

**A brief account of Chapter 2 of Report No. 73  
“Provision of consultancy, research and development and training services  
by the Hong Kong Productivity Council”  
by the Director of Audit  
at the Public Hearing of the Public Accounts Committee  
of the Legislative Council on Friday, 13 December 2019**

Mr. Chairman,

Thank you for inviting me here to give a brief account of Chapter 2 of Report No. 73 of the Director of Audit, entitled “Provision of consultancy, research and development and training services by the Hong Kong Productivity Council”.

This Audit Report comprises four PARTs.

**PART 1 of the Report, namely “Introduction”, describes the background of the audit.**

The Hong Kong Productivity Council (HKPC) was established in 1967 under the HKPC Ordinance (Cap. 1116) with an aim to improve the productivity, operational efficiency and competitiveness of local industries. The Council is the governing body of HKPC and is supported by four Committees. In 2017-18, HKPC had a total income of \$711 million, which included government subventions of \$223.3 million. In the same year, HKPC had a total expenditure of \$663.7 million.

**PART 2 of the Report examines the provision of consultancy and manufacturing support services by HKPC.**

HKPC’s consultancy projects include advisory projects to provide professional help and advice to clients, and development projects to develop products or systems for clients. The Audit Commission (Audit) noted that the target on the key performance indicator (KPI) “Number of consultancy projects accepted” was not met throughout the four-year period 2014-15 to 2017-18. The target for 2018-19 was met after HKPC’s decision in July 2018 to classify manufacturing support projects with service fees over \$5,000 as consultancy projects. However, the target for 2018-19 was not revised according to the new definition, and HKPC did not inform the Council or the Innovation and Technology Commission (ITC) of the change in the definition.

In the period from 2014-15 to 2018-19, HKPC completed 788 productivity related consultancy projects elsewhere than in Hong Kong. Among them, 308 (i.e. 39%) projects did not recover all costs incurred, contrary to the requirement stipulated in the HKPC Ordinance. In addition, HKPC offered different concession rates to small and medium enterprise clients of its 484 consultancy projects in 2018-19, but there was no documentary evidence showing the justifications for the different rates offered.

Of the 4,299 consultancy projects completed in the period from 2014-15 to 2018-19, 1,243 (i.e. 29%) projects were completed late, and full cost was not recovered in 1,078 (i.e. 25%) projects. Regarding manufacturing support projects, we found that some workshop services were not billed and the amounts were provided as sponsorships for Innovation and Technology Fund (ITF) funded projects to fulfil the minimum sponsorship requirement.

HKPC established the Inno Space in October 2017 to provide manufacturing support services to users not engaged in manufacturing support projects, such as providing equipment and machinery for developing prototypes. We found that in 2018-19, income of Inno Space fell short of the target by 40%, and on average the ten items of equipment reviewed were booked on only 26 days.

### **PART 3 of the Report examines the Research and Development (R&D) projects of HKPC.**

“Number of on-going R&D projects” is one of the KPIs used by HKPC in the management of R&D projects. Audit considers that using the number of on-going projects as a KPI might give an unintended incentive for project teams to delay projects. In addition, in the period from 2014-15 to 2018-19, of the 106 reports concerning ITF funded R&D projects due for submission, 37 were submitted late.

If a product or technology developed is considered appropriate for wider commercial use, HKPC will apply for a patent for it and transfer it to the industry by way of commercialisation. As at 31 August 2019, HKPC had 123 patents, but only 4 had generated licence or royalty income, and the total income was \$1.5 million.

### **PART 4 of the Report examines the provision of training programmes by HKPC.**

HKPC provides public training programmes for enrolment by the public, and corporate training programmes for companies and organisations. The actual income from public training programmes for the period from 2014-15 to 2018-19 was only 47% to 65% of

the targets, and of the 20 programmes examined, the actual enrolment of 12 were less than the estimated enrolment.

All the training venues of HKPC are in the HKPC Building located in Kowloon Tong. Apart from training programmes organised by HKPC, the venues are also available for use by outside organisations including the Government, private companies and other non-governmental organisations. The overall utilisation rates of these training venues in 2017-18 and 2018-19 were low (i.e. 17% and 16% respectively).

In the light of the audit findings, Audit has made recommendations to HKPC accordingly.

In addition, we have also recommended ITC to consider taking appropriate follow-up actions on the sponsorship issue mentioned, that is, fees for some workshop services were not billed and the amounts were provided as sponsorships for ITF funded projects.

Our views and recommendations were agreed by HKPC and ITC. I would like to take this opportunity to acknowledge with gratitude the full cooperation, assistance and positive response of their staff during the course of the audit review.

Thank you, Mr. Chairman.