

16 December 2019

Mr Anthony Chu
Clerk, Public Accounts Committee
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Chu,

Public Accounts Committee
Consideration of Chapter 2 of the Director of Audit's Report No. 73
Provision of consultancy, research and development and training services
by the Hong Kong Productivity Council

As required under your letter with reference "CB4/PAC/R73" dated 13 December 2019, the following three sets of files are attached:

- a) **File A: Tables setting out the required project details for the period from 2014-2015 to 2018-2019**, please note that:

In the process of preparing the project details on the "Consultancy – Professional Manufacturing Support Service" type on 13 December (after first PAC Hearing), all 141 projects under this type were checked to ensure the accuracy. However, 55 projects were found not to meet the eligibility as decided in the management meeting in July 2018 to include projects "if service amount exceeds \$5,000". It was believed that the erroneous counting was due to insufficient cascading to frontline staff, and the failure in updating such information timely in Standard Practice – which was a primary guideline for frontline staff to categorize project types. Based on such finding, a rectification will be immediately carried out to revoke the number of "Consultancy – Professional Manufacturing Support Service" from 141 to 86, deducting the 55 wrongfully included projects. Hence, the total "Number of consultancy projects accepted" will be adjusted from 944 to 889.

The above situation was reported immediately to ITC and the Council Chairman upon discovery. As effort to avoid similar situations from happening again, the Standard Practice will be updated during the upcoming KPI revamp, in consultation with ITC and the Council. The exercise to define new KPIs and targets is expected to complete by March 2020, and new KPIs will be submitted to ITC and Council for approval.

- b) **File B (B1, B2 & B3): A copy of the management meeting minutes chaired by the Executive Director of HKPC in July 2018** (*English only, with sensitive information masked*);
- c) **File C (C1 & C2): A copy of guidelines for HKPC staff in classifying what constitute consultancy projects and manufacturing support projects as consultancy projects, and the vetting and monitoring mechanism put in place by HKPC to ensure proper classification of such projects.**

Please feel free to contact me if you have any question about the information provided.

Yours sincerely,



Mohamed D. Butt
Executive Director
Hong Kong Productivity Council

c.c. Secretary for Innovation and Technology
Commissioner for Innovation and Technology
Secretary for Financial Services and the Treasury
Director of Audit (Attention: Mr. Anthony Lo, Senior Auditor)

(a) Number of manufacturing support projects with service fees over \$5,000:

	Manufacturing support projects - without consultancy	Consultancy – Professional Manufacturing Supporting Service	Total Manufacturing support projects
	No. of Project	No. of Project	No. of Project
2014-15	51	-	51
2015-16	44	-	44
2016-17	40	4	44
2017-18	51	20	71
2018-19	36	86	122
	222	110	332

Number of consultancy projects accepted with breakdown by size, average service fees, and staff-related expense:

	\$5,000 or below			\$5,001 to \$100,000			\$100,001 to \$500,000			\$500,001 to \$1,000,000			Over \$1,000,000			Total								
	No. of Project	Project Value	Staff related expense	Average Value	No. of Project	Project Value	Staff related expense	Average Value	No. of Project	Project Value	Staff related expense	Average Value	No. of Project	Project Value	Staff related expense	Average Value	No. of Project	Project Value	Staff related expense	Average Value				
2014-15	10	0.0	0.0	0.003	455	20.2	14.6	0.044	383	88.7	43.6	0.232	62	43.8	23.1	0.706	60	141.1	69.8	2.351	970	293.8	151.2	0.303
2015-16	9	0.0	0.0	0.003	409	20.0	14.4	0.049	366	85.5	43.5	0.234	59	42.4	25.7	0.718	74	271.8	230.8	3.674	917	419.8	314.5	0.458
2016-17	11	0.0	0.0	0.003	406	18.7	13.8	0.046	376	88.2	44.0	0.235	66	48.9	27.5	0.741	89	250.8	99.4	2.818	948	406.7	184.7	0.429
2017-18	18	0.1	0.2	0.004	343	16.1	12.7	0.047	198	51.7	31.1	0.261	62	44.6	24.3	0.720	78	203.7	177.4	2.611	699	316.1	245.6	0.452
2018-19	124	0.4	0.3	0.003	531	22.2	19.2	0.042	166	38.5	26.8	0.232	42	31.7	20.9	0.754	81	238.0	124.1	2.938	944	330.7	191.3	0.350
	172	0.6	0.5	0.003	2,144	97.2	74.6	0.045	1,489	352.6	189.0	0.237	291	211.3	121.6	0.726	382	1,105.4	701.4	2.894	4,478	1,767.0	1,087.2	0.395

Note:

1. In 2018-19, the 944 consultancy projects accepted includes 141 manufacturing support project, with consultancy element.
2. Among 141 projects, 118 (83.7%) were related to testing services, 8 (5.7%) were related to design and machining services, and 15 (10.6%) were related to professional services.
3. For project size group \$5,000 or below, the number of projects increased significantly from 18 projects in 2017/18 to 124 projects in 2018/19 due to the inclusion of some new IT related consultancy projects and projects for the set up and testing of new safety systems for tail lift trucks. As a government initiative in May 2018 to increase the safety of tail lift truck, HKPC provided a newly designed safety system for each individual truck. The installation and testing works were started in July 2018.

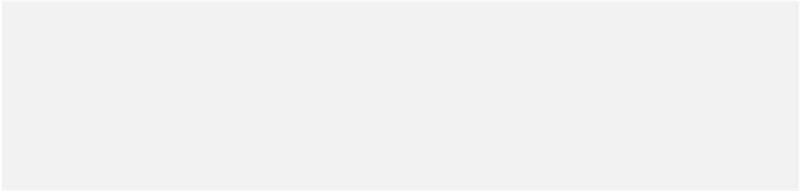
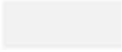
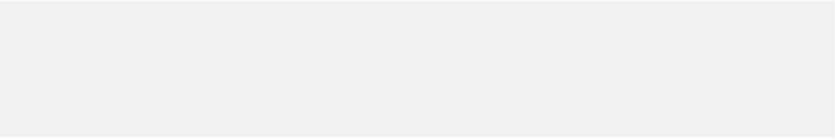
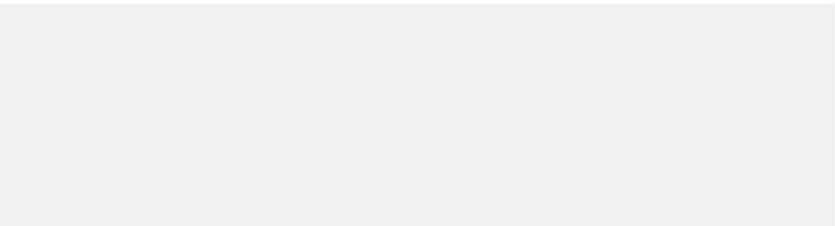
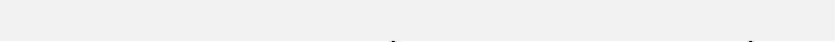
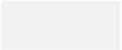
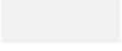
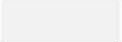
Action List for Monthly Management Meeting

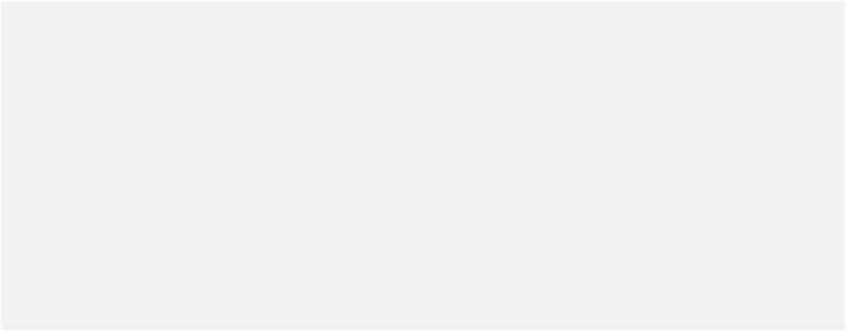
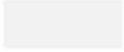
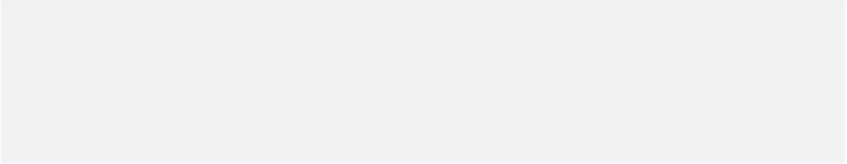
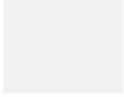
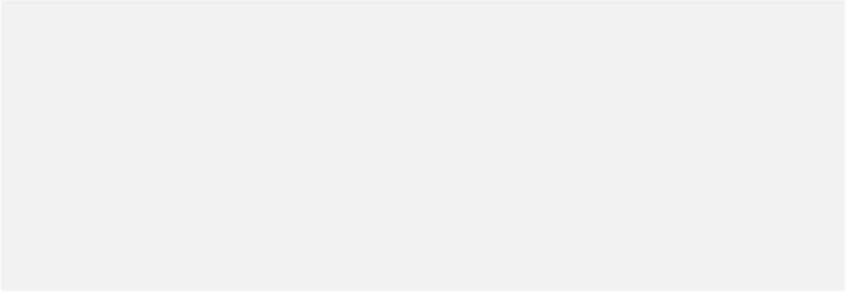
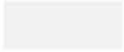
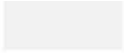
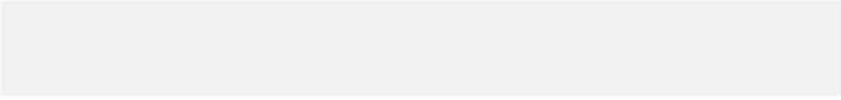
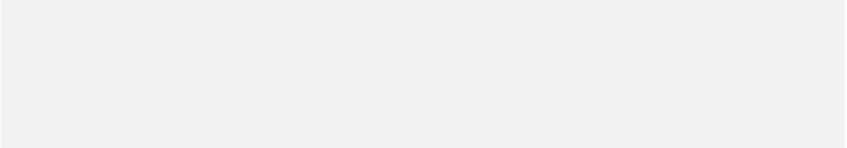
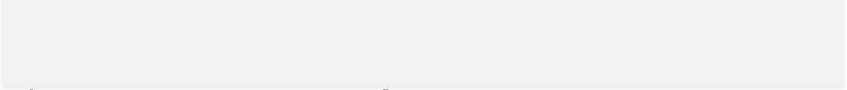
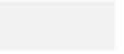
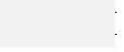
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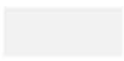
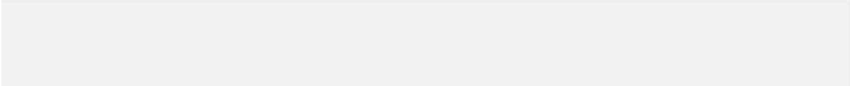
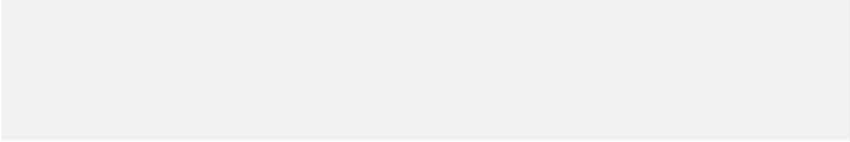
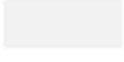
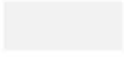
Venue: Board Room, 2/F

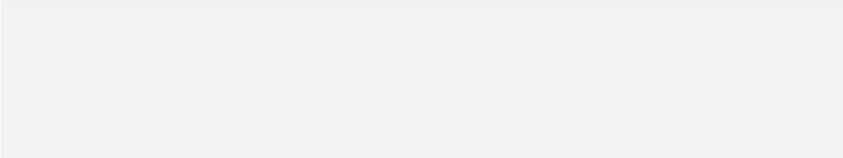

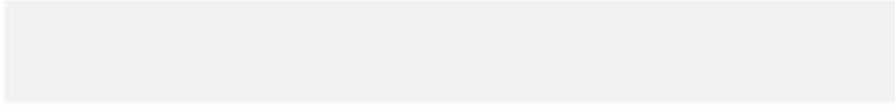

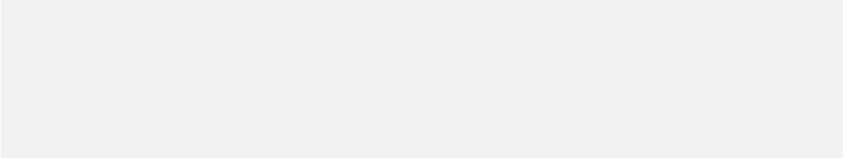
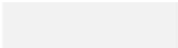
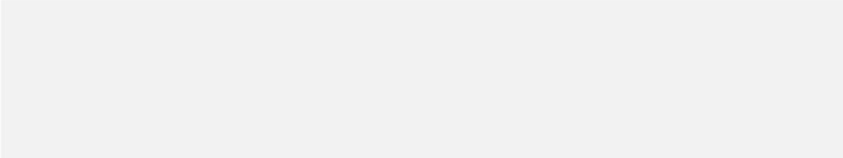
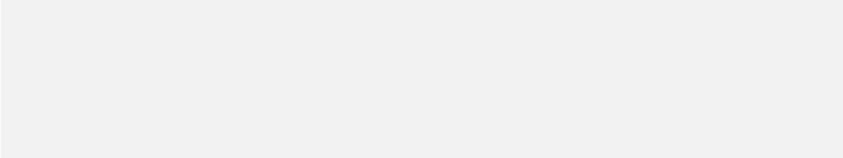

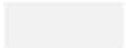
Present: ED, BDs, GMs, H/AR, DGM/RAU, DGM/I4U, G. Luk, R. Ko
(agenda items 2-4), K. Suen (agenda item 12), J. Chow
(agenda item 15-17)


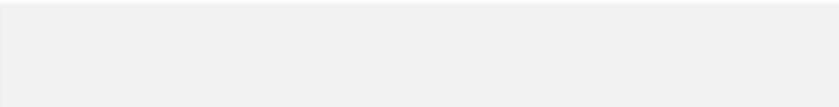
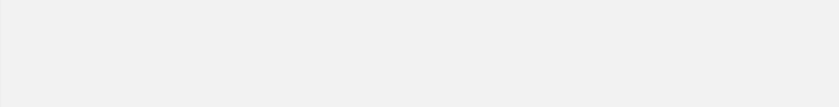
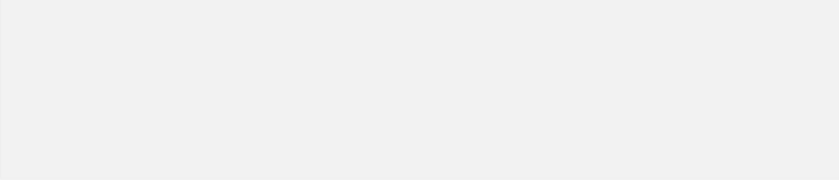

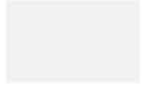
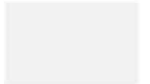


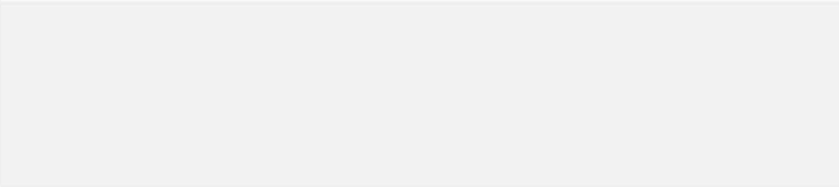
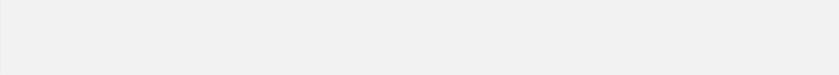

The meeting received presentations/verbal reports on the following items by the responsible parties as set out in the agenda. The actions to be taken are recorded below.

Actions to be Taken	Action Party
<p>(1) <u>Matters Arising</u></p> <p><u>Annual Dinner</u></p> <p>(a) </p>	<p></p>
<p>(2) <u>Financial Performance Review June 2018 (for HKPC)</u> (MMM 48/2018)</p> <p>(a) </p> <p>(b) </p> <p>(c) </p>	<p></p> <p></p> <p></p>

Actions to be Taken	Action Party
(d) 	
(3) <u>WFOE Financial Report June 2018 (MMM 49/2018)</u> (a) 	
(4) <u>2019/20 Budget Assumptions</u> (a)  (b)	 
(5) <u>Q1 Scorecard (MMM 50/2018)</u> 	
(6) <u>Cross Selling and Cross-divisional Collaboration Initiatives (MMM 51/2018)</u> (a)  (b) 	 

Actions to be Taken	Action Party
(c) 	
<p data-bbox="252 589 1161 674">(7) <u>Business List for New Opportunities Business Development</u> (MMM 52/2018)</p> <p data-bbox="252 730 1161 815">(a) </p> <p data-bbox="252 824 1161 965">(b) </p>	 
<p data-bbox="252 1021 1161 1061">(8) <u>KPI Catch up Plan</u> (MMM 53/2018)</p> <p data-bbox="252 1117 1161 1294">(a) To further consider the proposed catch up measures as to whether any inconsistencies would be created among the related KPIs and the potential impact on other KPIs before implementation.</p> <p data-bbox="252 1305 544 1346">[Post meeting notes:</p> <ol data-bbox="252 1357 1161 1964" style="list-style-type: none"> <li data-bbox="252 1357 1161 1771">1. The morning prayer on 25/7/2018 agreed that as a measure to improve our performance under the KPI of “newly accepted consultancy projects”, divisions could consider opening CG-type project (i.e. consultancy – professional manufacturing supporting service) for manufacturing support service of consultancy nature and with value of over \$5,000. Such CG-type projects would be counted under the said KPI with a remark indicating their number in future reports (ref: GM/SM’s email of 25/7/2018). <li data-bbox="252 1783 1161 1964">2. The morning prayer on 7/8/2018 supported that, for the KPI of “income from training”, divisions could consider opening TA-type project for public seminars or training courses with income from a single source, as in the case of a company or 	<p data-bbox="1209 1117 1337 1202">GM/SM, GM/MC</p>

Actions to be Taken	Action Party
organization providing the total fee and collaborating with HKPC to organize such seminar or training course to the public.]	
<p>(9) <u>Updates on Annual Leave Days – Old Entitlement</u></p> <p>(a) </p>	
<p>(10) <u>Verbal Report by Simplification Taskforce</u></p> 	
<p>(11) <u>Information Security Awareness Programme Result (MMM 54/2018)</u></p> 	
<p>(12) <u>Monthly Safety Report (MMM 55/2018)</u></p> <p>(a) </p>	
<p>(13) <u>Tracking of Government Funding Proposals Supported at Internal Vetting (MMM 56/2018)</u></p> <p>(a) </p> <p>(b) </p>	 
<p>(14) <u>Division Highlights - Verbal Report by Business</u></p>	

Actions to be Taken	Action Party
<u>Divisions</u> 	
(15) <u>Corporate Calendar</u> (MMM 57/2018) (a)  (b)  (b) 	  
(16) <u>Marketing Action Plan</u> (MMM 58/2018) 	
(17) <u>Verbal Report on Major Upcoming Events in Jul-Sep 2018</u> 	
(18) <u>Any Other Business</u> <u>華南理工</u> (a)  <u>Per Diem</u> (b)  <u>Report on Projects with Potential Overspending/Delay</u>	

Actions to be Taken	Action Party
(c) [REDACTED]	[REDACTED]

12/8/2018



KPIs Performance Improvement Task – No. of Consultancy Projects

MMM 53/2018

Issue: 2017/18 Target – 968, Actual – 699 (*shortfall by 269*)

Status: 2018/19 Target – 935, Actual (YTD) ~ 145

Proposed Action: Open a separate **CG Type Project** for a potential client of a **SA Type Project** if the service amount exceeds **\$5,000**

Note:

CG Type Project: Consultancy – Professional Manufacturing Supporting Service such as testing, machining, professional supporting services, etc., with consultancy advisory to a client

SA Type Project – Professional Manufacturing Supporting Services such as testing, machine, professional supporting services to a client or multiple clients



HKPC[®]

1



From: K" LYY
 Subject: Re: KPI on No. of Consultancy Projects
 Date: 25 July 2018 at 10:37 AM
 To: A. Ng, M. Chau, A. Wong, K. Fung, K. Liu, P. Pang, H. Lee, J. Chan, T. Choy, B. Chan, W. Lo
 Cc: G. Lo, L. Cheung, E. Lai, R. Mun, S. Suen, F. Lai, C. Fung, Y. Ko, W. Wong, R. Shan, R. Fong, M. Ge, L. Poon, C. Li, V. Lin, G. Luk, K. Cheng

Dear all,

After today’s Morning Prayer Meeting, it was resolved that all of us have to try our best to achieve the KPI on No. of Consultancy Projects with the following measure to be implemented:

- Try to open a separate CG type project for a potential client of a SA type project if the service amount exceeds \$5,000 (note that if the service amount is less than \$5,000, it will not be justified to open a separate CG project because of the additional project admin work)

Note:

The above measure can increase the total no. of consultancy projects but will not affect another KPI – Income from Manufacturing Support Projects

For a CG type project with amount less than \$100K and service duration less than 3 months, you may:

- Follow a simplified SAP project open route
- Replace the Standard Agreement with a client-signed quotation (please send your sample of quotation to our In-house Legal Counsel, Mr. Ken Cheng for review first and you may ask Ruby to obtain some samples of quotation from SMD for reference)
- Ask your respective GM to waive for deposit payment if necessary

I would update the Number of Acceptance Project, similar as follow, for your quick reference on the discrepancy of the targets to be achieved on a monthly-basis.

Division - Number of Acceptance Project 1/4/18-19/6/18								
Division	KPI Target 18/19	Unit	CA	CB	CE	CF	CG	
CDD	0	1502	1		1			
EMD	160	0713	1					
		4101	7		2	7		
		4103	7					6
		4104	3					
14U	50	0711	2	1		2		
ITD	135	5001	6	1				

		5006	2					
		1605	1					
		2215	2					
MCD	400	2202	43					
		2211	2		1	5		
		2213	7			1		
		3803	4		1			
AED	80	3804	5					
		3805	2				3	
		3807	4					
RAU	50	0715	6	3				
SMD	60	0714	1					
		3808				5		
Total :	935		106	5	5	20	9	

Should you have any query or need any further support, please contact me directly or via my secretary, Ruby.

Best Regards,

K. Lee

General Manager 總經理

Smart Machinery & Surface Technology Division 智能機械及表面處理科技部

T: (852) 2788 5551 / Fax: 2788 5522

HKPC Building, 78 Tat Chee Avenue, Kowloon, Hong Kong

香港九龍達之路78號生產力大樓



Extract from HKPC Standard Practice F3 on Project Management and Guideline Notes

HKPC staff select the most appropriate project type based on the Guideline Notes in the HKPC Standard Practice.

STANDARD PRACTICE

Standard Practice No.:	F3
Subject:	Project Management
Prepared by:	Finance and Procurement Division
Date issued: (dd/mm/yyyy)	11/01/2017
Supersedes that issued on:	21/12/2015

Policy

1. The Council strives to exhibit quality project management meeting the expectation of corporate governance and management efficiency.

Objective

2. The Standard Practice depicts the principle and guidelines on project management so as to ensure the project initiation, planning, execution, controlling and completion processes are properly carried out.
3. Timely and accurate project management in a transparent and documented manner help alert project managers and the management to the Council's business operations and financial performance.

Principle

4. As the Council engages in projects of very diverse nature, the system and process stipulated herewith on project management serves to provide broad guidance only. Staff, particularly project managers, should exercise their professionalism and due judgment reasonably in managing details connected with overall project management even if those details are not explicitly stated in the Standard Practice.
5. Project managers (who must be at Consultant rank or Senior Project Officer rank or above) are responsible for the overall relevance, accuracy and timeliness of the project activities related information contained in the Council's enterprise resources planning (ERP) system.

Regulations

6. Details required for project management are set out in the "Guidance Notes on Project Management".

Guidance Notes on Project Management

Classification of Project Type

1. HKPC has a duty to report on the kinds of activity it engaged and so project is classified according to its nature. Project has to be set up according to its Type, or Business Area, in ERP system.
2. Definitions and details reference on Business Areas are listed in Appendix A (“Project Definition”) of this Guidance Notes.

Code	Project Type	Project Nature	Major Activities	Core Resources	Project Fee	Income Recognition
CA	Consultancy - Advisory Service	Project relied on the domain knowledge of consultant(s) to provide professional help and advice to the client	<ul style="list-style-type: none"> - Project master plan preparation - Consultancy team formation - Onsite visit / Client interview - Information collection / Fact finding - Situation analysis / Problem diagnosis - Improvement areas identification - Advice / Solution recommendation - Consultancy report submission / Presentation to client 	Subject expert / Consultancy team	Charged by fixed amount as per agreement	Based on billing and percentage of completion

CG	Consultancy – Professional Manufacturing Supporting Service	Project providing multiple testing / machining / professional supporting services with consultancy advisory to a client	<ul style="list-style-type: none"> - Service scope and schedule confirmation - Service team formation / booking - Design, engineering and precision fabrication - Laboratory / Equipment booking and setup - Service provision and delivery - Post-service evaluation - Deliveries include analysis report / consultancy advice 	<ul style="list-style-type: none"> - Service team - Laboratory assistant 	Charged by service fee or fixed amount as per agreement	Based on billing and percentage of completion
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Code	Project Type	Project Nature	Major Activities	Core Resources	Project Fee	Income Recognition
SA	Professional Manufacturing Supporting Service (without Consultancy Element)	Project providing testing / machining / professional supporting services to a client or multiple clients	<ul style="list-style-type: none"> - Service scope and schedule confirmation - Service team formation / booking - Laboratory / Equipment booking and setup - Service provision and delivery - Post-service evaluation 	<ul style="list-style-type: none"> - Service team - Laboratory assistant 	Entire Amount Booked As Income	Based on billing and project deliverables

The vetting and monitoring mechanism put in place by HKPC to ensure proper classification of such projects.

Under the HKPC Standard Practice of HKPC, there is guideline on the definition of consultancy project and manufacturing support project as consultancy project. The relevant sections of the Standard Practice is included.

According to the Standard Practice F3, HKPC has a duty to report on the kinds of activity it engaged and so project is classified according to its nature. Project has to be set up according to its Type, or Business Area, in an ERP system, making reference to the definition in the Standard Practice. Project Manager has responsibility on the project management and maintenance of project information in ERP including the project type or Business Area. Project Manager enters the preliminary project financial information into the quotation summary with General Manager or above for approval (as per Project Approval Authority) and Finance and Procurement Division validates the related financial information in the ERP system such as project sum, project costs, etc.

If the client accepts the proposal, Project Manager is required to upload and input information in ERP including signed agreement, project work breakdown structure, billing schedule, staff cost and other cost. Then Project Manager should submit the project to General Manager or above for acceptance and Finance and Procurement Division validation in ERP.