/Es to be examined and certified by an RE on a single day.

PART 3: SITE INSPECTIONS AND OTHER REGULATORY ACTIONS

3.1 This PART examines direct actions taken by the EMSD on ensuring safe operation of L/Es, focusing on the following areas:

- (a) conduct of site inspections (see paras. 3.2 to 3.13);
- (b) issuance of prohibition orders (see paras. 3.14 to 3.32);
- (c) monitoring of reportable incidents (see paras. 3.33 to 3.42); and
- (d) retrofitting new lift safety devices (see paras. 3.43 to 3.49).

Conduct of site inspections

3.2 From 2011 to 2015, the EMSD conducted 9,107 to 12,273 site inspections of L/Es each year, including surprise inspections of RE examinations (see para. 2.38). Details of the inspections are shown in Table 3.

Site inspections and other regulatory actions

Table 3

**EMSD site inspections of L/Es
(2011 to 2015)**

Year	L/Es at year end (No.)	Target inspections (No.)	Actual inspections	
			(No.)	Percentage of total L/Es
2011	58,650	9,100	9,107	16%
2012	63,954	9,100	9,173	14%
2013	70,170 (Note)	9,400	10,564	15%
2014	71,161	11,800	12,273	17%
2015	72,486	11,800	11,798	16%

Source: EMSD records

Note: Since the effective date of the L&E Ordinance on 17 December 2012, L/Es installed in government buildings and public housing estates have been regulated under the Ordinance. Hence, there was a 10% increase in the number of L/Es in 2013 compared with that in 2012.

Remarks: The target and actual numbers of L/E site inspections were published in EMSD Controlling Officer's Reports.

Site inspections and other regulatory actions

3.3 The EMSD conducts site inspections of L/Es under the following circumstances:

- (a) the EMSD has pledged to issue a use permit for a new L/E within 13 working days from the time of receipt of an application if it is satisfied that the L/E is in a safe working condition and all the necessary supporting documents have been submitted and in order. The EMSD would conduct a site inspection to ascertain the safety condition of the L/E;
- (b) when an L/E needs to undergo major works (as defined under the L&E Ordinance), the RC concerned needs to inform the EMSD of the works. Upon completion of the works, the RP needs to apply to the EMSD for a resumption permit. The EMSD has also pledged to issue a resumption permit within 13 working days from the time of receipt of an application if it is satisfied that the L/E is in a safe working condition and all the necessary supporting documents have been submitted and in order. The EMSD would conduct a site inspection to ascertain the safety condition of the L/E;
- (c) upon occurrence of a reportable incident (see para. 1.10), the RP concerned needs to report it to the EMSD and inform the RC concerned within 24 hours after the incident comes to his knowledge. The RC would cause the RE concerned to conduct an investigation and submit an incident report to the EMSD within 7 days after the date on which the RC is notified. The EMSD would select some incidents for conducting site inspections. Table 4 shows an analysis of reportable incidents received by the EMSD from 2013 to 2015; and
- (d) every year, the EMSD selects some L/Es for conducting inspections by adopting a risk-based approach, taking into account the age of L/Es, related public complaints, any change-over of RCs and the past performance of the responsible RCs (see Figure 1 in para. 2.6).

Site inspections and other regulatory actions

Table 4

**Reportable incidents
(2013 to 2015)**

L/E incidents	2013 (No.)	2014 (No.)	2015 (No.)
Reportable lift incidents			
Caused by passenger behaviour	319	437	427
Caused by equipment fault	5	4	11
Occurred during lift works	6	5	1
Total (a)	330	446	439
Injuries due to passenger behaviour (b)	360	496	446
Injuries due to equipment fault (c)	12	2	10
Injuries of workers during lift works (d)	6	5	1
EMSD investigations (e)	Not available (Note 1)	101	98
Reportable escalator incidents			
Caused by passenger behaviour	1,383	1,530	1,477
Caused by equipment fault	3	0	8
Caused by external factors (Note 2)	30	109	105
Total (f)	1,416	1,639	1,590
Injuries due to passenger behaviour (g)	1,690	1,869	1,768
Injuries due to equipment fault (h)	3	0	12
EMSD investigations (i)	Not available (Note 1)	169	171
Total reportable L/E incidents ((a)+(f))	1,746	2,085	2,029
Total injuries ((b)+(c)+(d)+(g)+(h))	2,071	2,372	2,237
Total EMSD investigations ((e) +(i))	271	270	269

Source: EMSD records

Note 1: The EMSD did not maintain breakdown statistics on the numbers of EMSD investigations on lift and on escalator incidents before 2014.

Note 2: For example, the landing comb plate of an escalator was jammed by an external object which triggered the safety devices to stop the escalator, leading to loss of balance of passengers.

Remarks: The L&E Ordinance, effective from December 2012, has expanded statutory controls to cover L/Es owned by the Government and the Housing Authority.

Site inspections and other regulatory actions

3.4 In 2015, the EMSD conducted 11,798 site inspections, of which 8,367 (71%) were related to risk-based inspections (see Figure 1 in para. 2.6). Of these 8,367 site inspections, 3,200 (38%) were surprise inspections of RE examinations (see para. 2.38).

Need to maintain proper use-permit records in LEO System

3.5 As stated in paragraph 3.3(a) and (b), the EMSD pledged to issue a use permit or a resumption permit within 13 working days from the time of receipt of an application if it was satisfied that the L/E was in a safe working condition and all the necessary documents were in order. Audit examination of all the 705 applications for new use permits and 704 applications for resumption permits submitted to the EMSD from January to June 2015 revealed that, of the 1,409 (705 plus 704) applications, the EMSD issued 104 (7%) use/resumption permits more than 13 working days after receipt of the applications (88 cases for 14 to 20 working days, 7 cases for 21 to 26 working days and 9 cases for 27 to 39 working days).

3.6 According to the EMSD:

- (a) in all these 104 cases, the related RPs/RCs took additional time to furnish the required information to the EMSD, or to rectify defects identified in the EMSD's inspections, to satisfy the EMSD that the L/Es were in a safe working condition and all the necessary documents were in order;
- (b) the EMSD informed the RPs/RCs by letters or by telephone of outstanding documents and defects to be rectified within the pledged timeframe; and
- (c) the EMSD issued use permits and resumption permits within 13 working days counting from the time of satisfying with the safe working condition of the L/Es concerned and receiving all necessary documents.

However, the LEO System did not keep records on the dates and details of EMSD requests made to RPs/RCs on rectification of defects and submission of additional information before issuing use permits and resumption permits. The EMSD needs to make improvement in this area.

Need to establish criteria for issuing improvement orders and advisory letters

3.7 Under the L&E Ordinance, the EMSD may issue an improvement order to the RP of an L/E if the L/E is in a state that will cause or be likely to cause a risk of injury to any person or damage to any property. The improvement order demands the RP to take necessary actions within a given timeframe. A person not complying with the requirements of an improvement order, without reasonable excuse, commits an offence and is liable on conviction to a fine of \$25,000 and imprisonment of six months. Furthermore, the EMSD may issue an advisory letter to the RP of an L/E if unsatisfactory but not safety critical issues are found during an EMSD site inspection, requesting the RP to take remedial actions within a given timeframe. From January 2014 to September 2015, the EMSD had issued 26 improvement orders and 1,103 advisory letters. According to the EMSD, all the 26 improvement orders had been complied with by the RPs.

3.8 Audit noted that the EMSD had not issued internal guidelines specifying the criteria for issuing improvement orders and advisory letters. In Audit's view, the EMSD needs to issue such guidelines.

Need to strengthen actions on non-compliance with advisory letters

3.9 Audit randomly selected 50 of the 1,103 advisory letters issued from January 2014 to September 2015 (see para. 3.7) for examination. Audit examination revealed that, as of December 2015:

- (a) the RPs concerned had informed the EMSD that rectification works specified in 27 (54%) advisory letters had been completed, albeit the works of five cases were completed 1 to 35 days after the specified timeframes; and
- (b) the RPs of the remaining 23 (46%) cases had not informed the EMSD of whether the rectification works had been carried out. The specified timeframes had been exceeded by 2 to 21 months (on average 10 months).

Site inspections and other regulatory actions

3.10 According to the EMSD:

- (a) issuing advisory letter was an administrative measure instead of a statutory measure; and
- (b) it was not EMSD practice to follow up each advisory letter and the EMSD did not have the authority to require RPs and RCs to carry out works which were not safety critical.

3.11 Audit noted that some advisory letters were issued because rusty stain had been found on main suspension ropes, and rubbish had been found in the lift pit which might pose fire hazard. In Audit's view, when issuing internal guidelines on criteria for issuing improvement orders and advisory letters (see para. 3.8), the EMSD needs to address unsatisfactory conditions which might develop into situations affecting the safe operation of L/Es.

Audit recommendations

3.12 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **consider taking measures to enhance the LEO System to keep records on dates and details of EMSD requests made to RPs/RCs on rectification of defects and submission of additional information before issuing use permits and resumption permits; and**
- (b) **issue guidelines on the criteria for issuing improvement orders and advisory letters, and to address unsatisfactory conditions which might develop into situations affecting the safe operation of L/Es.**

Response from the Government

3.13 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that:

- (a) the EMSD will make enhancements to the LEO System to keep records of requests made to RPs/RCs on outstanding issues or documents; and
- (b) in March 2016, the EMSD issued internal guidelines specifying criteria for issuing improvement orders and advisory letters. The EMSD will classify issues stated in advisory letters which might develop into situations affecting the safe operation of L/Es and monitor rectification of such situations.

Issuance of prohibition orders

3.14 Under the L&E Ordinance, the EMSD may issue a prohibition order to prohibit an L/E from being used or operated if it has reasonable grounds to believe that the L/E is, among others:

- (a) having no use permit in force, e.g. an expired use permit of an L/E not being timely renewed (see paras. 3.17 to 3.21);
- (b) not complying with the requirement that periodic maintenance works are carried out at least once a month (see paras. 3.22 to 3.26); or
- (c) not in a safe working order.

3.15 Any person not complying with a prohibition order on an L/E (i.e. allowing the L/E to continue to operate) commits an offence and is liable on conviction to a fine of up to \$200,000 and imprisonment for up to 12 months. According to the EMSD, there was no case involving non-compliance with requirements of prohibition orders from 2006 to 2015.

Site inspections and other regulatory actions

3.16 From January 2014 to June 2015, the EMSD had issued 678 prohibition orders to RPs. Of these 678 prohibition orders issued:

- (a) 401 orders (59%) related to non-compliance with:
 - (i) periodic maintenance works by RCs;
 - (ii) periodic examinations by REs; or
 - (iii) examinations of lifts with load by REs (Note 14);
- (b) 265 orders (39%) related to L/Es having no use permit in force; and
- (c) the remaining 12 orders (2%) related to other non-compliance issues.

Delays in issuing prohibition orders on L/Es having expired use permits

3.17 According to EMSD procedure manual, the EMSD would issue a prohibition order 12 hours before the expiry date of a use permit and serve it on an L/E before the expiry of its use permit. This action would help ensure that an L/E without a valid use permit is not put into operation. According to the EMSD, it has taken the following actions to remind RPs to timely renew their use permits:

- (a) sending reminder cards to RPs two months and one month respectively before the permit expiry dates;
- (b) reminding RPs by telephone two weeks before the permit expiry dates; and
- (c) issuing prohibition orders to ensure that the concerned L/Es are not put into use when no valid use permits are in force.

Note 14: *Under the L&E Ordinance, the RP of a lift must cause an RE to examine the lift by operating the lift with full rated load once every five years.*

Site inspections and other regulatory actions

3.18 Audit conducted a data analysis of all the 69,073 use permits renewed from July 2014 to June 2015 by comparing the permit renewal dates with the permit expiry dates. Audit analysis found that the renewal dates of 185 use permits were 1 to 279 days (on average 79 days) later than their expiry dates.

3.19 Of the 185 L/Es having their use permits renewed after their expiry dates, up to 31 December 2015, the EMSD had issued prohibition orders on 113 (61%) L/Es. For the remaining 72 (39%) L/Es, no prohibition order was issued because the RPs concerned had notified the EMSD in writing of the suspension of L/E service before the permit expiry dates. For the 113 prohibition orders issued, Audit examination revealed that three orders had been issued one to three days after the permit expiry dates. Of the three orders:

- (a) according to remarks recorded in the LEO System, the EMSD had obtained telephone notifications on the suspension of service of two L/Es at the same location for building renovation works. The two prohibition orders were issued one day after the use permit expiry dates and the orders were served two days after order issuing dates; and
- (b) for the remaining L/E (an escalator), the EMSD had record of a log book (not a prior notification) showing that the L/E had been suspended from operation after the permit expiry date. The prohibition order was issued three days after the use permit expiry date. The EMSD did not have record of the order serving date.

3.20 In March 2016, the EMSD informed Audit that:

- (a) it was RPs' responsibility to ensure that an L/E was not used or operated if there was no valid use permit in force;
- (b) the EMSD might not issue prohibition orders in some cases if there were no reasonable grounds to believe that the L/Es had been used or likely to be used without valid use permits, and might issue the orders before or after the order effective dates; and
- (c) the EMSD would review its practice on issuing prohibition orders.

Site inspections and other regulatory actions

3.21 While the RP of an L/E has a responsibility to cease the operation of the L/E upon the expiry of its use permit, EMSD procedure to issue a prohibition order on an L/E not having its use permit timely renewed provides a safeguard against unlawful use of an L/E without a valid use permit. In Audit's view, unless written notifications on L/E suspensions have been received before the expiry dates of use permits, the EMSD needs to take measures to ensure that:

- (a) its staff comply with EMSD procedure manual to issue and serve prohibition orders on L/Es before expiry of their use permits; and
- (b) written notifications on L/E suspensions are recorded in the LEO System.

Delays and omissions in issuing prohibition orders on L/Es not complying with the monthly maintenance requirement

3.22 Under the L&E Ordinance, an L/E is required to be subject to maintenance by an RC at least once every month (see para. 2.2(a)). Failing to comply with this requirement commits an offence and the EMSD may issue a prohibition order to suspend the operation of the related L/E. Therefore, if the RC of an L/E withdraws from service, a new RC should be engaged within one month from the date of termination of service of the outgoing RC. Otherwise, the L/E concerned would not be able to meet the monthly maintenance requirement. On this basis, Audit conducted a data analysis of all the 2,974 L/Es involving change-over of RCs during the 21 months from January 2014 to September 2015 by comparing the service termination dates of the outgoing RCs with the service assumption dates of the incoming RCs (see para. 2.28). The results are shown in Table 5.

Site inspections and other regulatory actions

Table 5

**Issuance of prohibition orders on L/Es
not complying with monthly maintenance requirement
(January 2014 to September 2015)**

	L/E (No.)
L/Es involving RC change-over	2,974
Period from service termination to service resumption exceeding 31 days	137
Less: Cases where written suspension notifications had been received	48
Cases where prohibition order had been issued within 31 days from service termination	<u>32</u>
Non-compliance cases	57
— prohibition orders issued after 31 days from service termination:	36 (63%)
• 1 case for 34 days	
• 34 cases from 56 days to 88 days	
• 1 case for 298 days	
— prohibition orders not yet issued as of December 2015	21 (37%)

Source: Audit analysis of EMSD records

Site inspections and other regulatory actions

3.23 As shown in Table 5, for the 36 L/Es having prohibition orders issued after 31 days from service termination, and 21 L/Es not having prohibition orders issued, written L/E suspension notifications had not been received by the EMSD on these 57 (36+21) L/Es.

3.24 In February and March 2016, the EMSD informed Audit that:

- (a) under the current practice of the EMSD, if a notification of commencement of maintenance service by the incoming RC of an L/E was not received within 3 days after receiving the notification of termination of maintenance service from the outgoing RC, the RP would be contacted by the EMSD about the maintenance service of the concerned L/E. If the RP could not be contacted, the EMSD would deploy inspectors to conduct site inspections. Prohibition orders would be issued, and the related RPs would be contacted depending on EMSD manpower resources available;
- (b) for the 36 L/Es having prohibition orders issued, 5 L/Es were under major alterations and 31 L/Es were new installations in a new housing estate in Yuen Long in which the residents were yet to move in and the lifts had been suspended; and
- (c) for the 21 L/Es having no prohibition orders issued, 10 L/Es were under suspension for building renovation works, 9 L/Es were having the outgoing RCs continuing their maintenance work after termination of service contracts, one L/E (an escalator) was under suspension for repair and one L/E (a lift) of which the RP had ceased business. The situations of these 21 L/Es were confirmed during EMSD inspections in January and February 2016.

3.25 Regarding the 36 L/Es having prohibition orders issued (see para. 3.24(b)), Audit examination of EMSD records revealed that:

- (a) for 33 L/Es, the EMSD had issued letters to the related RPs/RCs/REs to state that the EMSD had been notified by telephone of suspension of L/E service. However, Audit noted that the dates of the telephone contacts were not specified in the letters, and the 33 letters were issued 45 to 79 days after service termination dates of the outgoing RCs; and

Site inspections and other regulatory actions

- (b) for the remaining 3 L/Es, there was no EMSD record showing that prior L/E suspension notifications had been received by the EMSD. For one case, a written notification on lift suspension at the time of maintenance service termination was received by the EMSD about four months after the service termination date. For another case, the EMSD only had the record of a log book (not a prior notification) of an L/E (a lift) showing that lift service had been suspended within 31 days after the termination of the maintenance service contract with the outgoing RC.

3.26 Regarding the 21 L/Es having no prohibition orders issued (see para. 3.24(c)), Audit examination of EMSD records revealed that:

- (a) there was no EMSD record on the suspension of service of 10 L/Es which were said to be under suspension for building renovation works;
- (b) for the 9 L/Es having the outgoing RCs continuing their maintenance work after termination of the service contracts, the EMSD only had records of the L/E log books (not prior notifications) of 3 L/Es showing that the L/Es concerned were subject to monthly maintenance after the termination of the maintenance service contracts with the outgoing RCs;
- (c) for the escalator under suspension for repair, there was no EMSD record showing that prior escalator suspension notification had been received by the EMSD. The EMSD only had the record of a log book (not a prior notification) showing that the escalator service had been suspended after the outgoing RC ceased maintenance service; and
- (d) for the lift of which the RP had ceased business, there was no EMSD record showing that prior lift suspension notification had been received by the EMSD.

In Audit's view, the EMSD needs to issue prohibition orders in a timely manner on L/Es not complying with the monthly maintenance requirement.

Site inspections and other regulatory actions

Delays in serving prohibition orders

3.27 With a view to ensuring that an L/E ceases operation from the effective date of a prohibition order, the order needs to be served on the L/E concerned before the effective date. The LEO System maintains information on dates of issuance of prohibition orders and the related scanned documents. However, Audit sample check of 50 prohibition orders issued from January 2014 to June 2015 found that many prohibition orders on L/Es were served after the effective dates of the orders (see Table 6).

Table 6
Delays in serving prohibition orders on L/Es
(January 2014 to June 2015)

	L/E (No.)
Prohibition orders issued	678
Prohibition orders randomly selected by Audit for checking	50
— prohibition orders served before order effective dates	0 (0%)
— prohibition orders served 1 to 63 days after the effective dates of the orders (see Case 1 for illustration):	41 (82%)
• 35 orders for 1 to 15 days	
• 3 orders for 16 to 30 days	
• 2 orders for 31 to 45 days	
• 1 order for 63 days	
— prohibition order without serving dates (Note 1)	4 (8%)
— prohibition order without effective dates (Note 2)	5 (10%)

Source: Audit analysis of EMSD records

Note 1: The EMSD did not have records showing the serving dates of four prohibition orders.

Note 2: The effective dates of five prohibition orders were not stated in the orders.

Case 1

Prohibition order served on a lift of a building at Yau Tong (March 2015)

1. The use permit of a lift (Lift A) of a government quarters at Yau Tong managed by a property management company (RP 1) expired on 22 March 2015 (Sunday). Noting that RP 1 had not timely applied for renewal of the use permit, on 20 March 2015 (Friday), the EMSD issued a prohibition order with an effective date of 23 March 2015 (Monday).
2. In the morning of 23 March 2015 (Monday), four lift passengers were trapped in Lift A for 25 minutes before being rescued by the lift contractor. One passenger trapped by Lift A subsequently lodged a complaint to the EMSD.
3. At noon on 23 March 2015, the EMSD served and posted the prohibition order issued on 20 March 2015 (see para. 1) outside Lift A.
4. The EMSD subsequently took prosecution actions against RP 1 for continuing operation of Lift A without a valid use permit. In the event, the RP pleaded guilty and was fined \$10,000.

Audit comments

5. Audit considers it unsatisfactory that the EMSD only served and posted a prohibition order outside Lift A about 12 hours after: (a) expiry of the use permit; and (b) the order effective date. In the event, four passengers were trapped in the lift for 25 minutes during the 12-hour period.

Source: EMSD records

Site inspections and other regulatory actions

3.28 According to the EMSD:

- (a) except for Case 1, all the remaining 49 cases mentioned in Table 6 in paragraph 3.27 were undergoing major alteration works, waiting for demolition or having been suspended from operation due to operational reasons, and they were not available for use by the public during the pertinent periods; and
- (b) the EMSD had clarified by telephone enquiries that these L/Es would not be put into use after the effective dates of the prohibition orders. Therefore, there was no urgency to issue prohibition orders for these 49 cases. The EMSD would review its practice on issuing prohibition orders.

3.29 Regarding the 49 L/Es having prohibition orders served after their effective dates or without serving/effective dates, Audit examination of EMSD records revealed that:

- (a) for 36 (73%) L/Es, prior written L/E suspension notifications had been received by the EMSD;
- (b) for 10 (21%) L/Es, the EMSD had issued letters to the related RPs/RCs/REs to state that the EMSD had been notified by telephone about suspension of L/E service. However, Audit noted that the dates of telephone contacts were not specified in the letters; and
- (c) for the remaining 3 (6%) L/Es, the LEO System had remarks stating that the related L/Es were suspended from operation. However, Audit noted that the dates of the notifications were not specified in the LEO System.

3.30 In Audit's view, with a view to avoiding recurrence of situations as described in Case 1, all prohibition orders should be served before their effective dates. Any delay in serving prohibition orders would undermine the effectiveness of issuing the orders. The EMSD should also take follow-up action to ascertain the reasons for not keeping records on the serving dates of four prohibition orders and on the effective dates of five prohibition orders (see Table 6 in para. 3.27).

Audit recommendations

3.31 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **take measures to ensure that written notifications on L/E suspensions are recorded in the LEO System; and**
- (b) **take follow-up action to ascertain the reasons for not keeping records on the serving dates of four prohibition orders and on the effective dates of five prohibition orders.**

Response from the Government

3.32 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that:

- (a) there is room for enhancement in keeping written notification records and telephone response records in the LEO System; and
- (b) preliminary findings show that the missing records were due to omissions of inputting information of prohibition orders into the LEO System, and the lack of a mechanism in the System to highlight omissions of data. The EMSD will take improvement measures in this regard.

Site inspections and other regulatory actions

Monitoring of reportable incidents

3.33 Under the L&E Ordinance, the RP of an L/E involved in a reportable incident (see Appendix B) must, within 24 hours after the time the incident has come to his knowledge, report the incident to the EMSD. In 2015, of the 2,029 reportable incidents, the EMSD carried out investigations of 269 (13%).

Need to consider expanding the scope of reportable L/E incidents

3.34 Audit noted 5 escalator incidents from media reports from June to September 2015 which were later determined by the EMSD that they were non-reportable incidents and did not cause injuries (see Table 7).

Table 7

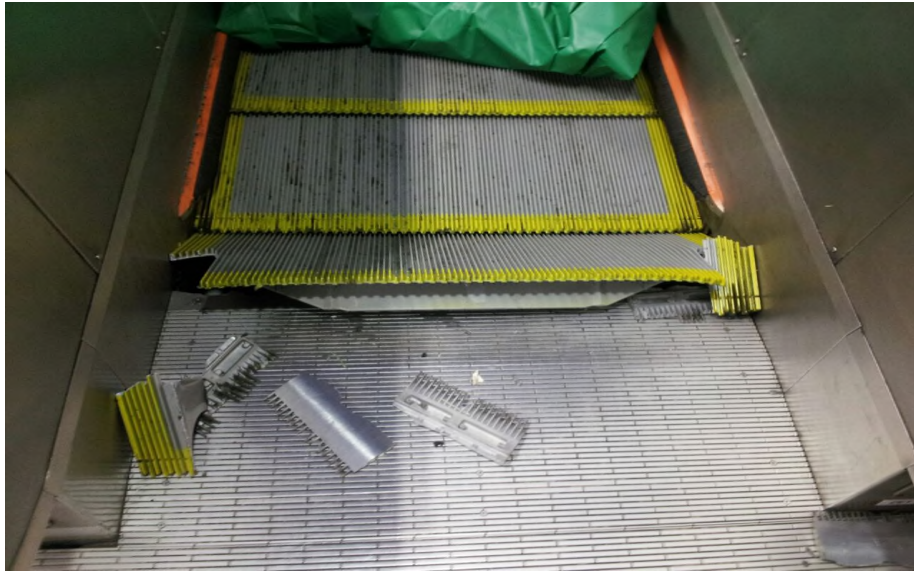
**Non-reportable escalator incidents reported in the media
(June to September 2015)**

Incident	Date	Location	Particulars
A (see Photograph 1)	6 June 2015	Shau Kei Wan	Damages to an escalator step caused by an external object being jammed into a comb teeth at the escalator landing
B	2 August 2015	Causeway Bay	
C (see Photograph 2)	17 September 2015	Quarry Bay	
D	20 September 2015	Wong Tai Sin	
E	26 September 2015	Tsuen Wan	

Source: EMSD records

Photograph 1

**A non-reportable escalator incident occurred in Shau Kei Wan
(June 2015)**



Source: EMSD records

Photograph 2

**A non-reportable escalator incident occurred in Quarry Bay
(September 2015)**



Source: EMSD records

Site inspections and other regulatory actions

3.35 Members of the public at times inform the EMSD of both reportable and non-reportable L/E incidents. Normally, the EMSD would only take actions on reportable L/E incidents (see para. 3.3(c)). Nevertheless, the EMSD also keeps watch of media reports on L/E incidents (including non-reportable incidents) and carries out investigations of significant cases by using an EMSD checklist.

3.36 In February and March 2016, the EMSD informed Audit that:

- (a) the number and details of non-reportable L/E incidents that had come to EMSD notice in 2015 either through public reports or media reports were not readily available because these records were not centrally maintained in the LEO System; and
- (b) the EMSD conducted investigations of 23 non-reportable L/E incidents in 2015, comprising:
 - (i) 9 incidents involving fire occurrences;
 - (ii) 6 incidents involving damage to escalator steps caused by an external object jamming into a comb teeth at escalator landing;
 - (iii) 2 incidents caused by overheat or short-circuit of lift motors; and
 - (iv) 6 incidents caused by various reasons, e.g. a passenger deliberately forcing the opening of a lift door, and failure of a cable connector of a lift.

3.37 In Audit's view, the EMSD needs to keep records in the LEO System on non-reportable L/E incidents that have come to EMSD notice, and keep in view whether some significant non-reportable incidents posing safety risk to passengers warrant classifying them as reportable incidents, and take necessary improvement measures.

Delays in submitting incident reports

3.38 Under the L&E Ordinance, after occurrence of a reportable incident, the related RP must, within 24 hours after the incident comes to his knowledge, notify the EMSD and the RC of the incident. The RC must cause the RE concerned to conduct an investigation of the incident and submit an incident report to the EMSD within seven days after the date on which the RC is notified of the incident.

3.39 In 2015, a total of 2,029 reportable incidents were reported to the EMSD. According to the EMSD, its LEO System could not produce reports showing the dates of occurrence and submission of incident reports of reportable incidents. Audit examined all the 561 incident reports submitted to the EMSD from April to June 2015 and found that 41 reports (7%) were submitted to the EMSD 8 to 36 days after the related RCs having been notified, at variance with the seven-day requirement. However, the EMSD did not take any follow-up actions on these cases.

3.40 In Audit's view, the EMSD needs to take measures to make enhancements to its LEO System for provision of reports showing the dates of occurrence and dates of submission of incident reports of reportable incidents. The EMSD also needs to conduct a review of the incident reports to ascertain the extent of non-compliance with the reporting timeframe and take appropriate enforcement actions on cases not complying with the seven-day requirement where warranted.

Audit recommendations

3.41 **Audit has recommended that the Director of Electrical and Mechanical Services should consider:**

- (a) **keeping in view whether some significant non-reportable incidents posing safety risk to passengers warrant classifying them as reportable incidents, and taking necessary improvement measures;**
- (b) **taking measures to make enhancements to the LEO System for provision of reports showing the dates of occurrence and dates of submission of incident reports of reportable incidents;**

Site inspections and other regulatory actions

- (c) **conducting a review of incident reports to ascertain the extent of non-compliance with the seven-day incident reporting requirement; and**
- (d) **taking appropriate actions against RCs for not complying with the seven-day incident reporting requirement.**

Response from the Government

3.42 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that:

- (a) the EMSD has kept in view whether some significant non-reportable incidents posing safety risk to passengers warrant classifying them as reportable incidents, and will take improvement measures if necessary;
- (b) the LEO System will be enhanced to provide reports showing the dates of occurrence and dates of submission of incident reports of reportable incidents;
- (c) the EMSD is monitoring the non-compliance with the seven-day incident reporting requirement and will take appropriate actions if the situation warrants; and
- (d) since 1 February 2016, PM points have been awarded to RCs for late submissions of incident reports.

Retrofitting new lift safety devices

3.43 In 2011, with a view to bringing existing lifts to up-to-date safety standards, the EMSD issued the “Guidelines for Modernising Existing Lifts” to encourage and assist lift owners to retrofit their lifts with seven new safety devices (Note 15). The seven devices were: (a) mechanical door lock and door safety edge; (b) obstruction switch to protect suspension ropes; (c) intercom and closed-circuit television system; (d) double brake system; (e) ascending overspeed protective device; (f) unintended lift movement protection device; and (g) automatic rescue device. According to the EMSD:

- although existing lifts with proper maintenance are safe without the seven new safety devices, retrofitting these devices can further enhance the safety, reliability and passenger comfort of aged lifts; and
- as the requirements to retrofit these enhancement devices cannot be imposed retrospectively on existing lifts, RPs of these lifts may retrofit their lifts with these devices on a voluntary basis.

Note 15: *As of December 2015, the EMSD had not issued similar guidelines for escalators.*

Site inspections and other regulatory actions

3.44 Details of the seven new lift safety devices are shown in Appendix F. Table 8 shows the years of installation of 61,655 lifts as of April 2015.

Table 8
Years of installation of lifts
(April 2015)

Year of installation	Projected age as of December 2015 (Year)	Lift	
		(No.)	(Percentage)
1980 and before	35 or more	12,086	20%
1981 to 1989	26 to 34	11,548	19%
1990 to 1999	16 to 25	15,569	25%
2000 to 2009	6 to 15	16,345	26%
2010 and after	5 or less	6,107	10%
Total		61,655 (Note)	100%

Source: EMSD records

Note: As of December 2015, there were 63,561 lifts.

Delays in retrofitting new safety devices for government lifts

3.45 In 2012, EMSD survey found that 1,496 government lifts should be retrofitted with one or more of the seven new safety enhancement devices (see para. 3.43). Of the 1,496 lifts, 574 (38%) required major retrofitting works and the remaining 922 (62%) required minor retrofitting works (Note 16). In 2012, in seeking funding in the resource allocation exercise for carrying out major retrofitting works for the 574 government lifts, the EMSD stated that the retrofitting works were expected to be carried out between 2013-14 and 2015-16. From 2012 to 2015, the EMSD had incurred \$175 million in carrying out the retrofitting works. According to the EMSD, minor retrofitting works for the 922 government lifts would be carried out by the government bureaux and departments (B/Ds) concerned.

3.46 In July 2014, the EMSD revised the time of completing the retrofitting works for 574 government lifts from between 2013-14 and 2015-16 to between 2015-16 and 2017-18. According to the EMSD, it had taken into account the requirements of some departments having to revise the work implementation schedules to suit their operational needs and availability of sufficient workforce. Audit noted that, as of December 2015, retrofitting works for 54 of the 574 lifts would be carried out by the user B/Ds, leaving 520 lifts to be retrofitted by the EMSD. Of the 520 lifts, as of December 2015:

- (a) works on 261 lifts (50%) had been completed;
- (b) works on 106 lifts (20%) were in progress; and
- (c) works on the remaining 153 lifts (30%) had not commenced.

Note 16: *Of these 574 lifts which required major retrofitting works, 140 were managed by the Government Property Agency, 83 by the Leisure and Cultural Services Department, 56 by the Food and Environmental Hygiene Department and the remaining 295 by 21 government bureaux and departments. For the 922 lifts which required minor retrofitting works, 193 were managed by the Government Property Agency, 102 by the Hong Kong Police Force, 99 by the Food and Environmental Hygiene Department and the remaining 528 by 27 government bureaux and departments.*

Site inspections and other regulatory actions

3.47 Audit considers that, with a view to enhancing the safety standards of government lifts, the EMSD needs to expedite actions on completing major retrofitting works on government lifts. Furthermore, according to the EMSD, it did not have information on the progress of retrofitting works on 976 (922 plus 54) lifts carried out and funded by B/Ds. Audit considers that the EMSD needs to coordinate with and provide necessary technical assistance to B/Ds to complete the minor lift retrofitting works as soon as possible.

Audit recommendations

3.48 **Audit has recommended that the Director of Electrical and Mechanical Services should:**

- (a) **expedite actions on completing major retrofitting works for government lifts; and**
- (b) **coordinate with and provide necessary technical assistance to B/Ds to complete minor lift retrofitting works as soon as possible.**

Response from the Government

3.49 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that:

- (a) the EMSD would coordinate with the B/Ds concerned and L/E contractors to expedite the work implementation; and
- (b) the EMSD has provided technical assistance to B/Ds on lift works and will continue to do so.

PART 4: MANAGEMENT INFORMATION SYSTEM

4.1 This PART examines the EMSD's LEO System in supporting the EMSD in monitoring the safe operation of L/Es.

Lift and Escalator Ordinance System

4.2 The LEO System was first developed in 1989 to support the EMSD in monitoring the safe operation of L/Es and enforcing compliance with the requirements of the L&E Ordinance. The major functions of the LEO System include maintaining information relating to:

- (a) registration and renewal of RCs, REs and RWs;
- (b) performance monitoring of RCs, REs and RWs; and
- (c) issuance of L/E use permits.

Lack of periodic management reports on long-outstanding cases

4.3 According to the EMSD, the LEO System was not equipped to generate management reports on the following types of long-outstanding cases which may require directives from EMSD senior management:

- (a) RCs having been issued with large number of warning letters (see paras. 2.12 to 2.15);
- (b) long delays in complying with advisory letters (see paras. 3.9 to 3.11);
- (c) long delays in issuing and serving prohibition orders (see paras. 3.17 to 3.30);
- (d) L/Es having no RCs responsible for maintenance work for prolonged periods (see para. 3.22); and

Management Information System

- (e) long delays in submitting incident reports to the EMSD (see paras. 3.38 to 3.40).

4.4 In Audit's view, the EMSD needs to make enhancements to the LEO System with a view to generating management reports on long-outstanding cases mentioned in paragraph 4.3 on a regular basis. These reports will assist EMSD senior management in monitoring significant areas of L/E safety and in providing timely directives where necessary.

Incomplete data in LEO System

4.5 The EMSD's procedure manual stipulates that the model number and name of manufacturer of every L/E in operation should be input into the LEO System. However, Audit examination revealed that, of the 70,277 L/Es as of April 2015, the LEO System did not maintain records of:

- (a) the model numbers of 1,062 L/Es (2%);
- (b) the manufacturer names of 36,776 L/Es (52%); and
- (c) both the model numbers and manufacturer names of 15,604 L/Es (22%).

In Audit's view, the EMSD needs to take measures to ensure that essential information is input into the LEO System.

Inconsistent L/E data

4.6 According to the LEO System database, the EMSD had carried out inspections of 10,111 lifts and 1,215 escalators in 2014. However, in the EMSD 2015-16 Controlling Officer's Report, the numbers of inspections carried out for lifts and escalators in 2014 were 10,850 and 1,423 respectively, which were respectively 7% and 17% greater than the numbers reflected in the LEO System. In February 2016, the EMSD informed Audit that:

- (a) the records of EMSD inspections carried out in 2014 were kept under another management system; and
- (b) from 2015 onwards, all related records would be kept in the LEO System.

In Audit's view, the EMSD needs to take measures to ensure that essential information is input into the LEO System.

Audit recommendations

4.7 Audit has recommended that the Director of Electrical and Mechanical Services should:

- (a) **make enhancements to the LEO System with a view to periodically generating management reports to inform EMSD management of significant issues relating to the safe operation of L/Es; and**
- (b) **take measures to ensure that essential information is input into the LEO System.**

Response from the Government

4.8 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that:

- (a) the EMSD would continue to make enhancements to the LEO System with a view to periodically generating management reports on significant issues relating to the safe operation of L/Es; and
- (b) the L/E information is at present kept in various computerised systems. Following the enactment of the L&E Ordinance, the EMSD started an exercise in 2014 to enhance system integration of the LEO system and to capture related L/E information in the LEO system, including model numbers and manufacturers' names. The information has been gradually uploaded onto the LEO System and the whole upgrading exercise is scheduled for completion in 2016.

PART 5: WAY FORWARD

5.1 This PART outlines the major audit observations and examines the way forward.

Major audit observations

5.2 Subsequent to the L&E Ordinance coming into effect in December 2012 which expanded the scope of statutory control to cover also L/Es owned by the Government and the Housing Authority, and with the commissioning of new L/Es in recent years, the number of L/Es regulated under the L&E Ordinance had increased by 24% from 58,650 (comprising 51,191 lifts and 7,459 escalators) in 2011 to 72,486 (comprising 63,561 lifts and 8,925 escalators) in 2015. Furthermore, the number of L/E reportable incidents had also increased by 24% from 1,632 in 2011 to 2,029 in 2015. According to the EMSD, with a view to reducing the number of incidents related to passenger behaviour and external factors, it will continue its work in promotion and education on safe use of L/Es by passengers. In view of the growth in the number of L/E incidents, the EMSD needs to strengthen actions with a view to reducing L/E incidents and consequential injuries. The EMSD's work in facilitating and ensuring the safe operation of L/Es is mainly carried out through monitoring the work of registered persons (see PART 2), and through site inspections and other regulatory actions (see PART 3).

5.3 PART 2 of this Audit Report revealed that the EMSD needed to strengthen actions against RCs and REs who did not properly discharge their duties and responsibilities. In PART 3, Audit identified areas for improvement in the EMSD's work in processing use-permit applications, conducting site inspections, issuance of prohibition orders, monitoring L/E incidents and retrofitting new safety devices for government lifts. Audit has made recommendations for the EMSD to make improvements in the related areas. In Audit's view, timely implementation of the audit recommendations will help maintain safe operation of L/Es.

Way forward

Need to address the manpower need for L/E maintenance and examination

5.4 According to the Long Term Housing Strategy Implementation Milestones published by the Transport and Housing Bureau in December 2014, the Government has set a target of supplying 480,000 residential units in the coming ten years from 2015-16 to 2024-25. Hence, there will be a significant increase in the coming ten years in the number of new buildings and new L/Es, and a consequential increase in the demand for L/E maintenance work.

5.5 In February and March 2016, the EMSD informed Audit that:

- (a) the Government had been collaborating with the L/E industry to monitor the adequacy of manpower for L/E maintenance and taking appropriate measures to address the increasing manpower need. The EMSD had regularly conducted RC surveys to monitor the manpower situation;
- (b) in 2014, the EMSD together with the trade and the Vocational Training Council (VTC — Note 17) established a working group to collaborate on matters related to L/E maintenance including exploring measures to attract new workers to join the L/E trade. The VTC would launch a new part-time certificate course on L/E engineering in 2016;

Note 17: *The Vocational Training Council, established in 1982, is the largest vocational professional education and training provider in Hong Kong. Its main functions comprise instituting, developing and operating programmes for training workforce in order to sustain and improve industries, and reviewing the availability of trained manpower to meet the needs of industries.*

Way forward

- (c) the Construction Industry Council (Note 18) had included the L/E trade under their “Contractors Cooperative Training Scheme”, under which trainees would be employed by participating contractors before receiving formal training; and
- (d) the VTC had introduced the “Pilot Training and Support Scheme” which offered vocational education and training by integrating structured apprenticeship training programmes with clear career progress pathways. The number of new intake apprentices for the L/E trade had increased from less than 100 in previous years to 225 in 2015.

5.6 In Audit’s view, the EMSD needs to closely monitor the adequacy of manpower supply for REs and RWs, and liaise with the trade and local training institutions with a view to ensuring that adequate REs and RWs are trained to meet the increasing L/E maintenance and examination work requirements arising from the significant increase in the number of new buildings and new L/Es in coming years.

Need to promulgate guidelines for retrofitting new safety devices for escalators

5.7 As stated in paragraphs 3.43 to 3.47, with a view to enhancing the safety standards of existing lifts, the EMSD has taken action to retrofit new safety devices for government lifts and encourage owners of private lifts to implement similar retrofitting works. Audit noted that, as of April 2015, 2,008 (23% of the total 8,622 escalators) escalators were installed in or before 1989 i.e. more than 25 years of age (see Table 9).

Note 18: *The Construction Industry Council, formed in February 2007, comprises representatives from industry employers, professionals, academics, contractors, workers and independent persons. Its main functions are to forge consensus on long-term strategies, convey the industry's needs and provide training and registration for the construction workforce.*

Table 9
Years of installation of escalators
(April 2015)

Year of installation	Projected age as of December 2015 (Year)	Escalator	
		(No.)	(Percentage)
1980 and before	35 or more	331	4%
1981 to 1989	26 to 34	1,677	19%
1990 to 1999	16 to 25	2,530	29%
2000 to 2009	6 to 15	2,931	34%
2010 and after	5 or less	1,153	14%
Total		8,622	100%

} 2,008
(23%)

Source: EMSD records

5.8 While the EMSD promulgated a set of guidelines in 2011 to encourage lift owners to consider retrofitting new safety devices for their lifts (see paras. 3.43 to 3.47), it has not promulgated similar guidelines for escalators. According to the EMSD, because the number of enhancement devices introduced in recent years for escalators is much smaller than that for lifts, it has given priority to promulgating guidelines for lift modernisation. Audit noted from EMSD records that escalators installed in or after 2012 were required to have:

- (a) a braking system that could be operated automatically in the event of an escalator being trapped by an external object; and
- (b) a device to stop an escalator when a missing step is detected.

With a view to enhancing the safety and reliability of escalators, the EMSD needs to consider promulgating guidelines for retrofitting new safety devices for escalators.

Need to enhance the impartiality of REs

5.9 As of December 2015, there were 332 REs. According to the EMSD, 302 (91%) of these REs were employees of RCs, and they were responsible for examining and certifying the safe working condition of L/Es maintained by their RC employers.

5.10 In 2009, EMSD research found that:

- (a) in European Union countries, examination and certification of safe operation of L/Es were carried out by persons independent of persons responsible for L/E maintenance work; and
- (b) in Canada and the USA, examination and certification of safe operation of L/Es were mainly conducted by government employees.

5.11 In December 2014, in a review report of the Corruption Prevention Department of the Independent Commission Against Corruption (ICAC) on Regulation of L/Es, the ICAC:

- (a) stated that, as many practising REs were employed by RCs, they were duty bound to be loyal to their employers. Given their role conflicts, compromised REs might collude with unscrupulous RCs by undermining their professional standards; and
- (b) recommended that the EMSD should take measures to enhance the impartiality of REs in examining and certifying the work of RCs.

5.12 In March 2015, the EMSD informed the ICAC that it accepted the ICAC recommendation. In June 2015, the EMSD informed the ICAC that it would prepare a sample contract for RPs to engage independent REs for RE examination work.

- 5.13 In February and March 2016, the EMSD informed Audit that:
- (a) there was insufficient number of independent REs in the market. Under the L&E Ordinance, REs were not prohibited from carrying out examination of L/Es maintained by their own RC employers;
 - (b) the EMSD had implemented measures to promote the independence of REs. For example, independent REs had been engaged to inspect government lifts and, in consultation with ICAC, it had promulgated related guidelines; and
 - (c) a sample contract for engagement of independent REs for lift maintenance was published and uploaded onto EMSD website for RPs' reference in January 2016.

Audit considers that the EMSD needs to, taking into account good overseas practices, work with the L/E industry and consider taking measures to enhance the impartiality of REs in examining and certifying the safe operation of L/Es.

Audit recommendations

5.14 **Audit has *recommended* that the Director of Electrical and Mechanical Services should:**

- (a) **take measures to implement audit recommendations in this Audit Report in a timely manner;**
- (b) **consider promulgating guidelines for retrofitting new safety devices for escalators; and**
- (c) **taking into account good overseas practices, consider taking measures to enhance the impartiality of REs in examining and certifying the safe operation of L/Es.**

Response from the Government

5.15 The Director of Electrical and Mechanical Services agrees with the audit recommendations. He has said that the EMSD will:

- (a) continue to take actions with reference to the recommendations in this Audit Report;
- (b) consider promulgating guidelines for retrofitting new safety devices for escalators; and
- (c) consider to take further measures to enhance/promote the impartiality of REs in examining and certifying the safe operation of L/Es.

**Installations not regulated under
the Lifts and Escalators Ordinance**

Installation type	Responsible Government Department	Related Ordinance/ Code of Practice
Amusement devices	EMSD	Amusement Rides (Safety) Ordinance (Cap. 449)
Hoists on construction sites	Labour Department	Factories and Industrial Undertakings Ordinance (Cap. 59)
Lifts in ships	Marine Department	Code of Safe Working Practice for Merchant Seafarers (an international convention adopted for vessels registered in Hong Kong)
Lifts in aircrafts	Civil Aviation Department	Civil Aviation Ordinance (Cap. 448)
Lifts provided in connection with buildings under construction	EMSD	Builders' Lifts and Tower Working Platforms (Safety) Ordinance (Cap. 470)
Service lifts in industrial undertakings	Labour Department	Factories and Industrial Undertakings Ordinance (Cap. 59)

Source: EMSD records

Reportable lift and escalator incidents

Lifts

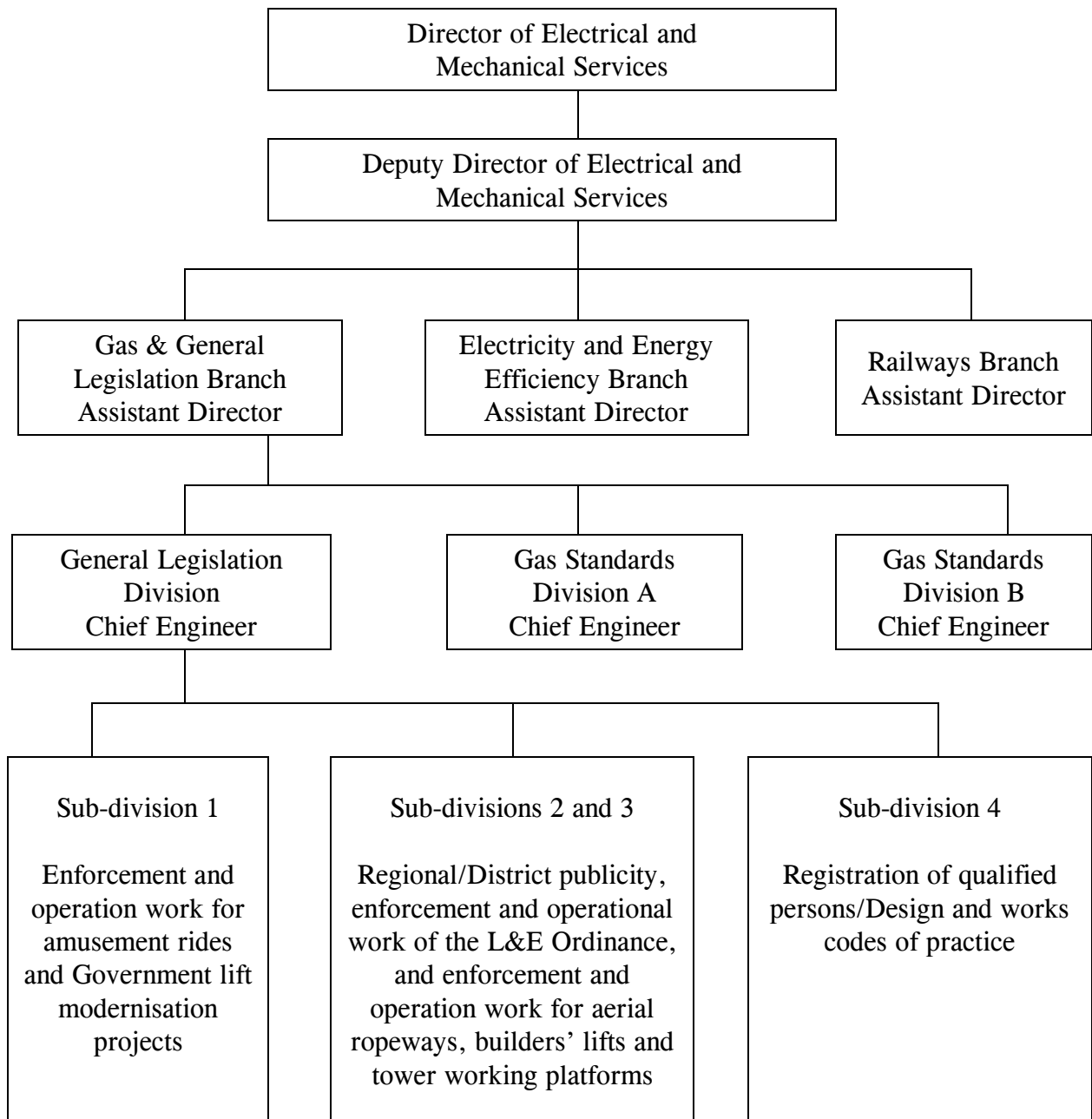
1. A person dies or is injured and the death or injury involves a lift or any associated equipment or machinery of a lift.
2. A failure of the main drive system of a lift occurs other than by reason of the failure of the main power system of the lift.
3. A breakage of any suspension rope of a lift.
4. A failure of any brake, overload device, safety component or safety equipment of a lift.
5. A failure of any interlocking device for any door of the lift-way of a lift occurs other than by reason of a failure of the making of electrical contact of safety contacts.
6. A failure of any interlocking device for any door of the carrier of a lift occurs other than by reason of a failure of the making of electrical contact of safety contacts.

Escalators

1. A person dies or is injured and the death or injury involves an escalator or any associated equipment or machinery of an escalator.
2. A failure of the main drive system of an escalator occurs other than by reason of the failure of the main power system of the escalator.
3. A failure of any brake, step chain, drive chain, safety component or safety equipment of an escalator.

Source: EMSD records

**Electrical and Mechanical Services Department
Organisation chart (extract)
(31 December 2015)**



Source: EMSD records

**EMSD actions to enhance Responsible Persons’
knowledge of their roles and responsibilities**

1. ***Guidebook for Responsible Persons for Lifts/Escalators.*** The EMSD published in 2012 the “Guidebook for Responsible Persons for Lifts/Escalators” to assist RPs to keep L/Es in a proper state of repair and in safe working order. It also provided guidelines on the daily maintenance of L/Es, selection of maintenance contractors and handling of emergencies.
2. ***Organising talks, seminars and events.*** The EMSD organised 73 talks/seminars/ events for RPs with 10,760 attendees from 2013 to 2015, covering various topics related to RPs’ duties.
3. ***Surveys on the maintenance price of lifts.*** The EMSD conducted surveys on the maintenance costs of lifts in commercial and residential properties and published the information on EMSD website.
4. ***Ambassador visits.*** The EMSD conducted ambassador visits to around 100 buildings which did not have any Incorporated Owners Corporation, Owners’ Committee or property management agent. EMSD ambassadors provided residents and lift owners with information relating to the L&E Ordinance and tips on managing their lifts.
5. ***RPs’ Corner on EMSD website.*** The EMSD launched the RPs’ Corner on EMSD website to provide information to facilitate RPs in managing their L/Es.
6. ***Announcement in the Public Interest.*** Announcements in the Public Interest were broadcast to introduce information of the L&E Ordinance, lift modernisation measures and information on safe use of lifts and escalators. The EMSD produced promotional videos to help RPs to understand their duties under the L&E Ordinance.
7. ***Lift and Escalator Newsletter.*** The EMSD published Lift and Escalator Newsletter in 2015 to provide latest L/E information to RPs.
8. ***Quality Lift Service Recognition Scheme.*** In December 2015, the EMSD launched the pilot Quality Lift Service Recognition Scheme for RPs of lifts at 100 private buildings/estates. Under the scheme, participating RPs meeting the assessment standards would be awarded a certificate. The assessment standards included the extent of implementation of new safety devices to enhance lift safety, the level of compliance with CoP requirements by the RPs, and the suspension time of lift operation due to lift failure.

Source: EMSD records

Performance monitoring points for non-compliance issues

(a) Examples of common non-compliance issues for lifts

Category A. Ineffective landing door interlock device, ineffective safety gear, and ineffective machine brake (15 PM points).

Category B. Incorrect setting of car overload device/overspeed governor and ineffective emergency alarm device (6 PM points).

Category C. Ineffective landing door automatic closing function and ineffective car ventilation fan (4 PM points).

Category D. Ineffective landing door emergency unlocking function and excessive door closing force (3 PM points).

Category E. Blocked ventilation slots and inoperative car lighting (2 PM points).

(b) Examples of common non-compliance issues for escalators

Category A. Ineffective machine main brake and broken step chain (15 PM points).

Category B. Ineffective emergency stop switch (6 PM points).

Category C. Excessive clearance between comb and step and exposed machinery, moving parts or electrical parts (4 PM points).

Category D. Excessive deviation of the speed of handrail from the speed of the steps (3 PM points).

Category E. No provision of brake release instruction, and logbook not updated in accordance with the CoP (2 PM points).

Source: EMSD records

Seven new lift safety devices

- (a) ***Mechanical car door lock and door safety edge*** (1984). The benefit of installing a mechanical car door lock is to prevent a lift car door from being opened forcibly. The installing of a door safety edge is to automatically initiate re-opening of the door of a lift should a passenger be struck by the door when it is closing.
- (b) ***Obstruction switch to protect suspension ropes*** (1984). Such a switch can prevent the excessive wear and tear of suspension ropes and sheaves during a lift breakdown, which can happen when the movement of a lift or its counterweight is obstructed while the motor is still in operation.
- (c) ***Intercom and closed-circuit television system*** (1997). Such a system makes it possible for trapped passengers to communicate directly with management office staff. Management office staff may also monitor the lift situation during an emergency.
- (d) ***Double brake system*** (2002). Older lifts were usually fitted with a single brake system. If the system fails, the lift cannot be stopped effectively. With a double brake system, in the event that a brake system fails, the other system will ensure the safe operation of the lift.
- (e) ***Ascending overspeed protective device*** (2003). Such a device can protect an ascending lift from accidentally over-speeding, thereby reducing the risk of the lift car from hitting the top of the lift well.
- (f) ***Unintended lift movement protection device*** (2007). It can be dangerous and may cause injuries if there is an unintended movement of a lift whilst passengers are entering or exiting the lift. A protective device can prevent such unintended lift movements.
- (g) ***Automatic rescue device*** (not a compulsory device). When normal power supply stops, the device uses back-up battery power to stop the lift at the nearest landing floor and opens the door to release the passengers. The lift will remain out of service until normal power supply resumes. Such a device is not a compulsory safety device.

Source: *EMSD records*

Remarks: *Lifts installed in or after the years indicated in the brackets are required to be installed with the respective safety devices.*

Acronyms and abbreviations

Audit	Audit Commission
B/Ds	Government bureaux and departments
CoP	Code of practice
CPR System	Registered Lift and Escalator Contractors' Performance Rating System
DAR Panel	Disciplinary Action Review Panel
DEVB	Development Bureau
EMSD	Electrical and Mechanical Services Department
ICAC	Independent Commission Against Corruption
LEO System	Lift and Escalator Ordinance System
L/E	Lift or escalator
L&E Ordinance	Lifts and Escalators Ordinance
PA Scheme	Performance Assessment Scheme
PM	Performance monitoring
RC	Registered Contractor
RE	Registered Engineer
RP	Responsible Person
RW	Registered Worker
VTC	Vocational Training Council

CHAPTER 7

**Commerce and Economic Development Bureau
Trade and Industry Department
Hong Kong Productivity Council**

**Dedicated Fund on Branding,
Upgrading and Domestic Sales**

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

DEDICATED FUND ON BRANDING, UPGRADING AND DOMESTIC SALES

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1 – 1.3
BUD Fund	1.4 – 1.14
Audit review	1.15
Acknowledgement	1.16
PART 2: OVERALL MANAGEMENT	2.1
Performance of the BUD Fund	2.2 – 2.21
Audit recommendations	2.22
Response from the Government	2.23
Engagement of the HKPC as implementation partner and Secretariat of the ESP	2.24 – 2.38
Audit recommendations	2.39
Response from the Government	2.40
Financial management of the ESP	2.41 – 2.55
Audit recommendations	2.56
Response from the Government	2.57

	Paragraph
PART 3: MANAGEMENT OF ORGANISATION SUPPORT PROGRAMME PROJECTS	3.1
Work of the OSP Secretariat	3.2 – 3.3
Use of implementation agents	3.4 – 3.11
Audit recommendations	3.12
Response from the Government	3.13
In-kind contribution	3.14 – 3.18
Audit recommendations	3.19
Response from the Government	3.20
Monitoring of project progress	3.21 – 3.28
Audit recommendations	3.29
Response from the Government	3.30
Submission of reports	3.31 – 3.34
Audit recommendation	3.35
Response from the Government	3.36
Dissemination of project results and deliverables	3.37 – 3.38
Audit recommendation	3.39
Response from the Government	3.40

	Paragraph
PART 4: MANAGEMENT OF ENTERPRISE SUPPORT PROGRAMME PROJECTS	4.1
Work of the ESP Secretariat	4.2
Vetting of projects	4.3 – 4.8
Audit recommendations	4.9
Response from the Government	4.10
Monitoring of project progress	4.11 – 4.19
Audit recommendations	4.20
Response from the Government	4.21
Termination of projects	4.22 – 4.24
Audit recommendations	4.25
Response from the Government	4.26
Performance reporting	4.27 – 4.31
Audit recommendations	4.32
Response from the Government	4.33
PART 5: WAY FORWARD	5.1
Need to conduct a review on the effectiveness of the BUD Fund	5.2 – 5.5
Audit recommendation	5.6
Response from the Government	5.7

Appendices	Page
A: Industries Support Division of TID: Organisation chart (extract) (31 October 2015)	78
B: ESP Secretariat of HKPC: Organisation chart (31 October 2015)	79
C: Examples of completed OSP projects	80
D: Examples of completed ESP projects	81
E: Acronyms and abbreviations	82

DEDICATED FUND ON BRANDING, UPGRADING AND DOMESTIC SALES

Executive Summary

1. The Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) was established in June 2012 to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations, and promoting domestic sales in the Mainland. It has a non-recurrent commitment of \$1,000 million and is open for applications for five years. The application period may be reviewed and extended, if necessary. The Commerce and Economic Development Bureau (CEDB) and the Trade and Industry Department (TID) are responsible for administering the BUD Fund.

2. The BUD Fund comprises two programmes: (a) the Organisation Support Programme (OSP), which provides funding support to non-profit-distributing organisations (e.g. trade and industrial organisations) to undertake projects in relevant areas which can assist Hong Kong enterprises in general or in specific sectors; and (b) the Enterprise Support Programme (ESP), which provides funding support to individual Hong Kong non-listed enterprises to assist them in undertaking projects. The CEDB has engaged the Hong Kong Productivity Council (HKPC) as a partner to implement the ESP and to act as the ESP Secretariat. The Government would disburse a total of \$60 million over a period of 7.5 years to the HKPC for the implementation of the ESP. The HKPC would contribute \$17 million in terms of professional manpower support and other support services. The Audit Commission (Audit) has recently conducted a review of the BUD Fund.

Overall management

3. *Performance of the BUD Fund.* According to the funding paper submitted to the Finance Committee (FC) of the Legislative Council in May 2012, the Government estimated that about 1,000 enterprises could directly benefit from the ESP and around 90 projects could be undertaken under the OSP by non-profit-distributing organisations. Audit noted that, as at October 2015 (more than three years after the commencement of the BUD Fund), the number of

Executive Summary

approved OSP and ESP projects (45 and 349 respectively), and the amount of approved funding for the OSP and ESP (\$147 million and \$157 million respectively) were lower than estimated. Audit also noted that, during the period June 2012 to June 2015: (a) the number of applications received for both the OSP and ESP showed a downward trend; and (b) the overall success rates of OSP and ESP applications were 38% and 33% respectively. The TID and the HKPC need to encourage more applications and to improve the application success rates (paras. 2.2, 2.3, 2.5, 2.9 and 2.18).

4. ***Engagement of the HKPC as implementation partner and Secretariat of the ESP.*** In response to the Financial Services and the Treasury Bureau's concerns on the selection of the HKPC as the implementation partner, the CEDB explained that it considered the HKPC as a partner in implementing the ESP and the engagement was not a procurement of services. The implementation fee charged by the HKPC was calculated at the HKPC's highest staff cost rates. According to the CEDB, there were discussions and negotiations between the Government and the HKPC on the overall level of charge. However, Audit noted that there was no documentation indicating whether the CEDB had discussed with the HKPC on the feasibility of using lower charging rates and why lower rates were not applicable. Up to October 2015, the cost for administering the ESP had amounted to some \$55.3 million, representing about 35% of the \$157 million approved project funding. According to the FC paper, the total cost of administering the \$500 million of the ESP was estimated to be \$77 million (15%). Furthermore, notwithstanding that the numbers of applications and approved projects were low and were decreasing, the actual number of full-time staff of the ESP Secretariat remained at about 15 to 16 (except for the first year of operation, i.e. 2012-13), which was some 50% more than that estimated in the FC paper (paras. 2.26, 2.28, 2.29, 2.33, 2.35, 2.37, 2.42, 2.43 and 2.45).

Management of Organisation Support Programme projects

5. ***Use of implementation agents.*** It was common for the grantees to engage implementation agents for carrying out OSP projects. Of the 45 approved projects, 30 (67%) had engaged seven implementation agents in total. The total approved consultancy fee paid to these seven implementation agents amounted to \$29.4 million, or 31% of the approved funding of \$96.2 million for these 30 projects. Audit examined 6 completed projects which had engaged implementation agents and noted that: (a) for 3 (50%) projects, the proposed

Executive Summary

consultancy fees were lump sum fees without detailed breakdown; and (b) for 3 (50%) projects, details were not provided regarding what services had been provided by the implementation agents (paras. 3.5 and 3.8).

6. ***In-kind contribution.*** OSP grantees are required to contribute at least 10% of the total project expenditure by themselves or in the form of sponsorship from any third parties other than the Government, which may be in cash or in-kind (in-kind contribution). Of the 45 approved projects, in-kind contribution amounted to \$10.8 million (64% of total contribution from the grantees and third parties). The OSP Secretariat requires the grantee to provide a letter listing out the nature and the amount of in-kind contribution as documentary proof. Apart from this requirement, the grantee does not need to provide other documents to support the valuation of the in-kind contribution. Audit examined six completed projects with in-kind contribution and noted that the OSP Secretariat had not raised queries on the value of in-kind contribution or required the grantees to provide documentary proof of the value (paras. 3.14 to 3.17).

7. ***Monitoring of project progress.*** The OSP Secretariat monitors project progress mainly by reviewing the reports and audited accounts submitted by the grantees, clarifying ambiguities, raising queries and conducting site visits for events held in Hong Kong to observe the conduct of project activities. Audit examined three completed projects and noted that: (a) for two projects, recruitment records could not be obtained by the OSP Secretariat for Audit's examination; and (b) for one project, non-allowable costs amounting to \$160,000 charged to the project were not discovered by the OSP Secretariat until some eight months after the submission of final report and accounts (paras. 3.21 to 3.23, 3.25 and 3.27).

Management of Enterprise Support Programme projects

8. ***Monitoring of project progress.*** To facilitate the monitoring and evaluation of approved ESP projects, grantees are required to submit progress reports, final reports and audited accounts to the ESP Secretariat. Audit examined 20 completed projects (involving 11 progress reports and 20 final reports) and noted that: (a) 9 (82%) of the 11 progress reports and all the 20 final reports required resubmissions; and (b) based on the final submission date, 9 (82%) progress reports and 4 (20%) final reports were submitted more than 3 months late (paras. 4.11 and 4.13).

Executive Summary

9. ***Termination of projects.*** As of October 2015, 45 (13%) of the 349 approved ESP projects were terminated before completion. Audit's analysis of the terminated projects by batch (13 batches in total up to October 2015) indicated that the termination rates (i.e. number of terminated projects ÷ number of approved projects × 100%) were higher in earlier batches (e.g. 26.5% and 30.2% for Batch 1 and Batch 2 respectively). As time progresses, more projects may become unsuccessful, hence the overall termination rate may also increase (paras. 4.23 and 4.24).

Way forward

10. As at February 2016, the BUD Fund has been in operation for over three years. The Fund has provided over \$300 million to support about 400 projects under the OSP and ESP. Some 100 projects have been completed. Audit considers that it is an opportune time for the Government to conduct a comprehensive review of the BUD Fund to assess the performance of the Fund in meeting its objectives, analyse benefits brought by the Fund, identify improvement areas and decide the way forward (paras. 5.2 and 5.3).

Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council where appropriate:**

Overall management

- (a) **take measures to improve the utilisation of the BUD Fund (para. 2.22(a));**
- (b) **for future engagements of non-government partners to administer projects, ensure that records relating to the compliance with relevant Financial Circulars are properly kept and the pertinent approvals are properly documented (para. 2.39(a));**

Executive Summary

- (c) **closely monitor the manpower deployment of the ESP Secretariat and take effective action to improve the economy in administering the ESP (para. 2.56(a));**

Management of Organisation Support Programme projects

- (d) **step up control over the payment of fees to implementation agents of OSP projects (para. 3.12);**
- (e) **tighten control on in-kind contribution of OSP projects (para. 3.19);**
- (f) **strengthen the monitoring of OSP projects, particularly on the checking of books and records and grantees' compliance with project agreements and guidelines (para. 3.29);**

Management of Enterprise Support Programme projects

- (g) **take measures to facilitate ESP grantees in the submission of reports with a view to improving the monitoring process (para. 4.20(a));**
- (h) **closely monitor the termination rate of ESP projects and consider conducting a review on the terminated projects with a view to identifying ways to minimise the termination rate as far as possible (para. 4.25); and**

Way forward

- (i) **consider conducting a review on the BUD Fund, taking on board the audit findings in this Audit Report (para. 5.6).**

Response from the Government

12. The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

1.2 The Chief Executive of the Hong Kong Special Administrative Region announced in the 2011-12 Policy Address a proposal to set up a dedicated fund of \$1,000 million to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations, and promoting domestic sales in the Mainland.

1.3 In May 2012, the Government sought the approval of the Finance Committee (FC) of the Legislative Council to create a non-recurrent commitment of \$1,000 million to set up the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund). According to the FC paper, the Fund is open for applications for five years. The application period may be reviewed and extended, if necessary. The BUD Fund was established in June 2012. The Commerce and Economic Development Bureau (CEDB) and the Trade and Industry Department (TID) are responsible for administering the BUD Fund.

BUD Fund

1.4 The BUD Fund comprises two programmes, namely the Organisation Support Programme (OSP) and the Enterprise Support Programme (ESP).

Organisation Support Programme

1.5 The BUD Fund provides funding support under the OSP to non-profit-distributing organisations (e.g. trade and industrial organisations,

Introduction

professional bodies or research institutes — Note 1) to undertake projects which can assist Hong Kong enterprises in general or in specific sectors in developing their brands, upgrading and restructuring their business operations, and promoting domestic sales in the Mainland so as to enhance their overall competitiveness in the Mainland market. Activities undertaken by the projects may include seminars, workshops, conferences, exhibitions and research studies, for example:

Branding

- (a) setting up a Hong Kong pavilion in exhibitions held in the Mainland and organising roadshows in the Mainland to build up quality brand image of Hong Kong products and services;

Upgrading and restructuring

- (b) organising training workshops to enhance the competitiveness of the industries; and

Domestic sales

- (c) organising business matching sessions targeted at the Mainland market and setting up interactive websites to promote Hong Kong products and services.

1.6 The maximum duration of an OSP project is three years. The maximum amount of grant for each approved OSP project is \$5 million, or 90% of the total project expenditure, whichever is less. The successful applicant has to contribute the remaining balance of the total project expenditure, which may be in cash, in-kind or in the form of sponsorship from third parties.

Note 1: *Eligible non-profit-distributing organisations shall either be statutory organisations or organisations registered under the laws of the Hong Kong Special Administrative Region which do not distribute profits to their directors, members, employees or any other persons.*

1.7 A Vetting Committee, chaired by the Director-General of Trade and Industry and comprising non-official members from various sectors, assesses applications (Note 2), formulates funding decisions and monitors project progress. Successful applicants are required to sign a project agreement with the Government and comply with the terms and conditions laid down in the agreement. They are also required to submit progress reports, final reports, audited accounts and post-project evaluation reports to the Vetting Committee for consideration, and share the results and deliverables of the projects widely with the industry.

1.8 The Industries Support Division of the TID is responsible for the implementation of the OSP. There are 17 staff involved in the OSP, of whom two work full-time. Total manpower working on the OSP is equivalent to 7.37 full-time staff. These include Administrative Officer grade staff, Treasury Accountant grade staff, Trade Officer grade staff, clerical grade staff and non-civil service contract staff. An extract of the organisation chart of the Industries Support Division is at Appendix A.

Enterprise Support Programme

1.9 The ESP provides funding support to individual Hong Kong enterprises (Note 3) to assist them in undertaking projects to develop brands, upgrade and restructure their business operations, and promote sales in the Mainland. Examples that fall within the scope of these areas are:

Note 2: *Criteria used by the Vetting Committee in assessing applications include: (a) usefulness of project (e.g. the result of the project shall be of practical use to Hong Kong enterprises); (b) cost-effectiveness (e.g. the number of enterprises which may benefit from the project); and (c) project implementation (e.g. the applicant and the project team shall have good technical and management capability).*

Note 3: *All non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Cap. 310) with substantive business operations in Hong Kong are eligible to apply, irrespective of whether they belong to the manufacturing or service sector and whether they already have any business operations in the Mainland.*

Introduction

Branding

- (a) ***Brand strategy and positioning*** — corporate brand visioning, product and service planning;
- (b) ***Brand building, design and communication*** — brand identity and development, and rebranding;
- (c) ***Brand management*** — brand assessment and brand protection;

Upgrading and restructuring

- (d) ***Product innovation and repositioning*** — product strategy and new product development;
- (e) ***Material management*** — supply chain planning and execution;
- (f) ***Technology upgrading*** — manufacturing technology upgrading, and process and business automation;

Domestic sales

- (g) ***Domestic sales strategic planning*** — visioning process and strategy formulation;
- (h) ***Domestic sales business operation management*** — operation transformation; and
- (i) ***Domestic sales channel management*** — marketing strategy and research, and sales and distribution development.

1.10 Funding would be provided on a matching basis, i.e. the Government will cover a maximum of 50% of the total approved project cost and the enterprise has to contribute not less than 50% of the total approved project cost in cash. Each enterprise may obtain funding for a maximum of three approved projects, subject to a cumulative funding ceiling of \$500,000 per enterprise. Each project should be completed within two years.

1.11 Since June 2012, the CEDB has engaged the Hong Kong Productivity Council (HKPC) to act as the Secretariat of the ESP for assisting the Government to implement the ESP. According to the FC paper of May 2012 (see para. 1.3):

- (a) the Government would disburse a total of \$60 million over a period of 7.5 years to the HKPC to cover the majority of the expenses incurred for implementing the ESP. The amount included a total of \$56 million for staff and other operating costs of a dedicated team to be set up for programme management, administrative support and project monitoring, and a total of \$4 million for various publicity and promotional activities and other expenses. An amount, based on an annual budget, would be paid annually out of the total committed funding of \$60 million as an implementation fee out of the BUD Fund; and
- (b) the HKPC would be responsible for the rest of the relevant expenditure, which amounted to about \$17 million for professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services.

1.12 The work of the ESP Secretariat includes planning and organising publicity and promotional activities, receiving and undertaking initial vetting of applications, coordinating the further vetting of project applications by an Inter-departmental Committee (IDC) and a Programme Management Committee (PMC) (see para. 1.13), monitoring the progress of approved projects, disbursing funds for approved projects, and providing general advice on the application procedures to enterprises. As at 31 October 2015, the ESP Secretariat had 15 dedicated full-time staff and two part-time staff from the HKPC (see para. 1.11). An organisation chart of the ESP Secretariat is at Appendix B.

Introduction

1.13 The ESP Secretariat conducts initial assessments on all applications. The IDC, which comprises members from relevant government bureaux/departments (Note 4), assesses all applications having regard to the initial assessment and makes recommendations to the PMC. The PMC is chaired by the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) and comprises ex-officio members and non-official members from the trade. It further assesses all applications having regard to the recommendations of the IDC and advises the Government on the approval or otherwise of the applications (Note 5). The PMC also oversees the implementation of the ESP, including:

- (a) considering the progress reports and final reports of approved projects;
- (b) evaluating the outcome of approved projects and the effectiveness of the programme; and
- (c) overseeing the work of the ESP Secretariat.

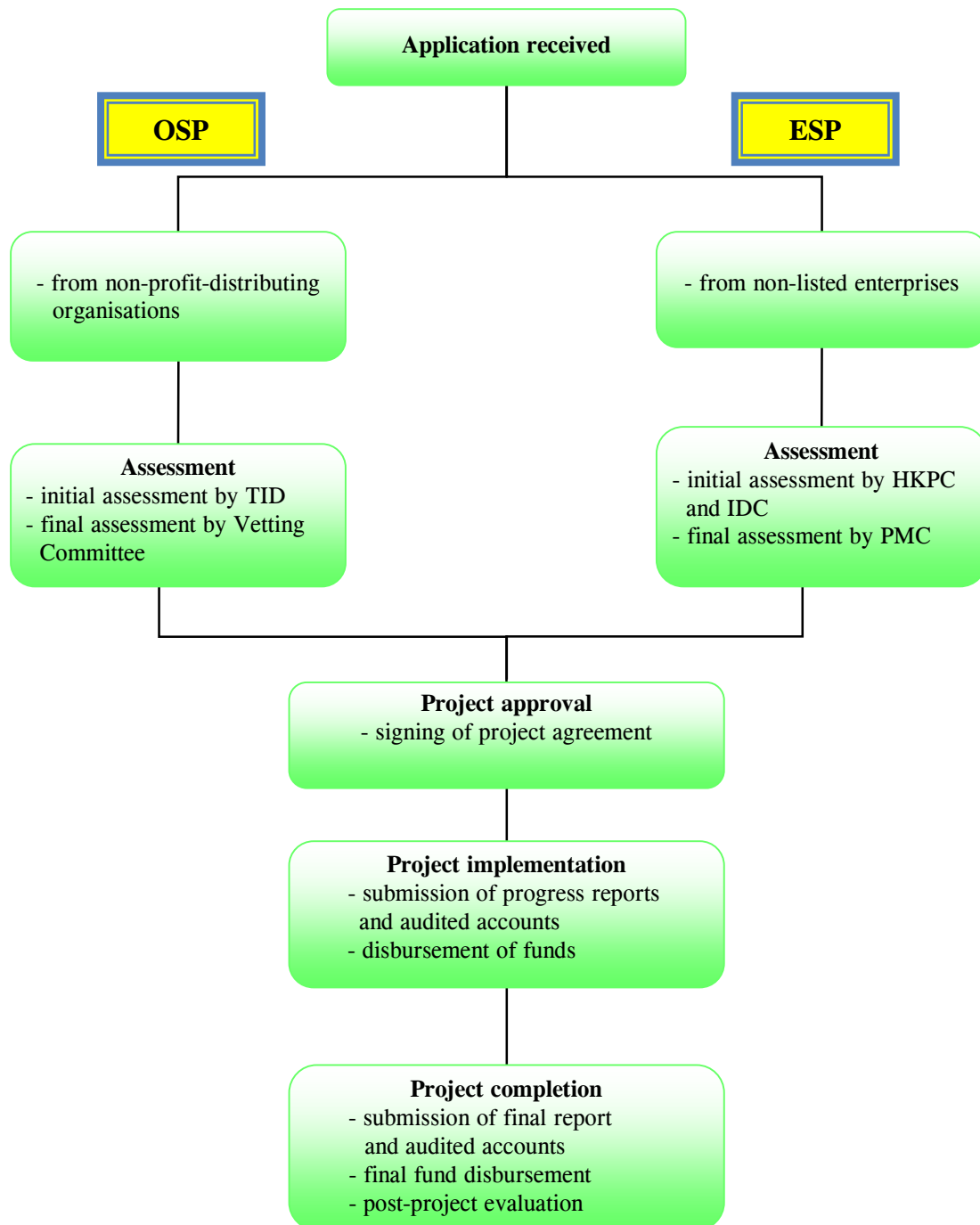
1.14 Figure 1 shows a general overview of the processing of BUD Fund applications and the monitoring of BUD Fund projects.

Note 4: *These bureaux/departments include the CEDB, Create Hong Kong, Environmental Protection Department, Information Services Department, Innovation and Technology Commission, and TID.*

Note 5: *A set of guiding principles was used for assessing project applications. For instance, the project should lead to immediate or long-term business development of the applicant in the Mainland in specific areas of branding, upgrading and restructuring and/or domestic sales, and the project should have good prospects of improving the competitive advantage of the applicant or its product/service in the Mainland.*

Figure 1

Processing of BUD Fund applications and monitoring of BUD Fund projects



Source: Audit analysis of TID and HKPC records

Introduction

Audit review

1.15 In October 2015, the Audit Commission (Audit) commenced a review of the BUD Fund. The review has focused on the following areas:

- (a) overall management (PART 2);
- (b) management of OSP projects (PART 3);
- (c) management of ESP projects (PART 4); and
- (d) way forward (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Acknowledgement

1.16 Audit would like to acknowledge with gratitude the assistance and full cooperation of the staff of the CEDB, TID and HKPC during the course of the audit review.

PART 2: OVERALL MANAGEMENT

2.1 This PART examines the overall management of the BUD Fund, focusing on the following issues:

- (a) performance of the BUD Fund (paras. 2.2 to 2.23);
- (b) engagement of the HKPC as implementation partner and Secretariat of the ESP (paras. 2.24 to 2.40); and
- (c) financial management of the ESP (paras. 2.41 to 2.57).

Performance of the BUD Fund

2.2 According to the FC paper of May 2012 (see para. 1.3), to maximise the flexibility of the use of the BUD Fund, the Government proposed not to set separate funding ceilings for the OSP and ESP. For budgetary planning purpose, of the \$1,000 million total provision, after taking into account the \$60 million that would be disbursed to the HKPC for the implementation of the ESP, about \$500 million would be provided for the ESP and the remaining \$440 million would be provided for the OSP.

2.3 Regarding the number of projects to be funded, the Government did not set targets on the number of beneficiaries but estimated in the FC paper that, with the \$1,000 million provision, about 1,000 enterprises could directly benefit from the ESP and around 90 projects could be undertaken under the OSP by non-profit-distributing organisations (Note 6). Furthermore, for the ESP, according to the first annual implementation plan (AIP) (see Note 9 to para. 2.24) for 2012-13 submitted by the HKPC to the PMC in June 2012, for budgetary planning purpose,

Note 6: *According to the FC paper, the number of enterprises to be benefitted and projects approved would depend on various factors including the number of applications approved, and the nature, scale and amount of funding of approved projects. Nevertheless, the Government estimated that, when assuming the maximum amount of funding support of \$500,000 per enterprise under the ESP, and \$5 million per project under the OSP, the ESP could benefit about 1,000 enterprises and the OSP could fund about 90 projects.*

Overall management

it was assumed that over the five-year period from 2012-13 to 2016-17, 1,500 applications would be approved. The 1,500 applications were derived by assuming that 500 enterprises would submit two projects and 500 enterprises would submit one project over the five-year application period.

Number of approved projects and amount of funds used were lower than estimated

2.4 As at 31 October 2015, the number of approved projects under the OSP and ESP were 45 and 349 respectively. Table 1 shows the nature of these projects (see paras. 1.5 and 1.9).

Table 1
Nature of approved OSP and ESP projects
(31 October 2015)

Project nature	No. of OSP projects	No. of ESP projects
Branding	4 (9%)	16 (5%)
Upgrading and restructuring	— —	23 (7%)
Domestic sales	8 (18%)	48 (14%)
Branding + Upgrading and restructuring	3 (7%)	4 (1%)
Branding + Domestic sales	25 (55%)	99 (28%)
Upgrading and restructuring + Domestic sales	3 (7%)	60 (17%)
Branding + Upgrading and restructuring + Domestic sales	2 (4%)	99 (28%)
Total	45 (100%)	349 (100%)

Source: Audit analysis of TID and HKPC records

2.5 Audit noted that as at 31 October 2015, more than three years after the commencement of the BUD Fund in June 2012, the number of approved projects and the amount of approved funding for both the OSP and ESP were lower than estimated (see para. 2.3 and Tables 2 and 3).

Table 2

**Approved funding for OSP and ESP projects
(31 October 2015)**

Programme	Approved projects	Approved funding	Funding provision approved by the FC	Usage
	(number)	(a)	(b)	(c) = (a) ÷ (b) × 100%
		(\$ million)	(\$ million)	(percentage)
OSP	45	147	440	33 %
ESP	349	157	500	31 %
Overall	394	304	940	32 %

Source: Audit analysis of TID and HKPC records

Overall management

Table 3

**Actual and estimated number of approved projects
(31 October 2015)**

Application period	Actual no. of projects (Note 1) (a)	Estimated no. of projects (Note 2) (b)	Difference	
			(c) = (a) – (b) (number)	(d) = (c) ÷ (b) × 100% (percentage)
OSP				
6/2012 to 6/2015 (Note 3)	45	—	—	—
ESP				
6/2012 to 3/2013	144	225	(81)	(36%)
4/2013 to 3/2014	97	375	(278)	(74%)
4/2014 to 3/2015	78	375	(297)	(79%)
4/2015 to 6/2015 (Note 3)	30	75	(45)	(60%)
Total	349	1,050	(701)	(67%)

Source: Audit analysis of TID and HKPC records

Note 1: The figures referred to the numbers of approved projects with applications received during the relevant periods irrespective of the approval date.

Note 2: For OSP, the TID did not estimate the number of projects for individual years. For ESP, the stated numbers of projects were based on the numbers stated in the AIP 2012-13. For the three-month period from April to June 2015, the number of projects is derived on a pro rata basis (1/4 of the 300 projects for 2015-16).

Note 3: As at 31 October 2015, seven applications for OSP and 90 applications for ESP received during the period from July to September 2015 were under processing and were not included in the analysis.

- 2.6 Audit's analysis indicated that for both the OSP and ESP:
- (a) the numbers of applications received were decreasing (paras. 2.7 to 2.16); and
 - (b) there is a need to take measures to help organisations/enterprises to improve the success rates of their applications (paras. 2.17 and 2.18).

Decreasing numbers of applications received

2.7 Application for support under the BUD Fund is open all year round. Applications received for the OSP and ESP will be batched on a quarterly basis for consideration by the Vetting Committee and the PMC respectively. The committees usually hold a meeting two to three months after the closing date of a batch (e.g. 31 March) to consider the applications. From the commencement of the BUD Fund in June 2012 to June 2015, 13 batches of applications have been considered by the Vetting Committee of the OSP and the PMC of the ESP (Note 7).

2.8 To enhance the awareness and recognition of the BUD Fund in the business community and encourage eligible organisations and enterprises to apply, the TID and the HKPC had undertaken promotion and publicity activities, including:

- (a) ***promotion events.*** From June 2012 to September 2015, the TID organised nine seminars and issued invitation letters to promote the BUD Fund. The BUD Fund is also promoted through seminars and events organised by other bureaux/departments and the HKPC held in Hong Kong and the Mainland. The HKPC organised many free promotion seminars and symposia in Hong Kong and the Pearl River Delta region and produced booklets to introduce success cases. From June 2012 to June 2015, there were 109 promotion events attended by 7,375 participants. The HKPC also introduced the ESP to various trade associations and quasi-government organisations;

Note 7: *Batch 1 covered the period from 25 June to 31 July 2012. Batch 2 covered the period from 1 August to 30 September 2012. Thereafter each batch covers a three-month period ending in March, June, September and December each year. Batch 13 covered the period from April to June 2015.*

Overall management

- (b) *other media channels.* The HKPC employed various media channels to promote the ESP (such as newspapers and radio broadcasting), social media networks and the HKPC e-newsletter, as well as a bulletin for the small and medium enterprises (SMEs) published by the TID. Videos for disseminating the success stories of the approved projects were also uploaded onto the ESP website;
- (c) *collaboration with non-governmental organisations.* The HKPC enlisted the support of non-governmental organisations to provide concessions (e.g. fee discount and free buyer credit checks) to enterprises which had obtained funding support from the BUD Fund; and
- (d) *other support measures.* The HKPC held one-to-one consultation sessions for interested enterprises to provide detailed advice to enterprises on making applications under the ESP. A mock application form is also available on the ESP website to facilitate enterprises to make applications. The OSP Secretariat also held one-to-one consultation meetings with trade and industrial organisations, professional bodies or research institutes who are interested in submitting applications.

2.9 Notwithstanding these promotion efforts, the numbers of OSP and ESP applications received showed a downward trend (see Table 4).

Table 4

**Numbers of OSP and ESP applications received
(June 2012 to June 2015)**

Batch number	No. of applications received					
	OSP			ESP		
	Received (a)	Withdrawn before assessment (Note) (b)	Submitted for assessment (c) = (a) – (b)	Received (d)	Withdrawn before assessment (Note) (e)	Submitted for assessment (f) = (d) – (e)
1	19	1	18	118	14	104
2	18	2	16	179	49	130
3	17	4	13	222	47	175
4	18	3	15	147	44	103
5	15	4	11	121	24	97
6	15	2	13	84	11	73
7	2	0	2	78	8	70
8	4	0	4	78	11	67
9	8	2	6	74	13	61
10	7	0	7	57	13	44
11	9	3	6	45	11	34
12	7	2	5	53	11	42
13	2	0	2	77	25	52
Total	141	23	118	1,333	281	1,052

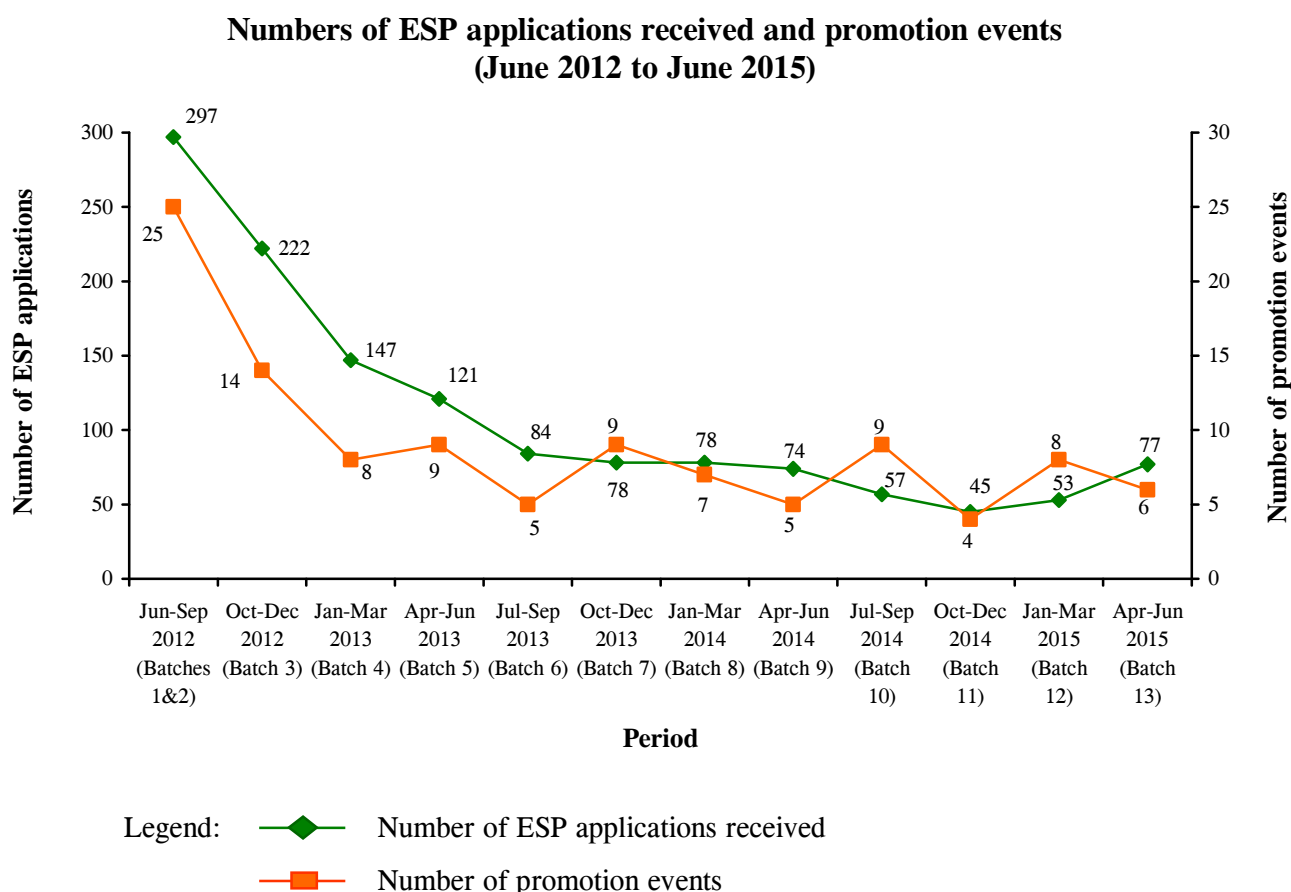
Source: Audit analysis of TID and HKPC records

Note: The figures are the numbers of applications withdrawn before assessment by the Vetting Committee (for OSP) and PMC (for ESP). According to the HKPC, there were various reasons for the withdrawals, such as enterprises not fully meeting the objectives and requirements of the ESP, or not able to provide the required supplementary information. The HKPC had implemented various initiatives to assist enterprises, in particular SMEs, in applying for the ESP (see para. 2.17).

Overall management

2.10 Audit compared the number of ESP applications received with the number of promotion events organised by the HKPC (see Figure 2) and noted that both showed a decreasing trend.

Figure 2



Source: *Audit analysis of HKPC records*

2.11 To address the decline in applications received and feedback from the trade on the tedious application procedures of the ESP, the ESP Secretariat obtained the PMC's approval in early August 2015 to introduce a "ESP Easy — Simplified Application Track" (ESP Easy), which was launched in late August 2015. Enterprises can make use of the ESP Easy to apply for funding to implement specified projects (Note 8) which can enhance their competitiveness in the

Note 8: *These projects include participation in Mainland exhibitions, establishment or enhancement of online shops or websites, undertaking testing and certification for products for domestic sales, design and production of publicity materials for distribution in the Mainland, and application for registration of patent, trademark, design and utility model in the Mainland.*

Mainland. Applicants need to fill in a simplified application form to apply for ESP Easy. Funding under ESP Easy is provided on a matching basis after completion of the projects, which should be completed within 12 months, and the funding ceiling for each project is \$170,000. For Batch 14 (July to September 2015), there were 90 applications (61 submitted through regular channel and 29 through ESP Easy) as compared to 53 and 77 applications in Batches 12 and 13 respectively.

2.12 In response to Audit's enquiry, the CEDB informed Audit in March 2016 that the ESP Secretariat had stepped up its promotion efforts since the third quarter of 2015, and had made intensive promotion efforts such as participating in exhibitions, conducting telephone and email marketing work as well as conducting one-to-one consultation sessions with interested enterprises, etc. Till the end of 2015, these promotion events attracted over 500 participants (for promotion efforts) and close to 800 participants (for one-to-one consultation), much higher than the corresponding number of participants of about 460 and 300 in the preceding two quarters of January to March and April to June 2015 respectively. As a result, the total number of applications received in the two quarters of July to September and October to December 2015 went up to 90 and 184 respectively.

2.13 The HKPC would continue its promotion efforts to encourage more applications to the ESP (e.g. by organising more promotion events). The HKPC would also monitor the applications of ESP Easy and assess its effectiveness in streamlining the application process and increasing the number of applications for the ESP.

2.14 For the OSP, the CEDB informed Audit in March 2016 that as of end-December 2015, the OSP Secretariat had handled over 2,020 enquiries and conducted about 130 one-to-one consultation meetings with trade and industrial organisations, professional bodies and research institutes interested in submitting applications. Besides, the BUD Fund had been promoted through seminars/events conducted by the TID and the HKPC. Dedicated OSP promotional letters were sent in May 2014 to trade and industrial organisations with rejected or withdrawn applications.

Overall management

2.15 Regarding the decline in the number of OSP applications received since Batch 7 (October to December 2013) onwards, the TID explained that this was due to the fact that many trade or industry organisations were still implementing one or more OSP projects approved since the inception of the Fund in mid-2012. Some of these projects have a duration of up to three years and the organisations concerned had limited capacity to organise new projects.

2.16 Audit noted that, of some 400 local trade and industrial organisations, only about 100 (25%) had submitted applications to the OSP. Audit considers that the TID needs to encourage more organisations to promote their industries' products, services and expertise. In this regard, in late January 2016, the TID sent out another round of invitation letters to trade and industrial organisations inviting them to consider applying for funding support under the OSP. Audit welcomes the TID's initiative, and considers that it should monitor the response and proactively contact these organisations to promote the OSP to them.

Need to take measures to help organisations/enterprises improve the success rates of their applications

2.17 The TID and the HKPC have implemented various initiatives to assist organisations and enterprises in applying for the BUD Fund. For example:

- (a) dedicated websites on the OSP and the ESP were launched to provide guidelines and assistance and important points to note when making applications. The ESP application form had been improved by incorporating clearer guidelines;
- (b) seminars and symposia were organised for interested organisations and enterprises to introduce the application criteria and procedures, explain matters requiring attention in making applications, and present cases of successful and unsuccessful applications;
- (c) one-to-one consultation sessions/meetings with interested organisations and enterprises were held to explain the programmes in detail and provide advice on applications;

- (d) unsuccessful applicants would be informed of the reasons of rejection to help them revise and resubmit their applications if they so wished; and
- (e) a guidebook was prepared on the experiences of enterprises from various industries and in implementing the funded projects.

2.18 For the period from June 2012 to June 2015, the overall success rates of OSP and ESP applications were 38% and 33% respectively, notwithstanding that the success rate of ESP applications had increased from 28% in 2012-13 to 58% in 2015-16 (up to June 2015) (see Table 5). According to the TID and HKPC, reasons for rejecting the applications include:

for OSP

- (a) project content is not clear enough or not in line with the objectives of the BUD Fund;
- (b) implementation plans lack details or are not effective to achieve project objectives;

for ESP

- (c) the applicants could not demonstrate that the projects could enhance their competitiveness and facilitate their business development in the Mainland; and
- (d) the applicants cannot show that they have sufficient ability to implement the proposed projects.

The TID and the HKPC need to closely monitor the situation and consider effective measures to encourage and support more worthwhile projects.

Overall management

Table 5

**Success rates of OSP and ESP applications
(June 2012 to June 2015)**

Year received	No. of applications					
	OSP			ESP		
	Submitted for assessment (a)	Approved (b)	Success rate (c) = (b) ÷ (a) × 100%	Submitted for assessment (d)	Approved (e)	Success rate (f) = (e) ÷ (d) × 100%
2012-13	62	23	37%	512	144	28%
2013-14	30	15	50%	307	97	32%
2014-15	24	7	29%	181	78	43%
2015-16 (April to June) (Note)	2	0	0%	52	30	58%
Overall	118	45	38%	1,052	349	33%

Source: Audit analysis of TID and HKPC records

Note: Only Batch 13 (April to June 2015) was included in the analysis because applications received after June 2015 were under processing at the time of Audit fieldwork.

Remarks: Two OSP applications and 41 ESP applications withdrawn after approval were not included in the analysis. If these applications were included, the overall success rates of OSP and ESP applications would be 40% and 37% respectively.

Performance reporting

2.19 The Director-General of Trade and Industry is the Controlling Officer of the BUD Fund. In the Controlling Officer's Reports (CORs), the TID reports the following target and indicators for the OSP:

- (a) percentage of the applications for grant processed within 60 working days upon receipt of all necessary documents and information (the processing time is counted from the closing date of a batch (e.g. 31 March) to the date of assessment reports submitted to the Vetting Committee);
- (b) number of applications received and processed; and
- (c) amount of government grants approved.

Besides, the TID also provides the number of applications received, approved, rejected and withdrawn, the total amount of government grants approved and the details of individual approved projects on the OSP website.

2.20 For the ESP, Audit noted that similar performance target and indicators were not reported by the TID or the CEDB in their CORs, nor by the HKPC as the ESP Secretariat, on the ESP website.

2.21 In this regard, Audit noted that in examining the Government's Annual Estimates, Members of the Legislative Council ask for performance information of the BUD Fund (e.g. the number of applications received and approved, and the amount of funds granted). Audit also noted that the operation of the Fund is reported to the Panel on Commerce and Industry of the Legislative Council every year (see para. 5.4). Audit considers that the CEDB and the TID, in collaboration with the HKPC, should take measures to improve the performance reporting of the BUD Fund, particularly for the ESP.

Audit recommendations

2.22 Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:

- (a) take measures to improve the utilisation of the BUD Fund, including:
 - (i) stepping up promotion efforts to attract more applications to the BUD Fund;
 - (ii) monitoring the applications of ESP Easy and assessing the effectiveness of the ESP Easy in increasing the number of applications for ESP; and
 - (iii) continuing to monitor the success rates of the applications and consider devising effective measures to help organisations/enterprises improve the success rates of their applications as far as possible; and
- (b) take measures to improve the performance reporting of the BUD Fund (particularly for the ESP), including:
 - (i) setting more performance targets and indicators; and
 - (ii) reporting the targets and indicators, for example, in the CORs of the CEDB/TID and the OSP and ESP websites.

Response from the Government

2.23 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations. The Secretary for Commerce and Economic Development has said that:

- (a) while the Government has not set any target on the number of enterprises/organisations to be benefitted from the BUD Fund (see para. 2.3), the CEDB, the TID and the HKPC as the ESP Secretariat have all along been monitoring the number of applications received under the BUD Fund and have undertaken various robust promotion efforts and support measures with a view to encouraging more applications (see paras. 2.8, 2.12 and 2.14). In the light of the audit recommendations, the TID will make even more promotion efforts by sending promotional letters more frequently, outreaching to trade and industrial organisations which have not applied before, and adopting a more targeted approach to discuss with applicants with rejected applications in order that proposals can be revised and resubmitted quickly;

- (b) since the launch of the ESP Easy in late August 2015 to encourage more applications, feedback from the trade has been positive. The number of ESP Easy applications received in the third and fourth quarters of 2015 were respectively 29 and 129, totalling 158. The CEDB, the TID and the HKPC will closely monitor its operation and assess its effectiveness in increasing the number of ESP applications;

- (c) to safeguard the use of public money, applications under the BUD Fund have to be examined against a set of objective criteria. That said:
 - (i) the ESP Secretariat has been assisting applicants in submitting applications with a view to improving the quality of applications, such as providing even clearer guidelines on application form, organising seminars and symposia, and conducting one-to-one consultation sessions to advise interested enterprises on making applications (see para. 2.17). The overall success rate for ESP applications has thus been improving (see Table 5) and the success rate for applications received in 2015-16 has increased to 74% (up to end-January 2016) from 58% (up to end-June 2015); and

Overall management

- (ii) as for the OSP, the OSP Secretariat has been providing one-to-one consultation to potential applicants (see para. 2.17(c)). Detailed rejection reasons are also provided to unsuccessful applicants. It has received 12 resubmissions from rejected projects so far, and seven of them have been approved. It will highlight the one-to-one consultation in future promotion. It will also adopt a more targeted approach to discuss with applicants with rejected applications in order that proposals can be revised and resubmitted quickly; and

- (d) the CEDB and the TID will work closely with the ESP Secretariat to set more performance targets and indicators for the BUD Fund, and report them, for example, in the CORs and the OSP and the ESP websites. They will also continue with the current practice of reporting the operations of the Fund to the Panel on Commerce and Industry of the Legislative Council.

Engagement of the HKPC as implementation partner and Secretariat of the ESP

2.24 According to the CEDB, the HKPC was engaged as a partner to implement the ESP with the HKPC acting as the Secretariat of the ESP. Under the agreement signed in June 2012 between the CEDB and the HKPC, the HKPC would provide services for the implementation of the ESP, including:

- (a) assisting eligible enterprises in making applications;

- (b) conducting initial vetting of all applications, providing recommendations and coordinating the further vetting by the IDC and the PMC;

- (c) monitoring the implementation progress and evaluating the results of projects;

- (d) disbursing funds to successful applicants;

- (e) providing secretariat services for the IDC and PMC; and

- (f) planning and organising promotion activities.

The HKPC is also required to produce, for each financial year, AIP (Note 9), annual report and audited accounts of the preceding year for acceptance by the PMC and the Government. The HKPC would also bear the cost of the Secretariat's manpower support and other overheads to the extent of \$17 million (see para. 1.11(b)). The Government would pay the HKPC an annual implementation fee and the estimated amount of project funding required for the year.

2.25 Audit examined the engagement of the HKPC as the ESP Secretariat, focusing on the following issues:

- (a) selection of implementation partner (paras. 2.26 to 2.29); and
- (b) charging rates used for calculating the implementation fee (paras. 2.30 to 2.38).

Selection of implementation partner

2.26 In early 2012 when the Financial Services and the Treasury Bureau (FSTB) vetted the FC paper for the BUD Fund, it expressed its concerns to the CEDB on:

- (a) the use of an outside party instead of the TID for the implementation of the ESP; and
- (b) the selection of the HKPC as the implementation partner.

The FSTB also advised the CEDB to consider if the arrangement of engaging the HKPC was a procurement of services subject to the Stores and Procurement Regulations (SPRs) and tendering procedures.

Note 9: *The AIP should, among others, comprise information including: (a) proposed activities to be undertaken; (b) the estimated number of successful applicants and amount of grants payable to these applicants; (c) a detailed budget listing out the expenditure items; (d) the amount of implementation fee; (e) the estimated amount of project funding required; and (f) performance indicators to gauge the performance of the HKPC in implementing the ESP.*

Overall management

2.27 In response, the CEDB informed the FSTB in April 2012 that:

- (a) experience and expertise was required in assisting Hong Kong enterprises in developing brands, upgrading and restructuring operations and promoting domestic sales in the Mainland. The TID did not have the necessary experience and expertise in vetting applications and in monitoring project progress effectively. It required the assistance from a non-government partner with such expertise and experience like the HKPC;
- (b) even if the TID had the expertise and experience in carrying the relevant tasks, the total staff costs, net of overheads, would be around \$96 million, which was much higher than the amount mentioned in the FC paper; and
- (c) the engagement of the HKPC as the Secretariat of the ESP was not a procurement of service. The HKPC was the partner in implementing the ESP of the BUD Fund and for this purpose, it would contribute around \$17 million in terms of professional manpower support, venue rentals and other ancillary technical and support services. The arrangement was similar to another government funding scheme, namely the Cleaner Production Partnership Programme (CPPP — Note 10) administered by the Environmental Protection Department.

2.28 Financial Circular No. 8/2004 “Non-works projects funded by the Government”, which was then in force, stipulated that:

- (a) bureaux/departments had to observe the need to preserve a level playing field in government procurement and in partnering arrangements involving non-government entities, by adhering as far as possible to a fair, open and/or competitive selection process; and

Note 10: *The Environmental Protection Department had engaged the HKPC as the implementation agent for its CPPP for promoting cleaner production technologies and practices to industries in the Pearl River Delta region. The funding request was approved by the FC in January 2008. Prior to that, the HKPC was commissioned by the Department to launch a Cleaner Production Technical Support Pilot Project in November 2006 under restricted tendering.*

- (b) if the project was primarily owned, organised and funded by the Government, and the Controlling Officer needed to procure a service or good from a non-government partner, the Controlling Officer should generally follow an open, fair and competitive bidding process. If an exception was required, the Controlling Officer should seek separate approval from the Treasury Branch (of the FSTB) in accordance with the SPRs (Note 11).

In gist, bureaux/departments had to adhere as far as possible to a fair, open and/or competitive selection process for partnering arrangements involving non-government entities. Furthermore, for procuring service from a non-government partner, the Controlling Officer should generally follow an open, fair and competitive bidding process.

2.29 Audit noted that in the emails exchanged between the CEDB and the FSTB in March and April 2012, the CEDB explained that it considered the engagement of the HKPC was a partnership arrangement and the payment of implementation fee to secure the secretariat services of the HKPC was not procurement of services. The CEDB engaged the HKPC to provide secretariat services for the ESP and implementation fee was disbursed to the HKPC annually (see para. 2.24). In response to Audit's enquiry, the FSTB informed Audit in March 2016 that it had noted the CEDB's justifications for engaging the HKPC as a partner. The Controlling Officer was responsible for drawing up the engagement arrangements having regard to all relevant considerations set out in the then prevailing Financial Circular No. 8/2004. The FSTB had reminded the CEDB to properly document the considerations, justifications, specifications on deliverables as well as engagement agreement with the HKPC. The proposal that the HKPC would be engaged as the implementation partner and the partnership arrangement were set out in the subsequent FC paper on the establishment of the BUD Fund. The FSTB subsequently updated and revised Financial Circular No. 8/2004 and replaced it by Financial Circular No. 2/2015 issued in February 2015. In Financial Circular No. 2/2015, the FSTB:

Note 11: *For procurement of services, in general, bureaux/departments should follow the tender procedures laid down in the SPRs. Open tendering should normally be adopted. If single or restricted tendering is proposed, approval has to be sought from the FSTB with full justifications.*

Overall management

- (a) spells out a few overriding principles, including the need to preserve a level playing field in government procurement and in partnering arrangements involving non-government entities (including publicly-funded or subvented organisations), by adhering as far as possible to a fair, open and/or competitive selection process; and
- (b) stipulates that if the Controlling Officer needs to procure a service from a non-government partner, the Controlling Officer should generally follow an open, fair and competitive bidding process. If an exception is required, the Controlling Officer should seek separate approval from the FSTB. Where the Controlling Officer is satisfied that the engagement of a non-government partner to administer the project does not constitute procurement of service or good and is not subject to the SPRs, the relevant considerations and decisions should be clearly and properly recorded, and the FSTB should be consulted if in doubt.

Audit considers that, for similar engagements in future, the CEDB and the TID need to document the considerations and approvals obtained.

Charging rates used for calculating the implementation fee

2.30 The agreement between the CEDB and the HKPC does not specify how the implementation fee paid to the HKPC is derived. In response to Audit's enquiry, the HKPC provided in late December 2015 a calculation sheet showing, for each individual staff, the man-hours spent on the ESP and their respective staff charging rates.

2.31 The HKPC has a pricing policy in charging its consultancy services to recover staff cost, direct expenses and/or profit margin/contingency (for services at Level 3 rates only — see below). For staff cost, there are four levels of rates:

- (a) Level 1 (L1) rates: Staff basic salary plus provident fund plus fringe benefits;
- (b) Level 2 (L2) rates: L1 rates plus divisional overheads;

- (c) Level 3 (L3) rates: L2 rates plus corporate services supporting staff cost and overheads; and
- (d) Level 8 (L8) rates: Staff basic salary plus provident fund.

L3 rates are the highest charging rates among the four levels.

2.32 According to the HKPC pricing policy, normally consultancy services (including, among others, secretariat services) would be charged at L3 rates, but L1 and L2 rates can be used for companies with 100 employees or less. L8 rates should apply to all Government-funded projects for which there are funding guidelines requiring as such (see para. 2.34(b)). Staff rates are reviewed annually in August/September.

2.33 Audit noted that the HKPC charged the Government the implementation fee at L3 rates (see para. 2.31) instead of L8 rates. Staff rates of L3 are more than double those of L8. Every year, the HKPC calculated the implementation fee by using the charging rates at L3 and claimed the amount from the Government. The implementation fee calculated this way (i.e. using L3 rates) was included in each year's audited accounts to support the claim.

2.34 In response to Audit's enquiry, the HKPC informed Audit in January 2016 that:

- (a) the agreed service fee had been budgeted on a man-year basis for the dedicated secretariat team, and the breakdown of internal staff rates at L3 was for illustration only. L3 rates were applied to record the staff time usage on the ESP as the service provided fell within the scope of consultancy services;
- (b) as for the "Government-funded projects" referred to in the pricing guidelines (see para. 2.32), they referred to projects which were governed by the respective funding rules embodied in different Government funding schemes. "Government-funded projects" did not include consultancy services rendered by the HKPC to the Government for which the HKPC acted as a secretariat to administer and monitor funding programmes for the Government (the fee of which was determined by mutual agreement),

Overall management

or services rendered by the HKPC to the Government after succeeding in a bidding process (i.e. through tendering or quotation). All in all, the staff rates were for internal resources management purpose for recording staff time usage for the ESP; and

- (c) the relevant documents on the negotiation process with the Government for the provision of secretariat services could not be located.

2.35 Audit also noted that in early 2012 (before engaging HKPC's services), both the TID and the FSTB had commented on the charging of implementation fee:

- (a) in February 2012, the TID advised the CEDB that the hourly rates charged by the HKPC were on the high side. The charging rates were the highest cost rates (i.e. L3 rates) whereas L8 rates were much lower than L3 rates. Given that the BUD Fund was a Government-funded project, the TID wondered whether the HKPC should use its L8 rates instead of L3 rates in estimating its manpower cost for implementing the Fund. This would reduce the estimated manpower cost by more than half; and
- (b) the FSTB had also expressed concern on the high disbursement fee to the HKPC and requested the CEDB to provide an evaluation on the cost-effectiveness of engaging the HKPC as the implementation agent and explore the possibility of whether the cost could be further trimmed or absorbed by the HKPC (see para. 2.26).

2.36 In response to FSTB's concern, the CEDB informed the FSTB in April 2012 that:

- (a) as confirmed with the HKPC, the rates (full-cost basis including overheads) to cover the manpower required for secretariat services for the ESP were actually the same as those charged under the CPPP (see para. 2.27(c)); and
- (b) the CEDB was therefore of the view that the cost of engaging the HKPC as Secretariat of the ESP was reasonable.

2.37 In response to Audit's enquiry, the CEDB informed Audit in February 2016 that there were discussions and negotiations between the Government and the HKPC on the overall level of charge. However, Audit noted that there was no documentation indicating whether the CEDB had discussed with the HKPC on the feasibility of using lower charging rates (such as L8 rates) for the ESP and why lower rates were not applicable.

2.38 Both Financial Circulars No. 8/2004 and No. 2/2015 on funding of non-works projects stipulate the need for the Controlling Officer to strive to achieve maximum value for money. Audit considers that, for similar engagements in future, the CEDB should ensure economy in administration cost and document the negotiation process and justifications for the basis used in the calculation of administration cost involved.

Audit recommendations

2.39 **Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, for future engagements of non-government partners to administer projects:**

- (a) **ensure that records relating to the compliance with relevant Financial Circulars are properly kept and the pertinent approvals are properly documented;**
- (b) **ensure economy in administration cost and document the justifications for the basis used in the calculation of the administration cost involved; and**
- (c) **ensure that documentation of the negotiation process is properly kept.**

Response from the Government

2.40 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry agree with the audit recommendations. The Secretary for Commerce and Economic Development has said that:

- (a) the CEDB has exchanged correspondence with the FSTB, explaining that the engagement of the HKPC was not a procurement of services. It was a partnership arrangement to implement the ESP in light of the HKPC's mission, and more importantly its expertise and experience in the Mainland market. After considering the justifications provided by the CEDB, the FSTB cleared the FC paper for issue (see para. 2.29). The CEDB will continue to ensure that proper records are kept and pertinent approvals are properly documented in future similar engagements; and
- (b) the implementation fee charged by the HKPC for the ESP is in accordance with its internal pricing guideline. Discussions and negotiations with the HKPC on the overall level of charge did take place (see para. 2.37). For future similar projects, the CEDB will continue to ensure economy in procurement and proper documentation.

Financial management of the ESP

2.41 Audit examined the financial management of the ESP and noted the following areas which call for attention:

- (a) need to closely monitor cost of administering ESP (paras. 2.42 to 2.46);
- (b) additional Government funding might be required (paras. 2.47 to 2.50);
and
- (c) over-estimation of project funding (paras. 2.51 to 2.55).

Need to closely monitor cost of administering ESP

2.42 According to the FC paper of May 2012, the cost for administering the ESP projects (mainly secretariat services on programme administration, application handling, project monitoring, as well as conducting promotional and publicity activities — see para. 4.2) would be some \$77 million in total, comprising implementation fee paid by the Government to the HKPC (\$60 million) and HKPC's contribution (\$17 million) (see para. 1.11). In other words, for the whole programme, the administration cost represents about 15% of the approved funding (i.e. $\$77 \text{ million} \div \$500 \text{ million} \times 100\%$).

2.43 Audit noted that, because the number of approved projects was less than that originally assumed, as at October 2015, approved funding for ESP projects was \$157 million, i.e. 31% of the \$500 million provided for the ESP (see para. 2.5). However, the cost for administering the ESP had already amounted to some \$55.3 million (including \$39.3 million, representing 66% of \$60 million from Government funding and \$16 million, representing 94% of \$17 million from HKPC's contribution), representing about 35% of the funding of \$157 million approved to-date.

2.44 Some 95% of the cost of administering the ESP was manpower cost. According to the FC paper, manpower arrangements for the secretariat services were as follows:

- (a) ***Funding by Government.*** 1 Senior Consultant, 7 Consultants and 2 Project Officers (total: 10 full-time staff at peak period); and
- (b) ***Contribution by HKPC.*** 1 General Manager, 1 Principal Consultant, 1 Senior Consultant, 2 Consultants and 1 Project Officer (total: 6 part-time staff).

The Government also informed the FC in the funding paper that the manpower arrangements would be reviewed and suitably adjusted as necessary having regard to the workload and other relevant factors.

Overall management

2.45 Audit noted that, notwithstanding that the numbers of applications and approved projects were low and decreasing (see paras. 2.9 and 2.18), the actual number of full-time staff of the ESP Secretariat remained at about 15 to 16 (except for the first year of operation, i.e. 2012-13), which was some 50% more than that estimated in the FC paper (details are shown in Table 6). According to the CEDB, this was because the workload of the ESP Secretariat had been increasing with a view to enhancing the effectiveness in the implementation and monitoring of projects.

Table 6

**Staff of ESP Secretariat
(2012-13 to 2015-16)**

Year	No. of staff funded by		Total number of staff
	Government	Contribution from HKPC	
2012-13	<ul style="list-style-type: none"> • 1 Senior Consultant • 6 Consultants • 1 Project Officer 	<ul style="list-style-type: none"> • 1 General Manager (part-time) • 1 Principal Consultant (part-time) • 1 Senior Consultant (part-time) • 1 Consultant (part-time) 	<ul style="list-style-type: none"> • 8 full-time • 4 part-time
2013-14	<ul style="list-style-type: none"> • 2 Senior Consultants • 8 Consultants • 1 Project Officer 	<ul style="list-style-type: none"> • 2 General Managers (part-time) • 1 Principal Consultant (part-time) • 1 Senior Consultant • 3 Consultants • 1 Project Officer 	<ul style="list-style-type: none"> • 16 full-time • 3 part-time
2014-15	<ul style="list-style-type: none"> • 2 Senior Consultants • 8 Consultants • 1 Project Officer 	<ul style="list-style-type: none"> • 1 General Manager (part-time) • 1 Principal Consultant (part-time) • 1 Senior Consultant • 3 Consultants • 1 Project Officer 	<ul style="list-style-type: none"> • 16 full-time • 2 part-time
2015-16 (Oct 2015)	<ul style="list-style-type: none"> • 1 Senior Consultant • 8 Consultants • 1 Project Officer 	<ul style="list-style-type: none"> • 1 General Manager (part-time) • 1 Principal Consultant (part-time) • 1 Senior Consultant • 3 Consultants (Note) • 1 Project Officer 	<ul style="list-style-type: none"> • 15 full-time • 2 part-time

Source: Audit analysis of HKPC records

Note: In preparing the AIP 2015-16, the HKPC assumed that the Government would fund the three Consultant posts which were originally funded by the HKPC. The amount involved was included in the financial estimates of 2015-16 approved by the PMC in December 2014.

Overall management

2.46 Audit considers that the CEDB and the HKPC need to closely monitor the manpower deployment of the ESP Secretariat and take effective action to improve the economy in administering the ESP.

Additional Government funding might be required

2.47 Up to 2014-15, the Government had disbursed \$32.7 million of the \$60 million as implementation fee to the HKPC (see Table 7).

Table 7

**Disbursement of implementation fee to HKPC
(2012-13 to 2014-15)**

Year	Amount disbursed (\$ million)
2012-13	7.1
2013-14	12.4
2014-15	13.2
Total	32.7

Source: HKPC records

2.48 In the AIP 2015-16 (see Note 9 to para. 2.24), the ESP Secretariat informed the PMC that:

- (a) having regard to the actual workload since the implementation of the ESP in applications handling and project monitoring, the Secretariat had engaged and would need to continue to engage additional resources to carry out these duties;

- (b) the Secretariat estimated that a shortfall in Government funding would arise in 2016-17, and additional resources would be required for running the ESP up to 2019-20 (Note 12); and
- (c) the Secretariat was discussing with the Government on how to meet the additional resource requirement.

2.49 The ESP Secretariat estimated that implementation fee of \$17.2 million would be required for 2015-16 (\$16.7 million for programme administration and monitoring, and \$0.5 million for promotion work). The 2015-16 budget was endorsed by the PMC and approved by the Government in December 2014, and \$16.9 million was disbursed to the HKPC in July 2015.

2.50 Audit considers that the CEDB needs to, in collaboration with the HKPC, closely monitor the expenditure of the Secretariat, and take measures to contain the expenditure within the FC approved amount as far as practicable. It should also consider informing the FC if the implementation fee exceeds the approved amount of \$60 million.

Over-estimation of ESP project funding

2.51 In each year's AIP, the ESP Secretariat would budget for the amount of project funding required for the ensuing year, taking into account the estimated number of new projects to be approved and the funding requirements of the newly approved projects and projects in progress. Audit noted that for the three years from 2012-13 to 2014-15, the budgeted amount significantly exceeded the actual amount disbursed (see Table 8).

Note 12: *In November 2014 when it was drawing up the financial estimates of 2015-16, the ESP Secretariat informed the CEDB that, assuming the Government would start funding the three Consultant posts in 2015-16 (which were previously funded by the HKPC — see Table 6), the total implementation fee required for the whole programme would be \$72.6 million, or \$12.6 million (21%) higher than the amount stated in the FC paper of May 2012 (see para. 1.11(a)).*

Overall management

Table 8
Funding for approved ESP projects
(2012-13 to 2014-15)

Year	Budgeted amount (a) (\$ million)	Actual amount disbursed (b) (\$ million)	Difference (c) = (a) – (b) (\$ million)
2012-13	18.7	2.3	16.4 (88%)
2013-14	41.5	14.6	26.9 (65%)
2014-15	66.0	17.5	48.5 (73%)

Source: Audit analysis of HKPC records

Remarks: The budgeted project funding for 2015-16 was \$59.4 million.

2.52 Audit’s analysis revealed that the less-than-budget funding disbursement was mainly attributable to:

- (a) *over-estimation of the number of newly approved projects.* Audit noted that the actual number of projects approved was less than the number estimated in each year’s AIP (see Table 9);

Table 9
Number of approved ESP projects
(2012-13 to 2014-15)

Year	Estimated number per AIP (a)	Actual number (b)	Over-estimation (c) = (a) – (b)
2012-13	225	144	81 (36%)
2013-14	110	97	13 (12%)
2014-15	120	78	42 (35%)

Source: Audit analysis of HKPC records

Remarks: The estimated number of newly approved projects in 2015-16 was 88. For the first three months of 2015-16 (April to June 2015), 30 projects were approved.

- (b) ***projects terminated/withdrawn during the year.*** As at October 2015, of the 349 approved projects, 45 projects (or 13%) were terminated (see para. 4.23). For these 45 projects (with total funding of \$19 million), approved funds were either not disbursed, or funds already disbursed were recouped. In addition to these 349 approved projects, 41 projects (with total funding of \$18 million) approved by the PMC were subsequently withdrawn before the signing of the project agreement (see para. 4.7);

- (c) ***delays in submission of progress reports and final reports.*** Funds were disbursed to grantees only upon the PMC's and the Government's acceptance of the progress reports and final reports. Audit found that there were delays in the submission of progress reports and final reports by grantees, and that resubmissions were common (see para. 4.13); and

- (d) ***delays in signing of project agreements and opening of bank accounts.*** Some grant payments were delayed due to the grantees' delays in the signing of the project agreements and in the opening of bank accounts for the projects.

2.53 After the AIP was endorsed by the PMC (normally in December), the TID would pay the estimated project funding to the HKPC in around July of the ensuing year, after offsetting any unspent project funding of the preceding financial year as reported in the audited accounts. For example, for 2014-15 project funding:

- (a) estimated project funding for 2014-15 (per AIP 2014-15) was \$66 million;

- (b) amount of unspent project funding as at 31 March 2014 (per audited accounts for 2013-14) was \$26.9 million; and

- (c) amount paid to the HKPC was therefore \$39.1 million (\$66 million – \$26.9 million).

2.54 Audit noted that, because the actual amounts disbursed to grantees were much less than those estimated (see Table 8), surplus funds were kept at the bank account of the HKPC for holding the project funding (see Table 10).

Table 10

**ESP project funding bank balance
(2012-13 to 2015-16)**

Year	Balance as at 31 March (\$ million)	Average month-end balance (\$ million)
2012-13	17.2	18.4
2013-14	28.6	18.8
2014-15	51.2	48.6
2015-16	50.9 (31 October 2015)	51.5 (7 months)

Source: Audit analysis of HKPC records

2.55 To avoid keeping excessive funds surplus to requirement, the CEDB needs to ensure that the ESP Secretariat makes accurate estimation on the project funding required in the AIPs. It should also consider ways to minimise the amount of surplus funds held in the bank account for holding project funding (e.g. releasing funds to the Secretariat by instalments after taking into account the amount of funds in the bank account).

Audit recommendations

2.56 **Audit has recommended that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **closely monitor the manpower deployment of the ESP Secretariat and take effective action to improve the economy in administering the ESP;**
- (b) **closely monitor the expenditure of the ESP Secretariat, and take measures to contain the expenditure within the FC approved amount as far as practicable;**

- (c) **inform the FC if the implementation fee exceeds the approved amount of \$60 million;**
- (d) **ensure that the ESP Secretariat makes accurate estimation on the project funding required in the AIPs; and**
- (e) **review the requirements and disbursement of project funding and consider ways to minimise the amount of surplus funds held in the ESP Secretariat's bank account for holding project funding.**

Response from the Government

2.57 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations. The Secretary for Commerce and Economic Development has said that:

- (a) the ESP Secretariat's responsibilities include, among others, promoting the BUD Fund, processing applications received, vetting applications, advising applicants in making applications, monitoring the progress of approved applications, and conducting promotion activities. The workload of the ESP Secretariat has been increasing with a view to enhancing the effectiveness in the implementation and monitoring of projects. To ensure that the ESP Secretariat's manpower deployment is appropriate, the Secretariat is required to submit an AIP to the PMC setting out, among others, the planned activities and proposed manpower arrangement taking into account the workload involved for the coming year. The CEDB, the TID and the PMC scrutinise the AIP carefully and will continue to closely monitor the manpower deployment of the ESP Secretariat;

Overall management

- (b) the CEDB and the TID have all along been monitoring closely the expenditure of the ESP Secretariat, the workload of which in implementing the ESP has been increasing. The latest estimate is that a shortfall in Government funding would not arise in 2016-17, as previously estimated by the ESP Secretariat. In any case, the CEDB and the TID will continue to closely monitor the situation and inform the FC if additional Government funding for the ESP Secretariat is required from the approved commitment of \$1,000 million;
- (c) the ESP Secretariat has improved the methodology in estimating the project funding required in the coming AIP 2016-17, which will be submitted to the PMC for consideration in end-March 2016. The revised methodology aims at providing a more accurate funding requirement projection; and
- (d) the CEDB, the TID and the HKPC agree that the amount of surplus funds held in the ESP Secretariat bank account could be minimised. The Government will henceforth pay to the ESP Secretariat the project funding by more than one instalment, instead of in one go, during a year to minimise the amount of surplus funds held in the bank account of the ESP Secretariat for holding project funding.

PART 3: MANAGEMENT OF ORGANISATION SUPPORT PROGRAMME PROJECTS

3.1 This PART examines audit issues relating to the management of OSP projects. Audit has found scope for improvement in the following areas:

- (a) use of implementation agents (paras. 3.4 to 3.13);
- (b) in-kind contribution (paras. 3.14 to 3.20);
- (c) monitoring of project progress (paras. 3.21 to 3.30);
- (d) submission of reports (paras. 3.31 to 3.36); and
- (e) dissemination of project results and deliverables (paras. 3.37 to 3.40).

Work of the OSP Secretariat

3.2 The OSP Secretariat under the Industries Support Division of the TID is responsible for promoting the OSP, assessing the applications of OSP projects, making recommendations to the Vetting Committee, and monitoring the implementation of approved projects. The monitoring work includes overseeing project activities and the grantees' submissions (such as progress reports, final reports and audited accounts), and return of residual funds by grantees. Upon project completion, the OSP Secretariat assesses the effectiveness of the project based on the project deliverables and results. The Treasury Team of the Industries Support Division would also assist in reviewing the audited accounts to ensure compliance with the relevant terms and conditions of the project agreement from the financial and accounting perspectives. The deliverables and the results of the projects will be submitted to the Vetting Committee to facilitate its monitoring of implementation and evaluating the effectiveness of the funded projects and the OSP.

Management of Organisation Support Programme projects

3.3 As at 31 October 2015, there were 45 approved OSP projects (approved project funding of \$147 million), of which 15 (33%) were completed with final reports and audited accounts submitted (see Appendix C for some examples). Audit selected 10 completed projects to examine the OSP Secretariat's assessment and monitoring work. The audit findings are in the ensuing paragraphs (Note 13).

Use of implementation agents

3.4 An OSP applicant is allowed to engage implementation agents to carry out the project in accordance with the proposal. Implementation agents directly participate in the project and provide services such as project administration, event organisation and professional consultancy. The implementation agents charge the grantee a consultancy fee for the services provided which forms part of the expenditure of the project.

3.5 It was common for the grantees to engage implementation agents for carrying out OSP projects. Of the 45 approved projects (see para. 3.3), 30 (67%) had engaged seven implementation agents in total. The total approved consultancy fee paid to these seven implementation agents amounted to \$29.4 million, or 31% of the approved funding of \$96.2 million for these 30 projects. Details are at Table 11.

Note 13: *During the course of audit work, the TID completed an internal review on the vetting and monitoring procedures of the OSP in October 2015 and the Operation Manual was updated in January 2016 to include the improvement measures. A briefing session on the enhancement measures to the Operation Manual was conducted in February 2016. According to the TID, regular meetings would be held to refresh staff of the operation procedures and brief them of any new and enhancement measures. The relevant measures are detailed in the respective paragraphs where the related audit findings are discussed.*

Table 11

**OSP projects with implementation agents
(31 October 2015)**

Implementation agent	Number of projects	Approved project funding (\$ million)	Approved consultancy fees paid to implementation agent (\$ million)
HKPC	22	65.0	19.8
Six other agents	8	31.2	9.6
Total	30	96.2	29.4

Source: Audit analysis of TID records

3.6 According to the OSP application guidelines, grantees have to observe procurement procedures (such as obtaining quotations and using tendering process) for the procurement of equipment, goods or services for the projects. However, such requirements do not apply to the engagement of implementation agents.

3.7 The OSP Secretariat informed Audit in January 2016 that:

- (a) it recognised that there were issues in determining appropriate level of fees for implementation agents in the absence of a competitive procurement process. However, many non-profit-distributing trade associations lacked the expertise and manpower resources to formulate detailed plans and deliverables for OSP projects. Without the assistance of an experienced and professional implementation agent, these trade associations would be unable to put forward well-thought-out proposals that could meet the requirements of the OSP. The implementation agent helped the applicant develop the project proposal including its detailed scope and deliverables. It would be impracticable for an applicant to procure by tender the service of an implementation agent before the detailed scope of the project was formulated;

Management of Organisation Support Programme projects

- (b) the OSP Secretariat had decided to permit applicants to designate an implementation agent in the application stage and to put forward proposed project costs for the implementation agent for vetting; and
- (c) applications were required to include, among others, curriculum vitae of key staff and detailed breakdown of consultancy fee of implementation agent. The OSP Secretariat would consider the suitability of the implementation agent in implementing the project based on its capabilities and past experience. The Secretariat would also take into account approved consultancy fees in similar past projects when examining the proposed consultancy fee.

3.8 Of the 10 projects selected by Audit (see para. 3.3), six had engaged implementation agents. Consultancy fees ranged from \$0.4 million to \$1.3 million, representing 26% to 63% of their respective approved project funding. Audit reviewed these six projects and noted that for some projects, details of the consultancy fees were not provided, for example:

- (a) for three (50%) projects, the proposed consultancy fees were lump sum fees without detailed breakdown;
- (b) for four (67%) projects, the OSP Secretariat had trimmed 24% to 33% off the proposed consultancy fee with brief explanations. There were no explanations for one project with 10% fee cut and one project without any fee cut; and
- (c) for three (50%) projects, details were not provided regarding what services had been provided by the agents.

3.9 In response to Audit's enquiry, the OSP Secretariat informed Audit in March 2016 that the six projects reviewed by Audit were approved before 2014. Since January 2014, the OSP Secretariat has required that for proposed consultancy fees to be charged by implementation agents, breakdown by services/project deliverables should be provided in the applications. With the introduction of this requirement, for projects approved in or after January 2014, OSP grantees were also required to provide breakdown by services/project deliverables on the payment of fees to implementation agents as shown in the approved budget in the audited accounts or final reports.

3.10 The OSP Secretariat also informed Audit that it had updated its Operation Manual in January 2016 (see Note 13 to para. 3.3) to clearly set out the current procedures for vetting budget. In gist, Secretariat staff make reference to approved projects of similar nature and deliverables when assessing project budgets, including consultancy fees of implementation agents. Secretariat staff were also required to document in the case files justifications and reference details. To facilitate the vetting process, the OSP Secretariat would develop a database to record the approved budget of individual cost items of approved projects.

3.11 Audit considers that the OSP Secretariat needs to ensure that its staff are fully acquainted with and comply with the new requirements. It should ensure that the applicants provide sufficient details on consultancy fees charged by the implementation agents to facilitate the assessment of the reasonableness of the fees. It should also require the grantees to provide supporting documents to substantiate the payments of fees to implementation agents.

Audit recommendations

3.12 **Audit has recommended that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should step up control over the payment of fees to implementation agents, including:**

- (a) **ensuring that the staff of the OSP Secretariat are fully acquainted with and comply with the requirements on monitoring the consultancy fees of implementation agents;**
- (b) **ensuring that OSP applicants provide sufficient details on consultancy fees charged by implementation agents (e.g. cost breakdown and services provided) to facilitate the assessment of the reasonableness of the fees; and**
- (c) **requiring OSP grantees to provide detailed supporting documents to substantiate the payments of consultancy fees to implementation agents.**

Response from the Government

3.13 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry agree with the audit recommendations.

In-kind contribution

3.14 The maximum amount of grant for each approved OSP project is \$5 million, or 90% of the total expenditure, whichever is less. The successful applicant is required to contribute the remaining balance of the total project expenditure, which may be in cash (hereinafter referred to as “cash contribution”) or in-kind (hereinafter referred to as “in-kind contribution”), by himself or in the form of sponsorship from any third parties other than the Government.

3.15 Audit analysed the contribution made by the grantees of the 45 projects approved up to 31 October 2015 (see para. 3.3) and noted that the total contribution of \$16.8 million from the grantees and third parties comprised \$6 million (36%) cash contribution and \$10.8 million (64%) in-kind contribution (e.g. venues for holding seminars or workshops, advertisements and souvenirs for the activities). Details are shown in Table 12.

Table 12

**Cash and in-kind contributions of 45 approved OSP projects
(31 October 2015)**

Provider	Cash contribution (\$ million)	In-kind contribution (\$ million)	Total (\$ million)
Grantee	5.4	2.2	7.6
Third parties	0.6	8.6	9.2
Total	6.0 (36%)	10.8 (64%)	16.8 (100%)

Source: Audit analysis of TID records

Management of Organisation Support Programme projects

3.16 The OSP Secretariat requires the grantee to provide a letter listing out the nature and the amount of in-kind contribution (regardless of whether it is provided by the grantee or by third parties) as documentary proof. Audit noted that, apart from this requirement, the grantee does not need to provide other supporting documents, such as price lists or quotations, to support the valuation of the in-kind contribution. The OSP Operation Manual also does not contain guidelines on assessing the value of in-kind contribution or require the grantee to provide details of the usage of the in-kind contribution.

3.17 Of the 10 projects selected by Audit (see para. 3.3), six had in-kind contribution, with amounts ranged from \$91,100 to \$440,000. For four of the six projects, the grantees' contributions were all in the form of in-kind contribution. For the remaining two projects, in-kind contributions were 73% and 90% of the total contribution respectively. Audit noted that for these six projects, the OSP Secretariat and the Treasury Team had not raised queries on the value of in-kind contributions or required the grantees to provide documentary proof of the value. Case 1 is an example.

Case 1

1. Project A was a one-year project commenced in 2013. The project deliverables included the setting up of showrooms in the Mainland and organising workshops and seminars to interact with buyers, retailers and customers. The total expenditure was some \$2 million. According to the project agreement, the grantee had to contribute 10% of the total expenditure.

2. The grantee submitted to the OSP Secretariat two letters issued by two companies as documentary proof of in-kind contribution. These two letters stated that there were an in-kind sponsorship for the set up of venue in the Mainland, and an in-kind sponsorship for marketing promotion materials (souvenirs). According to the grantee, the total value of the two in-kind sponsorships was some \$200,000. There were no further details about the sponsorship. The OSP Secretariat accepted these letters as grantee's 10% contribution to the project without any queries on the valuation. There were also no queries to confirm that the sponsorship had actually been spent upon project completion.

Audit comments

3. The OSP Secretariat should take necessary action to verify the claimed value of sponsorship by requiring the grantee to provide documents such as quotations and price lists of the sponsored items and compare them with similar items in the market to ensure that the value of the in-kind sponsorship was reasonable and not overstated. The OSP Secretariat should also check the receipts or invoices to ensure that the sponsorship items had actually been used for the project.

Source: Audit analysis of TID records

3.18 The OSP Secretariat informed Audit in January 2016 that it had updated the Operation Manual (see Note 13 to para. 3.3) requiring applicants to produce supporting documents (such as price lists and quotations) demonstrating that the quoted value of the in-kind contribution did not exceed the market price. Its staff are also required to verify the value of the in-kind contribution. The OSP Secretariat needs to ensure that applicants furnish sufficient and reliable documentary proof on the valuation of in-kind contribution. It should also ensure that its staff conduct verification and document the results of verification. The OSP Secretariat should also require the grantees to submit documentary proof on the usage of in-kind contribution upon project completion.

Audit recommendations

3.19 **Audit has recommended that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should tighten control on in-kind contribution, including:**

- (a) **ensuring that OSP applicants furnish sufficient and reliable documentary proof on the valuation of in-kind contribution;**
- (b) **ensuring that the staff of OSP Secretariat conduct verification and document the results of verification; and**
- (c) **requiring OSP grantees to submit documentary proof on the usage of in-kind contribution for projects.**

Response from the Government

3.20 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry agree with the audit recommendations. The Director-General of Trade and Industry has said that:

- (a) the updated Operation Manual in January 2016 has set out the procedures for verifying the value of the in-kind contribution before project commencement, including for in-kind contribution to be provided by the grantee direct, proof from the grantee is required to demonstrate that the quoted value of the in-kind contribution does not exceed its market price.

Management of Organisation Support Programme projects

For in-kind contribution to be provided through sponsorship engaged by the grantee, in addition to the sponsorship letter issued by the sponsor, the grantee has to ensure that the quoted value of the sponsorship is in line with the market price and not inflated. Supporting documents such as price list, quotations, etc. should be obtained by the grantee to support the value of the in-kind contribution. The above requirements apply to all OSP projects approved after January 2016; and

- (b) in the light of the audit recommendations, the OSP Secretariat will request grantees to submit documentary proof on the usage of in-kind contribution for the projects and will add this requirement to the Operation Manual.

Monitoring of project progress

3.21 The OSP Secretariat monitors project progress mainly by reviewing the reports and audited accounts submitted by the grantees, clarifying ambiguities, raising queries and conducting site visits for events held in Hong Kong. Site visits were conducted for 7 of the 11 completed projects with events held in Hong Kong.

3.22 Among the 10 projects selected by Audit, site visits were conducted for 5 of the 7 projects involving events held in Hong Kong. Audit noted that during these site visits, Secretariat staff attended the events (such as seminars, workshops and exhibitions) to observe the conduct of project activities. This site visit was different from the on-site checking practice of ESP projects of which the offices/premises of the grantees were visited. During on-site checking of ESP projects, staff of ESP Secretariat would check the recruitment records, procurement records and expenditure, etc. The purposes of on-site checking are to verify the project progress and results, and compliance with project agreement and guidelines.

3.23 Audit examined 3 of the 10 projects selected by Audit for their compliance with the project agreements and guidelines. The following irregularities were found in 2 projects (Project B and Project C):

Management of Organisation Support Programme projects

- (a) staff recruitment requirements were not followed (paras. 3.24 and 3.25); and
- (b) non-allowable costs were charged to project account (paras. 3.26 to 3.28).

Staff recruitment requirements not followed

3.24 According to the OSP guidelines, grantees should observe the principles of openness, fairness and competitiveness when recruiting staff to carry out OSP projects. The OSP guidelines require the grantee to, among others, widely advertise job vacancies in local newspapers and/or other channels, and properly document the recruitment records (e.g. assessment of candidates and recommendations of recruitment panel members).

3.25 Audit noted that for Project B and Project C:

- (a) job vacancy advertisements were only placed on the grantees' websites and not widely advertised (say, in local newspapers); and
- (b) contrary to the requirement of the project agreement of keeping relevant records for seven years, for Project B, the recruitment records could not be obtained by the OSP Secretariat from the grantee for Audit's examination. For Project C, in response to the Treasury Team's enquiry in May 2014 on the retention of recruitment records, the grantee said that the recruitment records (except for the successful candidates) had been destroyed in early 2014, some twelve months after the completion of the recruitment exercise in early 2013.

Non-allowable costs charged to project account

3.26 According to the OSP guidelines, only the salary of the additional manpower directly incurred for the project will be funded. Overhead expenses (such as utility expenses), entertainment expenses and other administration costs were non-allowable.

Management of Organisation Support Programme projects

3.27 Audit noted that for Project B:

- (a) \$349,000 was approved for employing one Project Officer and two part-time Executive Officers as additional manpower. However, instead of employing two part-time Executive Officers, the Project Co-ordinator and Deputy Project Co-ordinator (both being staff of the grantee) took up the two posts of Executive Officer and charged \$87,000 and \$73,000 respectively as manpower cost for the two posts to the project accounts; and
- (b) the above non-allowable cost charged to the project accounts was discovered by the OSP Secretariat in February 2015 (some eight months after the submission of final report and accounts in June 2014). The grantee refunded the non-allowable cost of \$160,000 to the OSP Secretariat in May 2015. The OSP Secretariat considered that the grantee's management of project was below standard.

3.28 The above audit findings indicated that there was a need for OSP Secretariat to step up its monitoring of OSP projects. In this regard, the OSP Secretariat informed Audit in January 2016 that it had updated the OSP Operation Manual (see Note 13 to para. 3.3) to strengthen the controls on projects, including checking on books and records, existence of equipment and compliance with project agreements and guidelines. Audit considers that the OSP Secretariat needs to:

- (a) provide guidelines to its staff covering, among others, the timing for conducting checking and list of items to be checked;
- (b) remind its staff to conduct the checking in a timely manner; and
- (c) remind the grantees of their obligations to comply with project agreements and guidelines, and maintain proper books and records.

Audit recommendations

3.29 **Audit has recommended that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should strengthen the monitoring of OSP projects, particularly on the checking of**

books and records and grantees' compliance with project agreements and guidelines, including:

- (a) providing guidelines to the staff of OSP Secretariat on the timing for conducting checking and list of items to be checked;**
- (b) reminding the staff of the OSP Secretariat to conduct the checking in a timely manner; and**
- (c) reminding OSP grantees of their obligations to comply with project agreements and guidelines and maintain proper books and records to facilitate checking.**

Response from the Government

3.30 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry agree with the audit recommendations. The Director-General of Trade and Industry has said that:

- (a) since the commencement of the OSP, grantees are informed through a briefing before the commencement of the project to observe, among others, the requirement of keeping books and records in a proper manner and that the books and records are subject to inspection by TID staff and other government officers. The updated Operation Manual in January 2016 has included the principles of checking of books and records; and
- (b) in the light of the audit recommendations, the Operation Manual will be further updated to include all the checking procedures to be performed by TID staff. OSP projects will be selected for checking of books and records based on a risk assessment approach. For the selected projects, TID will conduct site inspection to check books and records within six months after receipt of all reports and audited accounts. Moreover, the OSP Secretariat will include in the briefing before project commencement, correspondences/notifications to grantees (such as the letters attaching the project agreements and reminders to be issued before project completion, etc.) and a reminder of the requirement to keep proper books and records for an appropriate length of time.

Submission of reports

3.31 To facilitate the monitoring and evaluation of projects, grantees are required to submit progress reports, final reports and associated audited accounts to the OSP Secretariat as follows:

- (a) for projects not exceeding \$1 million and implementation period not exceeding one year, the grant will be disbursed in one lump-sum in advance. The grantee has to submit the final report and audited accounts within three months upon completion of project;
- (b) with the exception of projects mentioned in (a) above, for projects with implementation period one year or more but not exceeding two years, the grant will be disbursed in two instalments according to cash flow projection. The first instalment is normally paid within one month after the signing of the project agreement and the grantee has met TID's requirements (e.g. in-kind contribution). Thereafter, the grantee has to submit:
 - (i) the progress report together with audited accounts two months before the second instalment of payment; and
 - (ii) the final report together with final audited accounts within three months upon completion of the project; and
- (c) for projects with implementation period two years or more and up to three years, the grant will be disbursed in three instalments according to cash flow projection. The first instalment is normally paid within one month after the signing of the project agreement and the grantee has met TID's requirements (e.g. in-kind contribution). Thereafter, the grantee has to submit:
 - (i) the first progress report together with audited accounts two months before the second instalment of payment;
 - (ii) the second progress report together with audited accounts two months before the third instalment of payment; and

- (iii) the final report together with final audited accounts within three months upon completion of the project.

3.32 According to the OSP Secretariat, subject officers are required to issue reminders to grantees before the due date of submission, and warning letters to grantees if the submission is delayed. Termination of project/initiation of legal action for recouping grant will be considered for exceptionally long delays.

3.33 Audit examined the 10 projects (see para. 3.3) to ascertain the grantees' compliance with the submission requirements and found that 7 (70%) of the 10 projects had delays in the submission of reports or the associated audited accounts. The delays ranged from 7 days to 2 months for six projects, and was 4.8 months for the remaining one.

3.34 In Audit's view, the OSP Secretariat needs to continue its monitoring work and, where necessary, remind the grantees of their obligations to submit reports in a timely manner.

Audit recommendation

3.35 **Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should continue monitoring the submission of reports by OSP grantees and where necessary, remind them of their obligations in this regard.**

Response from the Government

3.36 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry agree with the audit recommendation. The Director-General of Trade and Industry has said that:

- (a) the OSP Secretariat has already put in place a mechanism for monitoring the submission of reports and return of residual funds by grantees. Details of the mechanism are set out in the Operation Manual. Since the commencement of the OSP, the OSP Secretariat has written to grantees

Management of Organisation Support Programme projects

before project completion to remind them of the need to submit reports and return residual funds. Follow up chasers will be issued in case of late submissions at designated intervals by staff pitched at different rankings depending on the magnitude of the delays. Payments to grantees will only be made upon the acceptance of reports with audited accounts by the Vetting Committee; and

- (b) in the light of the audit recommendations, the OSP Secretariat will take into account the timing of submission of reports and return of residual funds by grantees when giving the overall grading of projects for Vetting Committee's endorsement. The grading will also be reflected to the Vetting Committee when the grantee's future OSP applications are considered.

Dissemination of project results and deliverables

3.37 Under the project agreements, the grantees are required to share the project results and deliverables widely with the industry. In addition, the OSP Secretariat also posts the final reports (after endorsement by the Vetting Committee) and project deliverables (e.g. results of an information technology industry survey, a home appliances safety and selection guide, project website on software business promotion, materials for experience sharing of a lighting fair) onto the OSP website. Audit reviewed the information posted on the OSP website and noted that, as at late January 2016, of the 15 completed projects (see para. 3.3):

- (a) for 1 project, there was no information on the website; and
- (b) for the remaining 14 projects, while the final reports of 8 projects had been endorsed by the Vetting Committee, only 2 final reports were posted.

3.38 Audit also noted that the latest website review date was March 2015. The OSP Secretariat needs to ensure that updated and complete project information, including final reports and project deliverables, was posted onto the OSP website in a timely manner.

Audit recommendation

3.39 Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should ensure that all OSP project results and deliverables are posted onto the OSP website in a timely manner.

Response from the Government

3.40 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry agree with the audit recommendation. The Director-General of Trade and Industry has said that it is the OSP Secretariat's existing practice to upload project information (including deliverables and final reports endorsed by the Vetting Committee) onto the OSP website quarterly. To ensure compliance, the Secretariat is reviewing and considering enhancements to the mechanism, including cross-checking and computer generated reminders to prompt staff to take necessary action. It has already updated all available project information on the OSP website.

PART 4: MANAGEMENT OF ENTERPRISE SUPPORT PROGRAMME PROJECTS

4.1 This PART examines the management of ESP projects. Audit has found scope for improvement in the following areas:

- (a) vetting of projects (paras. 4.3 to 4.10);
- (b) monitoring of project progress (paras. 4.11 to 4.21);
- (c) termination of projects (paras. 4.22 to 4.26); and
- (d) performance reporting (paras. 4.27 to 4.33).

Work of the ESP Secretariat

4.2 Services provided by the Secretariat in administering the ESP include:

- (a) ***Application processing.*** The work includes providing consultation sessions to individual applicants, vetting application forms and obtaining supplementary information or clarifications from applicants, assessing applications and compiling assessment reports, and consolidating the IDC's recommendations for submission to the PMC. After vetting by the PMC, the ESP Secretariat would arrange for briefing and signing of agreement with successful applicants and follow up with applicants on the prescribed conditions for approved-with-conditions applications. It would also explain to unsuccessful applicants the reasons for rejection and provide guidance on how to revise and resubmit applications if needed;
- (b) ***Project monitoring.*** The work includes handling change requests, monitoring the submission status of and considering progress/final reports submitted by grantees, conducting on-site checking and providing consultation to grantees to facilitate them to submit progress/final reports, compiling assessment summaries on the progress/final reports, consolidating the IDC's recommendations for submission to the PMC, and arranging fund disbursements to grantees; and

- (c) *Promotion and publicity activities.* The work includes organising seminars and symposia, publishing guidebooks and producing videos for disseminating success stories, and providing enquiry support.

Vetting of projects

4.3 Applications for the ESP are accepted all the year round, and are processed by four batches each year with the closing dates set at the end of March, June, September and December. Applications received are initially assessed by the ESP Secretariat and the IDC, and then considered by the PMC, which advises the Government to approve or reject the applications.

4.4 The PMC meets once every three months (usually near the end of a quarter) to consider the applications. Taking into account the lead time required for the ESP Secretariat to perform initial vetting, applications received in a particular quarter would be considered by the PMC in the next quarter. Although about 90% of the applications were submitted a few days before the closing date, it could take as long as six months (for applications submitted at the start of a quarter and approved near the end of the next quarter) before an application is approved.

4.5 After an application is approved, the ESP Secretariat proceeds to sign the project agreement with the applicant. The agreement specifies the timeframe for conducting the project, including the project commencement date. Expenses incurred before project commencement will not be funded under the ESP.

Long time taken for project commencement

4.6 A project cannot be commenced until the project agreement was signed. Project expenses incurred before the signing of the project agreement are not funded. Audit's analysis indicated that in addition to the some three to six months taken for project approval (see para. 4.4), it usually takes, on average, another one to three months for projects approved without conditions attached, or four to seven months for projects approved with conditions attached, to the signing of the agreement for project commencement.

Management of Enterprise Support Programme projects

4.7 As at October 2015, the PMC had approved 349 projects with total funding of \$157 million (Batch 1 to Batch 13), of which 80 had been completed (see Appendix D for some examples). In addition to these 349 projects, the applications for 41 projects with total funding of \$18 million had also been approved by the PMC but were withdrawn before the signing of project agreements. Audit analysed the reasons of withdrawal and noted that the withdrawal of 15 (37%) of these 41 projects were due to changes of market conditions or business directions (Note 14). It indicated that the long time taken for project commencement might have affected the business viability of some projects which in turn led to their withdrawal. The ESP Secretariat needs to monitor the situation and work with the grantees with a view to finding out assistance that could be provided to the grantees to expedite the signing of project agreements so that projects can be commenced as soon as possible.

4.8 Audit noted that, to provide timely support to enterprises, for application made through the ESP Easy (see para. 2.11), all relevant expenditure incurred after the date of submission of application can be recognised and funded, provided that the application is subsequently approved by the PMC. The ESP Secretariat should consider whether it is feasible to adopt similar practice for applications not submitted through the ESP Easy.

Audit recommendations

4.9 **Audit has recommended that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **monitor the time taken for commencement of ESP projects;**

Note 14: *For the other 26 projects, the reasons for the withdrawal of 23 projects include: (a) applicants' internal issues; (b) lack of resources or manpower to complete the project; and (c) failure to meet the compliance requirements of project monitoring. The reasons for the remaining 3 projects were not known because there was no response from the applicants.*

- (b) **provide assistance to ESP grantees with a view to expediting project commencement; and**
- (c) **consider whether it is feasible to adopt the practice of ESP Easy of funding expenditure of approved projects incurred after the application submission date, instead of the date of signing project agreement, for all ESP projects.**

Response from the Government

4.10 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations. The Secretary for Commerce and Economic Development has said that:

- (a) in general, the ESP Secretariat would contact applicants and make arrangements with grantees on signing of funding agreements as soon as the PMC has approved the applications and other post-approval procedures have been completed. In some cases, however, more time may be taken to arrange for signing the funding agreements because of the long time taken by the grantees to address conditions of approval, to open dedicated project accounts, or to produce proof of having made upfront funding payment to the projects on a matching basis, etc. In the light of the above, the process of arranging signing of funding agreements for ESP Easy projects has been streamlined such that grantees need not open dedicated project accounts as no initial disbursement of funds will be made to the grantees. The ESP Secretariat would continue to closely monitor the situation; and
- (b) the ESP Easy was introduced with a view to simplifying application procedures under which the funding scopes of projects are confined to a number of specified measures. Recognising that no initial disbursement of project funding is made to a grantee, it would be prudent to recognise expenditure incurred after the application submission provided that the application is subsequently approved by the PMC. For conventional ESP projects, the scope and complexities of the applications can be very varied. It may not be appropriate to fund expenditure incurred after application date and before the application is subsequently approved. Notwithstanding this, the CEDB, the TID and the ESP Secretariat will carefully review the matter, and consult the PMC accordingly.

Monitoring of project progress

Need to enhance the quality of progress reports and final reports

4.11 To facilitate the monitoring and evaluation of approved projects, grantees are required to submit reports to the ESP Secretariat for review. Depending on the project duration, the arrangement for the submission of reports as well as the audited accounts (Note 15) is as follows:

- (a) for projects with duration of 12 months or below, the grantee is required to submit a final report together with the final audited accounts within two months upon project completion; and
- (b) for projects with duration of more than 12 months and up to 24 months, the grantee is required to submit:
 - (i) a progress report every six months within one month after the relevant six-month period;
 - (ii) audited accounts for the first 12 months within one month after the relevant 12-month period; and
 - (iii) a final report together with the final audited accounts within two months upon project completion.

Initial funds (25% of approved funding) are paid to the grantee after the signing of the agreement and the grantee has produced evidence showing due contribution of funds on a matching basis. Mid-term payment on a reimbursement basis is made to the grantee only if the duration of the project is over 18 months.

Note 15: *Each progress/final report should include information such as any work and deliverables that have been completed and a statement of income and expenditure of the project for the reporting period.*

Management of Enterprise Support Programme projects

4.12 The ESP Secretariat will review the project progress and evaluate the project results by comparing the project progress/deliverables reported in the progress/final reports against its original objectives, implementation plan and deliverables stated in the project application. All progress reports and final reports will be submitted to the IDC and the PMC for consideration and the Government for endorsement. Mid-term payment and final payment to the grantee on a reimbursement basis will only be made when the progress/final reports and the audited accounts are accepted by the PMC and the Government.

4.13 Audit selected 20 completed projects (involving 11 progress reports and 20 final reports) to examine the timeliness of the submission of reports. Audit noted that:

- (a) 9 (82%) of the 11 progress reports and all the 20 final reports required resubmissions (Note 16);
- (b) based on the first submissions, 8 (73%) of the 11 progress reports and 5 (25%) of the 20 final reports were submitted late. The delay of submission of progress reports ranged from 4 days to 5.4 months, averaging 1.9 months, and the delay for final reports ranged from 7 days to 1.5 months, averaging 0.6 month; and
- (c) based on the final submissions, all 11 progress reports and 17 (85%) of the 20 final reports were submitted late. The delay of submission of progress reports ranged from 4 days to 14.3 months, averaging 6.1 months, and the delay for final reports ranged from 6 days to 4.5 months, averaging 2.1 months (see Table 13).

Note 16: *For the 9 progress reports which required resubmissions, all submitted twice. Of the 20 final reports which required resubmissions, 19 submitted twice and 1 submitted thrice.*

Management of Enterprise Support Programme projects

Table 13

Timeliness of submission of progress and final reports (based on final submissions)

Delay	Progress report		Final report	
	Number	Percentage	Number	Percentage
No delay	0	0%	3	15%
≤ 1 month	2	18%	6	30%
> 1 month to 3 months	0	0%	7	35%
> 3 months to 6 months	3	27%	4	20%
> 6 months to 9 months	4	37%	0	0%
> 9 months to 12 months	1	9%	0	0%
> 12 months to 15 months	1	9%	0	0%
Total	11	100%	20	100%

Source: Audit analysis of HKPC records

4.14 According to the ESP Secretariat, for most of the projects, the grantees did not have enough manpower and experience to prepare the progress reports and final reports, and they needed much support from the ESP Secretariat in compiling the reports. Very often, the ESP Secretariat had to take substantial time to seek clarifications or supplementary information and supporting documents from the grantees.

4.15 In Audit's view, large number of reports requiring resubmission not only increase the administrative workload of both the ESP Secretariat and grantees, but also delay payments to grantees because funds will only be disbursed when the reports are accepted by the PMC and the Government. Moreover, resubmission of progress report and the resulting delay of its submission may affect the efficiency of the ESP Secretariat's and the PMC's project monitoring work (see Case 2 for illustration). The ESP Secretariat needs to take measures (such as issuing detailed guidelines and organising workshops) to facilitate the grantees in the submission of reports and to streamline the process.

Case 2

1. Project D was approved by the PMC in December 2012 with an approved funding of \$500,000, representing the maximum of 50% of the total approved project cost. The agreement was signed in January 2013. The project commenced in January 2013 and an amount of \$125,000 (or 25% of the approved funding) was disbursed in May 2013. The project was completed in July 2014 (i.e. the project duration was 18 months). The grantee was required to submit progress reports by end of August 2013 and February 2014 and a final report by end of September 2014. The reports were submitted on time, except for the second progress report which was submitted in mid-August 2014 (some six month's delay).

2. The ESP Secretariat required the grantee to resubmit once for each of the reports (i.e. the first progress report, second progress report and final report). All the reports were resubmitted in mid-November 2014, despite the ESP Secretariat had urged the grantee for the earlier resubmission of the first and second progress reports. As such, submission of the first progress report, second progress report and final report were delayed by 14.3 months, 8.5 months and 1.5 months respectively.

3. The three reports were approved by the PMC in March 2015 and the final payment of \$375,000 was disbursed to the grantee in May 2015.

Audit comments

4. The ESP Secretariat had to process three extra submissions by the grantee. It is also difficult for the ESP Secretariat to monitor the project progress because the resubmitted first and second progress reports were submitted together with the final report on the same date. As a result of the late submission of the final report, the final payment was made some ten months after project completion.

Source: Audit analysis of HKPC records

Need to provide more guidelines for on-site checking

4.16 The ESP Secretariat conducts on-site checking to verify the project progress and results, and compliance with project agreement and guidelines by the grantee, such as in the procurement of goods and services. It will follow up with the enterprises on anomalies identified during the checking. The ESP Secretariat will report the findings and result of follow-up actions and/or make recommendations on the required follow-up actions to the IDC or the PMC.

4.17 According to the ESP Secretariat's Operation Manual, a senior manager decides whether or not on-site checking should be conducted for a project, taking into account the following:

- (a) complexity/innovation and scale of the project implemented;
- (b) quality of the progress reports and final report submitted;
- (c) deviation of the project work and/or result from the project proposal approved by the PMC;
- (d) changes of the project under implementation; and
- (e) past performance of the service provider/applicant, if any, in delivering the approved project.

4.18 The Operation Manual does not stipulate the coverage and timing of conducting on-site checking. In this regard, Audit noted that:

- (a) of the 80 projects completed as at October 2015, on-site checking was not conducted for 12 (15%) projects, including 3 Type (i) projects (Note 17). There was no documentation on the reasons why on-site checking was not conducted for these 12 projects; and

Note 17: *There are two types of projects under the ESP. Type (i) project involves the engagement of service providers by the applicant to develop a holistic business plan in the areas of branding, upgrading and restructuring and/or domestic sales. Type (ii) project, which has to be supported by a holistic business plan in the areas of branding, upgrading and restructuring and/or domestic sales, involves the implementation of specific measures. Of the 349 approved ESP projects, 4 were Type (i) projects.*

- (b) there were different practices in the timing of conducting on-site checking. Of the 124 on-site checking conducted, 62 (50%) were conducted when the projects were in-progress, and 62 (50%) were conducted between project completion and fund disbursement (46 within three months after project completion and 16 between three to eleven months after project completion).

4.19 Audit considers that the ESP Secretariat needs to provide more specific instructions to its staff for conducting on-site checking, such as when to conduct the checking, and if no checking is needed, document the reasons and seek approval from a senior manager (see para. 4.17).

Audit recommendations

4.20 **Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **take measures to facilitate ESP grantees in the submission of reports with a view to improving the monitoring process; and**
- (b) **provide to the staff of the ESP Secretariat more specific instructions for conducting on-site checking.**

Response from the Government

4.21 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations. The Secretary for Commerce and Economic Development has said that:

Management of Enterprise Support Programme projects

- (a) the ESP Secretariat has taken various measures to facilitate quality submissions of progress reports and final reports, such as briefing the grantees when signing agreements, holding one-to-one consultation sessions for report writing, launching sharing sessions, providing mock-up report templates and conducting on-site checking, etc.; and
- (b) the ESP Secretariat has drawn up a standard template for use during on-site checking since March 2013. In February 2016, the ESP Secretariat enhanced the template such that more specific instructions are given to ESP Secretariat staff on the checking they are to perform. The enhancements included better standardisation in assessment and more detailed lists of items to be checked, etc.

Termination of projects

4.22 According to the project agreement, the ESP Secretariat may at any time on the occurrence of specific events (Note 18) terminate the agreement with immediate effect by giving written notice to the grantee.

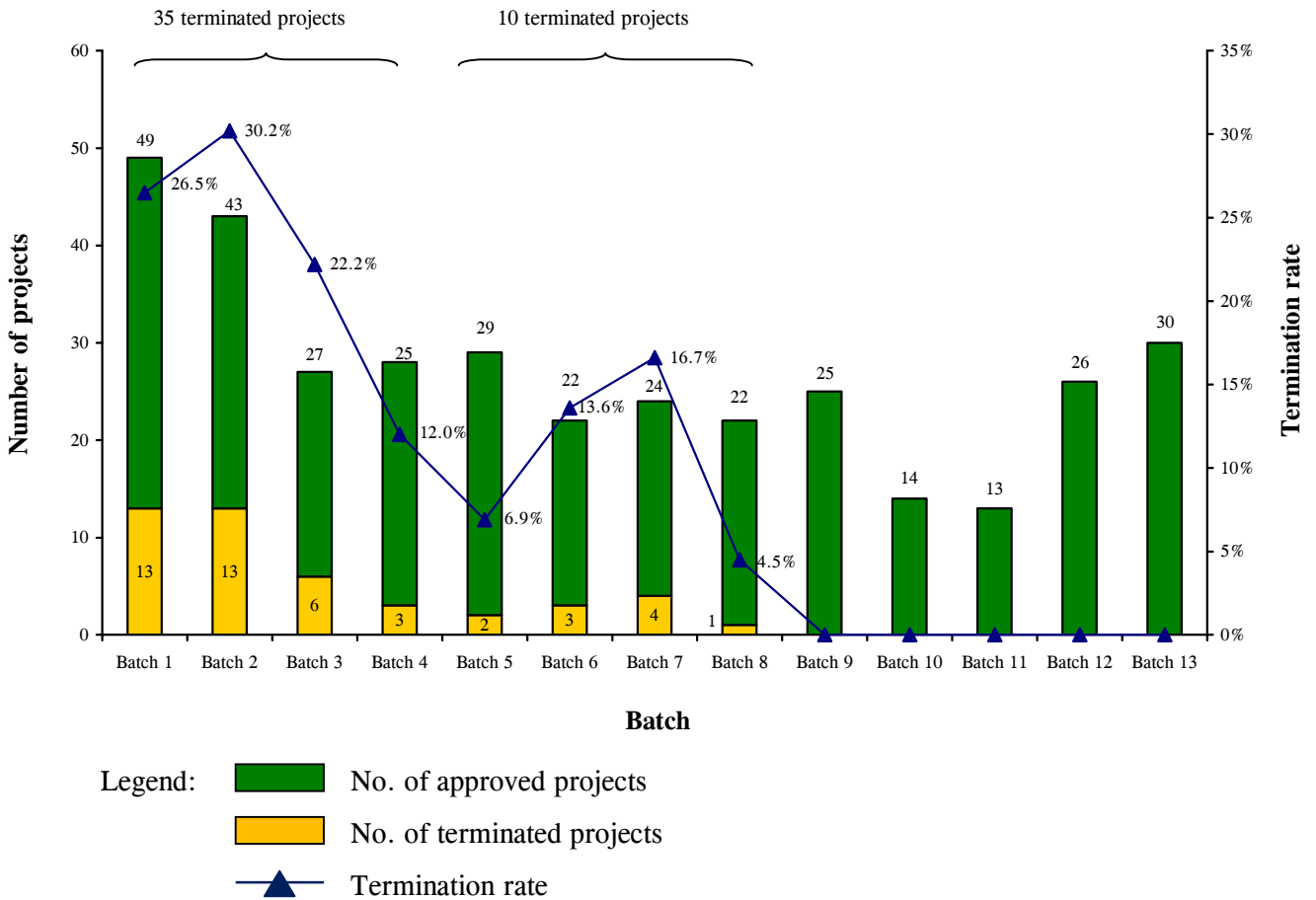
4.23 As of October 2015, 45 (13%) of the 349 approved projects were terminated before completion (Note 19). Audit's analysis of the terminated projects by batch indicated that the termination rates (i.e. number of terminated projects ÷ number of approved projects × 100%) were higher in earlier batches (see Figure 3).

Note 18: *Examples of specific events include: (a) the grantee failed to comply with any terms, conditions or undertakings in the project agreement and the grantee failed to remedy the breach to the satisfaction of the ESP Secretariat within a stipulated time; and (b) the grantee had abandoned the project agreement.*

Note 19: *According to the ESP Secretariat, there were various reasons for project termination, for example: (a) staff turnover or shortage of resources; (b) change in market conditions; (c) lack of project progress; and (d) repeated failure to submit reports.*

Figure 3

Approved projects subsequently terminated
(October 2015)



Source: Audit analysis of HKPC records

4.24 As time progresses, more projects may become unsuccessful, hence the overall termination rate may also increase. The ESP Secretariat needs to closely monitor the situation and consider conducting a review on the terminated projects with a view to identifying ways to minimise the termination rate as far as possible.

Audit recommendations

4.25 Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:

- (a) closely monitor the termination rate of ESP projects; and
- (b) consider conducting a review on the terminated projects with a view to identifying ways to minimise the termination rate as far as possible.

Response from the Government

4.26 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations. The Secretary for Commerce and Economic Development has said that the CEDB, the TID and the ESP Secretariat have all along been closely monitoring the termination rate of ESP projects and will continue to do so.

Performance reporting

Need to improve response rate of survey

4.27 The ESP Secretariat posts videos of experience-sharing symposia and success cases, and a case-sharing guidebook onto the ESP website. The ESP Secretariat also conducts surveys with grantees upon project completion (completion survey). The survey would, inter alia, seek information/views on whether the measures in the project could enhance the grantee's competitiveness and development in the Mainland market, whether the grantee has employed/would employ additional staff in Hong Kong during/after the project, and whether the implementation of the project has benefitted other sectors of Hong Kong, etc.

4.28 In addition to the completion survey, with effective from August 2015, the ESP Secretariat has started a tracking survey with the grantees one year after project completion to enable the ESP Secretariat to evaluate the effectiveness of the ESP over a longer timeframe. The tracking survey asks the grantees, among others, whether they would continue their measures in branding, upgrading and restructuring, and domestic sales in the Mainland and whether additional staff had been employed.

4.29 Response to both the completion survey and the tracking survey were not mandatory. As of November 2015, of the 80 completed projects, 70 (88%) responded to the completion survey. However, only 11 projects (33%) out of 33 completed projects responded to the tracking survey. As the data collected from the surveys would help the ESP Secretariat assesses the effectiveness of the ESP, the ESP Secretariat should consider devising measures to encourage grantees to respond to the surveys (e.g. including such requirement in the project agreements or guidelines).

Need to improve evaluation of programme effectiveness

4.30 To facilitate the PMC to evaluate the effectiveness of the ESP, the ESP Secretariat stated in the AIPs of 2013-14 to 2015-16 that the following statistics would be included in the annual reports (see para. 2.24):

- (a) the types and number of brands, products and/or services developed/customised for exploring the Mainland market;
- (b) the type of advanced technologies and management systems adopted for enhancing the competitiveness of the enterprises, its product and/or services in the Mainland;
- (c) the effective promotion and sales channels established for promoting brand awareness and/or domestic sales in the Mainland;
- (d) how the projects have helped the enterprises better their business development in the Mainland;

Management of Enterprise Support Programme projects

- (e) employment opportunities created in Hong Kong for implementing the approved projects and after project completion; and
- (f) the products/services of other Hong Kong enterprises that have been used/engaged by the funded enterprises in implementing the approved projects.

4.31 Audit noted that, while the information needed to compile the above statistics appears to be readily available in the surveys as well as the progress and final reports submitted by the grantees, only the number of employment opportunities created in Hong Kong (item (e) above) was reported (Note 20) in the annual reports. The ESP Secretariat needs to include all the statistics in its annual reports. Moreover, to increase transparency and for performance reporting, the ESP Secretariat should consider publishing these statistics on the ESP website (see para. 2.20).

Audit recommendations

4.32 **Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **consider devising measures to encourage ESP grantees to respond to the completion survey and tracking survey of projects; and**
- (b) **report in the annual reports of the ESP all the statistics stated in the AIPs and consider publishing these statistics on the ESP website.**

Note 20: *In the 2013-14 and 2014-15 annual reports, the ESP Secretariat reported that 6 job opportunities would be created by the grantees in 2013-14 and 17 in 2014-15 after the completion of the projects.*

Response from the Government

4.33 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations. The Secretary for Commerce and Economic Development has said that:

- (a) the CEDB recognises that completion survey and tracking survey are useful for assessing the effectiveness of the ESP and the feedback received so far is encouraging. Grantees generally considered that their projects had helped them in various ways, e.g. enhancing the awareness of their brands, improving product quality, developing new products, establishing new domestic sales channels, enhancing the enterprises' overall competitiveness and increasing the competitive edge of their products, etc. The ESP Secretariat will continue to encourage ESP grantees to respond to the completion and tracking surveys; and

- (b) the ESP Secretariat will report in annual reports and on the ESP website information relating to the effectiveness of the programme before end-June 2016.

PART 5: WAY FORWARD

5.1 This PART examines the way forward of the BUD Fund.

Need to conduct a review on the effectiveness of the BUD Fund

5.2 According to the FC paper of May 2012, the BUD Fund is open for applications for a period of five years, which may be reviewed or extended, if necessary. As at February 2016, the BUD Fund has been in operation for over three years. In response to Audit's enquiry, the CEDB informed Audit in March 2016 that the following initiatives had been implemented to enhance the operation of the BUD Fund:

- (a) for the ESP, the CEDB has specifically:
 - (i) launched the ESP Easy in late August 2015 to address the trade's concern on the application procedures and to provide even more timely support to enterprises;
 - (ii) stepped up the collation and collection of information in respect of the funded projects since June 2015;
 - (iii) conducted an internal review on the operation of the ESP in October 2015 with the relevant enhancement measures being put in place in March 2016; and
 - (iv) held a brainstorming session in December 2015 and put in place enhancements to the ESP in March 2016; and
- (b) for the OSP, the TID had conducted an internal review on the vetting and monitoring procedures of the OSP before this audit review. The internal review was completed in end-October 2015 and improvement measures were incorporated in the latest update of the OSP Operation Manual in January 2016.

5.3 Since its commencement of operation in June 2012, the BUD Fund has provided over \$300 million to support about 400 projects under the OSP and ESP. Some 100 projects have been completed. Audit considers that it is an opportune time for the Government to conduct a comprehensive review of the BUD Fund to assess the performance of the Fund in meeting its objectives, analyse benefits brought by the Fund, identify improvement areas and decide the way forward.

5.4 The Government annually reports the progress of the implementation of the BUD Fund to the Legislative Council's Panel on Commerce and Industry. While the Panel members generally support the implementation of the BUD Fund, they have also asked the Government to conduct a mid-term review on the effectiveness of the BUD Fund and its benefits to the overall economy of Hong Kong. In response, the Government undertook to report to the Panel its assessment on the overall effectiveness of the BUD Fund when more projects were completed.

5.5 Moreover, under the agreement signed between the Government and the HKPC (see para. 2.24), the HKPC has to conduct a mid-term review at a time specified by the Government to evaluate the effectiveness of the ESP and the HKPC's performance and strategy in carrying out its work.

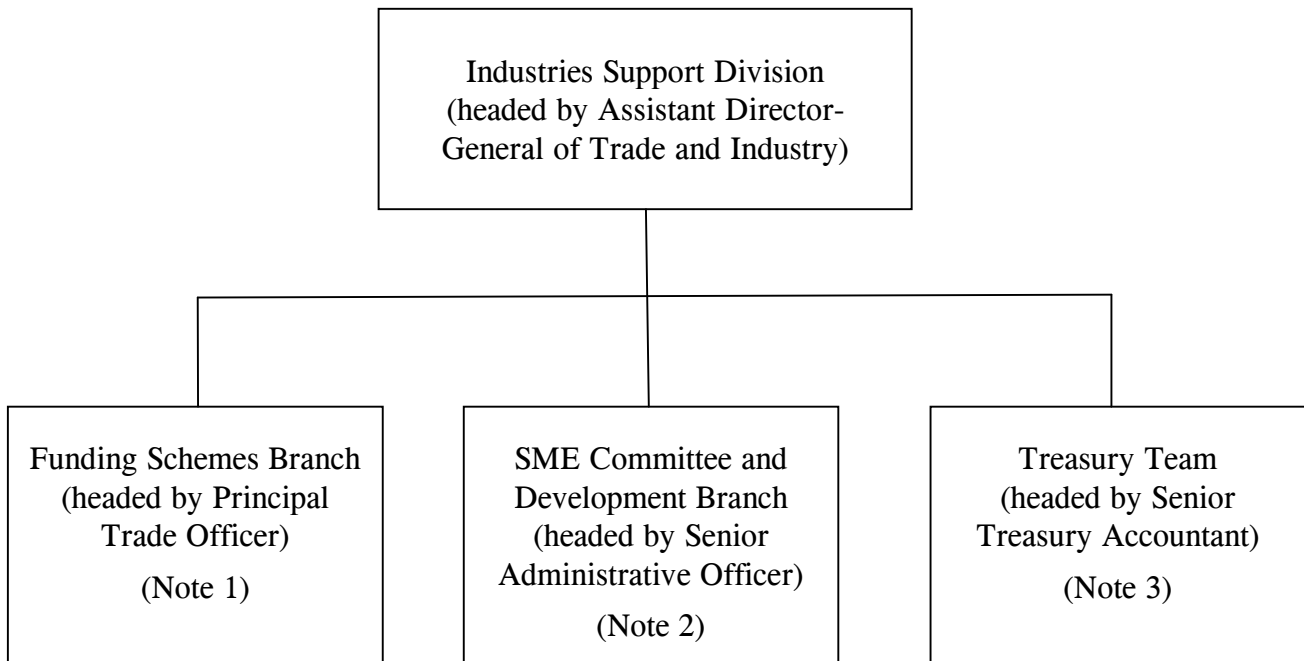
Audit recommendation

5.6 **Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should consider conducting a review on the BUD Fund, taking on board the audit findings in this Audit Report.**

Response from the Government

5.7 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendation. The Secretary for Commerce and Economic Development has said that the CEDB and the TID, with the support of the HKPC, have been reviewing the operation and implementation of the BUD Fund on an ongoing basis, with a view to enhancing its operation. With the benefits of the audit findings in this Audit Report, the Government will continuously review the operation of the BUD Fund on an ongoing basis and implement improvement measures, and will consider further review as appropriate.

Industries Support Division of TID
Organisation chart (extract)
(31 October 2015)



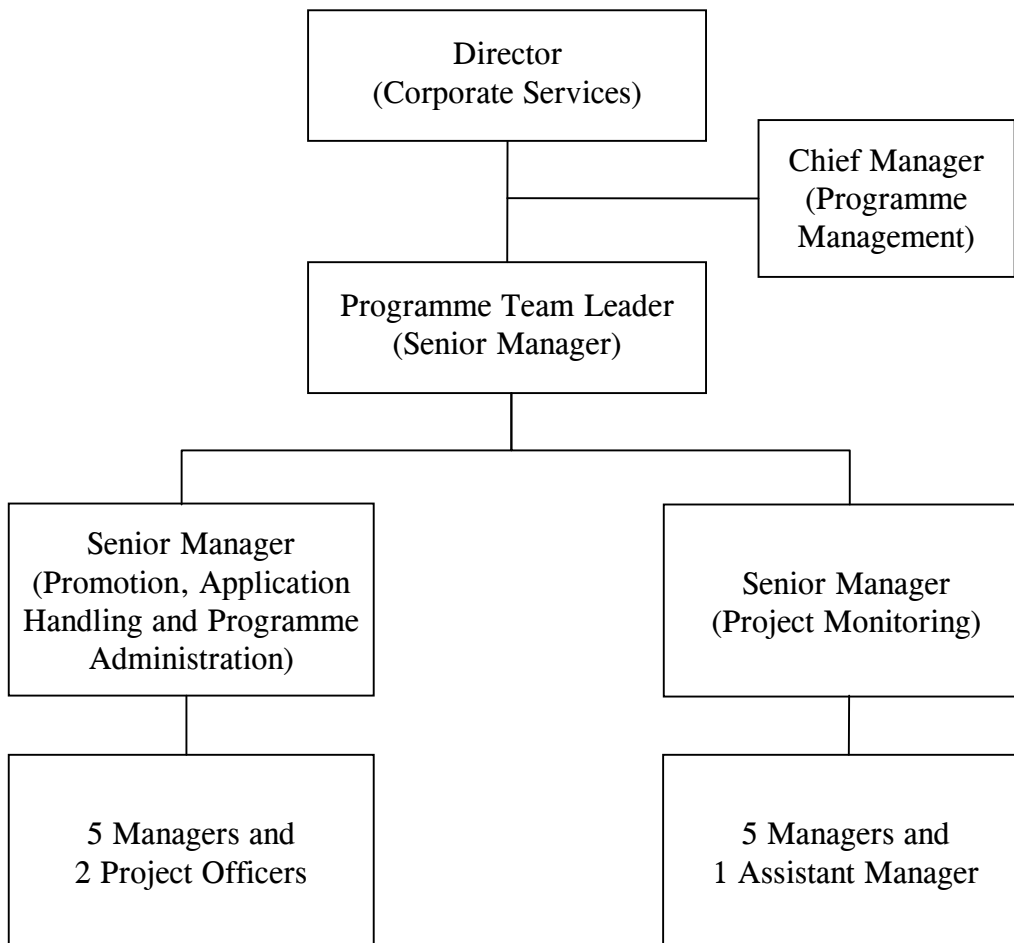
Source: TID records

Note 1: According to the TID, about 11% of the duties of the Branch are related to the ESP.

Note 2: According to the TID, about 38% of the duties of the Branch are related to the OSP.

Note 3: According to the TID, about 6% of the duties of the Team are related to the OSP and ESP.

ESP Secretariat of HKPC
Organisation chart
(31 October 2015)



Source: HKPC records

Remarks: The Director (Corporate Services) and the Chief Manager (Programme Management) work on a part-time basis. The Programme Team Leader (Senior Manager) also takes up the work of the Senior Manager (Promotion, Application Handling and Programme Administration).

Examples of completed OSP projects

Project	Project title
1	Hong Kong Logistics Practitioners Upgrading and Branding Program
2	Synergising Hong Kong ICT Hub with Mainland Businesses
3	“Quality Appliances — Hong Kong Appliances” — Building up the image of good quality and safe Hong Kong electrical appliances through a series of promotion activities
4	To establish a distinctive Hong Kong Manufacturers Pavilion in “Jewelry Shanghai” (May 2013) to showcase the image, quality and creativity of Hong Kong jewelry SMEs
5	To lead Hong Kong printing companies in upgrading to “Hong Kong Printing Modelling Enterprises”
6	To promote Hong Kong Automotive Parts and Accessory System Domestic Sales — Assisting Hong Kong Automotive Parts SMEs to enter the Mainland Automotive Market
7	Study of the Supply Chain of Fast Moving Consumer Goods in Guangdong
8	Exploring Mainland Toy Market for Hong Kong Toy Industry through Design, Upgrade and Branding
9	eCommerce for Domestic Sales Training Programme
10	Hong Kong Fashion SMEs in Mainland Stores

Source: TID records

Examples of completed ESP projects

Project	Project title
1	To expand the domestic sales in Mainland China through restructuring and upgrading the sales management process and setting up of new sales functions
2	Temperature Test System Upgrading
3	Supply Chain Improvement project to improve operation efficiency and 3 years business plan to develop Mainland market
4	Fixed Route Transportation Management System
5	Provide integrated services of product design and manufacturing, specialising in Law Enforcement Equipment and Electronic Accessories/Products
6	Agricultural Perishable Healthy Products Shelf Life Extension
7	Create a brand for ACP-6 entering the China market
8	Development of holistic business plan
9	Project X1 — Restructure Branding and Domestic Sales Development
10	Brand building and sales promotion for Mainland market

Source: HKPC records

Acronyms and abbreviations

AIP	Annual implementation plan
Audit	Audit Commission
BUD Fund	Dedicated Fund on Branding, Upgrading and Domestic Sales
CEDB	Commerce and Economic Development Bureau
COR	Controlling Officer's Report
CPPP	Cleaner Production Partnership Programme
ESP	Enterprise Support Programme
FC	Finance Committee
FSTB	Financial Services and the Treasury Bureau
HKPC	Hong Kong Productivity Council
IDC	Inter-departmental Committee
L1	Level 1
L2	Level 2
L3	Level 3
L8	Level 8
OSP	Organisation Support Programme
PMC	Programme Management Committee
SME	Small and medium enterprise
SPRs	Stores and Procurement Regulations
TID	Trade and Industry Department

CHAPTER 8

**Office of the Government Chief Information Officer
Customs and Excise Department
Department of Health
Environmental Protection Department
Fire Services Department
Highways Department
Leisure and Cultural Services Department
Water Supplies Department**

**Procurement and inventory management of
ICT products and services**

**Audit Commission
Hong Kong
5 April 2016**

This audit review was carried out under a set of guidelines tabled in the Provisional Legislative Council by the Chairman of the Public Accounts Committee on 11 February 1998. The guidelines were agreed between the Public Accounts Committee and the Director of Audit and accepted by the Government of the Hong Kong Special Administrative Region.

Report No. 66 of the Director of Audit contains 8 Chapters which are available on our website at <http://www.aud.gov.hk>

Audit Commission
26th floor, Immigration Tower
7 Gloucester Road
Wan Chai
Hong Kong

Tel : (852) 2829 4210
Fax : (852) 2824 2087
E-mail : enquiry@aud.gov.hk

PROCUREMENT AND INVENTORY MANAGEMENT OF ICT PRODUCTS AND SERVICES

Contents

	Paragraph
EXECUTIVE SUMMARY	
PART 1: INTRODUCTION	1.1
Background	1.2 – 1.17
Audit review	1.18 – 1.20
Acknowledgement	1.21
PART 2: PROCUREMENT OF ICT PRODUCTS AND SERVICES	2.1
Procedures for procuring ICT products and services	2.2 – 2.3
E-Procurement programme	2.4 – 2.14
Audit recommendations	2.15
Response from the Government	2.16
Procurement practices	2.17 – 2.21
Audit recommendations	2.22 – 2.23
Response from the Government	2.24 – 2.27
Performance information and replacement strategy	2.28 – 2.36
Audit recommendations	2.37
Response from the Government	2.38

	Paragraph
PART 3: CONTROL OF ICT INVENTORIES	3.1
Requirements of SPRs on control of ICT inventories	3.2 – 3.3
ICT Inventory control	3.4 – 3.12
Audit recommendations	3.13 – 3.16
Response from the Government	3.17 – 3.21
Computerised inventory control systems	3.22 – 3.23
Audit recommendations	3.24 – 3.28
Response from the Government	3.29 – 3.33
 PART 4: DISPOSAL OF ICT PRODUCTS	 4.1
ICT disposal strategies	4.2 – 4.6
Audit recommendations	4.7 – 4.8
Response from the Government	4.9 – 4.13
Donation of ICT products	4.14 – 4.15
Audit recommendations	4.16 – 4.17
Response from the Government	4.18 – 4.20
Data erasure practices	4.21 – 4.23
Audit recommendations	4.24 – 4.26
Response from the Government	4.27 – 4.31

	Paragraph
PART 5: PROVISION OF APPS	5.1
Overview of government apps	5.2 – 5.6
Review of government apps	5.7 – 5.14
Audit recommendations	5.15 – 5.19
Response from the Government	5.20 – 5.24
Way forward for government apps	5.25 – 5.26
Audit recommendations	5.27
Response from the Government	5.28
Appendices	Page
A : OGCIO: Organisation chart (extract) (31 December 2015)	78
B : Approving authority for expenditure for procuring ICT products and services (up to 31 March 2016)	79 – 80
C : Controls of movements of inventory items under the SPRs	81
D : Procedures for disposal of inventory items under the SPRs	82
E : Acronyms and abbreviations	83

PROCUREMENT AND INVENTORY MANAGEMENT OF ICT PRODUCTS AND SERVICES

Executive Summary

1. The Government leverages on information and communications technology (ICT) to improve the operational efficiency of government bureaux and departments (B/Ds) as well as the quality and cost-effectiveness of public services. The responsibility for overseeing the use of ICT in the Government rests with the Government Chief Information Officer, who heads the Office of the Government Chief Information Officer (OGCIO). In the ten-year period from 2005-06 to 2014-15, the total amount of the Government's ICT expenditure increased by 48.9% from \$2,805 million to \$4,176 million.

2. The Audit Commission (Audit) has recently conducted a review of the Government's procurement and inventory management of ICT products and services. The review also included the provision of mobile applications (apps) by B/Ds. Audit selected: (a) four government departments (i.e. the OGCIO, the Customs and Excise Department (C&ED), the Environmental Protection Department (EPD) and the Highways Department (HyD)) for review of procurement and inventory management of ICT products and services; and (b) another four departments (i.e. the Department of Health, the Fire Services Department, the Leisure and Cultural Services Department and the Water Supplies Department) for review of the provision of apps.

Procurement of ICT products and services

3. *E-Procurement programme.* In December 2013, the full function of e-Procurement, which was developed by the OGCIO, was ready for use by B/Ds to procure stores and non-construction services (including ICT products and services). Up to 31 October 2015, \$80.1 million had been spent for the development and implementation of e-Procurement. Up to late December 2015, however, only 10 of the some 70 B/Ds of the Government had implemented the full function of e-Procurement (paras. 2.4, 2.8 and 2.10).

Executive Summary

4. **Procurement practices.** For each of the four departments (see para. 2(a)), Audit examined 20 procurement cases conducted in the period from 2012-13 to 2014-15. Audit noted that: (a) instead of consolidating purchases to achieve better economies of scale, the C&ED and the EPD divided procurement of \$2.1 million and \$4.6 million respectively into two and six separate purchases; and (b) in a procurement, in order to fulfil the procurement requirements stipulated by the OGCI0 and the Government Logistics Department (GLD) (e.g. the quoted values of trade-in items should not be lower than the approved minimum values), the HyD ended up paying more for the goods it procured (paras. 2.3 and 2.17 to 2.21).

5. **Performance information and replacement strategy.** The OGCI0 publishes on its website the Government's annual expenditure on ICT to demonstrate the extent to which the Government is committed to and making progress on e-Government services. Audit found that there were large discrepancies between the ICT expenditure of some B/Ds included in the expenditure published by the OGCI0 and the actual ICT expenditure of these B/Ds. For example, the HyD's actual ICT expenditure had been understated by \$23.8 million (74%). Audit also noted that of the four departments, only the OGCI0 had planned and replaced its obsolete computers and related software on a continual basis. The OGCI0 could consider issuing guidelines to B/Ds to help them draw up replacement strategies for their ICT products (paras. 2.28, 2.29, 2.35 and 2.36).

Control of ICT inventories

6. **ICT inventory control.** In the period from May to October 2015, Audit conducted a total of 12 stocktakes at selected operational units of the four departments. Audit found that: (a) up to 30 November 2015, 107 (11%) of 1,009 selected ICT inventory items had not been located by the departments concerned. The cost of these missing items amounted to some \$451,000; (b) 32 (30%) of the 107 missing items were embedded with data storage devices (e.g. personal computers), the loss of which could be a breach of security according to the Security Regulations; and (c) the ICT inventory records of the C&ED, the EPD and the HyD were not properly kept. For example, 1,840 items were recorded as being kept by the Departments' Information Technology Management Units, but 1,523 (83%) of them had in fact been traded-in or were kept by other units (paras. 3.4 to 3.6, 3.9 and 3.11).

Executive Summary

7. **Computerised inventory control systems.** Of the four departments, the HyD was the only department that had not computerised its inventory control system. This could be a reason why many of the HyD's inventory items were found missing and a long time (up to six months after Audit's stocktakes) was taken to locate some of the items. Audit reviewed the computerised inventory control systems of the C&ED, the EPD and the OGCI0 and found that there was room for improvement. For example, while the C&ED had a computerised inventory control system, it still largely relied on its manual system for inventory control purposes. Furthermore, there were large discrepancies between the inventory records of the C&ED's computerised inventory control system and those of its manual system (paras. 3.5(c), 3.7 and 3.23).

Disposal of ICT products

8. **ICT disposal strategies.** Keeping ICT products in storage pending disposal is costly because they quickly lose value and unjustifiably occupy valuable office space. A disposal strategy, covering such matters as conducting ageing analysis of ICT inventories and periodic reviews of their condition and serviceability, would help the management dispose of obsolete inventories in a timely and systematic manner, thereby generating higher residual values on disposal. For each of the four departments, Audit examined 20 disposal cases conducted in the period from 2012-13 to 2014-15. Audit found that in general the departments did not have in place ICT disposal strategies to facilitate timely disposal decisions. For example, some obsolete ICT products with a cost of some \$3.8 million could have been disposed of by the OGCI0 in early 2008 were not brought up for disposal until 2015 (paras. 4.5 and 4.6).

9. **Donation of ICT products.** In September 2009, the EPD started a scheme to donate old ICT products for green and charitable purposes. Up to 30 September 2015, the EPD had made 65 donations, involving a total of some 3,600 items of ICT products with a cost of \$10.7 million. Audit noted that: (a) some 1,300 items of unserviceable ICT products should have been sold to the GLD disposal term contractors in accordance with the Stores and Procurement Regulations (SPRs); and (b) all the donations were only made to one non-governmental organisation (paras. 4.14 and 4.15).

Executive Summary

Provision of apps

10. Government apps have been developed at a fast rate. As at 31 August 2015, 127 apps were launched. Audit examined the apps of four departments (see para. 2(b)). Audit found that: (a) the mobile device features of some apps were limited and were virtually duplications of the websites of B/Ds; (b) 15 apps had not been listed on the OGCIO's "GovHK Apps" and the GovHK website, which are centralised platforms for enabling the public to be aware of the availability of government apps; and (c) as at 31 August 2015, of the 31 apps developed for one-off events, 23 had already been decommissioned. The total development cost of the decommissioned apps amounted to some \$2.6 million. The number of downloads of some apps for one-off events had been on the low side (paras. 5.6 to 5.8, 5.13 and 5.14).

Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Government Chief Information Officer should:**

Procurement of ICT products and services

- (a) **identify the reasons why the majority of B/Ds had not implemented the full function of e-Procurement and take measures to attract more B/Ds to implement the full function (para. 2.15(a) and (b));**
- (b) **in collaboration with the Director of Government Logistics:**
 - (i) **remind B/Ds periodically the need to comply with the procurement requirements (para. 2.23(a)); and**
 - (ii) **conduct a review of the procurement requirements to ascertain whether certain requirements (e.g. the "minimum trade-in value requirement") need to be revised to provide more flexibility in conducting procurements (para. 2.23(b));**

Executive Summary

- (c) take measures to enhance the accuracy of the Government's ICT expenditure reported on the OGCIO's website (para. 2.37(a));
- (d) consider issuing guidelines to B/Ds to facilitate their drawing up of replacement strategies for ICT products (para. 2.37(c));

Provision of apps

- (e) take measures to ensure the completeness of government apps listed on "GovHK Apps" and the GovHK website as far as possible (para. 5.19(a));
- (f) promulgate the criteria for justifying the development of apps for one-off events (para. 5.19(b)); and
- (g) in the light of the audit recommendations, promulgate guidelines on the provision of government apps (para. 5.27(a)).

12. **Audit has also recommended that:**

Procurement of ICT products and services

- (a) the Commissioner of Customs and Excise and the Director of Environmental Protection should take measures to ensure that in procuring ICT products and services, the procurement requirements are observed (para. 2.22);

Control of ICT inventories

- (b) the Commissioner of Customs and Excise, the Director of Environmental Protection, the Director of Highways and the Government Chief Information Officer should:
 - (i) for those ICT inventory items which could not be located, institute the procedures (e.g. write-off) stipulated in the Financial Circular No. 7/2003 and SPRs (para. 3.13(b)); and

Executive Summary

- (ii) **for those lost ICT inventory items which have embedded data storage devices, take remedial measures as stipulated in the Security Regulations (para. 3.13(c));**

- (c) **the Commissioner of Customs and Excise, the Director of Environmental Protection and the Director of Highways should take measures to ensure that the inventory records are properly kept and updated (para. 3.14);**

- (d) **the Director of Highways should establish a computerised inventory control system to improve the management of the HyD's inventories (para. 3.24);**

- (e) **the Commissioner of Customs and Excise, the Director of Environmental Protection and the Government Chief Information Officer should enhance their computerised inventory control systems (paras. 3.25 to 3.27);**

- (f) **the Director of Government Logistics should:**
 - (i) **take measures to regularly remind B/Ds of the need to maintain inventory records up-to-date (para. 3.16); and**

 - (ii) **promote the use of computerised inventory control system by B/Ds for more timely recording and better control of inventories (para. 3.28(b));**

Disposal of ICT products

- (g) **the Commissioner of Customs and Excise, the Director of Environmental Protection, the Director of Highways and the Government Chief Information Officer should conduct a review of their ICT inventories to identify inventory items that are due for disposal, and dispose of the obsolete inventory items in a timely and systematic manner (para. 4.7(a) and (b));**

Executive Summary

- (h) **the Director of Environmental Protection should:**
 - (i) **take measures to ensure compliance with the SPRs in future donations of ICT products (para. 4.16(a)); and**
 - (ii) **explore whether there are other non-governmental organisations in need of donations of ICT products and consider donating ICT products to them in future donations (para. 4.16(b));**
- (i) **the Director of Government Logistics should:**
 - (i) **promote the formulation of ICT disposal strategies by B/Ds (para. 4.8(a)); and**
 - (ii) **in consultation with the Secretary for Financial Services and the Treasury, explore the possibility of improving the procedures stipulated in the SPRs to facilitate the donation of ICT products (para. 4.17); and**

Provision of apps

- (j) **the Director of Fire Services, the Director of Health, the Director of Leisure and Cultural Services and the Director of Water Supplies should:**
 - (i) **regularly review the contents of their apps to ascertain whether the contents could be enhanced to attract more people to use the apps (para. 5.15(a)); and**
 - (ii) **consider decommissioning those apps that eventually could not meet the original objectives of developing them (para. 5.15(d)).**

Response from the Government

13. The Government agrees with the audit recommendations.

PART 1: INTRODUCTION

1.1 This PART describes the background to the audit and outlines the audit objectives and scope.

Background

Government's objectives on information and communications technology

1.2 The Government defines information and communications technology (ICT) as all technologies and applications that involve information processing and/or exchange over communication network(s), including the Internet. ICT is often used as an extended synonym for IT (information technology).

1.3 The Government leverages on ICT to improve the operational efficiency of government bureaux and departments (B/Ds) as well as the quality and cost-effectiveness of public services. The Government encourages and expands the use of ICT in government offices subject to the availability of resources.

1.4 The responsibility for overseeing the use of ICT in the Government rests with the Government Chief Information Officer, who heads the Office of the Government Chief Information Officer (OGCIO) established in July 2004. According to the OGCIO, it provides leadership in driving forward ICT proactively within the Government, adopting new technologies, influencing business processes, and accounting for the Government's investment in ICT and related programmes, in terms of cost-benefit, efficiency and services, and impact on the community. It also provides a single focal point with responsibility for ICT policies, strategies, programmes and measures, in addition to providing common ICT services and support in the Government.

1.5 As at 31 December 2015, the OGCIO had a staff establishment of 630. Its estimated expenditure for 2015-16 amounted to \$719 million. An extract of the organisation chart of the OGCIO is shown at Appendix A.

Introduction

Procurement of ICT products and services

1.6 To meet its objectives on ICT (see para. 1.3), the Government frequently procures ICT products and services for establishing new computer systems or replacing old ones. Government computer systems are classified into two types:

- (a) *administrative computer systems.* These systems provide decision-making support to management and assist in performing administrative and operational duties (e.g. the Case Processing System of the Customs and Excise Department — C&ED, and computer systems used for email communication, word processing, data processing and analysis, presentations, etc.); and
- (b) *non-administrative computer systems.* These systems support professional disciplines in performing technical tasks (e.g. the communication facilities of the radiation monitoring network of the Hong Kong Observatory).

1.7 ICT products and services include the following:

- (a) products such as servers, desktop computers, notebook computers, tablet computers, computer accessories, printers, scanners, fax servers, webcams, smartphones and software;
- (b) services such as pre-implementation and project management services, system maintenance and support, system implementation and system integration, and security risk assessment services; and
- (c) services for the development of mobile applications, which are commonly referred to as mobile apps (hereinafter referred to as apps). Apps are computer programs designed to run on mobile devices such as smartphones and tablet computers. They are downloadable from application distribution platforms, which are typically operated by owners of mobile operating systems, to target devices for execution.

1.8 According to the OGCIIO, it considers the amount of expenditure spent on ICT as a measure to demonstrate the extent to which the Government is committed to and making progress on e-Government (Note 1) services. The OGCIIO publishes on its website the Government's annual expenditure on ICT. A breakdown of the 2014-15 ICT expenditure of \$4,176 million is shown in Table 1.

Note 1: *E-Government involves the use of ICT to improve the activities of the Government.*

Table 1
Government ICT expenditure
(2014-15)

Expenditure	No. of projects involved	Amount (\$ million)
<i>Procurement of ICT products and services by B/Ds</i>		
General Revenue Account (GRA): Recurrent Account	N.A.	646
GRA: Capital Account	14	35
Capital Works Reserve Fund (CWRF) Head 710: Computerisation (Subhead A007GX — block allocation)	597	905
CWRF Head 710: Computerisation (other Subheads)	42	639
CWRF Head 708: Capital Subventions and Major Systems and Equipment	51	194 (Note 1)
Sub-total		2,419
<i>Others</i>		
Costs of OGCIO's staff posted to other B/Ds (Note 2)	N.A.	668
OGCIO's departmental expenses (Note 3)	N.A.	780
ICT expenditure of trading funds (Note 4)	N.A.	309
Total		4,176

Source: Audit analysis of OGCIO records

Note 1: The expenditure of \$194 million represented 3.4% of the total expenditure of \$5,648 million under CWRF Head 708 for 2014-15.

Note 2: The expenditure was the costs of the OGCIO's departmental grade staff posted to the Information Technology Management Units (ITMUs) of B/Ds on project basis or other initiatives.

Note 3: The expenditure included the OGCIO's operating expenses and staff on-cost (e.g. medical benefits and housing benefits).

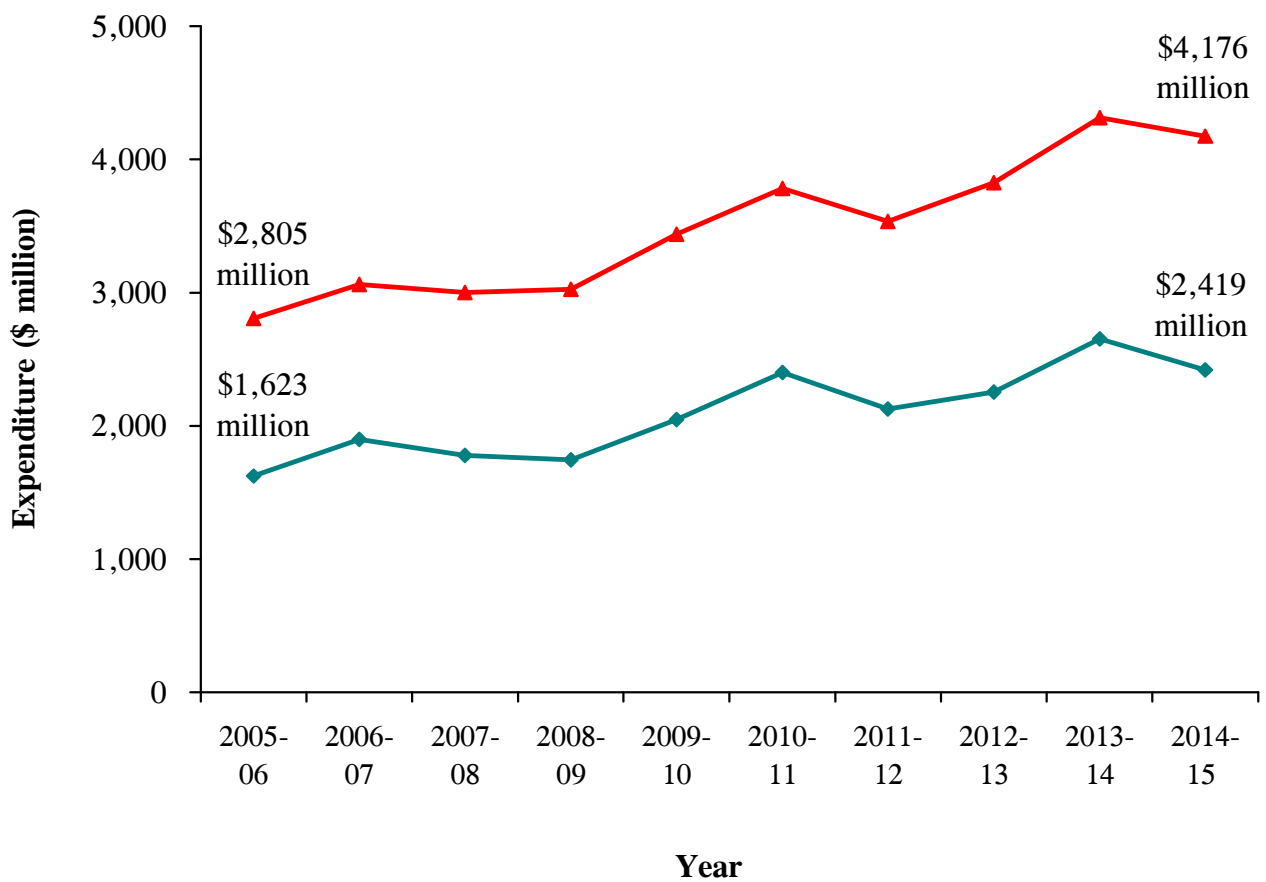
Note 4: The expenditure was the ICT expenditure of five trading funds, namely the Companies Registry Trading Fund, the Electrical and Mechanical Services Trading Fund, the Land Registry Trading Fund, the Office of the Communications Authority Trading Fund and the Post Office Trading Fund. The OGCIO obtained annually from the trading funds their expenditure incurred on ICT. Prior to their establishment, the trading funds were government departments. The OGCIO therefore included their ICT expenditure in the Government's ICT expenditure.

Introduction

1.9 In the ten-year period from 2005-06 to 2014-15, the total amount of the Government's ICT expenditure increased by 48.9% from \$2,805 million to \$4,176 million while the amount spent on procurement of ICT products and services by B/Ds increased by 49% from \$1,623 million to \$2,419 million (see Figure 1).

Figure 1

**Government ICT expenditure
(2005-06 to 2014-15)**



Legend: ▲ Total amount of Government ICT expenditure
◆ Amount spent on procurement of ICT products and services by B/Ds

Source: OGCIO records

1.10 The authority for approving expenditure for procuring ICT products and services by B/Ds is shown at Appendix B. In procuring ICT products and services, B/Ds are required to observe the Stores and Procurement Regulations (SPRs) prescribed by the FSTB, relevant circulars and the procurement guidelines promulgated by the OGCIO and the Government Logistics Department (GLD). The GLD also advises B/Ds about the good practices on procurement activities and management of stores. More information on these guidelines and regulations is given in PART 2 of this Audit Report.

Control of ICT inventories

1.11 Given the substantial amount of ICT expenditure that has been spent by the Government, the ICT inventories held by B/Ds are of significant value. It is important for B/Ds to have proper inventory controls to minimise the risk of loss. To this effect, the SPRs set out regulations relating to inventory control. More information on the inventory control is given in PART 3.

Disposal of ICT products

1.12 Due to obsolescence or damages, every item of ICT products procured will ultimately require disposal. There is no precise information on the total number of ICT products currently in use in the Government (Note 2), or the associated waste generated. It could, however, be a significant volume and will grow in the future due to the rapid changes in technology.

Note 2: *According to the accrual-based consolidated financial statements of the Government for the year ended 31 March 2015, the cost and net book value of computer assets were \$15.8 billion and \$3.6 billion respectively. In accordance with the Accrual Accounting Policies and Guidelines issued by the Treasury, computer assets are only recognised as fixed assets in the financial statements if:*

- (a) they are computer hardware, software, licences and systems; and*
- (b) the cost of an asset is not less than \$150,000.*

This capitalisation threshold is intended to reduce the costs and efforts involved in identifying and valuing a large number of fixed assets of relatively small values.

Introduction

1.13 ICT products can be disposed of efficiently at the end of their useful lives as they can potentially be refurbished and redeployed, re-sold or donated to charity. Keeping aged ICT products in storage is costly because they rapidly lose value and failure rates increase when components are kept inactive in storage. Disposal of ICT products also involve the issue of data erasure to reduce security risk. The SPRs set out how ICT products should be disposed of while the Government's Security Regulations (SRs) set out how the information stored in computer systems should be destroyed. More information on the SPRs and the SRs are given in PART 4.

Provision of apps

1.14 According to the OGCIO, it has become increasingly prevalent for the public to access information and use services through mobile devices. A survey conducted by the Census and Statistics Department in 2014 indicated that about 77% of Hong Kong people were using smart devices (e.g. smartphones and tablet computers). According to the Office of the Communications Authority, as of October 2015, Hong Kong's mobile subscriber penetration rate (number of mobile telephone subscribers divided by the population) was 226.6%.

1.15 The Government has launched apps to provide information and services to the public. The first government app, "MyObservatory", was launched in 2010. In August 2012, the OGCIO launched the "GovHK Apps" as a centralised platform to let the public search and download apps conveniently and securely.

1.16 As at 31 August 2015, there were 127 apps launched by 36 B/Ds (Note 3). Most of these apps were developed by contractors (Note 4). The cumulative amount of development cost of apps was some \$38 million while the maintenance cost for 2014-15 was some \$3.7 million.

Note 3: *The 127 apps excluded apps that had been decommissioned (e.g. apps for one-off events).*

Note 4: *As at 31 August 2015, of the 127 apps launched by B/Ds, 94 (74%) were developed by contractors and the remaining 33 (26%) were mainly developed by B/Ds in-house or in collaboration with the OGCIO.*

1.17 The OGCIO has promulgated guidelines for B/Ds to follow in their development of apps. More information on the guidelines is given in PART 5.

Audit review

1.18 In May 2015, the Audit Commission (Audit) commenced a review of the Government's procurement and inventory management of ICT products and services, which are mainly used for administrative computer systems (see para. 1.6). This audit review did not cover expenditure charged to CWRP Head 708: Capital Subventions and Major Systems and Equipment (See Table 1 in para. 1.8). CWRP Head 708 is the expenditure head for charging expenditure for capital subventions and non-administrative computer systems (see para. 1.6). Selected non-administrative computer systems had been examined in past audits (Note 5).

1.19 This audit has focused on the following areas:

- (a) procurement of ICT products and services (PART 2);
- (b) control of ICT inventories (PART 3);
- (c) disposal of ICT products (PART 4); and
- (d) provision of apps (PART 5).

Audit has found room for improvement in the above areas and has made a number of recommendations to address the issues.

Note 5: *In the past years, Audit conducted a number of reviews covering systems developed under Head 708, for example, the speed enforcement camera system of the Transport Department (Chapter 2 of the Director of Audit's Report No. 60 issued in March 2013) and the air traffic control system of the Civil Aviation Department (Chapter 4 of the Director of Audit's Report No. 63 issued in October 2014).*

Introduction

1.20 This audit review covered eight government departments (Note 6) (see Tables 2 and 3).

Table 2
ICT expenditure of four government departments
covered in this review
(2014-15)

Department	ICT expenditure (Note) (\$ million)
OGCIO	883
C&ED	159
Environmental Protection Department (EPD)	41
Highways Department (HyD)	8

Source: OGCIO records

Note : The amounts mainly included the ICT expenditure charged by the departments to GRA and CWRP Head 710: Computerisation.

Note 6: *Audit selected four departments (see Table 2) for review of the audit areas mentioned in paragraph 1.19(a) to (c). These departments incurred ICT expenditure ranging from small to large amounts in 2014-15. Audit selected another four departments (see Table 3) for review of the audit area mentioned in paragraph 1.19(d). These departments developed large, medium and small number of apps as at 31 August 2015.*

Table 3

**No. of apps launched by four government departments
covered in this review
(31 August 2015)**

Department	No. of apps
Leisure and Cultural Services Department (LCSD)	18
Department of Health (DH)	10
Fire Services Department (FSD)	3
Water Supplies Department (WSD)	1

Source: OGCIIO records

Acknowledgement

1.21 Audit would like to acknowledge with gratitude the full cooperation of the staff of the OGCIIO and the seven other government departments covered in this audit review.

PART 2: PROCUREMENT OF ICT PRODUCTS AND SERVICES

2.1 This PART examines the procurement of ICT products and services, focusing on the following issues:

- (a) e-Procurement programme (paras. 2.4 to 2.16);
- (b) procurement practices (paras. 2.17 to 2.27); and
- (c) performance information and replacement strategy (paras. 2.28 to 2.38).

Procedures for procuring ICT products and services

2.2 Achieving best value for money and maintaining open and fair competition are the twin policy objectives for government procurement. As mentioned in paragraph 1.6, the Government frequently procures ICT products and services. The SPRs have stipulated the procedures and requirements for procuring stores and services (including ICT products and services) by B/Ds. Under the SPRs, B/Ds are required to seek quotations for procurement with an estimated value of over \$5,000 but not more than \$1.43 million, which is a requirement set by the FSTB in reference to the Agreement on Government Procurement of the World Trade Organization. For a procurement with an estimated value of over \$1.43 million, B/Ds should conduct open tendering. For those with an estimated value of more than \$5 million, open tender should be conducted by the GLD.

2.3 In 2000, to facilitate B/Ds' frequent procurement of ICT products and services, the OGCIO introduced the Standing Offer Agreement (SOA) as an alternative means of procurement. The OGCIO and the GLD arrange open tenders periodically to shortlist suppliers that can provide ICT products and services to the OGCIO's specifications (Note 7). Shortlisted suppliers are placed on six SOAs for supplying six different types of ICT products and services:

Note 7: *The GLD arranges open tenders on behalf of the OGCIO for ICT products and services listed in paragraph 2.3(a), (b) and (c). The OGCIO arranges open tenders for ICT products and services listed in paragraph 2.3(d), (e) and (f).*

Procurement of ICT products and services

- (a) personal computer products;
- (b) network products and server systems;
- (c) mobile workplace services (e.g. purchase of mobile handheld devices and mobile service plans);
- (d) ICT professional services (e.g. system implementation, maintenance and support, infrastructure and network planning, and security risk assessment);
- (e) data centre services (e.g. server management and support services, database administration and management services, and disaster recovery services); and
- (f) engagement of contract staff services.

Instead of sourcing suitable suppliers by B/Ds themselves, in conducting procurement through SOAs, B/Ds only need to obtain bids from the suppliers placed on the SOA of the respective type of ICT products or services. For procuring through SOAs, the financial limits for obtaining bids are:

- \$1.43 million for procuring personal computer products, network products and server systems, mobile workplace services, or engagement of contract staff services;
- \$10 million for procuring ICT professional services; and
- no stated financial limit for procuring data centre services.

For procurement that exceeds the financial limits of the SOAs, B/Ds should conduct open tendering in accordance with the SPRs. The GLD and the OGCI O have set requirements on procurement for different types of ICT products and services through SOAs (Note 8).

Note 8: *The GLD and the OGCI O have jointly set procurement requirements for ICT products and services listed in paragraph 2.3(a), (b) and (c). The OGCI O has set such requirements for ICT products and services listed in paragraph 2.3(d), (e) and (f).*

E-Procurement programme

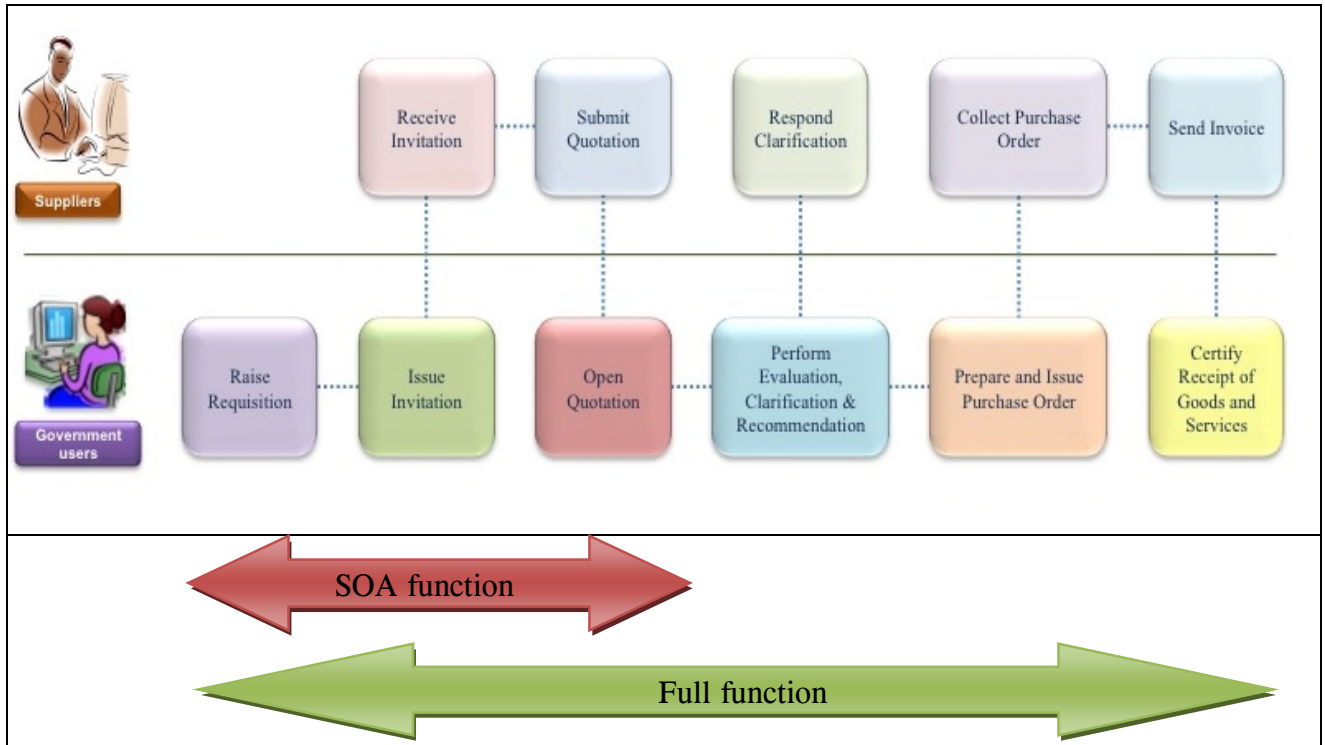
2.4 In January 2007, in view of the fact that more than 99% procurement of stores and non-construction services (including ICT products and services) were high-volume-low-value purchases, the OGCIO sought and the FC of LegCo approved a funding of \$49.2 million for the implementation of a pilot e-Procurement programme to enable B/Ds to procure stores and non-construction services with a value of not more than \$1.3 million (\$1.43 million effective from 1 February 2009). E-Procurement was expected to benefit both the Government and the suppliers:

- (a) for the Government, the benefits included improving efficiency and effectiveness by reducing the procurement cycle time, improving quality and accessibility of procurement information, reducing human errors and enhancing traceability, reducing transaction cost, and reducing purchase prices through consolidating and aggregating purchases across B/Ds; and
- (b) for the suppliers, the benefits included communicating with the Government more effectively and efficiently by reducing the turnaround time of correspondences and enhancing accessibility to government procurement information, expanding suppliers' business opportunities with the Government by updating their product catalogues to the e-Procurement portal, and migrating suppliers to the electronic means of doing business, thereby enhancing their capability in e-commerce.

2.5 Figure 2 shows the functions of e-Procurement.

Figure 2

Functions of e-Procurement



Source: OGCIO records

2.6 In the 2007 FC paper for seeking funding approval (see para. 2.4), the OGCIO stated that the pilot programme (for implementing and running the full function of e-Procurement — see Figure 2 above) would be rolled out between January 2008 and June 2009. This would be followed by a review of the programme by the OGCIO between December 2009 and April 2010. The pilot programme was subsequently rolled out to three departments, namely the OGCIO, the EPD, and the Immigration Department in March 2010, January 2011 and February 2011 respectively, while the review was completed in February 2012. In the review report, the OGCIO concluded that the expected benefits were achieved and recommended a wider rollout of the programme to other B/Ds.

Procurement of ICT products and services

2.7 In April 2012, the OGCI0 reported to LegCo Panel on Information Technology and Broadcasting that with suitable enhancement to the system, acquisition and installation of hardware and software, and training to users, e-Procurement would be made available for use by all B/Ds by the end of 2013. The OGCI0 also stated that e-Procurement would be available for B/Ds in the form of a new shared service riding on the Government Cloud Computing Platform (Note 9).

2.8 In May 2012, the OGCI0 sought and the ACPC (see Note 2 in Appendix B) approved a funding of \$9.9 million for the provisioning of e-Procurement on the Government Cloud Computing Platform. In December 2013, e-Procurement was ready for use by B/Ds. Up to 31 October 2015, \$80.1 million had been spent on e-Procurement comprising:

- (a) \$49.2 million for the e-Procurement pilot programme;
- (b) \$9.9 million for the provisioning of e-Procurement on the Government Cloud Computing Platform; and
- (c) \$21 million for other expenditure such as development of add-ons in e-Procurement. The expenditure was borne by CWRF Head 710: Computerisation.

Note 9: *Under the Government Cloud Computing Platform, computing resources such as computer servers and data storage can be pooled together for shared use by B/Ds. Separate FC funding approval had been sought for the establishment of the Platform.*

Slow full roll-out of e-Procurement

2.9 According to a survey conducted by the OGCI0 in July 2010, 50 (71%) of some 70 B/Ds (Note 10) agreed that there was opportunity to implement e-Procurement. Of these 50 B/Ds, 30 indicated an expected timeframe of between “anytime” and 2015-16 for its implementation (see Table 4). In June 2012, in seeking the FC’s funding approval (see Note 9 in para. 2.7), the OGCI0 stated that some 30 B/Ds would implement e-Procurement by 2017-18.

Table 4

**Timeframe for implementation of e-Procurement by 30 B/Ds
based on OGCI0’s 2010 survey**

Timeframe	No. of B/Ds
“Anytime”	5
2011-12	5
2012-13	13
2013-14	5
2014-15	1
2015-16	1
Total	30

Source: OGCI0 records

2.10 While e-Procurement was available for use by B/Ds in December 2013, up to late December 2015, of the some 70 B/Ds of the Government:

- (a) 10 B/Ds (vis-a-vis the target of 30 B/Ds by 2017-18 — see para. 2.9) had implemented the full function of e-Procurement (see Figure 2 in para. 2.5). These B/Ds comprised (i) the Auxiliary Medical Service, the Civil Service Bureau (Joint Secretariat for the Advisory Bodies on Civil Service and Judicial Salaries and Conditions of Service only), the FSTB (the Treasury Branch only), the GLD, the Independent Commission Against Corruption, the Official Receiver’s Office, and the Working Family and Student Financial Assistance Agency (the Working Family Allowance Office only),

Note 10: *Some non-B/Ds (e.g. the Office of the Communications Authority) were also treated as B/Ds in the OGCI0’s survey.*

Procurement of ICT products and services

which implemented e-Procurement between April 2014 and November 2015; and (ii) the EPD, the Immigration Department and the OGCIO, which joined the pilot programme and implemented e-Procurement between March 2010 and February 2011 (see para. 2.6);

- (b) 2 B/Ds had not implemented any functions of e-Procurement. According to the OGCIO, one department (the Hong Kong Police Force) had its own information systems to handle procurement activities and therefore interfacing them with e-Procurement was not considered desirable. The other department (the Housing Department) would not adopt e-Procurement because it had its own departmental procurement contracts (and therefore would not use SOAs for procurement); and
- (c) the remaining B/Ds had put into use a partial function of e-Procurement (i.e. the SOA function only — see Figure 2 in para. 2.5).

2.11 B/Ds that have implemented the full function of e-Procurement are required to make financial contributions to sustain the operation and management of e-Procurement. According to the OGCIO, as e-Procurement is a shared service (see para. 2.7), B/Ds have to share the recurrent cost of running e-Procurement, which includes, for example, costs for maintaining hardware and software, and helpdesk support service. Table 5 shows the contributions payable by B/Ds.

Table 5
Contributions to e-Procurement payable by B/Ds
(July 2015)

Size of B/Ds	No. of annual purchases	Annual contribution (\$)
Large	More than 6,000	500,000
Medium	From 2,501 to 6,000	220,000
Small	From 501 to 2,500	120,000
Casual	Less than 501	28,000

Source: OGCIO records

Remarks: B/Ds are not required to contribute to e-Procurement if they only use the SOA function.

Procurement of ICT products and services

2.12 Furthermore, according to the OGCIO, if the amount collected from B/Ds is insufficient to cover the cost of running e-Procurement, additional funding might need to be sought from the ACPC or the deficiency might need to be covered by the OGCIO's departmental expenses. It is therefore important that there is sufficient number of B/Ds to participate in e-Procurement to minimise the amount of possible deficit incurred by the e-Procurement programme. Audit found that the total annual contributions collected from B/Ds were some \$162,000 and \$172,000 in 2014-15 and 2015-16 (up to December 2015) respectively. On the other hand, the cost of running e-Procurement was some \$1.2 million and \$1.3 million in 2014-15 and 2015-16 (up to December 2015) respectively. The shortfalls of some \$1.04 million and \$1.13 million had been borne by the OGCIO.

2.13 According to the OGCIO, although the full functionality of e-Procurement provides better management and improved efficiency of procurement process as well as better accessibility and traceability of procurement records, B/Ds are reluctant to accord it with high priority when competing with their core business for funding. However, the FSTB informed Audit in March 2016 that:

- (a) under prevailing funding mechanism for capital non-work projects, relevant Controlling Officers are required to absorb all recurrent consequences of the computerisation projects within existing resources. As for common shared e-Procurement system, the participating B/Ds accordingly should share the recurrent cost of running the system; and
- (b) the annual recurrent contribution for B/Ds ranges from \$28,000 to \$500,000 depending on the size of annual purchases. Given the amount involved only takes up a small percentage of the total recurrent operational allocation of B/Ds, the FSTB considers that tight recurrent resources is unlikely to be the major reason underlying B/D's slow roll-out of the full function of e-Procurement. Taking the cases of the C&ED and the HyD as examples, the annual contribution of \$500,000 only represents 0.08% and 0.18% of their respective total departmental expenses allocation in 2016-17, it also falls short of their respective underspending of \$18.5 million and \$5.0 million in 2014-15.

Procurement of ICT products and services

2.14 Audit also found that the C&ED and the HyD had not implemented the full function of e-Procurement because:

- (a) they had concern on the annual contribution payable;
- (b) additional resources (e.g. regular training and helpdesk service to be provided to users) would be required to handle e-Procurement transactions; and
- (c) as not all suppliers or service providers had joined e-Procurement, both manual and electronic procurement processes would need to be undertaken.

Audit recommendations

2.15 **Audit has *recommended* that the Government Chief Information Officer should:**

- (a) **identify the reasons why the majority of B/Ds had not implemented the full function of e-Procurement; and**
- (b) **based on the reasons identified, take measures to attract more B/Ds to implement the full function of e-Procurement.**

Response from the Government

2.16 The Government Chief Information Officer agrees with the audit recommendations.

Procurement practices

2.17 For each of the four government departments covered in this review (see Table 2 in para. 1.20), Audit examined 20 procurement cases conducted in the period from 2012-13 to 2014-15. Audit found that there were shortcomings in some departments' procurement practices, which are detailed in paragraphs 2.18 to 2.21.

Dividing procurement requirements into instalments

2.18 According to the SOA, quotations are required to be sought for purchase of ICT products with an estimated value of over \$5,000 but not more than \$1.43 million. For purchase with an estimated value of over \$1.43 million, B/Ds should arrange open tender. B/Ds should also observe the following principles and requirements as stipulated in the SPRs:

“The financial limits set out in these Regulations refer to the total value of stores or services of a similar nature or total value of revenue which, in normal practice, are obtained or generated in a single purchase or contract. Controlling Officers should ensure that public officers responsible for procurement matters interpret these limits strictly, and that they do not evade the limits by dividing procurement requirements into instalments In making procurement, Controlling Officers should consolidate requirements of stores and services of similar nature as far as possible to achieve better economies of scale.” (Audit’s underlining)

Procurement of ICT products and services

2.19 Audit found that the C&ED and the EPD had not followed the above principles and requirements in conducting procurement in Cases 1 and 2.

Case 1

C&ED's procurement of workstations

On 5 November 2013, the ITMU of the C&ED requested the Supplies Section of the department to arrange procurement of workstations and other related accessories and software. These ICT products were the same or similar and their aggregated price was \$2.1 million (i.e. above \$1.43 million), which would have required open tendering. Both the ITMU and the Supplies Section had not combined the purchases but procured the products in two separate purchases (see Table below).

Order	Example of products included in purchase	Amount (\$)	Date of delivery of products
1	116 workstations with Intel Core i5-3470 or better processor	848,438	5 March 2014
2	280 workstations with Intel Core i5-3470 or better processor	1,253,280	12 March 2014
Total		2,101,718	

Source: C&ED records

Procurement of ICT products and services

Case 2

EPD's upgrade of ICT products

1. In September 2013, given that Windows XP and Office 2003 would not be supported by the vendor effective from early April 2014, the OGCIO urged B/Ds to upgrade the operating system and software to newer versions.

2. Among the four government departments visited by Audit, the EPD had arranged the procurement for the upgrades by conducting six separate procurements through seeking quotations. Details are shown below.

Department	ICT products procured	Date of procurement	Total amount (\$ million)
EPD	1. 155 Windows 7 Professional licence and 550 Microsoft Office 2013 Standard	21.10.2013	1.2
	2. 300 Intel Core i5 desktop computers with Windows 7 Professional	21.10.2013	1.1
	3. 198 Intel Core i3 desktop computers with Windows 7 Professional	22.10.2013	0.7
	4. 95 Intel Core i5 notebook computers with Windows 7 Professional	22.10.2013	0.6
	5. 162 Intel Core i7 desktop computers with Windows 7 Professional	28.10.2013	0.7
	6. 70 Intel Core i5 desktop computers with Windows 7 Professional	3.12.2013	0.3
		(through seeking quotations)	<u>4.6</u>
C&ED	1,850 Microsoft Office 2013 Standard	1.11.2013 (through inviting tenders)	3.4
HyD	1. 475 Intel Core i3 desktop computers with Windows 7	1.11.2013 (through inviting tenders)	3.0
	2. 356 Microsoft Office 2013 Standard		
	3. 161 Microsoft Office 2013 Professional		

3. In February 2016, the EPD informed Audit that with the exception of Procurement 2 and 6, the remaining four procurements were for different items. Furthermore, Procurement 2 and 6 were conducted on 21 October 2013 and 3 December 2013 respectively, and the sum of the procurement values was less than \$1.43 million. Open tendering was therefore not required.

Case 2 (Cont'd)

4. Notwithstanding the EPD's views, Audit noted that, according to the SPRs, B/Ds should consolidate procurement requirements of stores and services of similar nature as far as possible (see para. 2.18). As shown in the Table above, the EPD's purchases were for similar products and were conducted within a short span of time (except for Procurement 6). The EPD could have combined the purchases. In fact, as can be seen in the Table, the HyD had combined its purchases for hardware and software (regarded as different items by the EPD) in one procurement only.

Source: Records of C&ED, EPD, HyD and OGCIO

Remarks: The OGCIO planned and replaced its obsolete computers on a continual basis. It therefore did not need to conduct an upgrade exercise all in one go.

SOA requirements need to be reviewed

2.20 Under the SOA requirements, for procurement of personal computer products, network products and server systems, B/Ds should accept the lowest conforming offer, unless otherwise justified. They should also ensure that:

- (a) the products to be supplied by suppliers are those that have been approved by the GLD for inclusion in the product lists of the SOAs (Note 11(a)); and
- (b) the quoted prices of products do not exceed the maximum prices shown on the product lists, and the quoted values of trade-in items are not lower than the minimum values shown on the product lists (Note 11(b)).

Note 11: *According to the GLD:*

- (a) *the product list requirement serves as a control mechanism to ensure that every new product or service item proposed by contractors is assessed by the OGCIO to determine that it is within the scope of the relevant SOA and meets the minimum technical requirements; and*
- (b) *the purpose of minimum trade-in price serves to protect the Government's interest by ensuring a minimum scrap value of items for trade-in.*

Procurement of ICT products and services

2.21 Audit noted that in a procurement made in 2014, in order to fulfil the SOA requirements stated in paragraph 2.20, the HyD ended up paying more for the goods it procured (see Case 3).

Case 3

Lower offers not accepted by HyD

1. In April 2014, the HyD invited quotations for five new servers (together with four-year maintenance) and trade-in of five old servers. In May 2014, seven quotations were received. The HyD accepted a quotation which was higher than two other quotations (see Table below):

	Contractor A	Contractor B	Successful bidder
Price of new servers and maintenance (a)	\$175,000	\$206,530	\$224,250
Trade-in price of old servers (b)	\$50	\$5	\$2,500
Net price (c)=(a) - (b)	\$174,950 (\$46,800 lower than that of the successful bidder)	\$206,525 (\$15,225 lower than that of the successful bidder)	\$221,750

2. The HyD did not accept the quotations of Contractors A and B because:

- (a) Contractor A offered free upgraded products, which were not included in the product list; and
- (b) Contractor B's trade-in price was lower than the minimum value shown on the product list.

Source: Audit analysis of HyD records

Audit recommendations

2.22 Audit has *recommended* that the Commissioner of Customs and Excise and the Director of Environmental Protection should take measures to ensure that in procuring ICT products and services, the SOA requirements are observed.

Procurement of ICT products and services

2.23 **Audit has *recommended* that the Government Chief Information Officer, in collaboration with the Director of Government Logistics, should:**

- (a) remind B/Ds periodically the need to comply with the SOA requirements; and**

- (b) conduct a review of the SOA requirements to ascertain whether certain requirements (e.g. the “product list requirement” and the “minimum trade-in value requirement” — see para. 2.20) need to be revised to provide more flexibility in conducting procurements.**

Response from the Government

2.24 The Commissioner of Customs and Excise agrees with the audit recommendation in paragraph 2.22. He has said that the C&ED will consolidate procurement of ICT products and services of similar nature, and all relevant personnel have been reminded to observe the SOA requirements.

2.25 The Director of Environmental Protection agrees with the audit recommendation in paragraph 2.22.

2.26 The Government Chief Information Officer agrees with the audit recommendations in paragraph 2.23.

2.27 The Director of Government Logistics accepts the audit recommendations in paragraph 2.23. She has said that the GLD will work with the OGCIO accordingly.

Performance information and replacement strategy

Inaccurate disclosure of government ICT expenditure

2.28 The OGCIO publishes on its website the Government's annual expenditure on ICT to demonstrate the extent to which the Government is committed to and making progress on e-Government services. For 2014-15, the expenditure was \$4,176 million (see para. 1.8).

2.29 Audit sample checked the ICT expenditure published by the OGCIO. Audit found that there were large discrepancies between the ICT expenditure of some B/Ds included in the expenditure published by the OGCIO and the actual ICT expenditure of these B/Ds. Table 6 shows the details of Audit's examination.

Table 6

**Discrepancies between published and actual ICT expenditure of
C&ED, EPD, HyD and OGCIO
(2014-15)**

Department	ICT expenditure of department included in OGCIO's published expenditure (Note 1) (a) (\$'000)	Actual ICT expenditure spent by department (Note 2) (b) (\$'000)	Overstatement/(Understatement)	
			(c) = (a) - (b) (\$'000)	(d) = ((a)/(b) - 1) × 100%
C&ED	159,365	139,387	19,978	14%
EPD	40,891	75,915	(35,024)	(46%)
HyD	8,332	32,171	(23,839)	(74%)
OGCIO	882,900	882,900	0	N.A.

Source: Records of C&ED, EPD, HyD and OGCIO

Note 1: The amounts were extracted from the Government Financial Management Information System by the OGCIO.

Note 2: The amounts of ICT expenditure spent were provided by the departments to Audit.

Procurement of ICT products and services

2.30 Audit noted that the large discrepancies (understatements) as shown in Table 6 were mainly due to the following reasons:

- (a) in computing the Government's ICT expenditure, the OGCIO obtained from the Government Financial Management Information System the ICT expenditure charged by B/Ds to the CWRF, GRA Subhead 117 (recurrent account for expenditure on hardware, software and data processing), and the Non-recurrent/Capital Account of the GRA; and
- (b) B/Ds, in addition to charging ICT expenditure to the CWRF and GRA Subhead 117, had also charged it to other GRA Subheads such as Subhead 100 (expenditure for stores and equipment), Subhead 111 (expenditure for hiring of services and professional fees) and Subhead 121 (expenditure for contract maintenance).

Need to publish performance information

2.31 The OGCIO reported annually:

- (a) the progress on the development of e-Government to LegCo Panel on Information Technology and Broadcasting. It listed out, for example, the new ICT systems implemented by the OGCIO and several other B/Ds, and the progress of implementation of some ICT systems; and
- (b) the total amount of Government's ICT expenditure on its website.

2.32 Audit performed a research on overseas governments' performance information relating to ICT. Audit found that there is performance information used by overseas governments that the OGCIO could compile and publish. Examples are shown in Table 7.

Table 7

Examples of performance information used by overseas governments relating to ICT

Country	Performance information
Australia	<ul style="list-style-type: none"> ● ICT operating and capital expenditure ● ICT expenditure per service tower (e.g. midrange, wide area network, mainframe and computer applications) ● ICT expenditure by cost element (e.g. personnel, hardware and software)
United Kingdom	<p>ICT expenditure on:</p> <ul style="list-style-type: none"> ● hardware (e.g. portable computers, servers and IT consumables) ● software (e.g. application licences and system licences) ● services (e.g. hardware maintenance, software maintenance and IT consultancy) ● communications (e.g. fixed-line, wireless and networking equipment)

Source: Audit's research

Need to enhance replacement strategies

2.33 As mentioned in paragraph 1.4, the OGCIO assumes a leadership role in the use of ICT within the Government. To discharge this role, the OGCIO:

- (a) conducts annual survey to collect information (e.g. types of computers and versions of software) on the use of ICT hardware and software by B/Ds. Information on hardware is collected for performance reporting purposes while information on software is to ascertain whether the software would be supported by software vendors in the near future;
- (b) conducted surveys in 2014 and 2015 to obtain information on major software (e.g. the Java Development Kit and the Oracle Database Server Enterprise) in use by B/Ds in their major ICT systems, that would soon be de-supported by software vendors;

Procurement of ICT products and services

- (c) alerts B/Ds about software support that will soon be discontinued by software vendors and provides support services to facilitate software replacement (e.g. issuing practical guidelines and conducting workshops, and setting up testing environment for the replaced software); and
- (d) issued a circular in October 2014 to remind B/Ds about the best practices in managing the obsolescence of ICT systems. According to the circular, B/Ds who are owners of their ICT systems have the primary responsibility to manage the obsolescence of their ICT systems in operation. They should have a good grasp of the inventories of their ICT systems and plan for upgrade/replacement on a regular basis.

2.34 Audit noted that the four departments covered in this review had regularly conducted procurement to trade-in their old ICT inventory items and replace them with new ones (see Table 8).

Table 8
Number of ICT inventory items traded-in by
C&ED, EPD, HyD and OGCIO
(2012-13 to 2014-15)

Department	2012-13	2013-14	2014-15
C&ED	218	719	865
EPD (Note)	73	171	177
HyD	975	1,490	557
OGCIO	713	724	262
Total	1,979	3,104	1,861

Source: Audit analysis of C&ED, EPD, HyD and OGCIO records

Note: Instead of trading-in, the EPD donated most of its old ICT products (see para. 4.14 for details).

2.35 As shown in Case 2 in paragraph 2.19, of the four departments, only the OGCIIO had planned and replaced its obsolete computers and related software on a continual basis while the other three departments only replaced their old computers and software upon receiving reminders from the OGCIIO. The work efficiency of these departments could have been enhanced if the old computers and software were progressively replaced. Furthermore, as indicated in paragraph 2.33(c), the OGCIIO's initiatives were mainly focused on gathering information on software support that would soon be discontinued by software vendors, and based on the information gathered, informing B/Ds to replace or plan for the replacement of their software which would soon be out-dated.

2.36 Audit considers that the OGCIIO could do more to help improve the work efficiency of B/Ds. For example, it could consider issuing guidelines to B/Ds to help them draw up more effective replacement strategies. The guidelines may include, for example, the suggested optimal lifespan of ICT products and the conditions under which the products should be replaced. For instance, although software support has not yet been discontinued by the software vendor, the software may have already been incapable of handling files of newer versions and therefore a replacement could be considered.

Audit recommendations

2.37 **Audit has *recommended* that the Government Chief Information Officer should:**

- (a) **take measures to enhance the accuracy of the Government's ICT expenditure reported on the OGCIIO's website;**
- (b) **to enhance transparency and public accountability, develop and publish more performance information relating to the extent the Government has met the objectives on ICT; and**
- (c) **consider issuing guidelines to B/Ds to facilitate their drawing up of replacement strategies for ICT products.**

Response from the Government

2.38 The Government Chief Information Officer agrees with the audit recommendations. He has said that the OGCIO will:

- (a) review the basis of compiling the Government's ICT expenditure reported on the OGCIO's website;
- (b) develop and publish more performance information relating to the extent the Government has met the objectives on ICT; and
- (c) issue guidelines for the replacement of major software products (including desktop operating system and office automation software) to B/Ds to facilitate their drawing up of replacement strategies for ICT products.

PART 3: CONTROL OF ICT INVENTORIES

3.1 This PART examines the control of ICT inventories, focusing on the following issues:

- (a) ICT inventory control (paras. 3.4 to 3.21); and
- (b) computerised inventory control systems (paras. 3.22 to 3.33).

Requirements of SPRs on control of ICT inventories

3.2 As mentioned in paragraph 1.11, the ICT inventories held by B/Ds are of significant value. B/Ds are required under the SPRs to account for the movements (receipt, transfer and trade-in/disposal) of inventory items (Note 12) (see Appendix C). The C&ED, the EPD and the OGCIO use computerised inventory control systems. However, the HyD's inventory control system is a manual system.

3.3 In addition to the requirements in paragraph 3.2, B/Ds are also required to:

- (a) maintain control index sheets to record the number of Inventory Sheet and Distribution Record (see Appendix C) in use and ensure their completeness;
- (b) ensure that the public officer maintaining the inventory items in an operational unit records the inventory movements correctly; and
- (c) arrange to check inventory items at least once a year and ensure that any discrepancies are dealt with.

Note 12: *According to the SPRs, inventory items are stores of permanent or non-consumable nature with a unit cost of \$1,000 or above at the time of purchase and must be accounted for while all other stores are non-inventory items. For control purposes, B/Ds may also account for the movements of items with unit cost below \$1,000 as inventory items.*

ICT inventory control

Missing ICT inventories

3.4 In the period from May to October 2015, Audit conducted a total of 12 stocktakes at three operational units of each of the four government departments (see Table 2 in para. 1.20). Audit altogether examined 407 ICT products involving 1,009 ICT inventory items with a total cost (original purchase price) of \$5.1 million in these 12 units.

3.5 Audit's stocktakes revealed that:

- (a) up to 30 November 2015, of the 1,009 items, 107 (11%) had not been located by the departments concerned (see Table 9). The cost of these missing items amounted to some \$451,000 (see Table 10);
- (b) of the 328 items of the HyD selected for checking by Audit, 94 (29%) could not be located by the HyD (see Table 9). The cost of these missing items amounted to some \$380,000 (see Table 10); and
- (c) some operational units of the C&ED, the EPD and the HyD took a long time to locate some of the items for audit examination (up to 127 days, 73 days and 165 days respectively) (see Table 9).

Table 9
Results of Audit's stocktakes of ICT inventory items
(30 November 2015)

Department	Kinds of ICT products examined	ICT inventory items				Time taken to locate items by operational unit after stocktakes (Day)	No. of missing items
		Selected for examination		Located during stocktakes	Located by operational unit after stocktakes		
		(a) = (b) + (c) + (d) (No.)	Cost (\$)	(b) (No.)	(c) (No.)		(d)
C&ED	131	339	350,056	319	16	8 to 127	4 (Note 1)
EPD	91	205	1,348,617	196	5	1 to 73	4
HyD	95	328	770,183	198	36	7 to 165	94 (Note 2)
OGCIO	90	137	2,633,941	127	5	1 to 26	5
Overall	407	1,009	5,102,797 (Note 3)	840	62	1 to 165	107

Source: Audit's stocktakes conducted in the period from May to October 2015

Note 1: On 3 February 2016, the C&ED further informed Audit that 2 of the 4 missing items had been located (see para. 3.8).

Note 2: On 30 December 2015, the HyD informed Audit that 74 of the 94 inventory items had been disposed of and 7 items had been located (see para. 3.7(a) to (d) for details).

Note 3: Cost information of 274 (27%) inventory items could not be provided by the departments.

Table 10
Missing ICT inventory items
(30 November 2015)

Department	Missing ICT inventory items		Examples of missing inventory items
	Quantity	Cost (Note) (\$)	
C&ED	4	0	CD writer, video camera, zip drive
EPD	4	43,600	Computer
HyD	94	379,585	Computer, monitor, notebook computer, printer, tape drive, external disk drive, fax machine
OGCIO	5	27,701	Computer, monitor, tape drive
Total	107	450,886	

Source: Audit's stocktakes conducted in the period from May to October 2015

Note: Cost information of 68 (64%) inventory items could not be provided by the departments.

3.6 Audit also noted that 32 (30%) of the 107 missing ICT inventory items were embedded with data storage devices (e.g. personal computers, notebook computers). According to the SRs, this could be breaches of security (Note 13). A breach of security which might involve the compromise of classified information should be reported immediately to the Government Security Officer of the Security Bureau. It should then be investigated initially by the B/D concerned. If the breach relates to information systems or is a leak of classified data in electronic form, the incident handling requirements (e.g. a B/D should set up its departmental Information Security Incident Response Team and appoint a Commander to oversee the handling of all information security incidents) specified by the OGCIO should also be followed.

3.7 On 30 December 2015 (six months after Audit's stocktakes conducted in June 2015), the HyD informed Audit that of the 94 missing ICT inventory items:

Note 13: *Examples of breaches of security as laid down in the SRs include:*

- (a) the loss or apparent loss, temporary or permanent, of mobile devices or removable media that contain classified information; and*
- (b) unauthorised access of classified information that is on a set of computer system.*

- (a) it eventually found that 68 items had been disposed of. Audit, however, noted that the inventory records, which were kept manually, did not provide sufficient details for 63 of the 68 items. For instance, the description of an item disposed of was different from that in the inventory record and the reference number of the item concerned was missing (see Example 1). Consequently, Audit was unable to ascertain whether the 63 items had been properly disposed of;

Example 1

Inventory records of an ICT item disposed by HyD

Record for receipt of item from supplier

INVENTORY OF
INVENTORY UNIT

1	2	3	4	5	6	7	8
Line No.	Commodity Code or Reference Number	Description	Unit of Quantity	Balance	Voucher Number	Quantity	Balance
1	✓	HP KAYAK X4600MT PIII 2x9					
2		1GB / 2x6 MB LAN	NO	-	52667152	2	2
3							

- Descriptions of the inventory item did not match
- Reference number for the inventory item was not recorded

Disposal record

項目編號 Item No.	所需數量 Quantity Required		詳情 DESCRIPTION	發出數量 Quantity Issued		存根(日期或月耗用)及存根號碼 Ledger Folio or Inventory Ref. No.		備註 REMARKS
	數量 No.	單位 Unit		數量 No.	單位 Unit	發出處 Issuing Office	接收處 Receiving Office	
1	2	Nos	HP compag Dn from 31cm tower					GF 219
2	2	Nos	Trade-in Pentium III or below CPU PC					I 134 218
合計總數 Scrambled Total: (數字 In Figures)						大寫 In Words)		

Source: HyD records

Control of ICT inventories

- (b) 5 personal computers should have been disposed of. The HyD could not furnish Audit with evidence for the disposal;
- (c) one plotter should have been traded-in, but the HyD could only provide to Audit an e-mail showing that a plotter of the same model would be collected by the contractor;
- (d) 7 items were located after extensive search. However, one of these items (a digitizer) had not been used since 2003; and
- (e) the remaining 13 items could not be located after extensive search.

3.8 In February 2016 (eight months after Audit's stocktakes conducted in May and June 2015), the C&ED informed Audit that it located 2 of the 4 missing ICT inventory items listed in Table 10 in paragraph 3.5.

Shortcomings in keeping ICT inventory records

3.9 ***Incomplete and inaccurate ICT inventory records.*** During the visits to the three operational units of each of the four government departments, Audit noted that:

- (a) the Lo Wu Division of the C&ED did not maintain control index sheets (see para. 3.3(a));
- (b) the New Territories Region of the HyD lost a page of Inventory Sheet and Distribution Record (see Appendix C); and
- (c) the Hong Kong Region of the HyD had not updated one of the control index sheets.

As a result, Audit was unable to ascertain the completeness and accuracy of the ICT inventory records and the ICT inventory items held by these three operational units.

3.10 *Failure to keep proper ICT inventory records.* Since 2001, some B/Ds have established ITMUs to help make use of ICT in delivering their policy/operational objectives. The ITMUs are responsible for the B/Ds' ICT planning, management and operation.

3.11 For each of the ITMUs of the four government departments, Audit examined 10 ICT products which according to the ITMUs' inventory records were kept by the ITMUs. Audit noted that except the OGCIO's ITMU, the remaining three ITMUs had failed to properly keep their inventory records. The 10 ICT products of each ITMU of the C&ED, the EPD and the HyD constituted 1,840 ICT inventory items. Audit found that of these 1,840 items, 1,523 (83%) were in fact not kept by the ITMUs as per the inventory records. Of these 1,523 items said to be kept by the ITMUs:

- (a) 1,389 (91%) items were located in other operational units of the departments concerned; and
- (b) 134 (9%) items could not be located because they had been traded-in and were not with the departments any more.

Details of Audit's findings are shown in Table 11.

Control of ICT inventories

Table 11

**Incorrect inventory records of ICT inventory items
(30 November 2015)**

ICT product	No. of items recorded as with ITMU (a) = (b) + (c) + (d)	No. of items with ITMU (b)	No. of items incorrectly recorded	
			Located in other operational units (c)	Not located (Traded-in) (d)
<i>ITMU of C&ED</i>				
Desktop computer	1,185	210	884	91
Monitor	212	9	203	0
Tablet	50	20	30	0
Sub-total	1,447	239	1,117	91
<i>ITMU of EPD</i>				
Ethernet router	23	4	0	19
<i>ITMU of HyD</i>				
USB port smart card reader	265	59	206	0
Desktop computer	28	15	4	9
External hard disk 750 GB	15	0	0	15
Tablet	19	0	19	0
Monitor	43	0	43	0
Sub-total	370	74	272	24
Total	1,840 (100%)	317 (17%)	1,389 (76%)	134 (7%)

Source: Audit analysis of ITMUs records

3.12 *Annual stocktakes not properly conducted.* As mentioned in paragraph 3.3(c), B/Ds are required to check inventory items at least once a year and ensure that any discrepancies are dealt with. Audit's stocktakes conducted in May to October 2015 revealed that some ICT inventory items had been disposed of or traded-in by the C&ED, the HyD and the OGCIO prior to the latest stocktakes conducted by the three departments in 2014 or 2015. However, the departments' stocktake records indicated that these items had been checked and were still kept by the departments.

Audit recommendations

3.13 **Audit has recommended that the Commissioner of Customs and Excise, the Director of Environmental Protection, the Director of Highways and the Government Chief Information Officer should:**

- (a) **take efforts to locate the missing ICT inventory items;**
- (b) **for those ICT inventory items which could not be located, institute the procedures stipulated in the Financial Circular No. 7/2003 and the SPRs (e.g. carry out investigation into the cases and apply for write-off); and**
- (c) **for those lost ICT inventory items which have embedded data storage devices, take remedial measures as stipulated in the SRs.**

3.14 **Audit has recommended that the Commissioner of Customs and Excise, the Director of Environmental Protection and the Director of Highways should take measures to ensure that the inventory records are properly kept and updated in accordance with the requirements of the SPRs.**

3.15 **Audit has recommended that the Commissioner of Customs and Excise, the Director of Highways and the Government Chief Information Officer should properly conduct annual stocktakes and keep stocktake records.**

3.16 **Audit has recommended that the Director of Government Logistics should take measures to regularly remind B/Ds of the need to maintain inventory records up-to-date.**

Response from the Government

3.17 The Commissioner of Customs and Excise agrees with the audit recommendations in paragraphs 3.13 to 3.15. He has said that:

- (a) the two missing ICT inventory items (i.e. a video camera and a zip drive) could not be located. There was no data storage device in these two items. The C&ED has instituted the procedures stipulated in the Financial Circular No. 7/2003 and the SPRs;
- (b) all relevant personnel have been reminded to ensure that the inventory records are properly kept and updated in accordance with the requirements of the SPRs, and supervisory checking has also been instituted. For those ICT products recorded as ITMU's inventories and deployed to other offices for operational use, detailed deployment lists will be appended to the corresponding inventory records; and
- (c) all relevant personnel have been reminded to properly conduct annual stocktakes and keep stocktake records.

3.18 The Director of Environmental Protection agrees with the audit recommendations in paragraphs 3.13 and 3.14.

3.19 The Director of Highways agrees with the audit recommendations in paragraphs 3.13 to 3.15. He has said that:

- (a) he welcomes the audit review which can help improve the overall management and effectiveness of inventory control;
- (b) the HyD has been taking extra efforts to locate the missing inventory items. Other than those that had already been located (see para. 3.7), the HyD will continue to locate the remaining items. In case the items cannot be located, the HyD would instigate the procedures stipulated in the Financial Circular No. 7/2003, the SPRs and the SRs; and

- (c) the HyD is preparing an internal accounting circular to remind its staff of the relevant requirements of the SPRs and to stipulate measures to strengthen the inventory control procedures:
 - (i) with a view to ensuring that the inventory records are properly kept and updated in accordance with the requirements of the SPRs; and
 - (ii) that include a cross-office sample checking mechanism in the annual stocktake processes to double-check the accuracy of the inventory records. The cross-office sample checking mechanism has been taking place.

3.20 The Government Chief Information Officer agrees with the audit recommendations in paragraphs 3.13 and 3.15. He has said that:

- (a) every effort has already been made to locate the five missing ICT inventory items (see Table 9 in para. 3.5) but in vain and action is being taken to deal with the loss according to established procedures; and
- (b) the annual departmental inventory verification exercise for 2016 has been conducted and follow-up actions are being taken.

3.21 The Director of Government Logistics accepts the audit recommendation in paragraph 3.16. She has said that the GLD will take follow-up actions accordingly.

Computerised inventory control systems

Under-utilisation and inadequacies of computerised inventory control systems

3.22 According to the SPRs, B/Ds should keep complete records of the movements of all stores in manual or preferably computerised stores ledgers. The use of computerised inventory control system would facilitate the tracking of inventory items and the preparation of ageing analysis of inventories and thereby assist procurement and disposal decisions.

Control of ICT inventories

3.23 Of the four government departments, the HyD was the only department that used a manual inventory control system. The lack of a computerised inventory control system could be a reason why many of its inventory items were found missing during Audit's stocktakes (see Table 9 in para. 3.5) and a long time was taken to locate some of the items (see Table 9 in para. 3.5 and para. 3.7). On the other hand, Audit reviewed the computerised inventory control systems of the EPD, the C&ED and the OGCIO and found room for improvement as follows:

- (a) ***The EPD's inventory control system.*** The EPD has used a computerised inventory control system since 1997. In January 2015, it revamped the system at a cost of \$3.18 million. The new system has the following features:
 - (i) each inventory item is assigned a unique barcode. Using a barcode scanner, similar inventory items can be distinguished and the physical locations of items can be promptly identified. Moreover, the system can generate discrepancy reports;
 - (ii) each operational unit can view the inventory items registered under the unit on a real-time basis; and
 - (iii) the costs of inventory items are captured.

Nevertheless, the EPD could make better use of its system. For example, it could conduct ageing analysis based on the information contained in the system to facilitate disposal decision making (see Case 7 in para. 4.6 for details);

- (b) ***The C&ED's inventory control system.*** In November 2010, the C&ED launched a computerised inventory control system known as the IT Asset System (ITAS) at a cost of some \$160,000. The C&ED, however, still largely relied on its manual system for inventory control purposes and used the ITAS for supplementary inventory control purposes. This may explain why the C&ED took a long time to locate some of its ICT inventories (see Table 9 in para. 3.5). Audit compared the ICT inventory records of the ITAS with the manual records of an operational unit of the C&ED, and found that there were large discrepancies (see Table 12); and

Table 12

**Discrepancies between the manual inventory control system
and the ITAS of an operational unit of the C&ED
(mid-May 2015)**

ICT inventory item	No. of inventory items recorded in both ITAS and manual records	No. of inventory items recorded only in	
		ITAS	Manual records
Desktop computer	11	40	8
Monitor	16	34	11
Notebook computer	2	1	1
Printer	13	40	13
Scanner	12	8	4
Total	54	123	37

Source: Audit analysis of C&ED records

- (c) ***The OGCIIO's inventory control system.*** In October 2001, the OGCIIO launched a computerised inventory control system at a cost of \$454,500. Audit found that:
- (i) although a barcode was assigned to each inventory item, the system was not supported by a barcode scanner and the barcodes were not used; and
 - (ii) only the Supplies Section of the OGCIIO could have access to the inventory records. The other operational units could not access the inventory items registered under their units on a real-time basis for inventory control purposes.

Audit recommendations

3.24 **Audit has *recommended* that the Director of Highways should establish a computerised inventory control system to improve the management of the HyD's inventories.**

3.25 **Audit has *recommended* that the Director of Environmental Protection should make better use of the EPD's computerised inventory control system (e.g. conducting ageing analysis to facilitate disposal decisions).**

3.26 **Audit has *recommended* that the Commissioner of Customs and Excise should:**

- (a) **reconcile the discrepancies between the inventory records in the C&ED's computerised inventory control system and the manual inventory records; and**
- (b) **enhance the C&ED's computerised inventory control system with a view to replacing the manual inventory system.**

3.27 **Audit has *recommended* that the Government Chief Information Officer should:**

- (a) **conduct a review of the OGCIO's computerised inventory control system; and**
- (b) **in the light of the results of the review, take measures to enhance the functions of the system with a view to providing better support on inventory control.**

3.28 **Audit has *recommended* that the Director of Government Logistics should:**

- (a) **establish guidelines on the circumstances under which it would be worthwhile to set up a computerised inventory control system by B/Ds (for example, it may be cost-effective for a B/D with significant number of inventory transactions to set up such a system); and**

- (b) **promote the use of computerised inventory control system by B/Ds for more timely recording and better control of inventories.**

Response from the Government

3.29 The Director of Highways agrees with the audit recommendation in paragraph 3.24. He has said that the HyD is making preparation to set up a computerised inventory control system with a view to replacing the manual inventory system.

3.30 The Director of Environmental Protection agrees with the audit recommendation in paragraph 3.25.

3.31 The Commissioner of Customs and Excise agrees with the audit recommendations in paragraph 3.26. He has said that the C&ED is reconciling the discrepancies between the inventory records in the C&ED's computerised inventory control system and the manual inventory records. The C&ED will consult the OGCI and the GLD with a view to examining the feasibility of developing a full-fledged computerised inventory control system. Meanwhile, the C&ED will enhance the ITAS to better support inventory control.

3.32 The Government Chief Information Officer agrees with the audit recommendations in paragraph 3.27. He has said that the OGCI has already planned to review and revamp its existing computerised inventory control system in the departmental IT plan. In view of the benefits of better support on inventory control, the OGCI will accord higher priority to the project and expedite its implementation.

3.33 The Director of Government Logistics accepts the audit recommendations in paragraph 3.28. She has said that the GLD will prepare general guidelines on the circumstances that might warrant the setting up of a computerised inventory control system for reference by B/Ds.

PART 4: DISPOSAL OF ICT PRODUCTS

4.1 This PART examines the disposal of ICT products, focusing on the following issues:

- (a) ICT disposal strategies (paras. 4.2 to 4.13);
- (b) donation of ICT products (paras. 4.14 to 4.20); and
- (c) data erasure practices (paras. 4.21 to 4.31).

ICT disposal strategies

Procedures for disposal of surplus stores items

4.2 The SPRs stipulate the procedures for disposal of surplus stores items (including ICT inventory items). Ways of disposal include transferring to other B/Ds through posting a notice on the Central Cyber Government Office to ascertain if the inventory items are needed by the B/Ds, selling to the GLD disposal term contractors, commercial disposal (e.g. auctions), donations and as a last resort, dumping. A flow chart of the procedures for disposing inventory items is shown at Appendix D.

4.3 Under the SPRs, the Controlling Officer of a B/D is required to establish a Departmental Disposal Committee (DDC) to approve the disposal of surplus stores items with a value (Note 14) at or below \$1.43 million. For the four government departments covered in this audit review (see Table 2 in para. 1.20), the DDC comprised a Senior Treasury Accountant or a Chief Executive Officer (who was the Chairman) and two members who were either Supplies Officer Grade Staff or Accounting Officer Grade Staff. The Controlling Officer or a directorate officer designated by him may, on the recommendation of the DDC, approve the disposal of surplus stores items with a value exceeding \$1.43 million.

Note 14: *Value of a surplus stores item is the GLD stock price or the original purchase cost or, where neither of these can easily be determined, the replacement cost.*

Lack of ICT disposal strategies

4.4 Table 13 shows the number of ICT inventory items disposed of by the four government departments in the period from 2012-13 to 2014-15.

Table 13

**Number of ICT inventory items disposed of
by C&ED, EPD, HyD and OGCIO
(2012-13 to 2014-15)**

Department	2012-13	2013-14	2014-15
C&ED	247	412	382
EPD	1,359	759	975
HyD	64	3	432
OGCIO	754	513	246
Total	2,424	1,687	2,035

Source: Audit analysis of C&ED, EPD, HyD and OGCIO records

4.5 ICT products become obsolete very quickly. Every item of ICT products purchased will ultimately require disposal. Keeping ICT products in storage pending disposal is costly because they quickly lose value, and the failure rate of components increases with time when they are kept inactive in storage. Furthermore, storing obsolete ICT products, especially those bulky products such as laser printers, unjustifiably occupies valuable office space. According to the GLD, a common irregularity relating to the disposal of inventory items is that unserviceable items have often been kept for a long time without being disposed of.

4.6 A disposal strategy, covering such matters as conducting ageing analysis of ICT inventories and periodic reviews of their condition and serviceability, would help the management of B/Ds dispose of obsolete inventories in a timely and systematic manner, thereby generating higher residual values on disposal. For each of the four government departments, Audit examined 20 disposal cases conducted in the period from 2012-13 to 2014-15. Audit found that in general the departments did not have in place a disposal strategy to facilitate timely disposal decisions (see Cases 4 to 7 for illustrations).

Case 4

A disposal case of C&ED in 2014-15

1. On 28 November 2014, an operational unit of the C&ED submitted an application for disposal of 26 unserviceable digital cameras to the department's DDC. These cameras were purchased before 2002 at a total purchase cost of \$46,400.

2. The DDC approved the disposal application on 10 December 2014. On 17 December 2014, the GLD posted a notice on the Central Cyber Government Office to ascertain whether the cameras were wanted by other B/Ds. No B/D expressed interest in these cameras.

3. In January and February 2015, three auctions were held by the GLD to dispose of the cameras. The auctions were unsuccessful as either the reserve prices were not met or there was no bidding. On 26 February 2015, the GLD recommended the C&ED to dispose of the cameras at its own discretion as the re-auctioning costs would exceed the potential proceeds.

Audit comments

4. Digital cameras become obsolete very quickly. If a disposal strategy was in place, more timely decision on disposal could have been made. As at the time of audit on 11 May 2015, the cameras were still stored as the C&ED's inventories.

Source: Audit analysis of C&ED records

Case 5

A disposal case of HyD in 2014-15

1. On 4 February 2015, a regional office of the HyD submitted an application for disposal of unserviceable ICT products to the department's DDC. The disposal application involved 323 ICT inventory items with a total replacement cost of \$25,690. Details of the items were as follows:

ICT product	Quantity	Year of purchase
Dot matrix printer	14	Before 2000 to 2006
Inkjet printer	1	Before 2000
Laser printer	4	Before 2000 to 2002
Personal computer with 286 central processing unit	1	Before 1990
Personal computer with Pentium central processing unit	33	Before 2000 to 2007
Cathode ray tube monitor	10	Before 1990 to 2000
Keyboard	144	Before 2000
Modem	4	Before 2000 to 2008
Mouse	72	Before 2000
Scanner	6	Before 2000 to 2003
Server	2	Before 2000
Switch	27	Before 2000 to 2007
Uninterruptible power supply	5	Before 2000
Total	323	

2. The DDC approved the disposal application on 10 February 2015 and the items were sold to a GLD disposal term contractor for some \$4,000.

Audit comments

3. Audit noted from the HyD's records that the items were mainly purchased before 1990 to early 2000. Most of these items (e.g. the dot matrix printers and the personal computer with 286 central processing unit) had likely been stored for a long period of time before a disposal decision was made. An earlier disposal could have resulted in better selling price of the items.

Source: *Audit analysis of HyD records*

Case 6

Three disposal cases of OGCIO in 2014-15

1. In the first quarter of 2015, an operational unit of the OGCIO submitted three applications to the department's DDC for approving the disposal of obsolete ICT products related to a system retired in January 2008. The disposal applications involved 234 ICT inventory items, which were mainly purchased between 1999 and 2001. The total original purchase cost of these items amounted to some \$3.8 million.

2. The DDC approved the disposal applications in February and April 2015. Some of the obsolete ICT products were sold to the GLD disposal term contractors while some others (67 items with a total original purchase cost of some \$1 million) were put up for auctions in three batches. The GLD arranged three auctions for each batch between April and July 2015. The sales through auction were unsuccessful as the reserve prices were not met. As a result, the GLD recommended the OGCIO to dispose of these items at its own discretion as the re-auctioning costs would exceed the potential proceeds.

Audit comments

3. The obsolete ICT products could have been disposed of in early 2008. However, they were not brought up for disposal until 2015.

Source: Audit analysis of OGCIO records

Case 7

Ageing analysis of EPD's ICT products

1. The EPD could make better use of its computerised inventory control system (see para. 3.23(a)). For example, the system could provide information for ageing analysis and facilitate disposal decisions.

2. Audit extracted from the system information on the ICT inventories held by an operational unit of the EPD as of August 2015 and conducted an ageing analysis:

ICT product	No. of ICT inventory items					
	1 year and below	> 1 year to 3 years	> 3 years to 5 years	> 5 years to 10 years	> 10 years	Total
Personal computer	9	73	55	116	85	338
Digital camera	14	19	14	3	4	54
DVD/digital recorder	0	0	1	6	30	37
Hard disk	0	2	0	20	52	74
Mobile phone	10	16	16	101	30	173
Monitor	13	52	42	134	58	299
Printer	6	12	16	72	63	169
Scanner	4	2	4	1	20	31
Video camera	1	2	2	2	4	11
Total	57 (5%)	178 (15%)	150 (13%)	455 (38%)	346 (29%)	1,186 (100%)

Audit comments

3. As shown above, 346 (29%) of 1,186 ICT inventory items were purchased more than 10 years ago. The EPD needs to review the condition and serviceability of these items. The EPD also needs to conduct ageing analysis of its ICT inventories periodically to facilitate the making of timely disposal decisions.

Source: Audit analysis of EPD records

Audit recommendations

4.7 Audit has *recommended* that the Commissioner of Customs and Excise, the Director of Environmental Protection, the Director of Highways and the Government Chief Information Officer should:

- (a) conduct a review of their ICT inventories to identify inventory items that are due for disposal; and
- (b) in the light of the results of the review, dispose of the obsolete inventory items in accordance with the SPRs in a timely and systematic manner.

4.8 Audit has *recommended* that the Director of Government Logistics should:

- (a) promote the formulation of ICT disposal strategies by B/Ds (e.g. conducting periodic reviews of the condition and serviceability of the inventories with due regard to the service period of the items and the guidelines issued by the OGCIO on the products' optimal lifespan to facilitate timely disposal of obsolete ICT products); and
- (b) remind B/Ds to arrange timely disposal of obsolete ICT products.

Response from the Government

4.9 The Commissioner of Customs and Excise agrees with the audit recommendations in paragraph 4.7. He has said that the C&ED has conducted a review of the ICT inventories and would arrange disposal of the obsolete inventory items in accordance with the SPRs.

4.10 The Director of Environmental Protection agrees with the audit recommendations in paragraph 4.7.

4.11 The Director of Highways agrees with the audit recommendations in paragraph 4.7. He has said that in reviewing the ICT inventories, the HyD will consider their condition and serviceability to identify inventory items that are due for disposal. Furthermore, the HyD is preparing an internal accounting circular in which guidelines would be given for the inventory holders to set the timeframe (such as within three months from the date of identifying the surplus inventory items) to carry out the disposal action or to review the status of surplus items.

4.12 The Government Chief Information Officer agrees with the audit recommendations in paragraph 4.7. He has said that in the annual departmental inventory verification exercise for 2016, inventory units of the OGCIO have been reminded to review the inventory items under their charge so as to identify any unwanted inventory items for disposal in accordance with the SPRs.

4.13 The Director of Government Logistics accepts the audit recommendations in paragraph 4.8. She has said that the GLD will take follow up action accordingly.

Donation of ICT products

Donation of ICT products by EPD

4.14 Of the four government departments covered in this review, the EPD was the only department that had donated ICT products. In September 2009, the EPD started a pilot scheme to donate old ICT products to a non-governmental organisation (NGO) for green and charitable purposes. The EPD considered that the scheme would set a good example to all B/Ds as well as the ICT industry and the public. In December 2009, the pilot scheme was adopted as a regular departmental practice. Since then, a compulsory “vetting” step has been introduced to screen old ICT products (serviceable and unserviceable) suitable for donation. Up to 30 September 2015, the EPD:

- (a) had made 65 donations, involving a total of 3,636 items of ICT products (see Table 14). The original purchase cost of these products amounted to \$10.7 million; and
- (b) had 1,543 items of ICT products (498 serviceable and 1,045 unserviceable items) awaiting donation. Their original purchase cost amounted to \$5.6 million.

Disposal of ICT products

Table 14

**ICT products donated by EPD
(September 2009 to September 2015)**

ICT product	No. of inventory items		Total
	Serviceable	Unserviceable	
Personal computer	327	654	981
Notebook	36	65	101
Monitor	443	330	773
Printer	102	304	406
Scanner	31	27	58
Server	21	9	30
Hard disk	35	134	169
Others (e.g. accessories for personal computers, notebooks, printers and servers)	480	638	1,118
Total	1,475	2,161	3,636

Source: Audit analysis of EPD records

Areas for improvement in EPD's donations of ICT products

4.15 While the EPD's donation is a good act of benevolence that helps the needy, Audit noted areas for improvement as follows:

- (a) for serviceable ICT products, the EPD had acted in accordance with the procedures laid down in the SPRs (see Appendix D). However, of the 2,161 items of unserviceable ICT products, 1,366 (63%) were covered by the GLD disposal term contracts and, according to the SPRs, should have been sold to the term contractors (see Appendix D); and
- (b) all the donations were only made to one NGO.

Audit recommendations

4.16 **Audit has *recommended* that the Director of Environmental Protection should:**

- (a) **take measures to ensure compliance with the SPRs in future donations of ICT products; and**
- (b) **explore whether there are other NGOs in need of donations of ICT products and consider donating ICT products to them in future donations.**

4.17 **Audit has *recommended* that the Director of Government Logistics should, in consultation with the Secretary for Financial Services and the Treasury, explore the possibility of improving the procedures stipulated in the SPRs to facilitate the donation of ICT products (e.g. waiving, for donation purposes, the requirement that unserviceable ICT products should first be sold to GLD disposal term contractors).**

Response from the Government

4.18 The Director of Environmental Protection agrees with the audit recommendations in paragraph 4.16.

4.19 The Director of Government Logistics agrees with the audit recommendation in paragraph 4.17. She has said that the GLD will explore with the FSTB the possibility of aligning the different procedures in the SPRs for the disposal of serviceable and unserviceable stores, including ICT products, to enable B/Ds to consider donation and commercial disposal in parallel based on the merits of each case including residual value, re-saleable value and public interest.

4.20 The Secretary for Financial Services and the Treasury has said that the FSTB will explore with the GLD the possibility of aligning the different procedures in the SPRs for the disposal of serviceable and unserviceable stores, including ICT products, to enable B/Ds to consider donation and commercial disposal in parallel based on the merits of each case including residual value, re-saleable value and public interest.

Data erasure practices

Guidelines on data erasure

4.21 Over time, B/Ds will inevitably accumulate a considerable amount of information in ICT products such as computers. The SRs provide guidelines and requirements on the destruction of classified information stored in ICT products prior to their disposal. The OGCIO has promulgated policies and guidelines on ICT security, which cover the issue of destruction of classified information. Moreover, the GLD has issued a memorandum to require B/Ds to observe certain security guidelines concerning the disposal of computers.

4.22 According to the SRs and the OGCIO's ICT security guidelines:

- (a) prior to the disposal of computers, all classified information should be completely cleared from the storage media through sanitisation (e.g. by degaussing to magnetically erase data from the media by exposing the media to a strong magnetic field — see Photograph 1). If for any reason sanitisation is infeasible, the storage media must be physically destroyed to prevent the recovery of classified information; and

Photograph 1

A degausser used by HyD for sanitisation of storage media



Source: HyD records

- (b) for disposal of other ICT products with embedded storage devices (e.g. tablets and mobile phones), the rigour as described in (a) above applies. For disposal of ICT products containing unclassified information, as a good practice to protect data privacy, B/Ds are advised to adopt the same rigour.

Shortcomings in data erasure practices

4.23 Audit examined the data erasure exercises conducted in the period from 2012-13 to 2014-15 by the four departments that Audit visited. For the C&ED, the HyD and the OGCIIO, depending on the departments' internal resources, the data erasure was performed either in-house or through contractors. For the EPD, all data erasure was performed in-house. Audit's examination revealed the following shortcomings:

- (a) according to the SRs, checks and balances should be in place to ensure that data erasure is duly conducted. Accordingly, for data erasure conducted by contractors, contractors are required to provide a certificate indicating that they have properly conducted the erasure. Audit examined 20 certificates issued by five contractors engaged by the C&ED, the HyD and the OGCIIO, and found that only in three certificates issued by one contractor stated that the OGCIIO's policies and guidelines on ICT security had been complied with;
- (b) according to the OGCIIO's ICT security guidelines, sample checks of erased storage media should be performed by another party to ensure that all classified information is properly erased. The four departments informed Audit that they had conducted the sample checks. However, of the four departments, only the OGCIIO and an operational unit of the HyD could provide evidence that such checks had been conducted; and
- (c) according to the GLD's memorandum, for disposal of computers, a declaration is required to confirm that the procedures for data erasure as set out in the OGCIIO's ICT security guidelines have been followed. However, the memorandum was silent on whether a declaration is required for disposal of other ICT products with embedded storage devices or for trade-in (Note 15) of ICT products. Of the four departments, the OGCIIO had made declarations for disposal of other ICT products with embedded storage

Note 15: *Trade-in of ICT products is covered in PART 2 of this Audit Report.*

Disposal of ICT products

devices. Upon Audit's enquiry in May 2015, the HyD had started to follow the OGCI0's practice. All the four departments visited had not made declarations for trade-in of ICT products. In response to Audit's enquiry in February 2016, the OGCI0 had started to make declarations for trade-in cases.

Audit recommendations

4.24 **Audit has *recommended* that the Commissioner of Customs and Excise, the Director of Environmental Protection and the Director of Highways should:**

- (a) ensure that independent sample checks of erased storage media are performed in accordance with the OGCI0's ICT security guidelines to ensure that all information is properly erased; and**
- (b) keep proper documentation of sample checks conducted.**

4.25 **Audit has *recommended* that the Government Chief Information Officer should:**

- (a) take measures to ensure that B/Ds fully understand the data destruction requirements and follow the OGCI0's guidelines in conducting data erasure exercises (e.g. conducting sample checks of erased storage media and documenting the sample checks); and**
- (b) consider standardising the core information required for a data erasure certificate (e.g. requiring contractors to declare in the certificates that the OGCI0's policies and guidelines on ICT security have been complied with in performing the data erasure).**

4.26 **Audit has *recommended* that the Director of Government Logistics should promulgate the requirement that when a B/D disposes of computers as well as other ICT products with embedded storage devices and for trade-in of ICT products, a declaration is needed to confirm that the data erasure procedures as set out in the OGCI0's ICT security guidelines have been followed.**

Response from the Government

4.27 The Commissioner of Customs and Excise agrees with the audit recommendations in paragraph 4.24. He has said that the C&ED has performed independent sample checks of erased storage media in accordance with the OGCIIO's ICT security guidelines. It has also reminded all relevant personnel to keep proper record of the sample checks.

4.28 The Director of Environmental Protection agrees with the audit recommendations in paragraph 4.24.

4.29 The Director of Highways agrees with the audit recommendations in paragraph 4.24. He has said that the HyD is preparing an internal accounting circular to remind its staff of the relevant security requirements including the OGCIIO's ICT security guidelines. The circular will be regularly circulated to the staff concerned and their supervisors to ensure that independent sample checks of erased storage media are performed for disposal and trade-in of ICT inventory items and relevant record are properly kept.

4.30 The Government Chief Information Officer agrees with the audit recommendations in paragraph 4.25. He has said that:

- (a) B/Ds are required to conduct sample checks on erased storage media by another party but some B/Ds did not keep proper records on actions taken. The OGCIIO will review the existing guidelines to require B/Ds to keep proper records on sample checks of erased storage media for compliance audit; and
- (b) the OGCIIO will develop a sample of data erasure certificate for B/Ds' reference.

4.31 The Director of Government Logistics accepts the audit recommendation in paragraph 4.26. She has said that the GLD will take follow up action accordingly.

PART 5: PROVISION OF APPS

5.1 This PART examines the provision of apps by the Government, focusing on the following issues:

- (a) review of government apps (paras. 5.7 to 5.24); and
- (b) way forward for government apps (paras. 5.25 to 5.28).

Overview of government apps

5.2 The first government app, “MyObservatory”, was launched in 2010. As at 31 August 2015, there were 127 apps launched by 36 B/Ds (see Table 15). The development cost of these apps amounted to some \$38 million (ranged from about \$20,000 to \$3.3 million each — Note 16).

Table 15

**Apps launched by B/Ds
(31 August 2015)**

No. of apps launched	No. of B/Ds	Total no. of apps launched
1	14	14
2 to 3	12	32
4 to 5	4	16
6 to 10	3	22
11 to 15	2	25
16 to 20	1	18
Total	36	127

Source: Audit analysis of OGCIO records

Note 16: *The development costs of some apps were high because cost had been incurred not only on the development of apps, but also on the procurement of hardware and software for backend server.*

5.3 Table 16 shows the average monthly number of downloads of government apps from the launching dates of apps to 31 August 2015.

Table 16
Average monthly number of downloads of government apps
(31 August 2015)

Average monthly number of downloads	No. of apps	Percentage
0 to 30	6	5%
31 to 90	23	19%
91 to 900	49	40%
901 to 1,800	20	17%
1,801 to 4,500	9	7%
Over 4,500	15	12%
Total	122 (Note)	100%

Source: Audit analysis of OGCIO records

Note: Information on the average monthly number of downloads of five apps as at 31 August 2015 was not available from the OGCIO. The OGCIO was following up with the B/Ds concerned.

5.4 Tables 17 and 18 further show, as at 31 August 2015, the listing of ten apps with the highest and lowest average monthly number of downloads respectively.

Provision of apps

Table 17

**Ten apps with highest average monthly number of downloads
(31 August 2015)**

	B/D	Name of app	Development cost (\$)	Annual maintenance cost (\$)	Cumulative number of downloads as at 31 August 2015	Average monthly number of downloads (Note 2)
1	Hong Kong Observatory	MyObservatory	Not available (Note 1)	Not available (Note 1)	5,187,000	88,190
2	Radio Television Hong Kong	RTHK On The Go	200,000		1,628,063	37,001
3	Transport Department	HKeTransport	1,100,000	220,000	1,369,000	29,008
4	OGCIO	GovHK Notifications	460,000	160,000	687,961	18,594
5	Labour Department	Interactive Employment Service (iES) smartphone application	125,000	83,928	574,164	13,493
6	OGCIO	Wi-Fi.HK	340,000	80,000	150,940	11,637
7	LCSD	My URBTIX	Not available (Note 1)	Not available (Note 1)	155,340	11,376
8	Radio Television Hong Kong	RTHK Mine	409,000		131,316	10,943
9	Radio Television Hong Kong	RTHK Screen	250,000		216,248	10,812
10	LCSD	My Library	3,321,691	313,000	132,505	10,509

Source: Audit analysis of OGCIO records

Note 1: Due to reasons such as the app being developed by in-house staff, the development of the app bundled with other services without separate cost breakdown, and no maintenance service from the service provider, cost information was not available from the B/Ds.

Note 2: The average monthly number of downloads of an app was the sum of the average monthly numbers of downloads of the app from different operating platforms (i.e. Android, iOS, Symbian and Windows Phone) from the launch dates of the platforms to 31 August 2015. In cases where there was insufficient information (e.g. some launch dates of platforms of an app were not available from the OGCIO), the latest launch date was used in calculating the average monthly number of downloads.

Table 18

Ten apps with lowest average monthly number of downloads
(31 August 2015)

	B/D	Name of app	Development cost (\$)	Annual maintenance cost (\$)	Cumulative number of downloads as at 31 August 2015	Average monthly number of downloads (Note 3)
1	Education Bureau	Eye Care for Hong Kong Students (Note 2)	Not available (Note 1)	Not available (Note 1)	89	11
2	LCSD	Restore King Yin Lei			200	12
3	LCSD	Matching@ King Yin Lei			233	14
4	LCSD	Puzzle@King Yin Lei			270	16
5	Education Bureau	QEF ebook (Note 2)			308	18
6	Home Affairs Bureau	“M” Mark Events App	70,000	14,400	1,013	31
7	LCSD	Photo ME@King Yin Lei	Not available (Note 1)	Not available (Note 1)	559	33
8	LCSD	King Yin Lei			590	35
9	Food and Environmental Hygiene Department	Food Safety Charter (Note 4)	130,000		1,459	35
10	Education Bureau	TSS Channel (Note 2)	Not available (Note 1)		362	36

Source: Audit analysis of OGCIO records

Provision of apps

Note 1: Due to reasons such as the app being developed by in-house staff, the development of the app bundled with other services without separate cost breakdown, and no maintenance service from the service provider, cost information was not available from the B/Ds.

Note 2: The Education Bureau informed Audit in March 2016 that:

- (a) the “Eye Care” app is part of the parent education resource materials launched in 2015/16 school year. While the app was launched in January 2015 for trial run, other resource materials are not yet ready. The Bureau also sees the need to review and enrich the resource materials on eye care to address the rising concern of parents and the rapid technology development on the subject. The Bureau plans to widely publicise the whole package of resource materials, including the app, when they are available towards the latter half of 2016;*
- (b) the “QEF ebook” app is a pilot scheme and is developed for supporting the learning of students with special education needs. The target users are the teachers who teach these students. Apart from using the app on both iOS and Android platform, teachers can also download the same resources through a website and the platform of HKEdCity. The numbers of downloads from these two channels were some 1,200 (from April 2013 to March 2016) and some 6,700 (from September 2014 to March 2016) respectively; and*
- (c) the “TSS Channel” app aims at equipping technical support staff (TSS) at schools and their supervising teachers the necessary technical knowledge and skills. It contains 90 video clips. The same video clips are also available on YouTube, which is far more popular among the target group. The Bureau will consult stakeholders on the effectiveness of the app and does not rule out the possibility of decommissioning the app in the near future.*

Note 3: The average monthly number of downloads of an app was the sum of the average monthly numbers of downloads of the app from different operating platforms (i.e. Android, iOS, Symbian and Windows Phone) from the launch dates of the platforms to 31 August 2015. In cases where there was insufficient information (e.g. some launch dates of platforms of an app were not available from the OGCIO), the latest launch date was used in calculating the average monthly number of downloads.

Note 4: According to the Food and Environmental Hygiene Department, the “Food Safety Charter” app has already been decommissioned and was removed from the App Store in February 2016. Its functions are included in the new “Food Safety” app developed by the Department with more functions and features.

Remarks: To make allowance for the time and effort required to promote apps, apps launched for a period of less than six months were excluded in the compilation of the list.

5.5 To facilitate B/Ds to develop apps for the public, the OGCIO has since 2011 issued several guidelines on what makes a good app. In July and December 2015, the OGCIO also issued and updated respectively a good practice guide. Among other things, the guide states that B/Ds should consider what an app can do for users and that they should not build an app just for the sake of building it. It also states that B/Ds should have a reasonable estimate of the number of downloads before considering developing an app. Moreover, B/Ds should consider decommissioning an app if it does not meet the original objectives of developing the app, or there are other apps that can better serve its purposes.

5.6 In the period from October 2015 to January 2016, Audit examined the apps of four government departments (see Table 3 in para. 1.20) to ascertain whether there is scope for improvement in their provision of apps to better provide information and services to the public. The audit findings are shown in paragraphs 5.7 to 5.14.

Review of government apps

Need to enhance app contents

5.7 According to the OGCIO's guidelines and good practice guide, a good app should be able to provide mobile device features such as location services/Global Positioning System (GPS) function and push notifications. In January 2016, Audit downloaded 22 apps (Note 17) of the four departments and conducted a review of the contents of the apps. Some of the apps were catered for specific targeted users and may not have broad appeal. Audit found that:

- (a) the mobile device features of some apps were limited (see Table 19). Apps with limited or nil features were virtually duplications of the websites of the B/Ds. Audit noted that in 2014 and 2015, to save administrative and maintenance costs, the Agriculture, Fisheries and Conservation Department had decommissioned four apps that duplicated its web contents. For those apps whose average monthly number of downloads were low (e.g. the DH's "Framework@PC" and the LCSD's "Restore King Yin Lei" — see Table 19), the B/Ds concerned need to enhance the app contents to attract more people to use the apps. For example, the feature of push notification

Note 17: *The 22 apps comprised all the 10 apps of the DH, all the 3 apps of the FSD, 8 of the 18 apps of the LCSD, and the only app of the WSD.*

Provision of apps

could be added to the apps to alert users about “what’s new”. The B/Ds concerned also need to consider decommissioning the apps if the apps eventually could not meet the original objectives of developing them; and

Table 19

Mobile device features of 22 apps of DH, FSD, LCSD and WSD
(January 2016)

	Name of app	Average monthly number of downloads as at 31 August 2015	Mobile device features							
			Camera	Games to run offline	Link to calling function	Location services/ GPS function	Mobile map	Push notification	Quick response (QR) code	Sharing function
DH										
1	CookSmart: EatSmart Recipes	471	—	—	✓	—	—	—	—	✓
2	EatSmart Restaurant	1,629	—	—	✓	✓	✓	—	—	✓
3	Framework @PC	53	—	—	✓	—	—	✓	—	✓
4	Hong Kong Chinese Materia Medica Standards Volume 1, Department of Health	281	—	—	—	—	—	—	—	—
5	IMPACT	288	—	—	—	—	—	—	—	—
6	Primary Care Directory	563	—	—	✓	✓	✓	—	—	✓
7	Quit Smoking App	1,073	—	—	✓	—	—	✓	—	✓
8	Snack Nutritional Classification Wizard	209	—	—	—	—	—	—	—	—
9	Student Weight For Height Check	1,728	—	✓	—	—	—	✓	—	✓
10	1069 試戴樂	599	—	✓	✓	✓	✓	✓	—	—

Provision of apps

Table 19 (Cont'd)

	Name of app	Average monthly number of downloads as at 31 August 2015	Mobile device features							
			Camera	Games to run offline	Link to calling function	Location services/ GPS function	Mobile map	Push notification	Quick response (QR) code	Sharing function
FSD										
1	Hong Kong Fire Service Mobile Application	810	✓	–	–	✓	✓	✓	–	✓
2	Live safe, be watchful	934	–	✓	–	–	–	–	–	✓
3	Stay Calm and Collected	1,262	–	✓	–	–	–	–	–	✓
LCSD										
1	Bruce Lee: Kung Fu ArtLife	1,373	✓	–	–	–	–	–	✓	✓
2	Hong Kong International Poster Triennial 2014	160	–	–	✓	–	✓	–	–	✓
3	King Yin Lei	35	–	–	–	–	–	–	–	–
4	Matching@King Yin Lei	14	–	✓	–	–	–	–	–	–
5	My Culture	1,050	–	–	✓	✓	✓	✓	–	✓
6	Photo ME@King Yin Lei	33	✓	–	–	–	–	✓	–	–
7	Puzzle@King Yin Lei	16	–	✓	–	–	–	–	–	–
8	Restore King Yin Lei	12	–	✓	–	–	–	–	–	–
WSD										
1	WSD Mobile App	602	–	–	✓	–	–	✓	–	–

Source: OGCIO records and analysis of apps downloaded by Audit

Remarks: – denotes feature not available
✓ denotes feature available

Provision of apps

- (b) in October 2014, the WSD conducted a review of its “WSD Mobile App”. The review compared the services provided by the app and those by other utility and telecommunication companies, and concluded that some enhancement features could be added to the app. Examples of enhancement features were:
- (i) provision of user’s payment history;
 - (ii) provision of bill alert and due date alert;
 - (iii) provision of hyperlink to Internet payment service providers or provision of e-bill in QR Code for payment at convenience stores;
and
 - (iv) allowing users to update their personal particulars.

However, Audit tested the functions of the app (on Android platform on 11 January 2016 and on iOS platform on 29 January 2016) and found that none of these enhancement features had been added to the app.

Need to step up promotion of apps

5.8 It is stated in the OGCIO’s good practice guide that a B/D should promote the app it developed to let more people use it. This would be necessary especially for those government apps that had low number of downloads (see Table 19 in para. 5.7(a)). In reviewing the government apps, Audit noted the following issues relating to the promotion of apps by B/Ds:

- (a) since August 2012, the OGCI0 has launched “GovHK Apps” to provide one-stop e-Government services to the public through the mobile channel. The app serves as a centralised platform for people to choose and download any government apps. In addition, the OGCI0 has publicised on the GovHK website a list of government apps known as “Mobile websites and mobile applications of Government”. In mid-November 2015, Audit examined the government apps listed on “GovHK Apps” and the GovHK website. Audit found that 15 of the 127 apps (see para. 5.2) had not been listed (see Table 20). In February 2016, the OGCI0 informed Audit that generally it would put the apps of B/Ds onto the “GovHK Apps” and the GovHK website upon request by B/Ds as a way to improve the apps’ publicity on a voluntary basis. The OGCI0 would also try to motivate B/Ds to list their apps on the “GovHK Apps” and the GovHK website. Some apps were not listed on the “GovHK Apps” and the GovHK website because either the apps were event/project-based and were no longer up-to-date, or the B/Ds concerned did not request the OGCI0 to include their apps in the list or the GovHK website. As both the “GovHK Apps” and the GovHK website are centralised platforms for enabling the public to be aware of the availability of government apps, Audit considers that the OGCI0 needs to take measures to enhance the completeness of apps listed on the “GovHK Apps” and the GovHK website; and

Provision of apps

Table 20

**Government apps not listed on “GovHK Apps” and the GovHK website
(16 November 2015)**

B/D	No. of apps	Examples of apps
Education Bureau	8 (Note 1)	Eye Care for Hong Kong Students, QEF ebook, TSS Channel
LCSD	3	Hong Kong International Poster Triennial 2014, Appreciation of Qing Scientific Instruments
Innovation and Technology Commission	2 (Note 2)	春田花花科學盛會, McMug on Green Technology
DH	1	1069 試戴樂
Home Affairs Bureau	1	Families with Newborn Babies
Total	15	

Source: Audit examination of OGCIO app and website

Note 1: According to the Education Bureau, for the “QEF ebook” app, it is suitable to place the e-books on the platform of the HKEdCity (see Note 2 in Table 18 in para. 5.4). The teachers are familiar with this platform. The Bureau has therefore planned to migrate the e-books to the HKEdCity and phase out the app in the first half of 2016. The Bureau has no plan to place the “QEF ebook” app onto the “GovHK Apps” and the GovHK website. Regarding the “TSS Channel” app and the “Eye Care” app, the Bureau has informed the OGCIO the launch of two apps through regular updates called by the OGCIO. It also gave consent to the OGCIO on 19 November 2015 to include these two apps in the “GovHK Apps” upon the OGCIO’s request on 18 November 2015.

Note 2: According to the Innovation and Technology Commission, the two mobile apps were developed respectively for the annual InnoCarnival in 2012 and 2013. They were designed for members of the public to participate in and be kept apprised of promotional news of on-site events of the InnoCarnival. The Commission has not developed similar apps since 2013.

- (b) in April 2012, the DH launched “1069 試戴樂” targeting for the gay community. The app aims to provide Human Immunodeficiency Virus (HIV) education to gays including information on locations where they can obtain free HIV antibody test (which is used to screen for and diagnose HIV infection). Audit found that:
- (i) since its launch in April 2012 to 31 August 2015, the cumulative number of downloads of the app was some 25,000. According to DH’s reply in late January 2016 to an audit enquiry, the number of adult gays in Hong Kong was estimated to be in the region of 100,000 to 137,500. This indicated that 75% to 82% of the estimated population may not aware of the app and therefore had not downloaded the app. This situation was not satisfactory as according to the “FACTSHEET on HIV/AIDs Situation in Hong Kong” published in 2015 by the DH’s Centre for Health Protection, the DH received a record high of 651 reports of HIV infection under the voluntary and anonymous HIV/AIDS reporting system in 2014 — a 16% increase compared to the 559 cases in 2013; and
 - (ii) the app was only available in Chinese. Audit, however, noted that according to the FACTSHEET, 28% of the people infected with HIV were non-Chinese or of unknown ethnicity in 2014.

In February 2016, the DH informed Audit that in addition to the app, the DH had used other means such as website and Facebook for gays’ HIV health promotion and prevention. According to a DH’s survey in 2014, 71% (731/1,026) of the respondents had received HIV prevention message. Nevertheless, as a large number of gays may not be aware of the app (see para. 5.8(b)(i)), the DH needs to step up its promotion of the app. It also needs to launch an English version of the app.

Need to improve post-implementation review of apps

5.9 For apps funded by CWRP Head 710: Computerisation (see Appendix B), the B/D is required to submit to the OGCIO a Post-Implementation

Provision of apps

Departmental Return (PIDR — Note 18) six months after the completion of the project or live run of the system (Note 19).

5.10 Of the 22 apps examined by Audit, 10 apps were funded by the CWRP and therefore PIDR was required. Audit noted that for 3 of the 10 apps, although the PIDR had been submitted to the OGCIO, there were no deliberations in the PIDR on what could be done to improve the low number of downloads. All these three apps were developed by the FSD (see Table 19 in para. 5.7(a)).

5.11 As stated in the FSD's funding application, the three apps were expected to attract 250,000 downloads in the first year with an estimated annual growth rate of 10%. However, in the period from the launch of the app in May 2014 to 31 August 2015, the cumulative number of downloads of the three apps was 48,077 only. In the PIDR submitted to the OGCIO in February 2015, the FSD stated that on-going promotional activities would be arranged to increase the number of downloads. Notwithstanding this, Audit noted that, the number of downloads was still on the low side.

5.12 In February 2016, the FSD informed Audit that it had added five mini-games to the three apps and conducted a series of promotional activities such as video on YouTube, radio broadcasting and promotional programmes at kindergartens, primary and secondary schools. As at 26 January 2016, the cumulative number of downloads of the three apps had increased to 57,225.

Apps for one-off events

5.13 In reviewing the government apps, Audit noted that as at 31 August 2015, 31 apps had been developed for one-off events. Of these 31 apps, 23 had already been decommissioned. The total development cost of the decommissioned 23 apps amounted to some \$2.6 million. Table 21 shows a list of decommissioned apps developed by the departments covered in this review.

Note 18: *PIDR sets out the app's achievements and the reasons for any deviations from the planned achievements.*

Note 19: *In the OGCIO's good practice guide of December 2015, B/Ds are recommended to conduct post implementation review for apps that are funded by the B/Ds' own departmental expenses.*

Table 21

**Decommissioned apps for one-off events by LCSD
(31 August 2015)**

	Name of app	Development cost (\$)	Launched in	Decommissioned in	Total number of downloads
1	Chinese Opera Festival 2012	80,000 (Note 1)	April 2012	January 2013	608
2	Chinese Opera Festival 2013	60,000 (Note 1)	April 2013	January 2014	1,241
3	Enchanting Arts of Asia	40,770	August 2011	August 2013	969
4	Lasting Legacies of Eastern Europe 2013	60,770	September 2013	March 2015	900
5	New Vision Arts Festival 2012	65,964	August 2012	March 2015	948
6	The Majesty of All Under Heaven: The Eternal Realm of China's First Emperor	120,000	July 2012	November 2012	2,752
7	Exploring Tsarskoye Selo	180,000	November 2014	March 2015	3,644
8	Portable Dunhuang Story Player	185,000	November 2014	March 2015	6,745
9	3rd HK Games	65,000	March 2011	May 2011	Not available (Note 2)
Total		857,504			

Source: Audit analysis of OGCIO records

Note 1: The amount included development cost and maintenance cost.

Note 2: The LCSD did not provide the information to the OGCIO.

Remarks: Of the four departments covered in this review, only the LCSD had decommissioned apps.

Provision of apps

5.14 As shown in Table 21, the number of downloads of some apps for one-off events had been on the low side. Audit considers that the OGCIO needs to introduce more guidance for developing apps for one-off events.

Audit recommendations

5.15 Audit has *recommended* that the Director of Fire Services, the Director of Health, the Director of Leisure and Cultural Services and the Director of Water Supplies should:

- (a) regularly review the contents of their apps to ascertain whether the contents could be enhanced to attract more people to use the apps;
- (b) for those apps with number of downloads on the low side, take measures to enhance the contents to improve the download rate;
- (c) step up the promotion of their apps to boost the number of downloads; and
- (d) consider decommissioning those apps that eventually could not meet the original objectives of developing them.

5.16 Audit has *recommended* that the Director of Health should consider launching an English version of the “1069 試戴樂” app for the gay community.

5.17 Audit has *recommended* that the Director of Fire Services should enhance the public awareness and the usefulness of the three FSD apps so as to improve their download rates.

5.18 Audit has *recommended* that the Director of Water Supplies should consider adding enhancement features to “WSD Mobile App”.

5.19 **Audit has recommended that the Government Chief Information Officer should:**

- (a) **take measures to ensure the completeness of government apps listed on “GovHK Apps” and the GovHK website as far as possible; and**
- (b) **promulgate the criteria for justifying the development of apps for one-off events in the good practice guide.**

Response from the Government

5.20 The Director of Fire Services agrees with the audit recommendations in paragraphs 5.15 and 5.17. He has said that:

- (a) five newly developed mini-games will be added to the apps in April 2016 and the promotional video on YouTube will also be uploaded in May 2016;
- (b) the FSD will continue to promote the mobile apps at various kinds of publicity events (e.g. fire station/ambulance depot open days, district fire prevention carnivals, and fire safety roving exhibitions) and to the Fire Safety Ambassadors and Building Fire Safety Envoys, who are volunteers from the public;
- (c) mobile apps promotion kiosk will be installed at publicity vehicles including the Mobile Publicity Unit, Fire Safety Education Bus and the Ambulance Service Publicity Vehicle;
- (d) mobile apps promotion corner will be set up shortly at the Fire and Ambulance Education Centre cum Museum at the newly commissioned Fire and Ambulance Services Academy at Tseung Kwan O; and
- (e) the FSD would continue to improve the contents of the apps and take concrete measures to enhance the public awareness to improve the download rate.

Provision of apps

5.21 The Director of Health agrees with the audit recommendations in paragraphs 5.15 and 5.16. She has said that:

- (a) the DH will review regularly to enhance the contents of the apps as needed and continue to find possible ways to step up promotion of the apps to attract more target users to use the apps as well as to improve the download rate. The DH will also consider decommissioning the apps that ultimately do not meet the original objectives; and
- (b) the DH will revamp the “1069 試戴樂” app with improvement in its content and incorporation of an English version for the gay community. The new version is planned to be launched in March 2017.

5.22 The Director of Leisure and Cultural Services agrees with the audit recommendations in paragraph 5.15.

5.23 The Government Chief Information Officer agrees with the audit recommendations in paragraph 5.19.

5.24 The Director of Water Supplies agrees with the audit recommendations in paragraphs 5.15 and 5.18. He has said that:

- (a) provision of QR code for payment at convenience stores has already been implemented;
- (b) the WSD will consider the implementation of the other three enhancement features (see para. 5.7(b)(i), (ii) and (iv)) when resources are available; and
- (c) an enhancement for sub-dividing district to smaller districts is being designed and would be implemented in the second quarter of 2016.

Way forward for government apps

5.25 Government apps have been developed at a fast rate. Since the launch of the first government app “MyObservatory” in 2010, some 160 apps (including apps for one-off events that had been decommissioned) had been developed as at 31 August 2015. According to the OGCIO, an anticipated total of 29 new apps would be launched by the end of 2015-16.

5.26 In this PART, Audit identified scope for improvement in the provision of apps by the Government. As mentioned in paragraph 1.4, the OGCIO provides leadership in driving forward ICT proactively within the Government and accounts for the Government’s investment in ICT and related programmes. The OGCIO needs to incorporate the audit recommendations into the good practice guide and in view of the rapid technology change, regularly review the guide to ascertain if revisions are needed.

Audit recommendations

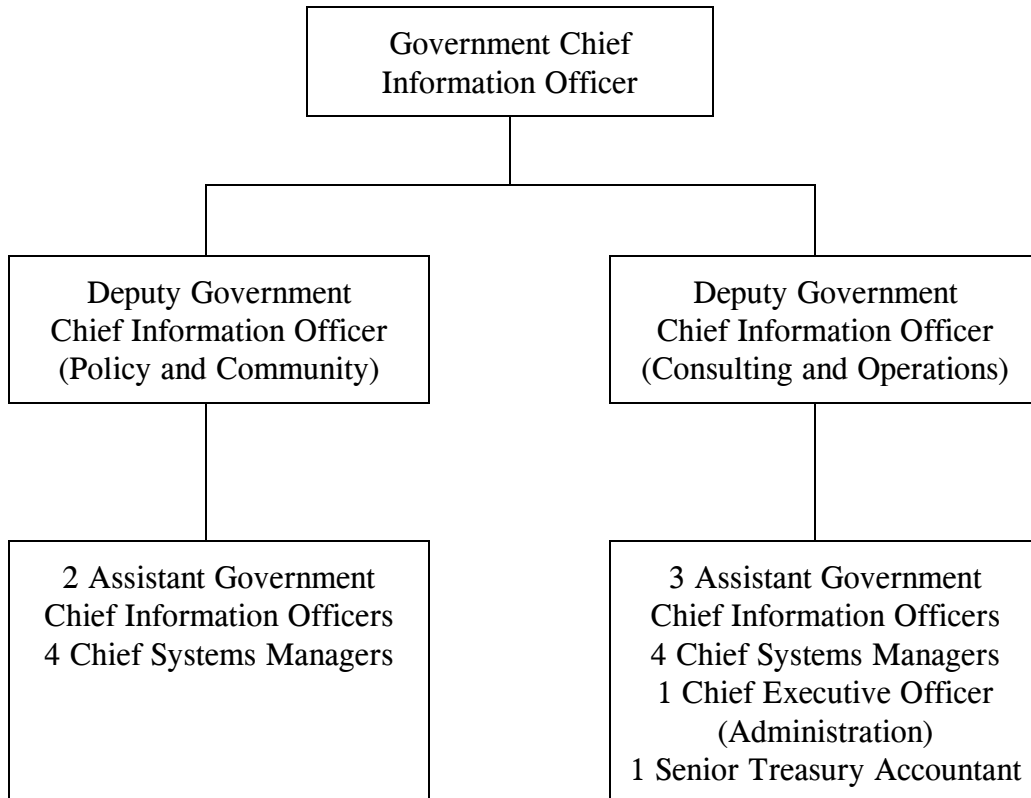
5.27 *Audit recommends* that the Government Chief Information Officer should:

- (a) **in the light of the audit recommendations, promulgate guidelines in the OGCIO good practice guide on the provision of government apps; and**
- (b) **regularly review the guide to determine if revisions are needed due to technology changes.**

Response from the Government

5.28 The Government Chief Information Officer agrees with the audit recommendations.

OGCIO: Organisation chart (extract)
(31 December 2015)



Source: OGCI O records

Remarks: The OGCI O was set up in July 2004 through the merger between the then Information Technology Services Department and the IT-related divisions of the then Commerce, Industry and Technology Bureau. In July 2007, the Bureau merged with some business functions of the then Economic Development and Labour Bureau to form the Commerce and Economic Development Bureau. Following this 2007 merger, the Government Chief Information Officer reported to the Permanent Secretary for Commerce and Economic Development (Communications and Technology). Following the establishment of the Innovation and Technology Bureau in November 2015, he reports to the Permanent Secretary for Innovation and Technology.

**Approving authority for expenditure for procuring
ICT products and services
(up to 31 March 2016)**

Source of funding	Estimated procurement cost	Authority for endorsing projects	Authority for approving funding
<i>Administrative computer systems</i>			
GRA: Recurrent Account of the appropriate Head of Expenditure	Project or standalone computer equipment costing not more than \$150,000 (Note 1) each	N.A.	Relevant Controlling Officer
CWRF Head 710: Computerisation (Subhead A007GX — block allocation)	Above \$150,000 (Note 1) but not exceeding \$10 million each	OGCIO's Administrative Computer Projects Committee (ACPC — Note 2)	Government Chief Information Officer
CWRF Head 710: Computerisation (Other Subheads)	Above \$10 million each	Technical support by OGCIO and funding support by the Financial Services and the Treasury Bureau (FSTB)	Finance Committee (FC) of Legislative Council (LegCo)
<i>Non-administrative computer systems</i>			
GRA: Recurrent Account of the appropriate Head of Expenditure	Project or standalone computer equipment costing not more than \$150,000 (Note 1) each	N.A.	Relevant Controlling Officer

Appendix B
(Cont'd)
(paras. 1.10, 2.8 and 5.9 refer)

Source of funding	Estimated procurement cost	Authority for endorsing projects	Authority for approving funding
GRA: Capital Account Subhead 661 — Minor Plant, Vehicles and Equipment (Block vote) of the appropriate Head of Expenditure	Above \$150,000 (Note 1) but not exceeding \$2 million (Note 3) each	Funding support by FSTB	FSTB
(i) CWRP Head 708: Capital Subventions and Major Systems and Equipment for non-administrative computers, communication equipment and mechanised systems only (ii) GRA: Capital Account Subhead 603 — Plant, Vehicles and Equipment of the appropriate Head of Expenditure for systems/equipment other than (i) above	Above \$2 million (Note 3)	Funding support by FSTB	FSTB for project cost above \$2 million but not exceeding \$10 million each; or FC of LegCo for project cost above \$10 million each

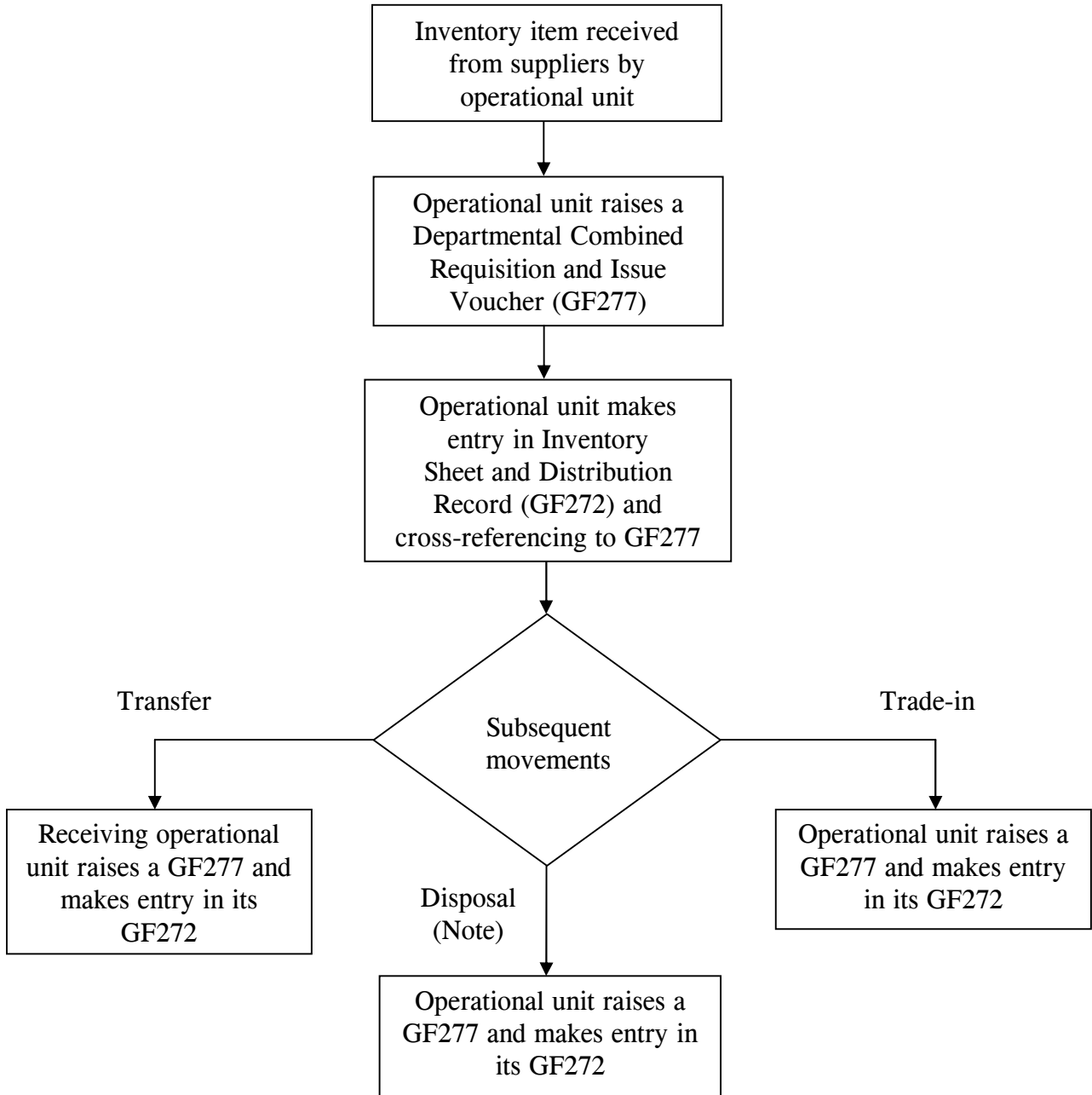
Source: OGCIO records

Note 1: The amount will be revised to \$200,000 with effect from 1 April 2016.

Note 2: The ACPC is chaired by the Deputy Government Chief Information Officer (Consulting and Operations). Its members comprise the Deputy Government Chief Information Officer (Policy and Community), two Assistant Government Chief Information Officers and a Chief Systems Manager.

Note 3: The amount will be revised to \$10 million with effect from 1 April 2016.

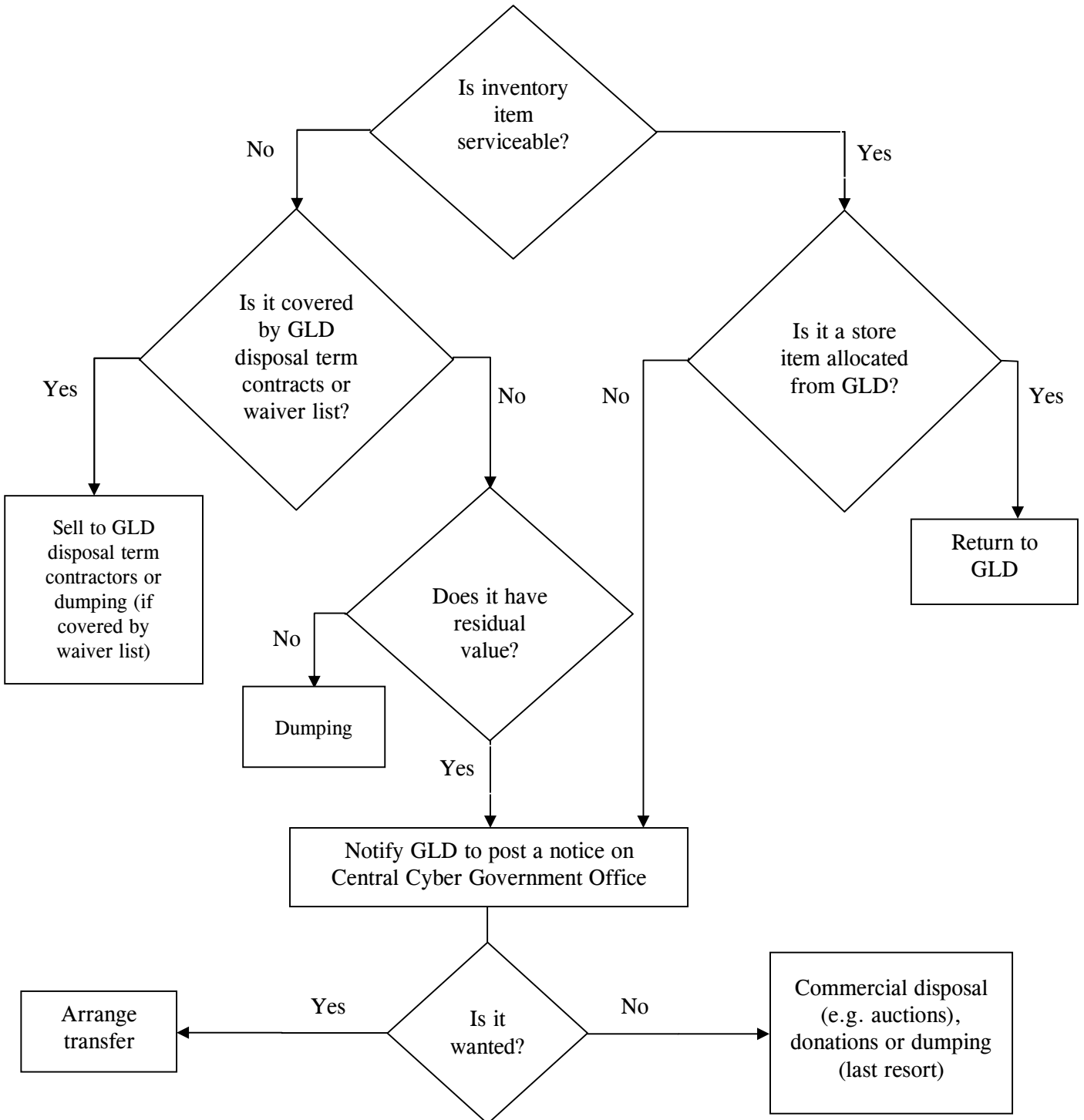
Controls of movements of inventory items under the SPRs



Source: SPRs

Note: Inventory items can be disposed of through commercial means (e.g. auctions), donations or dumping. Disposal of ICT inventory items is covered in PART 4 of this Audit Report.

**Procedures for disposal of inventory items
under the SPRs**



Source: SPRs

Acronyms and abbreviations

ACPC	Administrative Computer Projects Committee
apps	mobile applications
Audit	Audit Commission
B/Ds	Government bureaux and departments
C&ED	Customs and Excise Department
CWRF	Capital Works Reserve Fund
DDC	Departmental Disposal Committee
DH	Department of Health
EPD	Environmental Protection Department
FC	Finance Committee
FSD	Fire Services Department
FSTB	Financial Services and the Treasury Bureau
GLD	Government Logistics Department
GPS	Global Positioning System
GRA	General Revenue Account
HIV	Human Immunodeficiency Virus
HyD	Highways Department
ICT	Information and communications technology
IT	Information technology
ITAS	IT Asset System
ITMU	Information Technology Management Unit
LCSD	Leisure and Cultural Services Department
LegCo	Legislative Council
NGO	Non-governmental organisation
OGCIO	Office of the Government Chief Information Officer
PIDR	Post-Implementation Departmental Return
QR code	Quick response code
SOA	Standing Offer Agreement
SPRs	Stores and Procurement Regulations
SRs	Security Regulations
WSD	Water Supplies Department