

*Governance and administrative issues of the Hong Kong Productivity Council*

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The Audit Commission ("Audit") conducted a review of governance and administrative issues of the Hong Kong Productivity Council ("HKPC").<sup>1</sup> An audit review on the subject was previously conducted in October 2009.<sup>2</sup>

2. Hon SHIU Ka-fai declared that he was engaged in the trading business of construction materials, and unremunerated honorary adviser or honorary member to some non-governmental organizations or trade associations.

3. 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 was supported by four Committees.<sup>3</sup> As at 31 March 2019, HKPC had a total of 640 staff, comprising 245 permanent and 395 contract staff. Commissioner for Innovation and Technology is the Controlling Officer of the subventions granted to HKPC. In 2017-2018, 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.

4. The Committee noted the following findings from the Director of Audit's Report:

Corporate governance and performance reporting

- for 19 (90%) of the 21 Council/Committee meetings held in 2018 and 2019 (up to 31 March), the revised draft minutes were issued more than two weeks after the issue of the draft minutes, with delays ranging from 1 to 29 days;
- from 2015 to 31 March 2019, 12 (13%) of the 95 annual declarations of interest were submitted, on average, 15 days later than required;

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<sup>1</sup> Audit also conducted a review of provision of consultancy, research and development and training services by HKPC, the findings of which were contained in Chapter 2 of the Director of Audit's Report No. 73. Findings by the Public Accounts Committee are presented in Chapter 2 of Part 9 of this report.

<sup>2</sup> Chapter 7 of Director of Audit's Report No. 53 – "Hong Kong Productivity Council: Corporate governance and administrative issues" and Public Accounts Committee Report No. 53.

<sup>3</sup> The four committees were Audit Committee, Business Development Committee, Finance Committee and Staffing Committee.

- since 2002, HKPC's service focus stated in the Memorandum of Administrative Arrangements<sup>4</sup> had not been revised despite changes in the economy;
- from 2014-2015 to 2018-2019, HKPC failed to meet one or more performance targets every year. Some performance targets were not achieved for three years or more. For the targets on two key performance indicators, there was no documentary evidence showing that HKPC had provided explanations to Commissioner for Innovation and Technology for failing to meet them in 2017-2018;

#### Human resource management

- the total staff strength fell short of the total staff establishment by 131 (18.8%) as at 30 June 2018 and by 123 (17.7%) as at 30 June 2019. Significant staff shortfalls for some staff grade and significant staff surpluses for some others were noticeable;
- from 2014-2015 to 2018-2019, the overall staff turnover rates were on the high side (averaging 19.2%). Out of 109 staff who left HKPC on a voluntary resignation basis in 2018-2019, 46 (42%) had served in HKPC for less than two years;
- for the 100 out of 318 recruitment exercises examined by Audit, the following situations were found:
  - (a) no shortlisting criteria were set;
  - (b) for 22 (22%) of the 100 recruitment exercises examined, fewer than three (only one or two) candidates were shortlisted for interview without documentary evidence on the justifications for shortlisting fewer than three candidates for interview;
  - (c) in one case, a candidate not meeting a job requirement was appointed;

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<sup>4</sup> In March 2003, the Government and HKPC entered into a Memorandum of Administrative Arrangements. The service focus recommended in the 2002 Consultancy Study was incorporated in the provisions of the Memorandum.

- (d) in four exercises, the Selection Panel Chairman declared that he was a friend or an ex-colleague of the candidates, but he continued to chair the Panel; and
- (e) in one case, a person was offered a post which he had not applied for without going through the shortlisting and interview procedures;

#### Procurement and other administrative issues

- suppliers were not selected for quotations by rotation as required in the HKPC Standard Practices. Instead, the procurement officers selected the required number of suppliers based on the past performance of the suppliers without considering the justifications for the deviation;
- two purchases on the same day of the same product with total value exceeding quotation limit were not bundled for tender. There was no documentary evidence showing that the requisitioning officer was unable to anticipate the second purchase at the time when the first purchase was made and that the different delivery dates had made it impossible to bundle the purchases;
- inactive suppliers could not be identified readily from the existing computer system;
- the number of fixed asset items selected for each quarterly surprise stocktaking exercise was small (i.e. five items). The types of items selected for surprise stocktaking were limited, as 33 (94%) of the 35 items selected were notebook computers;
- in 2018-2019, 52 (16%) of the 320 items of equipment did not achieve the expected utilization;
- utilization of a company car was low (i.e. idle on 36 (60%) of the 60 working days from January to March 2019). Car log books and key collection record were incomplete;
- no documentary evidence showed the justifications for approval of 11 claims of entertainment expenses where the number of staff members involved exceeded the number of guests; and

- out of the 73 applications for official travels outside Hong Kong submitted from November 2018 to March 2019, nine (12%) applications were approved after departure, contrary to HKPC's guidelines.

5. The Committee did not hold any public hearing on this subject. Instead, it asked for written responses regarding corporate governance and performance reporting, human resource management, procurement and other administrative issues. The replies from **Executive Director of HKPC, Secretary for Innovation and Technology, Secretary for Financial Services and the Treasury, Commissioner for Innovation and Technology** and **Director of Audit** are in *Appendices 30 to 34* respectively.

6. The Committee wishes to be kept informed of the progress made in implementing the various recommendations made by Audit.