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28 October 2022

The President of the Legislative Council,  
Legislative Council Complex,  
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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. 78 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,

Prof. LAM Chi Yuen Nelson

# CONTENTS

The Director of Audit's Report No. 78 contains the following chapters:

**Chapter**  
**(Note)**

**Subject**

1	Hong Kong Export Credit Insurance Corporation
2	Licensing services for drivers
3	Management of the development at Anderson Road project
4	Technology Voucher Programme

**Note:** *The chapter numbers are assigned in alphabetical order according to the titles of chapters in the English report.*

# 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**

**Commerce and Economic Development Bureau  
Hong Kong Export Credit Insurance  
Corporation**

**Hong Kong Export Credit Insurance  
Corporation**

**Audit Commission  
Hong Kong  
10 June 2022**

*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. 78 of the Director of Audit contains 4 Chapters which are available on our website at <https://www.aud.gov.hk>



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# HONG KONG EXPORT CREDIT INSURANCE CORPORATION

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# HONG KONG EXPORT CREDIT INSURANCE CORPORATION

## Executive Summary

1. The Hong Kong Export Credit Insurance Corporation (ECIC) is a statutory organisation established in 1966 under ECIC Ordinance (Cap. 1115). It aims to encourage and support export trade by providing Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events. ECIC Ordinance provides that the Government shall guarantee the payment of all moneys due by ECIC, and that the contingent liability of ECIC under contracts of insurance shall not at any time exceed a specified amount determined by the Legislative Council. In 2020-21, ECIC's insured business and profit amounted to \$130,688 million and \$212.63 million respectively. An Advisory Board is established under ECIC Ordinance to advise ECIC in the conduct of its business. ECIC maintains regular two-way communication with the Commerce and Economic Development Bureau (CEDB). The Commissioner of ECIC is appointed by the Chief Executive of the Hong Kong Special Administrative Region. As at 31 December 2021, ECIC had 106 staff (including the Commissioner).

## Corporate governance and performance management

2. *Room for improvement in appointing Advisory Board members.* The Audit Commission (Audit) reviewed the appointments of Advisory Board members in the period from 2016-17 to 2021-22 (up to December 2021) and found that: (a) CEDB reappointed the Chairman of the Advisory Board for a term of two years in April 2017. At that time the Chairman had already been appointed to eight advisory and statutory bodies. The reappointment was contrary to the Government's principle that a person should not be appointed to serve as a non-official member on more than six advisory and statutory bodies at any one time (i.e. the "Six-board Rule"); and (b) the Government aimed to increase the overall ratio of young members (i.e. persons who are aged between 18 and 35) in Government boards and committees to 15%. In the period from October 2017 to December 2021, none of the 4 new non-official Board members appointed was aged between 18 and 35 when they were appointed. As at 31 December 2021, none of the 9 non-official members was aged between 18 and 35 (para. 2.4).

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3. ***Delays in taking oaths by Advisory Board members.*** Audit examined the 31 oaths taken by non-official members appointed (including 10 first appointments and 21 reappointments) in the period from 2015-16 to 2020-21 and found that: (a) 2 (20%) of the 10 oaths for first appointments were taken 2 and 6 days respectively after the commencement of their terms; and (b) 4 (19%) of the 21 oaths for reappointments were taken 4 to 62 days (averaging 20 days) after the commencement of their terms. In 1 of the 4 cases, Board papers had been circulated to the member concerned before the oath was taken (para. 2.6).

4. ***Room for improvement in appointing members of sub-committees.*** The Advisory Board is supported by two sub-committees, namely the Audit Committee and the Investment Committee. Audit noted that: (a) Investment Committee members were not always replaced by new ones in a timely manner upon their retirement; and (b) in January 2021, invitations were sent to Board members inviting them to express interest in filling an Audit Committee member position. However, there was no documentary evidence showing that ECIC had discussed as required with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before sending the invitations (para. 2.11).

5. ***Late submission of draft corporate plans (DCPs) to the Advisory Board.*** Every year, ECIC prepares a DCP which includes ECIC's budget, and programmes and activities. ECIC's Finance and Accounting Manual stipulated that the budget should be submitted to the Advisory Board for consideration before the commencement of each financial year. Audit noted that in four of the five years from 2017-18 to 2021-22, DCPs were submitted to the Advisory Board for consideration 15 to 47 days (averaging 31 days) after the commencement of the ensuing financial years (paras. 2.13 to 2.15).

6. ***Late submission of DCPs and holding of housekeeping meetings.*** In four of the five years from 2017-18 to 2021-22, DCPs were submitted to CEDB for approval 22 to 153 days (averaging 67 days) after the commencement of the financial years. In the event, DCPs were approved 33 to 177 days (averaging 93 days) after the commencement of the financial years. Audit also noted that after the housekeeping meeting between CEDB and ECIC conducted in December 2019, ECIC had not submitted half-yearly reports to CEDB and no housekeeping meetings had been conducted. In June 2021 (i.e. 1.5 years after the previous meeting), ECIC submitted a report (covering the period from April 2020 to March 2021) to CEDB and conducted a housekeeping meeting with CEDB to discuss the report (para. 2.19).

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7. *Need to review scope of services periodically.* It is stipulated by section 9(3) of the ECIC Ordinance that ECIC shall not enter into contracts of insurance against risks that are normally insured with commercial insurers. Audit noted that in October 2013, ECIC submitted a paper to the Advisory Board regarding the export credit insurance market in Hong Kong. The paper included a comparison of ECIC's insurance products with those provided by other insurers. However, since 2013, ECIC had not conducted similar comparison of ECIC's insurance products with those provided by other insurers and reported the results to the Advisory Board. There is a need for ECIC to take measures to ensure that section 9(3) of the ECIC Ordinance is complied with (paras. 2.21, 2.25 and 2.26).

8. *Need to disclose the remuneration of senior executives.* ECIC has not disclosed the remuneration policies for its senior executives and their total remuneration in bands in its annual reports. To enhance transparency, ECIC needs to consider whether there are merits to disclose such information in the annual reports (para. 2.28).

9. *Need to conduct regular reviews on the governance structure of ECIC.* In 2011, CEDB conducted a review on ECIC's governance. CEDB informed the Legislative Council that CEDB would review the governance structure of ECIC from time to time. Audit noted that neither CEDB nor ECIC had conducted further reviews on ECIC's governance structure after the 2011 review. The business of ECIC has been expanded rapidly in the past 10 years and ECIC's existing governance structure is not commonly adopted by export credit agencies outside Hong Kong. CEDB needs to conduct a review on the governance structure of ECIC with a view to further improving the existing governance structure (paras. 2.29 to 2.31).

10. *Need to expedite revisions of key performance indicators (KPIs).* In February 2020, ECIC completed a consultancy review of its KPIs. In the Advisory Board meeting in April 2020, ECIC undertook, in consultation with CEDB, to formulate an implementation proposal regarding the review report's observations and recommendations for revisions of KPIs. However, the proposal was not submitted to the Advisory Board for endorsement until the meeting in November 2021 (i.e. 1.5 years after ECIC undertook to formulate the proposal) (paras. 2.37 and 2.38).

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### Provision of export credit insurance services

11. *Need to shorten elapsed time from receiving proposals to completion of processing them.* ECIC has set a performance pledge to complete the processing of proposals and issue quotations within two working days based on completed proposals and adequate information being available. The pledge was met in the period from 2016-17 to 2020-21. However, the time taken was much longer than two working days for ECIC to collect the information necessary for processing the proposals. In the period from April 2020 to September 2021, ECIC issued quotations for 753 proposals. The average elapsed time (in terms of calendar days) from receiving the proposals to issuing quotations was 20 days, ranging from 1 to 103 days. Audit examined five cases with elapsed time longer than 60 days and found that actions could have been taken in a more timely manner to avoid unnecessary delays (paras. 3.5 to 3.7).

12. *Need to improve handling of outstanding quotations pending acceptance.* In the period from April 2020 to September 2021, of the 753 quotations issued to applicants, 447 (59%) were accepted. There was room for improvement for ECIC in handling outstanding quotations pending acceptance by applicants. For example, in one case examined by Audit: (a) for all extensions of the validity period of the quotation, reasons had not been provided to justify allowing more time for the applicant to consider the quotation; (b) the applicant was informed that the quotation had lapsed but in fact the quotation had not lapsed yet; and (c) ECIC allowed the applicant to accept the quotation although it had already lapsed for 20 days (paras. 3.9 and 3.10).

13. *Need to expedite the issue of credit limits to policyholders.* ECIC has set a performance pledge of completing the processing of credit limit applications (CLAs) and issue credit limits for CLAs of above \$1 million within four working days based on adequate information being available, and within three working days for CLAs of \$1 million or below. The pledge was met in the period from 2016-17 to 2020-21. However, the time taken was much longer than three/four working days for ECIC to collect the necessary information for processing CLAs. In the period from April 2020 to September 2021, the average elapsed time from receiving CLAs to issuing credit limits or rejecting CLAs was 5.4 days (ranging from 0 to 86 days) for the 25,096 CLAs of \$1 million or below and 7.7 days (ranging from 0 to 90 days) for the 26,221 CLAs of above \$1 million. Audit examined 3 CLAs with the longest elapsed time and found that in 2 cases, there was room for improvement for ECIC to take more timely actions in obtaining the required information (paras. 3.15 to 3.17).

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14. ***Room for improvement in conducting reviews on buyers.*** ECIC conducts reviews on buyers. According to ECIC's guidelines, the reviews should be completed within five working days upon receipt of credit reports and adequate information. The pledge was met in the period from 2016-17 to 2020-21. However, for the 15,593 reviews conducted in the period from April 2020 to September 2021, the average elapsed time from receiving credit reports to completion of reviews was 6.2 days (ranging from 0 to 247 days). Audit examined five reviews with elapsed time of more than 90 days and found that there was room for improvement for ECIC in obtaining the required information for the reviews (paras. 3.18 to 3.20).

15. ***Late declarations of shipments by policyholders.*** In the period from April to September 2021, 4,608 (3%) of the 179,611 declarations of shipments were submitted late. The average period of delay was 27 days, ranging from 1 to 787 days. In the same period, ECIC identified 19 policyholders as "frequently late policyholders" for whom the responsible officers should submit assessment results and recommended actions. Audit noted that: (a) for 17 (89%) of the 19 policyholders, the recommended actions were to remind the policyholders on the requirements of timely declarations of shipments. However, for 3 (18%) of the 17 policyholders, no documentary evidence showed that ECIC had reminded them; and (b) for the remaining 2 (11%) policyholders, the responsible officers had not submitted the recommended actions (paras. 3.24 and 3.26).

16. ***Room for improvement in notifications of likely loss by policyholders.*** Under the policy terms, a policyholder has to inform ECIC of payment difficulty cases within five working days. In the period from April 2020 to September 2021, ECIC accepted two late reported payment difficulty cases in which the policyholders concerned had been late in the reporting of payment difficulty cases in their previous claims cases. However, no documentary evidence showed that ECIC had complied with its requirement to arrange follow-up meetings with the policyholders concerned to reinforce their understanding of the policy terms and conditions or issue written reminders to the policyholders concerned to that effect (paras. 3.35 to 3.38).

17. ***Room for improvement in debt recovery by policyholders.*** In the period from April 2020 to September 2021, ECIC made payments to policyholders in 119 claims cases. Audit found that: (a) the policyholder must obtain ECIC's prior written approval before proceeding with the appointment of a debt collector if the policyholder has to seek reimbursement of costs or charges subsequently incurred. The policyholder should require the debt collector to declare any actual, perceived or

## Executive Summary

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potential conflict of interest with the buyer on a prescribed form before appointment. Audit's examination on 5 of the 119 claims cases revealed that in 2 cases, the policyholders had appointed debt collectors before obtaining written approval from ECIC and completing the prescribed form; (b) ECIC's written approval must be obtained before a policyholder accepts any proposal in relation to the composition or rescheduling of debts. In 1 of the 5 claims cases examined, the policyholder did not obtain ECIC's written approval before accepting the buyer's offer of a reduced payment; and (c) according to ECIC's guidelines, cases should be written off as soon as practicable where the prospect of recovery or further recovery is non-existent or too remote. As at 31 January 2022, there were 59 outstanding recovery cases which had been identified as cases to be written off for more than four months. Audit examined 3 of the 59 cases and noted that these cases had been concluded as cases to be written off in the previous three/four reviews and identified as cases to be written off for about 1.3 years or more (paras. 3.39 to 3.41 and 3.43 to 3.45).

### Administrative issues

18. ***High staff turnover rates.*** Audit found that for the period from 2016-17 to 2020-21: (a) the overall staff turnover rates in each individual year were on the high side, ranging from 12.5% in 2017-18 to 22.6% in 2019-20, with the five-year average overall staff turnover rate being 17.1%; and (b) the average number of years of service of staff leaving ECIC in each individual year was more than 4 years, ranging from 4.8 years to 7.9 years (para. 4.3).

19. ***Need to conduct salary structure reviews in a timely manner.*** According to ECIC's Salary Administration Guide, the salary range of each salary band should be reviewed and adjusted from time to time by conducting a comprehensive pay level review every 3 to 5 years or when there are indications that the market has changed significantly. Audit found that: (a) the latest two comprehensive pay level reviews were completed in September 2013 and June 2020, almost 7 years apart; and (b) up to 31 December 2021, ECIC was still discussing the results of the review completed in June 2020 with CEDB and had yet to submit the results to the Advisory Board for endorsement (paras. 4.6 and 4.7).

20. ***Insufficient coverage in stocktaking of computer software and hardware.*** According to ECIC's requirements, the physical existence of fixed assets must be checked against the fixed asset register twice annually. Audit reviewed the records of 10 stocktaking exercises conducted in the period from 2016-17 to 2020-21 and



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found that: (a) the samples of computer software and hardware selected from the fixed asset register for checking did not include all of the 10 items with the highest net book value (NBV), contrary to ECIC's sampling instructions; and (b) NBV of computer software and hardware covered in the stocktaking exercises varied significantly. While the stocktaking exercise in 2016-17 covered 24% of the total NBV, all items selected for the 2017-18 stocktaking exercise had zero NBV (paras. 4.12 and 4.13).

21. ***Room for improvement in the procurement process.*** According to ECIC's requirements, tendering exercises should be conducted for purchases with value over \$500,000. Exemptions should only be granted under acceptable circumstances and should be approved by senior management, with justifications properly documented. In the period from 2016-17 to 2020-21, Audit noted that of the 33 purchases with value over \$500,000: (a) exemptions from tender exercises were approved for 26 (79%) purchases, which were conducted by written quotations instead of tenders as required. For an approval sought in August 2020, the approval was sought based on an estimated cost of \$1 million, which turned out to be much lower than the actual cost of \$2.6 million; and (b) since 2010, every year, approval had been granted to enter into a contract with the same vendor for a billboard advertising place through a single quotation instead of conducting restricted tenders as required. No documentary evidence showed that similar advertising places were not available and the reasons why ECIC could not obtain quotations or tenders from other vendors (paras. 4.17 to 4.19).

## Audit recommendations

22. **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, ECIC should:**

### ***Corporate governance and performance management***

- (a) **ensure that Advisory Board members take oaths before the commencement of their terms (para. 2.33(a));**
- (b) **replace retiring sub-committee members as expeditiously as practicable (para. 2.33(d));**

## **Executive Summary**

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- (c) **discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before inviting Advisory Board members to join the Audit Committee (para. 2.33(e));**
- (d) **submit DCPs to the Advisory Board for endorsement before the commencement of the ensuing financial years (para. 2.33(f));**
- (e) **ensure that ECIC complies with section 9(3) of ECIC Ordinance (para. 2.33(h));**
- (f) **consider disclosing the remuneration policies for its senior executives and their total remuneration in bands in the annual reports (para. 2.33(i));**
- (g) **expedite the implementation of the consultant's recommendations on KPI revisions (para. 2.41(a));**

### ***Provision of export credit insurance services***

- (h) **take timely actions in collecting the required information and documents needed for processing proposals and CLAs and in conducting reviews on buyers (paras. 3.11(a), 3.21(a) and (b));**
- (i) **promulgate clear and detailed guidelines on the proper handling of outstanding quotations (para. 3.11(b));**
- (j) **remind those “frequently late policyholders” on the requirements of timely declarations of shipments (para. 3.32(a));**
- (k) **document the recommended actions taken for late declarations (para. 3.32(b));**
- (l) **ensure compliance of control measures on payment difficulty cases (para. 3.46(a));**
- (m) **address the issue of policyholders' non-compliance with the policy terms (para. 3.46(b));**

## **Executive Summary**

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- (n) **write off those cases identified to be written off as soon as practicable (para. 3.46(c));**

### ***Administrative issues***

- (o) **formulate measures to address the high staff turnover rates (para. 4.10(a));**
- (p) **promulgate clear guidelines on the frequency of comprehensive pay level reviews, and expedite the endorsement and implementation of the recommendations of the 2020 comprehensive pay level review (para. 4.10(b) and (c));**
- (q) **ensure that stocktaking exercises are conducted according to the requirements (para. 4.25(a)); and**
- (r) **stipulate guidelines on the handling of major discrepancies between initial cost estimates and actual procurement values, and the circumstances under which tender requirement for purchases can be exempted (para. 4.25(c) and (d)).**

23. **Audit has also *recommended* that the Secretary for Commerce and Economic Development should:**

### ***Corporate governance and performance management***

- (a) **ensure that the “Six-board Rule” is complied with and appoint more young people to the Advisory Board (para. 2.32(a) and (b));**
- (b) **ensure that DCPs and half-yearly reports on ECIC’s performance and operations are submitted, and conduct half-yearly housekeeping meetings in a timely manner (para. 2.32(c)(i) and (ii)); and**
- (c) **conduct a review on the governance structure of ECIC (para. 2.32(d)).**

## **Executive Summary**

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### **Response from the Government and the Hong Kong Export Credit Insurance Corporation**

24. The Secretary for Commerce and Economic Development and the Commissioner, ECIC 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 Hong Kong Export Credit Insurance Corporation (ECIC) is a statutory organisation established in 1966 under ECIC Ordinance (Cap. 1115). It aims to encourage and support export trade by providing Hong Kong exporters with insurance protection against non-payment risks arising from commercial and political events. ECIC's insurance business covers non-payment risks arising from:

- (a) ***Buyer risks.*** Buyer risks include:
  - (i) bankruptcy or insolvency;
  - (ii) payment default; and
  - (iii) failure or refusal to take delivery of goods; and
- (b) ***Country risks.*** Country risks include:
  - (i) blockage or delay in foreign exchange remittance;
  - (ii) import ban or cancellation of import licence;
  - (iii) payment moratorium; and
  - (iv) war, revolution, riot or natural disaster.

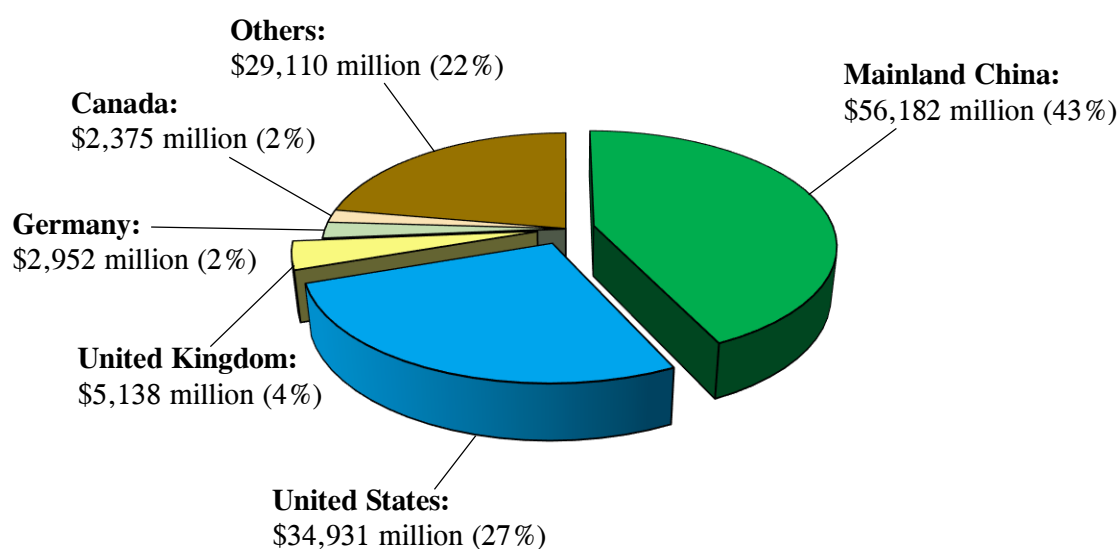
## Introduction

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1.3 In 2020-21, the amount of ECIC's insured business (Note 1) was \$130,688 million. The major markets of insured business were Mainland China (43%) and the United States (27%) (see Figure 1). The major products of insured business were electronics (37%), and textiles and clothing (14%) (see Figure 2).

**Figure 1**

**Insured business analysed by markets  
(2020-21)**



*Source: Audit analysis of ECIC records*

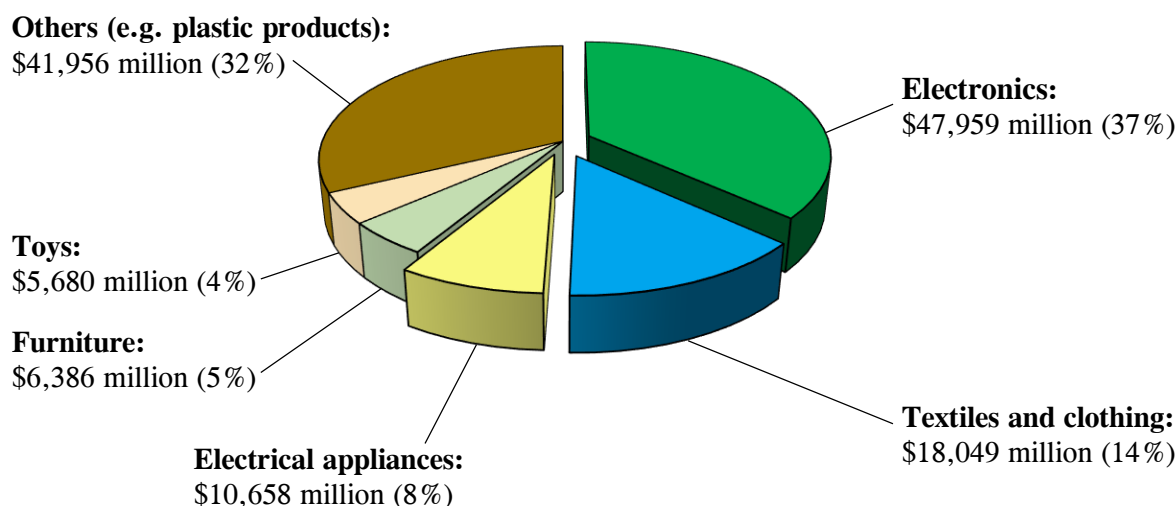
*Remarks: Total amount of ECIC's insured business was \$130,688 million.*

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**Note 1:** *According to ECIC, policyholders must declare shipment of goods/services provided on credit terms to buyers/clients outside Hong Kong and pay premium for the shipments declared. The term "insured business" refers to the amount of goods/services where shipment declaration has been made and premium has been invoiced.*

Figure 2

**Insured business analysed by products  
(2020-21)**



*Source: Audit analysis of ECIC records*

*Remarks: Total amount of ECIC's insured business was \$130,688 million.*

1.4 ECIC Ordinance provides that the Government shall guarantee the payment of all moneys due by ECIC. The Ordinance stipulates that the contingent liability of ECIC under contracts of insurance shall not at any time exceed a specified amount determined by the Legislative Council by resolution. As at 31 December 2021, the amount of ECIC's maximum contingent liability as approved by the Legislative Council was \$55 billion. The Government made two capital injections of \$10 million each to ECIC in 1966 and 1974 respectively. In 2012, ECIC refunded the \$20 million capital injections in full to the Government.

1.5 ECIC does not receive recurrent subvention from the Government. It is required under ECIC Ordinance to pursue a policy directed towards securing revenue sufficient to meet all expenditure properly chargeable to its revenue account. In 2020-21, ECIC made a profit of \$212.63 million. The income of ECIC comprised underwriting income of \$23.75 million and investment income of \$188.88 million. As at 31 March 2021, ECIC's capital and reserves amounted to \$2,614.88 million (see Table 1).

**Table 1**

**Financial information of ECIC  
(2016-17 to 2020-21)**

	<b>2016-17 (\$ million)</b>	<b>2017-18 (\$ million)</b>	<b>2018-19 (\$ million)</b>	<b>2019-20 (\$ million)</b>	<b>2020-21 (\$ million)</b>
Insured business	131,211	160,253	150,914	120,244	130,688
Underwriting income/(loss)	66.91	17.04	(64.29) (Note)	(110.70) (Note)	23.75
Investment income	52.06	107.33	50.17	6.12	188.88
Operating expenses	107.94	110.30	109.65	112.31	104.90
Profit/(loss)	118.97	124.37	(14.12)	(104.58)	212.63
Capital and reserves at year end	2,263.61	2,414.76	2,382.14	2,265.69	2,614.88

*Source:* Audit analysis of ECIC records

*Note:* According to ECIC, the underwriting losses in 2018-19 and 2019-20 were mainly due to the significant claims paid and claims provisions made for payment difficulty cases relating to one buyer in 2018-19 and another buyer in 2019-20.

### ***Governance and organisation structure***

1.6 ***Advisory Board.*** An Advisory Board is established under ECIC Ordinance to advise ECIC in the conduct of its business. The Advisory Board holds meeting three times a year to discuss matters including the annual budget, corporate and strategic plans, performance evaluations, remuneration adjustments, etc. The Advisory Board is not the governing body of ECIC. It is stipulated in ECIC Ordinance that ECIC shall not be bound by the advice of the Advisory Board, and the powers, functions and duties of ECIC may be exercised or performed in its name and on its behalf by the Commissioner of ECIC. As at 31 December 2021, the Advisory Board had 11 members, comprising the Chairman, an ex-officio member (Note 2), a Principal Assistant Secretary of the Commerce and Economic Development Bureau

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**Note 2:** According to ECIC Ordinance, the Executive Director, Hong Kong Trade Development Council (or his representative) shall be the ex-officio member of the Advisory Board.



(CEDB), and 8 members from various sectors including finance, insurance, and trade and services. According to the Terms of Reference of the Advisory Board:

- (a) the Advisory Board should have an appropriate balance of skills, knowledge, experience, independence and diversity. It shall provide advice on the following aspects of ECIC:
  - (i) business conduct;
  - (ii) market development;
  - (iii) performance; and
  - (iv) market direction;
- (b) the Chairman shall ensure that the Advisory Board effectively discharges its roles and responsibilities, lead discussions and make decisions on behalf of the Advisory Board as required;
- (c) members shall participate in discussions, offer advice from their respective expert areas and share market insights;
- (d) ECIC shall supply members with complete, timely and accurate information for the meetings, and provide additional information and feedback as requested; and
- (e) the Secretary (Note 3) shall effectively coordinate and prepare necessary materials for the meetings, and provide ancillary support to the Advisory Board.

1.7 ***Sub-committees.*** The Advisory Board has established the Audit Committee and the Investment Committee (Note 4) to support the Board's work:

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**Note 3:** *An Assistant General Manager of ECIC acts as the Secretary of the Advisory Board.*

**Note 4:** *According to ECIC, the Audit Committee and the Investment Committee are sub-committees set up under the Advisory Board.*

## Introduction

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- (a) ***Audit Committee.*** The Audit Committee advises ECIC on internal controls and corporate governance issues, and considers ECIC's auditing matters. It reports to the Advisory Board. The Committee meets three times a year. As at 31 December 2021, 4 of the 11 Advisory Board members were members of the Audit Committee; and
- (b) ***Investment Committee.*** The Investment Committee advises ECIC in the conduct of its investment matters and reports to the Advisory Board. The Committee meets four times a year. As at 31 December 2021, 5 of the 11 Advisory Board members were members of the Investment Committee.

1.8 ***Communication between CEDB and ECIC.*** As stated in CEDB's Controlling Officer's Report, CEDB works with ECIC to assist Hong Kong exporters. ECIC maintains regular two-way communication with CEDB. Apart from providing regular reports on financial and corporate matters, ECIC also consults CEDB from time to time on new measures and services related to the discharge of its public mission, and seeks approval for the annual budget and corporate plan. In addition, a Principal Assistant Secretary of CEDB is one of the Advisory Board members (see para. 1.6).

1.9 ***Organisation structure.*** According to ECIC Ordinance, the Commissioner of ECIC is appointed by the Chief Executive (CE) of the Hong Kong Special Administrative Region (Note 5). As at 31 December 2021, ECIC had 106 staff (including the Commissioner). An extract of the organisation chart of ECIC is at Appendix A.

### ***Measures to support exporters amid the coronavirus disease (COVID-19) epidemic***

1.10 In light of the COVID-19 epidemic, in April and June 2020, ECIC implemented various measures to provide support to Hong Kong exporters in regaining market share and exploring export trade markets:

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**Note 5:** *CE's authority to appoint the Commissioner of ECIC has been delegated to the Secretary for Commerce and Economic Development.*

- (a) ***For all policyholders.*** Major measures included:
- (i) expediting claims settlement process involving amounts up to \$1 million;
  - (ii) granting across-the-board premium payment terms of 120 days;
  - (iii) uplifting the credit limits of policyholders through the “100% Credit Limit Top-up Scheme” (Note 6);
  - (iv) providing policyholders with ten additional free credit check facilities; and
  - (v) waiving the annual policy fee and additional premium for extended or new payment term; and
- (b) ***For holders of Small Business Policy (SBP — Note 7).*** Major measures included:
- (i) extending premium due date for one month;
  - (ii) increasing the premium discount from 30% to 50%; and
  - (iii) providing pre-shipment cover for approved buyers. Claims payment would be made according to the terms and conditions of the policy if the insured buyer cancels the contract or becomes insolvent before shipment.

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**Note 6:** *In June 2020, the Government launched the “100% Credit Limit Top-up Scheme” through ECIC. The validity period of the Scheme is from June 2020 to June 2022. Under the Scheme, ECIC would uplift the credit limits of policyholders by 100%, or up to the amount applied for by the policyholders, whichever is the smaller, subject to a cap of \$100 million. The Government assumed the default risks of the additional credit limits.*

**Note 7:** *SBP is for Hong Kong companies with annual turnover less than \$50 million.*

### Audit review

1.11 In October 2021, the Audit Commission (Audit) commenced a review of ECIC. This audit has focused on the following areas:

- (a) corporate governance and performance management (PART 2);
- (b) provision of export credit insurance services (PART 3); and
- (c) administrative issues (PART 4).

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 Hong Kong Export Credit Insurance Corporation

1.12 The Commissioner, ECIC generally agrees with the audit recommendations. He has said that:

- (a) ECIC appreciates the review conducted by Audit. ECIC is fully committed to encouraging and supporting the export trade, while upholding high principles in corporate governance. An Internal Audit Unit and an Audit Committee under the Advisory Board were set up in February 2010 and February 2011 respectively. ECIC adopted a three lines of defence model after the Risk Management Division was set up in April 2017;
- (b) throughout the years, ECIC has taken different initiatives to facilitate smart management and compliance with established policies and procedures. ECIC strongly believes in continual improvement and focuses especially on bringing in more transparency and accountability to the organisation; and
- (c) after full consultation with CEDB and the Advisory Board, ECIC will develop new measures in response to those audit recommendations which cannot be implemented immediately. For improvements which can be made immediately, ECIC has already implemented the necessary measures.

ECIC will keep CEDB and the Advisory Board informed of the progress of implementation.

### **General response from the Government**

1.13 The Secretary for Commerce and Economic Development generally agrees with the audit recommendations. He has said that the value for money audit on the operation of ECIC helps further enhance its effective and efficient operations.

### **Acknowledgement**

1.14 During the audit review, in light of the outbreak of the fifth wave of the COVID-19 epidemic, the Government and ECIC had implemented various special work arrangements and targeted measures for their employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of CEDB and ECIC during the course of the audit review amid the COVID-19 epidemic.

## **PART 2: CORPORATE GOVERNANCE AND PERFORMANCE MANAGEMENT**

2.1 This PART examines corporate governance and performance management issues, focusing on the following areas:

- (a) corporate governance (paras. 2.2 to 2.35); and
- (b) performance management (paras. 2.36 to 2.42).

### **Corporate governance**

#### ***Governing structure of ECIC***

2.2 An Advisory Board was established under ECIC Ordinance to advise ECIC in the conduct of its business. According to the Ordinance, the Advisory Board shall consist of:

- (a) the Executive Director, Hong Kong Trade Development Council, or his representative; and
- (b) not more than 10 other members who shall be appointed by CE (Note 8) for a term not exceeding three years at a time.

2.3 The Advisory Board is not the governing board of ECIC. It is stipulated in ECIC Ordinance that ECIC shall not be bound by the advice of the Board. The Advisory Board holds meeting three times a year to discuss matters including the annual budget, corporate and strategic plans, performance evaluations, remuneration adjustments, etc. (see para. 1.6). The Advisory Board is supported by the Audit Committee and the Investment Committee (see para. 1.7).

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**Note 8:** *CE's authority to appoint members of the Advisory Board has been delegated to the Secretary for Commerce and Economic Development.*

***Room for improvement in appointing Advisory Board members***

2.4 Audit reviewed the appointments of Advisory Board members in the period from 2016-17 to 2021-22 (up to December 2021) and found that:

- (a) ***“Six-board Rule” not complied with.*** The Government has established a principle that a person should not be appointed to serve as a non-official member on more than six advisory and statutory bodies at any one time to ensure a reasonable distribution of workload (i.e. the “Six-board Rule”). Audit noted that in the reappointment of the Chairman of the Advisory Board in April 2017, despite the fact that the Chairman had already been appointed to eight advisory and statutory bodies at that time, CEDB reappointed him for a term of two years; and
- (b) ***Need to enhance youth participation.*** In her 2017 Policy Address, CE announced that the Government would appoint more young people to various Government boards and committees with the aim of increasing the overall ratio of young members (i.e. persons who are aged between 18 and 35) to 15% within the current-term Government. Audit noted that in the period from the announcement of the 2017 Policy Address in October 2017 to December 2021, there were 4 new non-official Board members appointed. However, none of them was aged between 18 and 35 at the time when they were appointed. As at 31 December 2021, none of the 9 non-official members was aged between 18 and 35.

2.5 Audit considers that CEDB needs to take measures to ensure that the “Six-board Rule” is complied with and appoint more young people to the Advisory Board as far as practicable.

***Delays in taking oaths by Advisory Board members***

2.6 According to ECIC Ordinance, members of the Advisory Board (excluding the Executive Director, Hong Kong Trade Development Council) shall upon appointment take an oath which requires members to undertake to keep information of ECIC confidential. Audit examined the 31 oaths taken by non-official members appointed (including 10 first appointments and 21 reappointments) in the period from 2015-16 to 2020-21 and found that:

## **Corporate governance and performance management**

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- (a) 2 (20%) of the 10 oaths for first appointments were taken by the members after the commencement of their terms. The oaths were taken 2 and 6 days (averaging 4 days) respectively after the commencement of their terms; and
- (b) 4 (19%) of the 21 oaths for reappointments were taken by the members after the commencement of their terms, ranging from 4 to 62 days (averaging 20 days) after the commencement of their terms. In 1 case, Board papers had been circulated to the member concerned before the oath was taken.

2.7 Audit considers that ECIC needs to take measures to ensure that Advisory Board members take oaths before the commencement of their terms and refrain from distributing Board papers to Board members until they have taken oaths.

### ***Registration of personal interest not submitted in a timely manner***

2.8 Since 23 August 2019, ECIC has adopted a two-tier reporting system to manage conflicts of interest of Advisory Board members. Under the system, members shall register in writing their personal interests, direct or indirect, pecuniary or otherwise, when they first join the Advisory Board, and annually thereafter, to the Secretary of the Advisory Board (see Note 3 to para. 1.6(e)). On request, the register should be accessed by the general public. When a known direct pecuniary interest exists, the Secretary may withhold circulation of Board papers to the member concerned.

2.9 Audit examined the three new appointments made in the period from 23 August 2019 to 31 March 2021. Audit noted that for two of the three new appointments, ECIC requested the members 5 days and 11 days respectively after the commencement of their terms to submit their registrations of personal interest to the Secretary of the Advisory Board. In the event, the two members submitted their registrations 7 days and 3 months respectively after the commencement of their terms. Board papers had been circulated to one of them before the member submitted the registration. According to ECIC's records, no potential conflict of interest was declared by that member.

2.10 Audit considers that ECIC needs to:



- (a) take measures to ensure that Advisory Board members submit their registrations of personal interest in a timely manner; and
- (b) refrain from distributing Board papers to newly appointed Advisory Board members until their registrations of personal interest have been submitted.

### ***Room for improvement in appointing members of sub-committees***

2.11 The Advisory Board is supported by two sub-committees, namely the Audit Committee and the Investment Committee (see Note 4 to para. 1.7). ECIC invites members of the Advisory Board to join the sub-committees as and when the need arises. Audit noted that there was room for improvement in the replacement of retiring members of the sub-committees:

- (a) ***Replacement of retiring Investment Committee members.*** Audit noted that Investment Committee members were not always replaced by new ones in a timely manner upon their retirement. For example, upon the retirement of an Investment Committee member in late December 2016, ECIC replaced the retired member three months later in early April 2017; and
- (b) ***Documentation on the selection of Audit Committee members.*** In October 2019, ECIC's Terms of Reference of the Audit Committee was revised by adding the following requirements:
  - (i) the composition of the Audit Committee should have an appropriate balance of skills, experience and independence to achieve sectoral competence, and where applicable, at least one member should have competence in finance, accounting and/or auditing; and
  - (ii) before sending invitations to members, ECIC should discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee.

Audit examined the invitations sent to Board members in January 2021 inviting them to express interest in filling an Audit Committee member position. Audit noted that there was no documentary evidence showing that ECIC had, in accordance with the revised Terms of Reference of the Audit Committee, discussed with the Advisory Board Chairman and CEDB the

overall knowledge and experience of the Audit Committee before sending invitations to the members.

2.12 Audit considers that ECIC needs to:

- (a) take actions to replace retiring sub-committee members as expeditiously as practicable; and
- (b) in accordance with the Terms of Reference of the Audit Committee, discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before inviting Advisory Board members to join the Audit Committee.

### *Late submission of draft corporate plans to the Advisory Board*

2.13 Every year, ECIC prepares a draft corporate plan (DCP), which includes, among others, the following documents for the forthcoming year:

- (a) ECIC's budget; and
- (b) programmes and activities (including regular programmes and activities and new ones to be launched).

ECIC would discuss the DCP with CEDB and seek CEDB's clearance before submitting to the Advisory Board for discussion and endorsement.

2.14 In Audit's view, advice of the Advisory Board members should be sought before the commencement of the financial years (i.e. 1 April of each year) to ensure that their advice can be taken into account when implementing the programmes and activities. In addition, ECIC's Finance and Accounting Manual stipulated that:

- (a) the budget should be submitted to the Advisory Board for consideration before the commencement of each financial year; and
- (b) subject to the advice of the Advisory Board, the corporate plan and the budget would be adopted to take effect from the first day of the new

## Corporate governance and performance management

financial year as the basis for directing the activities of ECIC and monitoring the income and expenditure positions respectively.

2.15 Audit noted that in the period from 2017-18 to 2021-22, for four of the five years, DCPs were submitted to the Advisory Board for consideration 15 to 47 days (averaging 31 days) after the commencement of the ensuing financial years (see Table 2).

**Table 2**  
**Submission of DCPs to the Advisory Board**  
**(2017-18 to 2021-22)**

Financial year	Date of submission	No. of days after the commencement of financial year
2017-18	22 March 2017	N.A. (Submitted before commencement of the financial year)
2018-19	16 April 2018	15
2019-20	10 May 2019	39
2020-21	24 April 2020	23
2021-22	18 May 2021	47

*Source: Audit analysis of ECIC records*

2.16 It is important for ECIC to submit DCPs to the Advisory Board in good time so that any views or advice of the Board can be taken into account in finalising the corporate plans before the commencement of the ensuing financial year. Audit

considers that ECIC needs to work closely with CEDB to submit DCPs to the Advisory Board for endorsement before the commencement of the ensuing financial years.

***DCPs not circulated to Advisory Board members in a timely manner***

2.17 Before Advisory Board meetings, DCPs are circulated to members as Board papers. According to ECIC's Rules and Procedures for Advisory Board Meetings, Board papers shall be delivered to members for circulation prior to the meeting, preferably at least seven calendar days before the meeting date. Audit noted that in the period from 2017-18 to 2021-22, four of the five DCPs were circulated to members less than seven calendar days before the meeting date. In particular, the DCP for 2017-18 was only circulated to members just one calendar day before the meeting (see Table 3).

**Table 3**

**Circulation of DCPs to Advisory Board members  
(2017-18 to 2021-22)**

<b>Financial year</b>	<b>Date of the Advisory Board meeting to consider DCP (a)</b>	<b>Date of circulating DCP (b)</b>	<b>No. of calendar days before the Advisory Board meeting (c) = (a) – (b)</b>
2017-18	22 March 2017	21 March 2017	1
2018-19	16 April 2018	12 April 2018	4
2019-20	10 May 2019	3 May 2019	7
2020-21	24 April 2020	21 April 2020	3
2021-22	18 May 2021	13 May 2021	5

*Source: Audit analysis of ECIC records*

2.18 Audit considers that ECIC needs to work closely with CEDB to ensure that DCPs are circulated to Advisory Board members prior to the Board meetings in a more timely manner, preferably at least seven calendar days before the meetings in accordance with ECIC's guidelines.

### ***Late submission of DCPs and holding of housekeeping meeting***

2.19 Every year, ECIC submits a DCP to CEDB for approval and conducts housekeeping meetings with CEDB. Audit has found room for improvement in the following areas:

- (a) ***Late submission of DCPs to CEDB for approval.*** Audit examined the submission and approval of DCPs in the five-year period from 2017-18 to 2021-22 and found that in the four-year period from 2018-19 to 2021-22, DCPs were submitted to CEDB for approval after the commencement of the financial years, ranging from 22 to 153 days (averaging 67 days) after the commencement of the financial years. In the event, DCPs were approved by CEDB 33 to 177 days (averaging 93 days) after the commencement of the financial years (see Table 4); and

**Table 4**  
**Submission of DCPs to CEDB for approval**  
**(2017-18 to 2021-22)**

Financial year	Date of submission	No. of days after the commencement of financial year	Date of approval	No. of days after the commencement of financial year
2017-18	27 March 2017	N.A. (Submitted before commencement of the financial year)	30 March 2017	N.A. (Approved before commencement of the financial year)
2018-19	23 April 2018	22	4 May 2018	33
2019-20	14 May 2019	43	31 May 2019	60
2020-21	1 September 2020 (Note)	153	25 September 2020	177
2021-22	21 May 2021	50	13 July 2021	103

*Source: Audit analysis of CEDB and ECIC records*

*Note: The DCP was submitted to the Advisory Board for discussion on 24 April 2020 (see Table 2 in para. 2.15). According to ECIC, in view of the volatility in the external environment and after discussion with CEDB, a revised DCP was submitted to the Advisory Board for further discussion at the meeting on 28 August 2020 to seek members' advice to prepare ECIC to address the challenges ahead.*

- (b) ***Delay in conducting housekeeping meeting between CEDB and ECIC.*** In the half-yearly housekeeping meeting, CEDB and ECIC discuss the half-yearly report submitted by ECIC on ECIC's performance and operations. Audit noted that after the housekeeping meeting between CEDB and ECIC conducted in December 2019, ECIC had not submitted half-yearly reports to CEDB and no housekeeping meetings had been conducted. In June 2021 (i.e. 1.5 years after the previous meeting), ECIC submitted a report (covering the period from April 2020 to March 2021) to CEDB and conducted a housekeeping meeting with CEDB to discuss the report.

2.20 Audit considers that CEDB needs to, in collaboration with ECIC:

- (a) take measures to ensure that DCPs and half-yearly reports on ECIC's performance and operations are submitted for approval and discussion in a timely manner; and
- (b) conduct half-yearly housekeeping meetings with ECIC in a timely manner.

### *Need to review scope of services periodically*

2.21 The business of ECIC is governed by section 9 of ECIC Ordinance. It is stipulated by section 9(3) of the Ordinance that ECIC shall not enter into contracts of insurance against risks that are normally insured with commercial insurers.

2.22 Regarding the issue on whether the services provided by ECIC were available commercially, the then Office of the Commissioner of Insurance (OCI — Note 9) advised CEDB in 2007 and 2010 that:

- (a) non-payment risk arising from the buyer's refusal to take delivery of goods (i.e. repudiation risk) was not normally included in the standard cover provided by commercial insurers, but might be provided on a case-by-case basis;
- (b) credit insurance was a highly volatile business. The appetite and capacity for risk taking of commercial insurers, as well as the demand of exporters were very much influenced by market sentiment and economic outlook. The availability of a particular insurance product in the market would therefore vary from time to time; and
- (c) other government or quasi-government agencies akin to ECIC were set up with the purposes of supporting export trade and filling the gap of supply

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**Note 9:** *The then OCI was a government department responsible for regulating insurance companies. On 26 June 2017, the regulatory functions of OCI were taken over by the Insurance Authority (a statutory organisation established under the Insurance Companies (Amendment) Ordinance 2015) and OCI was disbanded on the same day.*

in the commercial markets. Examples included the export credit agencies (ECAs) in Australia and Italy.

2.23 In 2011, making reference to the advice of the then OCI given in 2007 and 2010 (see para. 2.22), CEDB sought the legal opinion of the Department of Justice on the issue. CEDB advised the Department of Justice that:

- (a) other government or quasi-government agencies akin to ECIC were set up with the purpose of supporting export trade and filling the gap of supply in the commercial market. ECIC did not aim to compete with the private market, but to fill the market gap;
- (b) the concept of a market gap was dynamic, ECIC had in the past collected and reviewed market information and information of commercial insurers, including their products on a monthly basis, and would continue to do so; and
- (c) ECIC would, as far as possible, only provide services which were not commonly available in the market.

The legal advice of the Department of Justice confirmed that the services provided by ECIC were consistent with the true intent, meaning and spirit of section 9(3) of ECIC Ordinance.

2.24 In December 2021, Audit sought ECIC's views on whether ECIC had entered into contracts of insurance against risks that were normally insured with commercial insurers and the latest position of the issue since the early 2010s. In response, ECIC informed Audit that:

- (a) while there were five commercial insurers providing export credit insurance in Hong Kong, the capacity of the private sector was insufficient to support Hong Kong exporters, especially small and medium enterprises (SMEs) because commercial insurers had little appetite for SME insurance business. The Government's support, through ECIC, was particularly crucial during economic turmoil. For example, under the COVID-19 epidemic, ECIC launched the "100% Credit Limit Top-up Scheme" (see para. 1.10(a)(iii)) to strengthen support to local exporters. In addition, in response to the



challenges brought by the China-United States trade conflict and the COVID-19 epidemic, ECIC implemented a series of enhanced measures to support Hong Kong exporters. The situation was unprecedentedly severe for Hong Kong exporters amid the COVID-19 epidemic as commercial insurers scaled back or cancelled coverage across-the-board; and

- (b) from time to time, ECIC reported to the Advisory Board regarding the export credit insurance market in Hong Kong.

2.25 Audit noted that in October 2013, ECIC submitted a paper to the Advisory Board regarding the export credit insurance market in Hong Kong (see para. 2.24(b)). The paper included:

- (a) information on private insurance companies and ECAs outside Hong Kong providing export credit insurance to exporters in Hong Kong; and
- (b) a comparison of ECIC's insurance products with those provided by other insurers.

However, since 2013, ECIC had not conducted similar comparison of ECIC's insurance products with those provided by other insurers and reported the results to the Advisory Board.

2.26 Audit considers that ECIC needs to take measures to ensure that ECIC complies with section 9(3) of ECIC Ordinance, for example, by regularly comparing ECIC's insurance products with those provided by commercial insurers and seeking the views of the Advisory Board and CEDB, with a view to providing insurance services to fill the market gap, and seeking legal advice where necessary.

### *Need to disclose the remuneration of senior executives*

2.27 According to the Guide to Corporate Governance for Subvented Organisations issued by the then Efficiency Unit (Note 10) in June 2015, a good annual report would disclose:

- (a) remuneration policies for senior executives; and
- (b) total remuneration of senior executives, including the number of senior executives for each level whose remuneration exceeded a defined sum, expressed in bands.

2.28 Audit noted that while some other statutory bodies in Hong Kong had disclosed in their annual reports the remuneration policies for their senior executives and their total remuneration in bands, ECIC has not made similar disclosures in its annual reports. Although ECIC is not a subvented organisation, to enhance transparency, Audit considers that ECIC needs to consider whether there are merits to follow the good practice set out in the Guide to Corporate Governance for Subvented Organisations to disclose the remuneration policies for its senior executives and their total remuneration in bands in the annual reports.

### *Need to conduct regular reviews on the governance structure of ECIC*

2.29 In Chapter 6 of the Director of Audit's Report No. 56 of March 2011 entitled "Hong Kong Export Credit Insurance Corporation", Audit recommended that CEDB should, in collaboration with the Commissioner of ECIC, regularly review the governance of ECIC. CEDB agreed with the recommendation and conducted a review in 2011. CEDB informed the Panel on Commerce and Industry of the Legislative Council in December 2011 that:

- (a) despite four of the six overseas ECAs covered by the review were governed by their board of directors, CEDB considered that the existing governance structure (i.e. Advisory Board) provided adequate support to ECIC's business and required no major change, as ECIC offered a considerably

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**Note 10:** *The Efficiency Unit has been transferred from the Chief Secretary for Administration's Office to the Innovation and Technology Bureau and renamed as the Efficiency Office with effect from 1 April 2018.*

narrower range of services and was exposed to a much lower level of risks comparing to these overseas ECAs; and

- (b) CEDB would review the governance structure of ECIC from time to time taking into account the experience of other ECAs as well as any change to the scope of products and services provided by ECIC.

2.30 In Audit's view, there is a need for CEDB to conduct another review on ECIC's governance structure because:

- (a) ***No review had been conducted for more than 10 years.*** While CEDB had undertaken to review the governance structure of ECIC from time to time (see para. 2.29(b)), neither CEDB nor ECIC had conducted further reviews on ECIC's governance structure after the 2011 review;
- (b) ***Rapid business expansion.*** In the past 10 years, the amount of insured business of ECIC had increased significantly by 60% from \$82 billion in 2010-11 to \$131 billion in 2020-21, and the amount of ECIC's maximum contingent liability had increased by 83% from \$30 billion as at 31 March 2011 to \$55 billion as at 31 March 2021;
- (c) ***Governance structure of ECAs outside Hong Kong.*** A number of ECAs outside Hong Kong have adopted a board of directors as the governing body. ECIC's existing governance structure is not commonly adopted by ECAs outside Hong Kong (see Table 5); and

Table 5

**ECAs outside Hong Kong having board of directors as the governing body  
(31 December 2021)**

<b>ECA outside Hong Kong</b>	<b>Status</b>
Australia	Public corporation
Canada	Public corporation
Japan	Public corporation
Korea	Public corporation
Mainland China	State-funded and policy-oriented company

*Source: Audit's research*

- (d) ***Communication between CEDB and ECIC not always timely.*** From time to time, CEDB provides inputs to ECIC pertinent to its corporate governance through the approval of ECIC's corporate plan and holding half-yearly housekeeping meetings with ECIC. However, Audit noted that on some occasions, there were delays in CEDB's approval of ECIC's corporate plans and conducting housekeeping meetings with ECIC (see para. 2.19).

2.31 Audit considers that CEDB needs to conduct a review on the governance structure of ECIC with a view to further improving the existing governance structure.

### **Audit recommendations**

2.32 Audit has *recommended* that the Secretary for Commerce and Economic Development should:

- (a) take measures to ensure that the "Six-board Rule" is complied with;

- (b) **appoint more young people to the Advisory Board as far as practicable;**
  - (c) **in collaboration with ECIC:**
    - (i) **take measures to ensure that DCPs and half-yearly reports on ECIC's performance and operations are submitted for approval and discussion in a timely manner; and**
    - (ii) **conduct half-yearly housekeeping meetings with ECIC in a timely manner; and**
  - (d) **conduct a review on the governance structure of ECIC with a view to further improving the existing governance structure.**
- 2.33 **Audit has also *recommended* that the Commissioner, ECIC should:**
- (a) **take measures to ensure that Advisory Board members take oaths before the commencement of their terms and refrain from distributing Board papers to Board members until they have taken oaths;**
  - (b) **take measures to ensure that Advisory Board members submit their registrations of personal interest in a timely manner;**
  - (c) **refrain from distributing Board papers to newly appointed Advisory Board members until their registrations of personal interest have been submitted;**
  - (d) **take actions to replace retiring sub-committee members as expeditiously as practicable;**
  - (e) **in accordance with the Terms of Reference of the Audit Committee, discuss with the Advisory Board Chairman and CEDB the overall knowledge and experience of the Audit Committee before inviting Advisory Board members to join the Audit Committee;**
  - (f) **work closely with CEDB to submit DCPs to the Advisory Board for endorsement before the commencement of the ensuing financial years;**

- (g) **work closely with CEDB to ensure that DCPs are circulated to Advisory Board members prior to the Board meetings in a more timely manner, preferably at least seven calendar days before the meetings in accordance with ECIC’s guidelines;**
- (h) **take measures to ensure that ECIC complies with section 9(3) of ECIC Ordinance, for example, by regularly comparing ECIC’s insurance products with those provided by commercial insurers and seeking the views of the Advisory Board and CEDB, with a view to providing insurance services to fill the market gap, and seeking legal advice where necessary; and**
- (i) **consider whether there are merits to follow the good practice set out in the Guide to Corporate Governance for Subvented Organisations issued by the Efficiency Office to disclose the remuneration policies for its senior executives and their total remuneration in bands in the annual reports.**

## **Response from the Government**

2.34 The Secretary for Commerce and Economic Development agrees with the audit recommendations. He has said that:

- (a) in appointing members to ECIC Advisory Board, CEDB takes into account the candidate’s ability, expertise, experience, integrity and commitment to public service, with due regard to the functions and nature of business of ECIC as well as its statutory requirements. As a general rule, the “Six-year Rule” and the “Six-board Rule” are strictly observed in the appointment exercises to ensure a proper turnover of board members and the availability of more opportunities for members of the public to participate in public affairs through serving on these bodies;
- (b) compliance with the “Six-board Rule” and the “Six-year Rule” is a standard requirement in CEDB’s recommendations for appointment. CEDB will continue to be vigilant and, unless there are overriding justifications, strictly observe the “Six-board Rule” in future appointment exercises;

- (c) ECIC Advisory Board is set up under ECIC Ordinance to advise ECIC in the conduct of its business. To this end, business leaders and senior executives with in-depth knowledge and extensive experience in relevant sectors are appointed to the Board to provide their insights and comprehensive advice to ECIC on market practices and market needs. CEDB has been mindful to identify suitable young professionals with relevant experience and knowledge for appointment to ECIC Advisory Board and will endeavour to continue with CEDB's efforts to identify suitable young candidates in future appointment exercises;
- (d) CEDB maintains close and regular liaison with ECIC in discussions of its strategy and plans to ensure its effective operation. With the unprecedented turbulence brought by the China-United States trade conflict and the COVID-19 epidemic, CEDB and ECIC had handled DCPs in a critical and prudent manner to ensure their viability. CEDB has taken note of Audit's recommendations and has worked with ECIC to review the workflow to shorten the lead time for seeking endorsement from the Advisory Board and approval from the Secretary for Commerce and Economic Development. For the 2022-23 DCP, ECIC consulted the Advisory Board and obtained its endorsement on 30 March 2022. The Secretary for Commerce and Economic Development's approval was granted in April 2022. The half-yearly report on ECIC's performance is included as a regular agenda item at CEDB's housekeeping meeting with ECIC;
- (e) CEDB conducts half-yearly housekeeping meetings with ECIC to review progress of work and to discuss issues of interest. While two scheduled meetings were cancelled in 2020 due to the epidemic situation and unforeseen circumstances, CEDB maintained close and regular liaison with ECIC during the period, and monitored the work and performance of ECIC through various channels with reports on key areas and meetings on new initiatives and projects, in place of the housekeeping meetings. ECIC regularly reported to CEDB on a host of management and operational issues including internal audit, human resource management, reinsurance arrangement and development plans for new services as appropriate. Special or ad hoc meetings were also conducted as and when required. CEDB will ensure that housekeeping meetings with ECIC are conducted every six months in a timely manner;

- (f) pursuant to the audit recommendations in 2011 (see para. 2.29), ECIC has put in place measures to strengthen its governance, including, among others, the drawing up of a rolling three-year strategic plan for annual updating, reviewing its performance indicators and establishing guidelines on issues to be submitted to the Advisory Board and sub-committees. From 2011-12 onwards, CEDB has also stepped up monitoring in requiring ECIC to submit its annual corporate plan/budget to the Secretary for Commerce and Economic Development for formal approval after seeking the support of the Advisory Board; and
- (g) in 2011, CEDB conducted a study on the governance structure of various overseas ECAs and submitted the outcome and conclusion to the Legislative Council's Panel on Commerce and Industry, to the effect that the existing governance structure suited ECIC's operations, taking into account the experience of other ECAs and any change to the scope of products and services provided by ECIC. CEDB has since then been working closely with ECIC and the Advisory Board to maintain effective and efficient operation of ECIC. While CEDB considers that the existing governance structure suits the operational effectiveness of ECIC, CEDB will conduct a review of ECIC's governance structure in due course with a view to affirming its continued effectiveness, and where appropriate, consider room for updates and improvements.

### **Response from the Hong Kong Export Credit Insurance Corporation**

2.35 The Commissioner, ECIC agrees with the audit recommendations in paragraph 2.33(a), (b), (c), (e), (f), (g) and (h), and generally agrees with the audit recommendations in paragraph 2.33(d) and (i). He has said that:

- (a) ECIC will send out the oaths taking document to Advisory Board members soon after it receives notification from CEDB the appointment and reappointment of Advisory Board members. ECIC will amend its Advisory Board Terms of Reference to specify the timelines for members to return their oaths taking records before the appointment and reappointment effective dates, and will not circulate Board papers until the records are received;



- (b) ECIC follows the relevant requirements of the Sample Code of Conduct for Members of Public Bodies published by the Independent Commission Against Corruption. ECIC will amend its Advisory Board Terms of Reference to specify the timelines for members to return their registration of personal interest in a timely manner, and refrain from distributing Board papers to newly appointed members until registrations are received;
- (c) ECIC has in place an established practice to initiate action to replace retired sub-committee members as expeditiously as practicable. In ECIC's experience, members would need some time to consider the invitation and request additional information as necessary from time to time. There could be some lapse of time between ECIC's invitation and the successful replacement. ECIC will monitor the progress of the replacement exercise and liaise with the new members as necessary;
- (d) ECIC will document the discussion with the Advisory Board Chairman and CEDB before inviting Advisory Board members to join the Audit Committee;
- (e) ECIC will coordinate more closely with CEDB with a view to expediting the clearance of DCPs and their circulation to the Advisory Board in a more timely manner in future. DCP for 2022-23 was circulated to the Advisory Board on 23 March 2022 for discussion at the Advisory Board meeting on 30 March 2022. It was subsequently endorsed by the Advisory Board on 30 March 2022 and approved by the Secretary for Commerce and Economic Development in April 2022;
- (f) in connection with section 9(3) of ECIC Ordinance:
  - (i) in July 2011, CEDB sought legal advice which reconfirmed that the services provided by ECIC were consistent with the true intent, meaning and spirit of section 9(3);
  - (ii) one of the objectives of ECIC is to address the needs of the segment of export credit insurance market where the capacity of the private commercial sector is limited or insufficient to support Hong Kong exporters, especially SMEs. Governments or quasi-government agencies in other economies have similar setup as ECIC with the

purposes of supporting export trade and filling the gap of supply in the commercial market;

- (iii) the appetite and capacity of commercial insurers for risk-taking are very much influenced by market sentiment and economic outlook. The availability of a particular insurance product in the market would vary from time to time and subject to business considerations. While ECIC may offer similar products with private insurers, the details and terms could differ. Unlike private insurers, ECIC has no minimum requirement on premium and offers a wider insurance cover, including insurance against repudiation risk, pre-shipment cover, medium and long-term cover to Hong Kong exporters, which normally may not be offered by private insurers, or is offered in the market at a premium. ECIC has also launched various SME-focused initiatives which are not available in the private market;
- (iv) the Government's support, through ECIC, is particularly crucial to Hong Kong exporters during economic turmoil when commercial insurers reduce their coverage, for instance, during the financial crisis in 2008-09 and more recently, the China-United States trade conflict and the COVID-19 pandemic; and
- (v) the concept of a market gap is dynamic. ECIC has all along collected and reviewed market information and maintained regular liaison with the business sector to assess the market needs and gaps. In view of the audit recommendations, ECIC will regularly collect market information and products available in the credit insurance market in Hong Kong and report the findings to the Advisory Board and CEDB, and in consultation with CEDB, seek legal advice where necessary; and
- (g) ECIC has already in place a disclosure note on the key management personnel remuneration in the audited financial statements which are published as part of the Annual Report. Aggregate remuneration of Deputy General Manager (Band 3) and above are disclosed, covering their salaries, mandatory provident fund contribution, incentive payment and leave pay as applicable. ECIC will review and consider how to more closely align the current disclosure with the general practice adopted by other public

organisations that have made such disclosure in their annual reports or audited financial statements.

### **Performance management**

2.36 ECIC has set two key performance indicators (KPIs), namely:

- (a) growth of insured business; and
- (b) operating expenses as a percentage of insured business.

ECIC reports the achievement of the target on KPIs to CEDB and the Advisory Board annually. The achievement of the targets is taken into account when assessing the Commissioner's annual performance and determining the incentive pay of ECIC's staff.

### ***Need to expedite revisions of KPIs***

2.37 In August 2018, ECIC commissioned a consultancy review of its KPIs. The review was completed in February 2020 and the review report was submitted to the Advisory Board for discussion in April 2020. The review report stated that:

- (a) the two KPIs took into account the financial performance of ECIC, which might not be comprehensive enough for ECIC as it was also ECIC's mandate to encourage and support export trade in Hong Kong;
- (b) export trade was heavily influenced by the external market environment. Therefore, the growth in insured business might not directly reflect the performance and effort of ECIC's staff;
- (c) the two KPIs were closely related to each other as both involved the amount of insured business, which did not fully represent ECIC's whole range of work. Any change in the amount of insured business would impact the KPIs and might not be an objective and balanced depiction of the performance of ECIC; and

- (d) while retaining the KPI “growth of insured business”, ECIC was recommended to adopt five new KPIs:
  - (i) operating expenses as a percentage of business revenue;
  - (ii) growth in number of valid SME policies;
  - (iii) quality management compliance;
  - (iv) whether or not there were major risk events; and
  - (v) achievement of capital requirement.

2.38 In the Advisory Board meeting in April 2020, ECIC undertook, in consultation with CEDB, to formulate an implementation proposal regarding the review report’s observations and recommendations. However, the proposal was not submitted to the Advisory Board for endorsement until the meeting in November 2021 (i.e. 1.5 years after ECIC undertook to formulate the proposal). The proposal was endorsed by the Advisory Board at the meeting. According to ECIC, after obtaining the Advisory Board’s endorsement, ECIC submitted in the same month a letter seeking CEDB’s approval for implementing the recommendations. Audit considers that ECIC needs to, in collaboration with CEDB, expedite the implementation of the consultant’s recommendations made in 2020 on KPI revisions.

### ***Need to improve the transparency and accountability of reporting performance***

2.39 Every year, ECIC sets a target for each of its two KPIs, namely “growth of insured business” and “operating expenses as a percentage of insured business” (see para. 2.36). The achievement of the targets was reported to the Advisory Board and CEDB. In addition to the two KPIs, ECIC has set 29 performance indicators (see Appendix B) to supplement KPIs in the evaluation of ECIC’s performance. Audit noted that:

- (a) ***Need to enhance disclosures in the annual report.*** ECIC disclosed the actual result of KPI “growth of insured business” in its annual report, but the actual result of KPI “operating expenses as a percentage of insured

business” was not disclosed. Moreover, relevant targets and the achievement of the targets of the two KPIs were not disclosed; and

- (b) ***Performance measurement under some performance indicators not reported to CEDB and the Advisory Board.*** Of the 29 performance indicators, performance measurement under 7 (24%) had neither been reported to CEDB nor reported to the Advisory Board, 3 (10%) had not been reported to CEDB and another 3 (10%) had not been reported to the Advisory Board (see Appendix B).

2.40 Audit considers that to enhance transparency and accountability, ECIC needs to consider disclosing the targets on its two KPIs and achievement of the targets in its annual report, so as to facilitate stakeholders to understand ECIC’s performance. Audit also considers that ECIC needs to consider the merits of using more performance indicators to report ECIC’s performance to CEDB and the Advisory Board with a view to enhancing transparency on ECIC’s operations.

### **Audit recommendations**

2.41 **Audit has recommended that the Commissioner, ECIC should:**

- (a) **in collaboration with CEDB, expedite the implementation of the consultant’s recommendations made in 2020 on KPI revisions;**
- (b) **consider disclosing the targets on its two KPIs and achievement of the targets in the annual report to enhance transparency and accountability, so as to facilitate stakeholders to understand ECIC’s performance; and**
- (c) **consider the merits of using more performance indicators to report ECIC’s performance to CEDB and the Advisory Board with a view to enhancing transparency on ECIC’s operations.**

## **Response from the Hong Kong Export Credit Insurance Corporation**

2.42 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

- (a) the Secretary for Commerce and Economic Development's approval was granted in April 2022 for the implementation of the consultant's recommendations on KPI revisions;
- (b) ECIC will take action to implement the audit recommendation on disclosing the targets on its two KPIs and achievement of the targets starting from the 2021-22 Annual Report; and
- (c) ECIC will review and devise an implementation plan for the audit recommendation on using more performance indicators to report ECIC's performance to CEDB and the Advisory Board.

## **PART 3: PROVISION OF EXPORT CREDIT INSURANCE SERVICES**

3.1 This PART examines ECIC's provision of export credit insurance services, focusing on the following areas:

- (a) proposal processing (paras. 3.4 to 3.12);
- (b) credit limit management (paras. 3.13 to 3.22);
- (c) declaration of shipments (paras. 3.23 to 3.33); and
- (d) claims and recoveries (paras. 3.34 to 3.47).

### ***Background***

3.2 ECIC provides export credit insurance of both goods and services to Hong Kong exporters who trade with buyers outside Hong Kong on credit terms. The Hong Kong exporter must be legitimately carrying on a business in Hong Kong (i.e. it has been registered with the Inland Revenue Department under the Business Registration Ordinance — Cap. 310) or controlled by a local company and the insurance contract is entered into for the benefit of the local company. The facilities cover not only exports shipped and re-exported from Hong Kong, but also those transported directly from suppliers' countries to their destinations without passing through Hong Kong. The indemnity provided is normally 90% of the loss incurred. Other than the Specific Medium and Long Term Shipments Policy, which covers export business on credit terms for more than one year, ECIC provides a wide range of insurance facilities on credit periods of up to 180 days (see Table 6).

## Provision of export credit insurance services

**Table 6**

**Policies provided by ECIC on credit periods of up to 180 days  
(31 December 2021)**

<b>Policy</b>	<b>Target policyholder</b>
<b><i>Cover on export of goods</i></b>	
Comprehensive Cover Policy	- Hong Kong exporters and manufacturers
SBP	- exporting companies with an annual turnover of less than \$50 million
Self-Underwritten Policy	- exporting companies with an annual turnover of less than \$50 million
Online Micro-Business Policy	- Hong Kong exporters with an annual turnover of less than \$20 million
Contract Cover Policy	- Hong Kong exporters and manufacturers
Bank Policies	- Hong Kong financial institutions
<b><i>Cover on export of services</i></b>	
Comprehensive Services Policy	- Hong Kong companies providing services to overseas clients
Freight Forwarding Services Policy	- Hong Kong freight forwarding companies
Hotel Services Policy	- Hong Kong hotel operators
Testing and Inspection Services Policy	- Hong Kong testing and inspection companies
Construction Professional Services Policy	- Hong Kong construction professional service providers
Travel Agent Services Policy	- Hong Kong travel agents
Aircraft Services Policy	- Hong Kong aircraft engine overhauling providers
Advertising Services Policy	- Hong Kong advertising companies
Specific Management Services Policy	- Hong Kong management companies

*Source: Audit analysis of ECIC records*

3.3 In the period from 2016-17 to 2020-21, the number of policies issued by ECIC ranged from 2,547 to 3,083 (see Table 7).



**Table 7****Number of policies issued  
(2016-17 to 2020-21)**

<b>Policy</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Comprehensive Cover Policy	1,816	1,309	1,187	1,118	1,128
SBP	1,185	1,223	1,258	1,248	1,333
Others	82	67	102	236	303
Total	3,083	2,599	2,547	2,602	2,764

*Source: Audit analysis of ECIC records*

## **Proposal processing**

3.4 To apply for an insurance cover, the exporter is required to submit a proposal to ECIC. Three Business Divisions of ECIC (see Appendix A), each headed by an Assistant General Manager, are responsible for processing proposals submitted by exporters. Based on the information included in the proposal (such as nature of business, and turnover for the previous and next twelve months), ECIC determines whether to accept or reject the proposal, and the terms and conditions of the insurance cover. For accepted proposals, ECIC issues quotations to the applicants. In the quotation, the following details of the policy terms will be included:

- (a) **Maximum liability.** Maximum liability under a policy is the maximum amount of indemnity payable to the policyholders in the event of default of payments from the buyers (Note 11);
- (b) **Policy deposit.** The purpose of a policy deposit is to protect ECIC against default by the policyholder in the payment of premium. The deposit is refundable upon termination of the policy;

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**Note 11:** *The aggregate maximum liability under all current policies of ECIC is subject to a ceiling determined from time to time by Resolution of the Legislative Council (see para. 1.4).*

## Provision of export credit insurance services

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- (c) **Policy fee.** Policy fee is a non-refundable fee payable to cover part of the costs of acquiring the necessary status information on the policyholder's buyers; and
- (d) **Premium rate.** ECIC receives premium for the risks it assumes. The premium rate varies according to the duration of the credit period and the grading of the overseas markets.

After the applicant had accepted the quotation, and paid the policy deposit and the policy fee, ECIC will issue the policy to the applicant.

### ***Need to shorten elapsed time from receiving proposals to completion of processing them***

3.5 ECIC has set a performance pledge to complete the processing of proposals and issue quotations within two working days (not counting the day of receipt) based on completed proposals and adequate information being available. The pledge was met in the period from 2016-17 to 2020-21. However, Audit noted that the time taken was much longer than two working days for ECIC to collect the information necessary for processing the proposals received. According to ECIC's guidelines, if a proposal has remained outstanding for more than three months, ECIC will cease further action. The responsible officer may consult his/her Division Head for other alternative course of action where necessary.

3.6 In the period from April 2020 to September 2021, ECIC completed the processing of 973 proposals. Of the 973 proposals, 753 (77%) were accepted by ECIC and quotations were issued. Audit analysed the elapsed time (in terms of calendar days) from the dates the proposals were received to the dates of issuing quotations. Audit noted that the average elapsed time from receiving the proposals to issuing quotations to the applicants was 20 days, ranging from 1 to 103 days (see Table 8).

**Table 8**

**Elapsed time from receiving proposals to issuing quotations  
(April 2020 to September 2021)**

Elapsed time (Day)	Number of proposals
1 to 14	330 (43 %)
15 to 30	310 (41 %)
31 to 60	99 (13 %)
61 to 90	13 } 14 (2 %)
Over 90 (i.e. 103)	1 } (1 %)
Total	753 (100 %)

*Source: Audit analysis of ECIC records*

3.7 Audit examined 5 (36 %) of the 14 proposals with time elapsed longer than 60 days and found that there was room for improvement in the processing of proposals received. In these 5 cases, actions could have been taken in a more timely manner to avoid unnecessary delays. The following are examples:

- (a) in one case, the responsible officer did not contact the applicant concerned to chase up the missing documents until 37 days after the request was sent to the applicant; and
- (b) in another case, there was no documentary evidence showing the dates the responsible officer contacted the applicant to ask for the outstanding information and the dates of chasing up the outstanding information. The case record showed that the applicant submitted the missing information 82 days after submitting the proposal.

Audit considers that ECIC needs to take actions in a more timely manner in collecting from the applicants the required information and documents needed for processing the proposals received.

### *Need to improve handling of outstanding quotations pending acceptance*

3.8 According to ECIC:

- (a) a quotation is valid for 14 days (calendar days) after issue;
- (b) a responsible officer may extend the validity period of the quotation after expiry of the 14-day validity period, and in every 14 days thereafter until the 84th day (i.e. the responsible officer may grant extension up to five times for a total of 70 days);
- (c) if a quotation was not accepted by the applicant within three months and there is no response from the applicant, ECIC will cease further action; and
- (d) if an extension of the validity period of the quotation beyond three months is required, the responsible officer needs to seek the Division Head's endorsement.

3.9 Audit examined the 753 quotations ECIC issued to applicants in the period from April 2020 to September 2021 (see para. 3.6) and noted that:

- (a) 447 (59%) quotations were accepted. The average elapsed time between issue and acceptance of quotations was 21 days, ranging from 0 day (i.e. accepted on the same day after issue) to 112 days (see Table 9). Of the 447 quotations, 91 (20%) were accepted by the applicants more than 28 days after issue and involved two or more extensions of validity period. In particular, 3 (1%) quotations were accepted by the applicants (with the Division Head's endorsement) more than 90 days (i.e. more than three months) after the quotations were issued; and

**Table 9**

**Elapsed time between issue of quotations and acceptance  
(April 2020 to September 2021)**

Elapsed time (Day)	Number of quotations
0 to 14 (Note 1)	193 (43%)
15 to 28	163 (37%)
29 to 60	78 (17%)
61 to 90	10 (2%)
Over 90 (Note 2)	3 (1%)
Total	447 (100%)

*Source: Audit analysis of ECIC records*

*Note 1: Elapsed time of 0 day referred to acceptance on the same day after issue.*

*Note 2: The longest elapsed time was 112 days.*

- (b) 306 (41%) quotations were not accepted by the applicants.

3.10 Audit examined the five cases with the longest time elapsed between issue of quotations and acceptance by the applicants and found that in these five cases there was room for improvement for ECIC in handling outstanding quotations pending acceptance by applicants (see Case 1 for an example).

**Case 1**

**Room for improvement in handling outstanding quotations pending acceptance  
(February to May 2021)**

1. In February 2021, ECIC issued a quotation to an applicant. Since then, the responsible officer extended the validity period of the quotation four times every 14 days (i.e. the validity period was extended from 14 days to 70 days). For every extension, the responsible officer recorded “need more time to consider” in the case record. There was no documentary evidence showing the justifications for extending the validity period to allow more time for the applicant to consider the quotation. Neither was there documentary evidence showing that the officer had reviewed whether the quotation needed to be revised before extension.

2. In April 2021 (63 days after the quotation was issued), the responsible officer informed the applicant by email that the quotation had lapsed. Later in the same month (70 days after the quotation was issued), the responsible officer extended the validity period of the quotation for the fifth time (i.e. validity period extended to 84 days) without documenting justifications for allowing more time for the applicant to consider the quotation and whether the quotation needed to be revised.

3. In May 2021, the applicant accepted the quotation (104 days after the quotation was issued) after the quotation had lapsed on the 84th day. After the acceptance of the quotation by the applicant, the responsible officer sought endorsement from the Division Head to extend the validity period of the quotation on the same day. The Division Head endorsed the extension on the same day.

***Audit comments***

4. In Audit’s view, there was room for improvement in handling of the outstanding quotation, as evidenced by the following:

- (a) for all of the extensions, reasons had not been provided to justify allowing more time for the applicant to consider the quotation. Moreover, there was no documentary evidence showing that the officer had considered whether or not the circumstances had changed and whether or not the quotation was suitable for extension without revision;
- (b) the applicant was informed in April 2021 that the quotation had lapsed but in fact the quotation had not lapsed yet; and

**Case 1 (Cont'd)**

- (c) ECIC allowed the applicant to accept the quotation although it had already lapsed for 20 days. The revival of validity period of the lapsed quotation was endorsed by the Division Head without documenting the justifications. ECIC's guidelines have not prescribed the circumstances under which a lapsed quotation can be revived.

*Source: Audit analysis of ECIC records*

Audit considers that ECIC needs to promulgate clear and detailed guidelines on the proper handling of outstanding quotations pending acceptance by applicants. For instance, guidelines need to be promulgated on the considerations that the officer should take into account when extending the validity period of outstanding quotations.

## **Audit recommendations**

**3.11 Audit has recommended that the Commissioner, ECIC should:**

- (a) **take actions in a more timely manner in collecting from the applicants the required information and documents needed for processing the proposals received; and**
- (b) **promulgate clear and detailed guidelines on the proper handling of outstanding quotations pending acceptance by applicants.**

## **Response from the Hong Kong Export Credit Insurance Corporation**

**3.12** The Commissioner, ECIC agrees with the audit recommendations. He has said that:

- (a) the business staff have been reminded to take timely actions to follow up with applicants and to ensure that proper documentation is kept in the system; and

- (b) the relevant business work manual will be revised to lay down clear guidelines for handling long outstanding quotations pending acceptance including justifications for extending the validity periods of outstanding quotations.

### Credit limit management

3.13 ***Credit limit.*** Credit limit is the maximum amount of loss covered on a particular buyer for a policyholder. Policyholders must have a credit limit approved by ECIC for each of their buyers. An approved credit limit on a buyer is revolving in nature, i.e. the amount under the credit limit will be available again when the related payment has been settled.

3.14 ***Credit limit application (CLA).*** Policyholders are required to submit to ECIC a CLA for each of their buyers. Each headed by an Assistant General Manager, two Underwriting Divisions (see Appendix A) are responsible for processing CLAs. Upon receipt of CLAs, ECIC will process them by acquiring credit information i.e. obtaining a valid credit report (report updated within nine months) on the buyer and making credit assessment. In approving the credit limit, ECIC takes into account the credit information on the buyer (such as comments made in the credit report), the buyer's country risk, payment terms, outstanding payment records of the buyer, and the export products concerned.

### *Need to expedite the issue of credit limits to policyholders*

3.15 ECIC has set a performance pledge of completing the processing of CLAs and issue credit limits for CLAs of above \$1 million within four working days (not counting the day of receipt) based on adequate information being available, and within three working days for CLAs of \$1 million or below. The pledge was met in the period from 2016-17 to 2020-21. However, Audit noted that the time taken was much longer than three/four working days for ECIC to collect the necessary information for processing CLAs. For CLAs outstanding for more than three months, the officers concerned should make decisions based on the information available either to issue the credit limits or reject the CLAs and inform the policyholders accordingly.



## Provision of export credit insurance services

3.16 In the period from April 2020 to September 2021, ECIC processed 51,317 CLAs comprising 25,096 (49%) of \$1 million or below and 26,221 (51%) of above \$1 million. Audit analysed the elapsed time from the dates the CLAs were received to the dates of completion of processing them i.e. issuing credit limits or rejecting CLAs (see Table 10). The average elapsed time from receiving CLAs to issuing credit limits or rejecting CLAs was 5.4 days (ranging from 0 to 86 days) for CLAs of \$1 million or below and 7.7 days (ranging from 0 to 90 days) for CLAs of above \$1 million.

**Table 10**

**Elapsed time from receiving CLAs to issuing credit limits or rejecting CLAs  
(April 2020 to September 2021)**

CLAs of \$1 million or below		CLAs of above \$1 million	
Elapsed time (Day)	Number of CLAs	Elapsed time (Day)	Number of CLAs
0 to 3	16,102 (64.2%)	0 to 4	13,414 (51.2%)
4 to 10	3,743 (14.9%)	5 to 10	5,328 (20.3%)
11 to 20	3,678 (14.6%)	11 to 20	5,108 (19.5%)
21 to 30	910 (3.6%)	21 to 30	1,403 (5.3%)
31 to 40	325 (1.3%)	31 to 40	430 (1.6%)
41 to 50	155 (0.6%)	41 to 50	248 (0.9%)
51 to 60	117 (0.5%)	51 to 60	140 (0.5%)
61 to 70	30 (0.1%)	61 to 70	96 (0.4%)
71 to 80	24 (0.1%)	71 to 80	42 (0.2%)
Over 80 (Note 1)	12 (0.1%)	Over 80 (Note 2)	12 (0.1%)
Total	25,096 (100.0%)	Total	26,221 (100.0%)

*Source: Audit analysis of ECIC records*

*Note 1: The longest elapsed time was 86 days.*

*Note 2: The longest elapsed time was 90 days.*

## **Provision of export credit insurance services**

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3.17 Audit examined the 3 CLAs with the longest time elapsed from receiving CLAs to issuing credit limits/rejecting CLAs and found that in 2 cases, there was room for improvement for ECIC to take more timely actions in obtaining the required information from the policyholder (see Case 2 for an example).

### **Case 2**

#### **Room for taking more timely actions in obtaining required information from policyholder (August to November 2021)**

1. In August 2021, ECIC received from a policyholder a CLA for \$8 million on a buyer.
2. In October 2021 (51 days after receiving CLA), ECIC requested clarification and additional documents from the policyholder. Eight days later, ECIC sent a reminder to the policyholder to follow up the request.
3. In November 2021 (3 days after the reminder), the policyholder provided the required information and documents to ECIC.

#### ***Audit comments***

4. In Audit's view, the elapsed time of CLA processing could have been shortened if actions had been taken in a more timely manner.

*Source: Audit analysis of ECIC records*

Audit considers that ECIC needs to take actions in a more timely manner to obtain the necessary information and documents for processing CLAs with a view to shortening the elapsed time from the receipt of CLAs to issuing credit limits to policyholders or rejecting CLAs.

#### ***Room for improvement in conducting reviews on buyers***

3.18 According to ECIC, regular and close monitoring of buyer's commitments help avoid over-exposure and ensure a good portfolio of credit risks. ECIC conducts reviews on buyers with shipments declared in the preceding 12 months periodically

## Provision of export credit insurance services

according to a time schedule. ECIC will obtain credit reports from credit agencies and relevant information for the reviews. According to ECIC's guidelines, the reviews should be completed within five working days upon receipt of credit reports and adequate information. According to ECIC, the pledge was met in the period from 2016-17 to 2020-21.

3.19 Audit analysed the 15,593 reviews conducted in the period from April 2020 to September 2021 and noted that the average elapsed time from receiving credit reports to completion of reviews was 6.2 days (ranging from 0 to 247 days). Of the 15,593 reviews, 789 (5%) had elapsed time of more than 10 days from receiving credit reports to completion of reviews (see Table 11).

**Table 11**

**Elapsed time from receiving credit reports to completion of reviews on buyers  
(April 2020 to September 2021)**

Elapsed time (Day)	Number of reviews
0 to 10	14,804 (95%)
11 to 20	476
21 to 30	139
31 to 60	142
61 to 90	24
Over 90 (Note)	8
Total	15,593 (100%)

*Source:* Audit analysis of ECIC records

*Note:* The longest elapsed time was 247 days.

3.20 Audit examined five reviews on buyers with elapsed time of more than 90 days and found that in these five reviews, there was room for improvement for ECIC in obtaining the required information for the reviews in order to shorten the elapsed time from receiving the credit reports to completing the reviews (see Case 3 for an example).

### Case 3

#### **Room for expediting collection of necessary information to complete review on a buyer (February to May 2021)**

1. In February 2021, ECIC received the credit report on a buyer scheduled for review.
2. In March 2021 (13 days later), ECIC sent an email to the policyholder concerned asking for information relating to the buyer.
3. In May 2021 (69 days later), ECIC sent a reminder to the policyholder. On the same day, the policyholder replied that the previous email had been overlooked and would provide the required information after checking.
4. Seven days later, ECIC sent an email to the policyholder to chase up the required information. Another three days later, ECIC sent a reminder to the policyholder. On the same day, the policyholder provided the required information and ECIC completed the review.

#### ***Audit comments***

5. In Audit's view, the review on the buyer could have been completed in a more timely manner if actions had been taken promptly and proactively to collect the necessary information for the review.

*Source: Audit analysis of ECIC records*

Audit considers that in conducting reviews on buyers, ECIC needs to take actions in a more timely manner to obtain the necessary information with a view to shortening the elapsed time from receipt of credit reports to completing the reviews.

### **Audit recommendations**

3.21 Audit has *recommended* that the Commissioner, ECIC should take more timely actions:

- (a) to obtain the necessary information and documents for processing CLAs with a view to shortening the elapsed time from the receipt of CLAs to issuing credit limits to policyholders or rejecting CLAs; and
- (b) in conducting reviews on buyers to obtain the necessary information with a view to shortening the elapsed time from receipt of credit reports to completing the reviews.

## **Response from the Hong Kong Export Credit Insurance Corporation**

3.22 The Commissioner, ECIC generally agrees with the audit recommendations. He has said that:

- (a) ECIC has put in place monitoring mechanisms to regularly review the status of pending CLAs and buyer reviews through email alerts, management reports and quality assurance checks. Some cases require a longer processing time because it takes time for the policyholders and credit agencies to provide the information needed before a decision can be made; and
- (b) ECIC will continue its efforts to expedite the handling of cases and strengthen the monitoring of cases pending clarification.

## **Declaration of shipments**

3.23 According to policy terms, a policyholder is required to declare its shipments of goods provided on credit terms to buyers outside Hong Kong within 21 days from the date of shipments. The policyholder pays premium for the shipments declared in accordance with the policy terms. Every month, ECIC issues invoices on the declarations received to the policyholder for settlement. According to ECIC, declaration is very important as it records what ECIC insures. ECIC assumes liability once declarations are received from policyholders, subject to the compliance with other policy terms and conditions.

***Late declarations of shipments by policyholders***

3.24 In the period from April to September 2021, 179,611 declarations of shipments were received. Of these declarations, 4,608 (3%) with total value of shipments amounting to \$1 billion were submitted late. The average period of delay was 27 days, ranging from 1 to 787 days (see Table 12).

**Table 12****Late declarations of shipments  
(April to September 2021)**

<b>Period of delay (Day)</b>	<b>Number of declarations</b>
1 to 30	3,836 (84%)
31 to 60	415 (9%)
61 to 90	103 (2%)
91 to 180	99 (2%)
181 to 365	104 (2%)
Over 365 (Note)	51 (1%)
Total	4,608 (100%)

*Source:* Audit analysis of ECIC records

*Note:* The longest period of delay was 787 days.

3.25 Audit analysed the reasons for delay in 20 late declarations. For 3 declarations, there was no documentary evidence showing the reasons. For the remaining 17 declarations, there were four different reasons (see Table 13).

**Table 13**

**Reasons for delay in 20 late declarations of shipments  
(April to September 2021)**

<b>Reason for delay</b>	<b>Number of cases</b>
Forgotten by policyholders	5
Misunderstood policy terms	4
Overlooked by policyholders	4
Busy workload of policyholders	4
Reasons not documented	3
Total	20

*Source: Audit analysis of ECIC records*

3.26 Audit noted that in the period from April to September 2021, ECIC identified 19 policyholders as “frequently late policyholders” (i.e. policyholders had late declarations in 50% or more of their total number of declarations in three months or more in the past 12 months). According to ECIC’s guidelines, if a policyholder has frequent late declaration records, the responsible officer should submit the assessment results and recommended actions to the Assistant General Manager or above for approval. Audit reviewed the actions taken on the 19 “frequently late policyholders” and noted that:

- (a) for 17 (89%) of the 19 policyholders, the recommended actions were to remind the policyholders on the requirements of timely declarations of shipments. However, for 3 (18%) of these 17 policyholders, there was no documentary evidence showing that ECIC had reminded them of such requirements; and
- (b) for the remaining 2 (11%) policyholders, the responsible officers only stated the reasons for late declarations without providing the recommended actions when seeking approval from the Assistant General Manager. According to ECIC, the responsible officers had addressed the issues by asking the policyholders to declare shipments as required in future.

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However, there was no documentary evidence showing that actions had been taken.

3.27 Audit considers that ECIC needs to:

- (a) remind those “frequently late policyholders” on the requirements of timely declarations of shipments;
- (b) document the recommended actions taken by the responsible officers; and
- (c) take effective measures to address the issue of late declarations of shipments by policyholders taking into account the reasons for the delays.

### ***Omissions of declarations by policyholders***

3.28 Omission of declarations (i.e. failure of a policyholder to declare insurable transactions) will result in loss of premium income of ECIC. According to ECIC’s guidelines:

- (a) omission of declaration can be accepted under certain specified circumstances;
- (b) for other circumstances, the responsible officers need to evaluate the implications of potential claims before accepting the omissions; and
- (c) once omission is accepted, the responsible officer should inform the policyholder in writing to remind the policyholder of the requirement of following the policy terms in making declaration and to demand retrospective declaration from the policyholder.

3.29 In the period from April 2020 to September 2021, ECIC identified omissions of declarations of 386 shipments involving 18 policyholders. Of the 386 shipments, 208 (54%) involving 13 (72%) of the 18 policyholders were accepted by ECIC for retrospective declarations.



3.30 Audit examined the 208 omissions of declarations of shipments subsequently declared by the 13 policyholders and noted that according to ECIC, the reasons for the omissions were as follows:

- (a) 87 (42%) shipments involving 11 policyholders were due to oversight by policyholders' staff; and
- (b) 121 (58%) shipments involving 2 policyholders were due to misunderstanding of policy terms.

3.31 Audit considers that ECIC needs to take effective measures to address the issue of omissions of declarations of shipments.

### **Audit recommendations**

3.32 **Audit has *recommended* that the Commissioner, ECIC should:**

- (a) **remind those “frequently late policyholders” on the requirements of timely declarations of shipments;**
- (b) **document the recommended actions taken by the responsible officers for late declarations;**
- (c) **take effective measures to address the issue of late declarations of shipments by policyholders taking into account the reasons for the delays; and**
- (d) **take effective measures to address the issue of omissions of declarations of shipments.**

### **Response from the Hong Kong Export Credit Insurance Corporation**

3.33 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

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- (a) ECIC will keep reminding policyholders of the declaration requirement on various occasions including periodic seminars, policy inception and renewals;
- (b) ECIC will revise the business work manual of declaration processing and require its business staff to document actions taken in processing the late declarations in the system; and
- (c) ECIC will identify possible measures to facilitate the policyholders to submit declarations in the manner required under the insurance policy.

## **Claims and recoveries**

3.34 In the event of default of payments from the buyers, ECIC pays claims to the policyholders in accordance with the policy terms. Headed by an Assistant General Manager, the Claims and Recoveries Division (see Appendix A) is responsible for processing claims and recoveries cases. In 2020-21, ECIC made claims payments for 109 cases, totalling \$664.7 million.

### ***Room for improvement in notifications of likely loss by policyholders***

3.35 Late reporting of overdue payments will affect the chance of success of the recovery actions against the buyers. Under the policy terms, a policyholder has to inform ECIC promptly, and in any event within five working days, of the following events/information as payment difficulty cases:

- (a) when the policyholder becomes aware of the occurrence of any event of loss, or any event likely to cause loss, or that the buyer is or appears to be unable to pay debts incurred in the ordinary course of business as and when they fall due;
- (b) all amounts from the buyer that have been overdue for more than two months; and
- (c) all amounts which are unpaid if the buyer failed to take delivery of goods.

According to ECIC's guidelines, the responsible officer should consider rejecting liability if serious discrepancies are found and/or ECIC's position has been jeopardised, for example, the policyholder has failed to inform ECIC fully and promptly of the adverse information.

3.36 According to ECIC, to deter repeated late reporting of payment difficulty cases by policyholders who had committed the similar breach in over 60% in their past claims cases, it has implemented the following measures with effect from July 2017:

- (a) Division Head's approval is required if the responsible officer considered that there are grounds to tolerate a serious breach or repeated breaches of the reporting requirements;
- (b) strong-wording warning that "we would like to draw your attention that your future claims application may not be considered if you fail to comply with the reporting requirements of the policy again" is to be added to the claims settlement letter sent to the policyholder concerned; and
- (c) after claims payment is made, the responsible officer of the Business Division should, as far as feasible, arrange a follow-up meeting with the policyholder concerned to reinforce the policyholder's understanding of the policy terms and conditions including the rights and obligations. If a meeting could not be arranged, a written reminder to that effect should be issued to the policyholder concerned.

3.37 In the period from April 2020 to September 2021, ECIC were informed of 142 payment difficulty cases. In 12 (8%) of the 142 cases, the policyholders concerned were late in notifying ECIC. Of the 12 late reported cases, 8 (67%) were accepted by ECIC. The buyers concerned subsequently failed to make payments to the policyholders concerned. ECIC made claims payments on discretionary grounds in all the 8 cases.

3.38 Audit's examination on the 8 late reported cases accepted by ECIC found that in 2 cases, the policyholders concerned had been late in the reporting of payment difficulty cases in their previous claims cases:

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- (a) in one case, the policyholder had been late in the reporting of payment difficulty cases in four previous claims cases; and
- (b) in another case, the policyholder had been late in the reporting of payment difficulty cases in three previous claims cases.

Audit noted that in the above 2 cases, there was no documentary evidence showing that ECIC had arranged follow-up meetings with the policyholders concerned to reinforce the understanding of the policy terms and conditions or had ECIC issued written reminders to the policyholders concerned to that effect (see para. 3.36(c)). Audit considers that ECIC needs to ensure compliance of ECIC's control measures on payment difficulty cases by ECIC's staff. ECIC also needs to take measures to address the issue of policyholders' non-compliance with the policy terms on reporting payment difficulty cases.

### ***Room for improvement in debt recovery by policyholders***

3.39 ECIC will advise the policyholders on appropriate loss minimisation actions upon receipt of adequate information. After receipt of a Claims Application Form and the claims supporting documents, the responsible officer will perform claims examination and decide whether to accept or reject the claims. For accepted claims, a claims settlement letter will be prepared and sent to the policyholder concerned together with the claims payment. In the period from April 2020 to September 2021, ECIC made payments to policyholders in 119 claims cases.

3.40 ***Need to ensure that prior written approval was obtained before appointment of a debt collector.*** According to ECIC's guidelines, if the appointment of a debt collector is considered necessary:

- (a) ECIC would recommend debt collectors to the policyholder from an approved list on a rotation basis;
- (b) in case the policyholder prefers to appoint its own debt collector, the Division Head's approval is required;

- (c) the policyholder must obtain ECIC's prior written approval before proceeding with the appointment of a debt collector if the policyholder has to seek reimbursement of costs or charges subsequently incurred; and
- (d) the policyholder should require the debt collector to:
  - (i) declare any actual, perceived or potential conflict of interest with the buyer on a prescribed Declaration of Absence of Conflict of Interest Form provided by ECIC before appointment; and
  - (ii) complete the Declaration on Compliance with Ethical Commitments Requirements Form upon appointment.

3.41 Audit's examination on 5 of the 119 claims cases found that in 2 cases where the policyholders had appointed debt collectors before obtaining written approval from ECIC and completing the Declaration of Absence of Conflict of Interest Form:

- (a) in one case in which debt collection commission was subsequently incurred on amount successfully collected from the buyer, the debt collector was appointed 29 days before obtaining written approval from ECIC and 8 days before completing the Declaration of Absence of Conflict of Interest Form; and
- (b) in another case in which it turned out that no debt collection commission or other cost was incurred, the debt collector was appointed three days before obtaining written approval from ECIC and completing the Declaration of Absence of Conflict of Interest Form.

3.42 Audit considers that ECIC needs to take measures to address the issue of policyholders not complying with ECIC's requirements of:

- (a) obtaining ECIC's prior written approval before proceeding with the appointment of debt collectors if the policyholders have to seek reimbursement of any costs or charges subsequently incurred; and

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- (b) completing the Declaration of Absence of Conflict of Interest Form by the debt collectors before appointment.

3.43 *Need to ensure that written approval was obtained before accepting proposals relating to composition or rescheduling of debts.* According to policy terms, ECIC's written approval must be obtained before a policyholder accepts any proposal in relation to the composition or rescheduling of debts. In 1 of the 5 cases examined (see para. 3.41), Audit noted that the policyholder did not obtain ECIC's written approval before accepting the buyer's offer of a reduced payment, as follows:

- (a) in October 2018, a policyholder reported that there was a non-payment from a buyer amounting to some United States Dollars (USD) 20,000. ECIC sent an email to remind the policyholder that ECIC should not be liable for any reduction of payment mutually agreed between the policyholder and the buyer;
- (b) ECIC found in January 2020 that the policyholder accepted in September 2019 the buyer's offer of reduced payment to some USD10,000 without obtaining ECIC's written approval. ECIC then sent an email to remind the policyholder that ECIC should not be liable for any reduction of payment mutually agreed between the policyholder and the buyer; and
- (c) in July 2020, the responsible officer sought approval from the Deputy General Manager to tolerate the breach and accept the policyholder's claims on the outstanding payment of USD10,000 on the ground that there was no better alternative. According to ECIC, had the policyholder sought ECIC's prior approval, ECIC would have accepted the same given that it was not cost-effective to take legal action against the buyer, considering the relatively small outstanding debt and that the appointed debt collector was unable to negotiate for a better offer.

Audit also noted that ECIC had not taken follow-up actions with the policyholder on this matter, e.g. reprimanding/warning the policyholder for seriously breaching the policy terms and conditions. Audit considers that ECIC needs to take measures to address the issue of policyholders' not obtaining written approval from ECIC before accepting proposals in relation to the composition or rescheduling of debts.

***Prompt actions needed to write off outstanding recovery cases***

3.44 According to ECIC's guidelines:

- (a) responsible officers should ensure prompt and cost-effective actions are taken on cases with clear prospect of recovery and make write-off decisions correctly and promptly;
- (b) responsible officers should review all outstanding recovery cases every six months to update the case progress and ascertain recovery prospect, as appropriate; and
- (c) cases should be written off as soon as practicable where the prospect of recovery or further recovery is non-existent or too remote.

3.45 As at 31 January 2022, there were 59 outstanding recovery cases which had been identified as cases to be written off for more than four months. Audit examined 3 of the 59 cases and noted that:

- (a) in one case, the case was identified in August 2020 as a case to be written off (involving some \$166,000) as the policyholder had reached a final settlement agreement and received the agreed amount. The case was reviewed in September 2020, October 2020, April 2021 and September 2021. All reviews concluded that the case was to be written off. Up to 31 January 2022, it had been about 1.5 years since the case was identified as a case to be written off;
- (b) in another case, the case was identified in August 2020 as a case to be written off (involving some \$36,000) because the last instalment in the repayment plan was received. The case was reviewed in September 2020, November 2020, May 2021 and October 2021. All reviews concluded that the case was to be written off. Up to 31 January 2022, it had been about 1.4 years since the case was identified as a case to be written off; and
- (c) in the third case, the case was identified in October 2020 as a case to be written off (involving some \$1,115,000) because the final dividend had been declared and shared. The case was reviewed in January 2021, July 2021 and December 2021. All reviews concluded that the case was to

be written off. Up to 31 January 2022, it had been about 1.3 years since the case was identified as a case to be written off.

Audit considers that ECIC needs to take prompt action to write off those cases identified to be written off as soon as practicable as stipulated in ECIC's guidelines.

### **Audit recommendations**

3.46 **Audit has *recommended* that the Commissioner, ECIC should:**

- (a) **ensure compliance of ECIC's control measures on payment difficulty cases by ECIC's staff;**
- (b) **take measures to address the issue of policyholders' non-compliance:**
  - (i) **with the policy terms on reporting payment difficulty cases;**
  - (ii) **of obtaining ECIC's prior written approval before proceeding with the appointment of debt collectors if the policyholders have to seek reimbursement of any costs or charges subsequently incurred;**
  - (iii) **of completing the Declaration of Absence of Conflict of Interest Form by the debt collectors before appointment; and**
  - (iv) **of obtaining written approval from ECIC before accepting proposals in relation to the composition or rescheduling of debts; and**
- (c) **take prompt action to write off those cases identified to be written off as soon as practicable as stipulated in ECIC's guidelines.**



## **Response from the Hong Kong Export Credit Insurance Corporation**

3.47 The Commissioner, ECIC agrees with the audit recommendations in paragraph 3.46(a) and (c), and generally agrees with the audit recommendations in paragraph 3.46(b). He has said that:

- (a) ECIC will enhance the system to issue a reminder to claims officer for taking the necessary action upon approval of claims payment if the policyholder concerned has record of repeated late reporting of payment difficulty cases;
- (b) ECIC has currently through various channels including seminars, webinars, online platforms and social media, disseminated information about the insurance policy and its operations to exporters and policyholders;
- (c) ECIC will step up education to reinforce policyholders' understanding and awareness of the policy terms and conditions via different channels and issue more reminders as appropriate during the claims handling process;
- (d) ECIC has stepped up effort in writing off cases with no or remote recovery prospect. By 31 March 2022, 127 cases which were identified to be written off before 31 March 2021 were written off, and the number of outstanding recovery cases pending write-off was reduced to 43, which were identified as cases to be written off during 2021-22 and are targeted to be written off by the first half of 2022-23; and
- (e) ECIC will lay down in its internal guidelines the requirement that recovery cases which are identified as having remote or no recovery prospect should be written off within the next six months.

## **PART 4: ADMINISTRATIVE ISSUES**

4.1 This PART examines administrative issues of ECIC, focusing on the following areas:

- (a) human resources management (paras. 4.2 to 4.11); and
- (b) other administrative issues (paras. 4.12 to 4.26).

### **Human resources management**

4.2 As at 31 December 2021, ECIC had 106 staff, comprising 101 permanent staff, 2 contract staff and 3 temporary staff. The staff were classified under eight salary bands (see Table 14).

Table 14

**Salary bands of ECIC staff  
(31 December 2021)**

<b>Band</b>	<b>Post</b>
1	Commissioner
2	General Manager
3	Deputy General Manager
4	Assistant General Manager
5	Senior Manager, Manager (Note)
6	Manager (Note), Assistant Manager, Executive Assistant, Senior Clerical Officer
7	Clerical Officer, Driver, Officer
8	Office Management Assistant, Clerical Assistant

*Source: Audit analysis of ECIC records*

*Note: Some managers are classified under Band 5 while some others under Band 6.*

### ***High staff turnover rates***

4.3 From time to time, ECIC reports its staff turnover rates (Note 12) to the Advisory Board and CEDB. Audit examination of ECIC's staff turnover rates for the period from 2016-17 to 2020-21 revealed that:

- (a) the overall staff turnover rates in each individual year were on the high side, ranging from 12.5% in 2017-18 to 22.6% in 2019-20. The five-year average overall staff turnover rate for the years was 17.1% (see Table 15); and

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**Note 12:** *ECIC defined the staff turnover rate as the number of staff who resigned/retired/terminated in a financial year divided by the number of staff at the end of the financial year. Contract staff were excluded.*

**Table 15****Staff turnover rate  
(2016-17 to 2020-21)**

	2016-17	2017-18	2018-19	2019-20	2020-21	Average
No. of staff as at year-end date (i.e. 31 March) (a)	114	120	116	106	102	111
No. of staff who left ECIC during the year (b)	16	15	23	24	17	19
Overall staff turnover rate (c)=(b)÷(a)×100%	14.0%	12.5%	19.8%	22.6%	16.6%	17.1%

*Source: Audit analysis of ECIC records*

*Remarks: Contract staff were excluded.*

- (b) the average number of years of service of staff leaving ECIC in each individual year was more than 4 years, ranging from 4.8 years to 7.9 years.

4.4 ECIC conducted exit interviews with staff leaving ECIC, during which staff were invited to complete an Exit Interview Form by giving a grade on 13 aspects of ECIC (Note 13) and provide the reasons for leaving. While ECIC had reported the high staff turnover rates in the monthly senior management meetings, Advisory Board meetings, Audit Committee meetings and half-yearly housekeeping meetings with CEDB, it had not from time to time used the information collected from the Exit Interview Forms to compile statistics on the reasons for high staff turnover rates and reported the results in the meetings.

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**Note 13:** *The 13 aspects were: (a) adequacy of job orientation and training; (b) annual leave; (c) career development; (d) co-operation with co-workers; (e) education assistance; (f) incentive pay; (g) medical plan; (h) other benefits; (i) performance review system; (j) physical working environment; (k) salary; (l) working relationship with supervisors; and (m) workload and working arrangement. Each aspect was rated as “excellent”, “good”, “fair” or “poor”.*

4.5 Audit considers that ECIC needs to formulate measures to address the high staff turnover rates taking into account the information collected from the exit interviews.

***Need to conduct salary structure reviews in a timely manner***

4.6 ECIC adopts a market driven salary structure which consists of eight salary bands (see Table 14 in para. 4.2). Each salary band has three sub-bands to reflect the level of competency, experience and performance of individual staff and there is a salary range for each sub-band. According to ECIC's Salary Administration Guide, the salary ranges of each salary band should be reviewed and adjusted from time to time by:

- (a) collecting the pay trend information in each calendar year from human resources consultancy firms in the market, or gathering the data itself by making reference to external sources to determine the amount of annual salary adjustment for each band of the salary structure; and
- (b) conducting a comprehensive pay level review every 3 to 5 years or when there are indications that the market has changed significantly.

4.7 Audit examined the comprehensive pay level reviews conducted by ECIC in the period from 2013 to 2021 and found that:

- (a) ***Comprehensive pay level reviews conducted less frequently than required.*** The latest two comprehensive pay level reviews were completed in September 2013 and June 2020, almost 7 years apart (i.e. less frequent than every 3 to 5 years as stipulated in the Salary Administration Guide); and
- (b) ***Long time taken to follow up the results of 2020 review.*** In June 2020, ECIC completed a comprehensive pay level review. However, up to 31 December 2021, ECIC was still discussing the results of the review with CEDB and had yet to submit the results to the Advisory Board for endorsement.

4.8 Upon enquiry, ECIC informed Audit in March 2022 that:

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- (a) “every 3 to 5 years” in the Salary Administration Guide actually meant “every 3 to 5 years after implementation of the recommendations of the previous review”; and
- (b) recommendations of the comprehensive pay level review conducted in 2012-13 was approved by the Government for implementation in 2014-15. Accordingly, the following review was completed in June 2020 (about 5 years after the recommendations of the 2012-13 review were implemented).

4.9 In Audit’s view, the long time period between comprehensive pay level reviews (i.e. 7 years — see para. 4.7(a)) may not be conducive to ensuring that the remuneration of ECIC staff is adjusted making reference to market data, and there are merits in determining the frequency of comprehensive pay level review according to the time interval between reviews rather than between implementation of review results and commencement of review. Audit considers that ECIC needs to:

- (a) promulgate clear guidelines on the frequency of comprehensive pay level reviews, preferably by making reference to the time interval between reviews; and
- (b) in collaboration with CEDB, expedite the endorsement and implementation of the recommendations of the 2020 comprehensive pay level review.

## Audit recommendations

4.10 **Audit has *recommended* that the Commissioner, ECIC should:**

- (a) **formulate measures to address the high staff turnover rates taking into account the information collected from the exit interviews;**
- (b) **promulgate clear guidelines on the frequency of comprehensive pay level reviews, preferably by making reference to the time interval between reviews; and**

- (c) in collaboration with CEDB expedite the endorsement and implementation of the recommendations of the 2020 comprehensive pay level review.

## **Response from the Hong Kong Export Credit Insurance Corporation**

4.11 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

- (a) ECIC has submitted the proposed implementation of the recommendations arising from the staff remuneration system review conducted in 2019-20 and the consultancy review on the corporate KPIs conducted in 2018-19 to the Government for approval after obtaining the Advisory Board's endorsement in March 2022 and November 2021 respectively. Such implementation is expected to enhance the overall remuneration package, which was commonly quoted as a reason for staff departure in the past;
- (b) ECIC has taken or is in the process of taking actions to address the comments made by staff during the exchange meetings that the Commissioner held with them in 2021, with a view to enhancing the overall work environment and well-being for staff as part of the effort aiming to reduce attrition and improve talent retention;
- (c) ECIC has planned to step up working towards enhancing staff engagement in 2022-23, a further effort aiming to tackle the high staff turnover, among the activities laid down in the Corporate Plan for 2022-23. ECIC will continue to keep in view the staff turnover issues going forward;
- (d) ECIC will review the time interval between two comprehensive pay level reviews and look into the feasibility of shortening the review cycle in consultation with CEDB; and
- (e) the Secretary for Commerce and Economic Development's approval was granted in April 2022 for the implementation of the consultant's recommendations of the comprehensive pay level review.

### Other administrative issues

#### *Insufficient coverage in stocktaking of computer software and hardware*

4.12 According to ECIC's Finance and Accounting Manual, the physical existence of fixed assets must be checked against the fixed asset register twice annually, and any variances should be investigated. The Finance and Account Unit (FAU) is responsible for conducting the stocktaking exercises. Every year, FAU conducts two stocktaking exercises (one in June and another in December). According to the sampling instructions for stocktaking issued by FAU, for each stocktaking exercise of computer software and hardware, 23 samples should be selected for checking, comprising:

- (a) 13 samples selected from the fixed asset register (including 10 samples with the highest net book value (NBV) and 3 samples with the highest acquisition costs). These samples should be checked against their physical existence; and
- (b) 10 samples randomly selected from the office, which should be checked against the fixed asset register.

4.13 Audit reviewed the records of the 10 stocktaking exercises conducted in the period from 2016-17 to 2020-21 and found that there was room for improvement in the stocking exercises for computer software and hardware:

- (a) in all the 10 stocktaking exercises for computer software and hardware, the samples selected from the fixed asset register for checking did not include all of the 10 items with the highest NBV, contrary to the requirement of FAU's sampling instructions (see para. 4.12(a)); and
- (b) NBV of computer software and hardware covered in the stocktaking exercises varied significantly among the 10 stocking exercises. While the stocktaking exercise in 2016-17 covered 24% of the total NBV of computer software and hardware, all items selected for the 2017-18 stocktaking exercise were fully depreciated (i.e. with zero NBV). The stocktaking exercises in 2019-20 and 2020-21 covered only 4% and 6% of the total NBV respectively (see Table 16).



Table 16

**NBV of computer software and hardware covered in stocktaking exercises  
(2016-17 to 2020-21)**

	2016-17	2017-18	2018-19	2019-20	2020-21
Total NBV at year-end (\$'000) (a)	1,802	2,911	3,606	3,079	2,674
Total NBV of items checked (\$'000) (b)	432	0	721	131	171
Coverage (c) = (b) ÷ (a) × 100%	24%	0%	20%	4%	6%

*Source: Audit analysis of ECIC records*

4.14 Audit considers that ECIC needs to take measures to ensure that stocktaking exercises are conducted according to the requirements stipulated in ECIC's guidelines.

***Need to conduct checks on mobile devices regularly***

4.15 According to ECIC's Clear Screen Policy:

- (a) all information systems should be attended by staff to prevent unauthorised access; and
- (b) staff in possession of mobile devices (e.g. phones, electronic tablets) for business purposes should ensure that the mobile device is locked by password-protected screensaver or screen lock when the device is left unattended.

4.16 It is stipulated in ECIC's Mobile Device and Teleworking Policy that Information Technology Divisions (ITDs — see Appendix A) should conduct checks on all mobile devices annually to ensure that the lock-screen setting has been enabled. Audit examined the checking records for the period from 2017 to 2021 and found that no checking exercises had been conducted in 2018 and 2019. Audit considers that

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ECIC needs to take measures to ensure that mobile devices are checked every year according to the requirement stipulated in ECIC's Mobile Device and Teleworking Policy.

### ***Room for improvement in the procurement process***

4.17 According to ECIC's Procurement and Contract Management Procedure (PCMP):

- (a) tendering exercises should be conducted for purchases with value over \$500,000 (single and restricted tendering for value up to \$1,000,000 and open tendering for value over \$1,000,000); and
- (b) exemptions from PCMP should only be granted under acceptable circumstances and should be approved by senior management, with justifications properly documented.

PCMP does not provide specific guidelines on what constitutes "acceptable circumstances".

4.18 In the period from 2016-17 to 2020-21, there were 33 purchases with value over \$500,000. Audit reviewed the 33 purchases and noted that:

- (a) exemptions from tender exercises were approved for 26 (79%) of the 33 purchases. These 26 purchases were conducted by written quotations instead of tenders as required; and
- (b) in 23 (88%) of the 26 purchases conducted by written quotations, ECIC only obtained written quotation from one vendor.

For all the 26 cases, justifications were provided for the exemption from tender exercises.

4.19 Audit found room for improvement in seeking approvals for exemption from tender exercises:

- (a) ***Exemption sought was based on an estimated cost which turned out to be much lower than the actual cost.*** In August 2020, ITD sought approval for exemption from restricted tendering exercise for an information technology project based on an estimated cost of \$1 million. Upon obtaining the exemption, ITD proceeded to seek proposals and quotations from two prospective vendors. After proposal evaluation collectively carried out by ITD and an independent consultant, ECIC appointed a vendor for the implementation of the project with a contract sum of \$2.6 million (i.e. 2.6 times of the estimated cost of \$1 million when seeking for exemption approval). The substantial difference between the estimated cost and the actual cost may have undermined the justifications of the exemption approval. If the cost had been accurately estimated as \$2.6 million, approval to waive the requirement for open tendering instead of restricted tendering should have been sought; and
  
- (b) ***Justifications for single quotation not adequately given.*** Since 2010, ECIC has placed a billboard advertisement on the outside wall of a building. In the period from 2016-17 to 2020-21, the annual fee for the billboard advertisement was around \$0.7 million. Every year, approval had been granted to enter into a contract with the same vendor through a single quotation instead of conducting restricted tenders as required by PCMP (see para. 4.17(a)). There was no documentary evidence showing that similar advertising places were not available at other buildings in the same area and the reasons why ECIC did not obtain quotations or tenders from other vendors for the advertising service.

4.20 Audit also compared the procurement practice of the Government and ECIC and noted that for the procurement of goods and services by Government bureaux/departments, the threshold for conducting tender exercises was \$1.4 million. The threshold of \$500,000 adopted by ECIC (see para. 4.17(a)) was much lower than that of the Government by 64%. In Audit's view, setting a threshold for tender exercise too low might be a reason for the high percentage of cases seeking exemption approvals for procurement (see para. 4.18(a)).

4.21 Audit considers that ECIC needs to:

- (a) stipulate guidelines on the handling of major discrepancies between initial cost estimates and actual procurement values with a view to ensuring that

## **Administrative issues**

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approval of exemptions from purchase requirements granted based on initial cost estimates are still well justified having regard to the actual procurement values;

- (b) promulgate clear guidelines on the circumstances under which tender requirement for purchases can be exempted; and
- (c) consider the merits of raising the threshold on procurement value for conducting tender exercises with a view to streamlining the procurement procedures.

### ***Need to provide publicity videos in multiple languages***

4.22 ECIC has produced videos to promote its services to the public and has uploaded the videos onto its official website and on a social media platform (see Photograph 1 for an example).

Photograph 1

A publicity video produced by ECIC on a social media platform



Source: *ECIC's publicity video on a social media platform*

4.23 In December 2021, Audit examined 110 ECIC videos and noted that:

- (a) 96 (87%) videos had Chinese (i.e. Cantonese/Putonghua) dubbing only. While 1 (1%) of these 96 videos had both Chinese and English subtitles, 90 (94%) had Chinese subtitles only and the remaining 5 (5%) had no subtitles;
- (b) 13 (12%) videos had both Chinese and English dubbing. While 11 (85%) of these 13 videos had both Chinese and English subtitles, the remaining 2 (15%) had no subtitles; and
- (c) 1 (1%) video had English dubbing only. It had both Chinese and English subtitles available (see Table 17).

Table 17

**Language support for ECIC's publicity videos  
(31 December 2021)**

Subtitle	Dubbing			
	Chinese only	Chinese and English	English only	Total
Chinese only	90	—	—	90
English only	—	—	—	—
Both Chinese and English	1	11	1	13
None	5	2	—	7
Total	96	13	1	110

Source: Audit analysis of ECIC records

4.24 Audit considers that ECIC needs to provide multi-language support for its publicity videos as far as practicable (e.g. providing both Chinese and English subtitles for all videos with dubbing).

## Audit recommendations

4.25 Audit has recommended that the Commissioner, ECIC should:

- (a) take measures to ensure that stocktaking exercises are conducted according to the requirements stipulated in ECIC's guidelines;
- (b) take measures to ensure that mobile devices are checked every year according to the requirement stipulated in ECIC's Mobile Device and Teleworking Policy;

- (c) stipulate guidelines on the handling of major discrepancies between initial cost estimates and actual procurement values with a view to ensuring that approval of exemptions from purchase requirements granted based on initial cost estimates are still well justified having regard to the actual procurement values;
- (d) promulgate clear guidelines on the circumstances under which tender requirement for purchases can be exempted;
- (e) consider the merits of raising the threshold on procurement value for conducting tender exercises with a view to streamlining the procurement procedures; and
- (f) provide multi-language support for its publicity videos as far as practicable (e.g. providing both Chinese and English subtitles for all videos with dubbing).

## **Response from the Hong Kong Export Credit Insurance Corporation**

4.26 The Commissioner, ECIC agrees with the audit recommendations. He has said that:

- (a) ECIC will devise measures with a view to ensuring that the stocktaking exercise is conducted according to the guidelines;
- (b) ECIC has taken measures to ensure compliance with the Mobile Device and Teleworking Policy;
- (c) ECIC will review and lay down guidelines in PCMP on the handling of major discrepancies between initial cost estimates and actual procurement values, and on the circumstances under which tender requirement for purchases can be exempted;
- (d) ECIC will review the tender threshold on procurement value and revise the guidelines in PCMP as appropriate; and

## **Administrative issues**

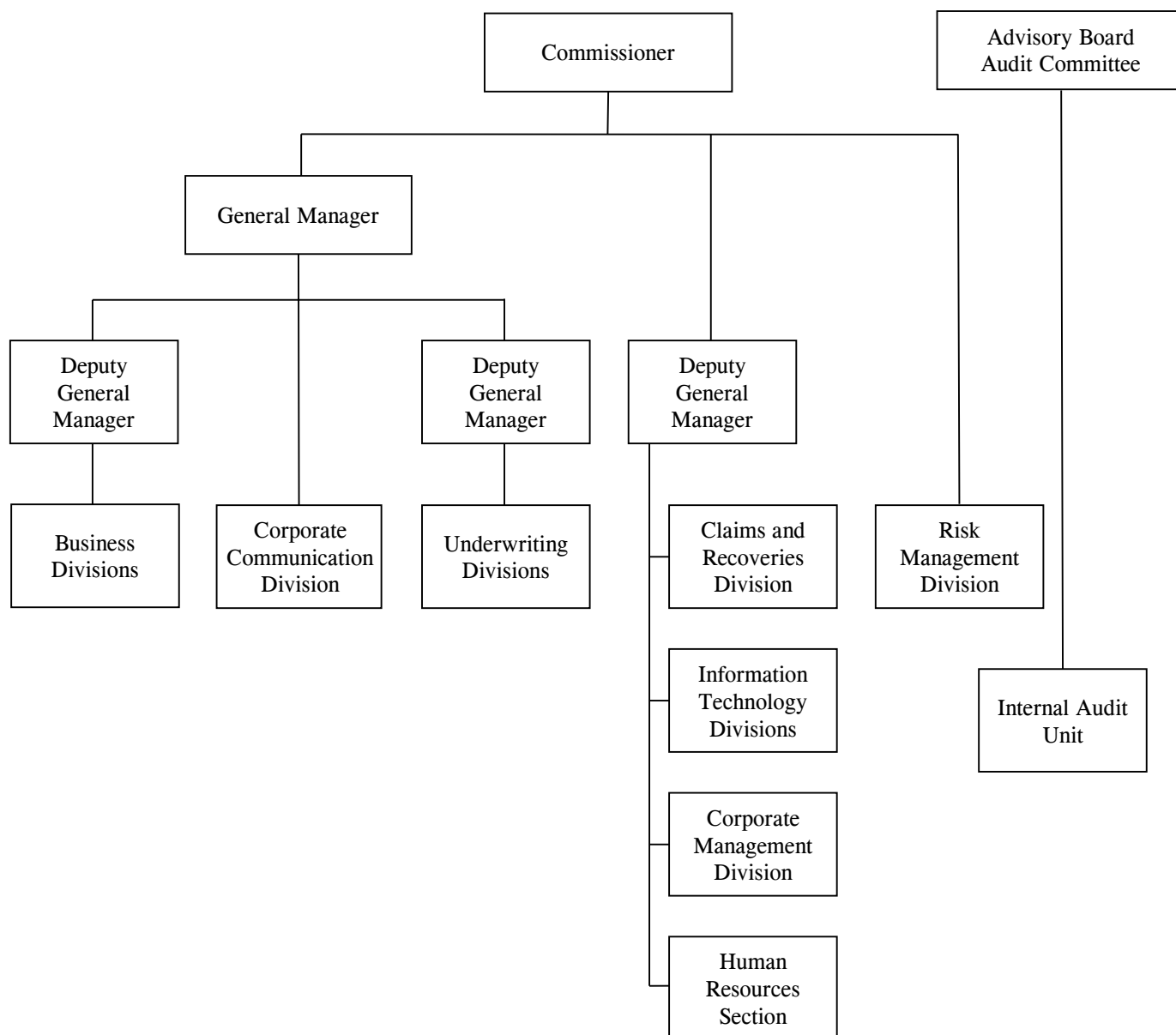
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- (e) ECIC will provide both Chinese and English subtitles for all promotional videos starting from 2022-23. For other videos such as replaying seminar and event highlight, Chinese and English subtitles will be provided after considering the purpose, importance of the content and the need.



**Appendix A**  
(paras. 1.9, 3.4, 3.14,  
3.34 and 4.16 refer)

**Hong Kong Export Credit Insurance Corporation: Organisation chart (extract)**  
**(31 December 2021)**



Source: *Audit analysis of ECIC records*

**Performance indicators used by the  
Hong Kong Export Credit Insurance Corporation  
to supplement key performance indicators**

<b>Performance indicator</b>	<b>Reported to</b>	
	<b>CEDB</b>	<b>Advisory Board</b>
1. Aggregate maximum liability	✓	✓
2. Amount of new business	✓	✓
3. Average premium rate	✓	✓
4. Bank policyholders' share of insured business amount	✓	×
5. Brokerage expenses	✓	✓
6. Capital surplus	×	✓
7. Funds managed by ECIC	✓	✓
8. Funds managed by fund managers	✓	✓
9. Investment income	✓	✓
10. Net assets	✓	✓
11. Net premium	✓	✓
12. Non-bank policyholders' share of insured business amount	✓	×
13. Number of active policies	×	×
14. Number of new policies	✓	✓
15. Number of outstanding payment difficulty cases	×	✓
16. Number of outstanding proposals	×	×
17. Number of outstanding risk management cases (status precedent to payment difficulty cases)	×	×
18. Number of policy termination	×	✓
19. Number of valid policies	✓	✓

**Appendix B**  
(Cont'd)  
(para. 2.39 refers)

Performance indicator	Reported to	
	CEDB	Advisory Board
20. Operating expenses	✓	✓
21. Premium per staff	×	×
22. Ratio of operating expenses to gross premium	✓	✓
23. Ratio of outstanding shipment to commitment	×	×
24. Ratio of staff cost to operating expenses	✓	✓
25. Top 10 buyers' share of insured business amount	×	×
26. Top 10 policyholders' share of insured business amount	×	×
27. Total commitment	✓	×
28. Year-to-date claims paid	✓	✓
29. Year-to-date new payment difficulty cases	✓	✓

Legend:    ✓    Performance indicator reported  
                   ×    Performance indicator not reported

*Source:    Audit analysis of ECIC records*

## Acronyms and abbreviations

Audit	Audit Commission
CE	Chief Executive
CEDB	Commerce and Economic Development Bureau
CLA	Credit limit application
DCP	Draft corporate plan
ECAs	Export credit agencies
ECIC	Hong Kong Export Credit Insurance Corporation
FAU	Finance and Account Unit
ITDs	Information Technology Divisions
KPIs	Key performance indicators
NBV	Net book value
OCI	Office of the Commissioner of Insurance
PCMP	Procurement and Contract Management Procedure
SBP	Small Business Policy
SMEs	Small and medium enterprises
USD	United States Dollars

## **CHAPTER 2**

### **Transport and Housing Bureau Transport Department**

#### **Licensing services for drivers**

**Audit Commission  
Hong Kong  
10 June 2022**

*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. 78 of the Director of Audit contains 4 Chapters which are available on our website at <https://www.aud.gov.hk>



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# LICENSING SERVICES FOR DRIVERS

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# LICENSING SERVICES FOR DRIVERS

## Executive Summary

1. The Transport Department (TD) is the authority for administering the Road Traffic Ordinance (Cap. 374) and legislation for the management of road traffic, regulation of public transport services and operation of major transport infrastructures. The main areas of work of TD relating to the licensing of drivers include: (a) arranging written and road tests; (b) monitoring the operation of designated driving schools, driving improvement schools and pre-service training schools; and (c) issuing licences for private driving instructors (PDIs). According to the 2020 and 2021 Annual Transport Digests published by TD, one of the major contributory factors in the road traffic accidents in Hong Kong in 2019 and 2020 was driver related. To this end, driving training and driving tests are important means of ensuring that drivers acquire the correct habits and attitudes from the start. The Audit Commission (Audit) has recently conducted a review to examine the licensing services for drivers provided by TD with a view to identifying areas for improvement.

### Provision of driving test services

2. Depending on different vehicle classes, a driving test may take the form of written test, road test or a combination of both. A person must pass all parts of a driving test before he is eligible to apply for a probationary driving licence or a full driving licence. As at 31 January 2022, there were 17 driving test centres for conducting road tests for commercial vehicles (e.g. taxi and medium goods vehicle) and/or non-commercial vehicles (e.g. private car and motor cycle) (para. 1.9). Audit examination revealed the following areas for improvement:

- (a) *Need to regularly update question banks for driving written tests.* Candidates of the driving tests for non-commercial vehicles and taxi are required to take a computerised written test. TD maintains a question bank for each part of the written tests. Audit noted that while the latest update of the questions (which were set based on the Road Users' Code) in the question bank for the written test for non-commercial vehicles and Part C of the written test for taxi was made in September 2020 (the latest version of the Road Users' Code was issued in June 2020), the previous update was

## Executive Summary

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made in August 2000 (i.e. 20 years ago). As a result, no questions on the changes in traffic regulations and legislations related to road safety (e.g. prohibition of the use of hand-held mobile phones while driving) had been asked in the written test for many years before September 2020 (paras. 2.2, 2.3 and 2.5); and

- (b) ***Long waiting time of road tests for non-commercial vehicles.*** Audit analysed the waiting time for new candidates applying for the road tests for non-commercial vehicles at driving test centres as at 31 December of 2015 to 2021 and found that the waiting time had increased significantly (e.g. the waiting time for the practical road test of motor cycle in Government test centres in Hong Kong Region had increased by 284% from 67 days to 257 days during the period). Furthermore, Audit analysed the utilisation of the 13 driving test centres providing road tests for non-commercial vehicles from 2015 to 2019 and found that the number of driving test centres failing to achieve an utilisation rate of more than 80% increased from 5 in 2015 to 7 in 2019. Audit examination revealed the following areas for improvement in shortening the waiting time of road tests for non-commercial vehicles:
  - (i) ***Need to streamline duty reporting arrangement for Driving Examiners.*** Under the prevailing duty reporting arrangement, all Driving Examiners are required to report for duty at the Pui Ching Road Office in the morning of every working day. In order to ensure that road tests are conducted in a fair, efficient and corruption-free manner, the Driving Examiners are assigned to the driving test centres by random computer balloting right before starting of the daily scheduled road tests. After the balloting results are available, the Driving Examiners will travel to the assigned driving test centres. After completing a review in April 2019 on the effectiveness and practicability of a proposal to require all Driving Examiners to report for duty directly at their assigned driving test centres through the use of the latest communication technology (e.g. using instant messaging applications to inform the Driving Examiners the balloting results), TD considered that it would be more effective to better utilise the driving test centres by seeking to increase the manpower. Notwithstanding that the staff strength of Driving Examiners responsible for conducting road tests for non-commercial vehicles has increased by 11 (22%) from 51 in 2019 to 62 in 2021, the waiting time for arranging road tests for

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non-commercial vehicles has further deteriorated. TD needs to reassess the viability of the proposal to streamline the duty reporting arrangement for Driving Examiners; and

- (ii) ***Need to increase road test output by leveraging on new technology.*** Under the prevailing arrangement, in the morning of every working day, the administrative staff, as the persons-in-charge of the driving test centres, are required to take the candidates' paper driving test forms from the Pui Ching Road Office and travel to the assigned driving test centres for the Driving Examiners to conduct road tests. As the test forms contain personal data of the candidates, TD staff are required to bring back the test forms to the Pui Ching Road Office after closure of the test centres. The return trips for some remote test centres would take about an hour of travelling time. With the full rollout of the electronic test form using tablet computers in July 2022 to replace the paper test form, the test results recorded in the tablet computers will be uploaded to TD's computer system wirelessly and automatically and the personal data of candidates will be deleted from the tablet computers after the completion of the road tests. As a result, the need for the administrative staff to go back to the Pui Ching Road Office every working day to return the tablet computers will be obviated and the travelling time saved can be used for conducting more road tests (paras. 2.8 to 2.17).

## Management of driving training schools

3. In Hong Kong, there are three types of driving training schools under TD's monitoring, namely designated driving schools, designated driving improvement schools and designated pre-service training schools. According to the Road Traffic Ordinance, the Commissioner for Transport may, in writing, designate any place as a driving school/driving improvement school/pre-service training school and may impose such conditions relating to the designation as the Commissioner considers appropriate (para. 3.3). Audit examination revealed the following areas for improvement:

- (a) ***Need to improve process of designation of new driving schools.*** According to TD, except for the New Kwun Tong Driving School (set up on a Government short term tenancy site) designated in August 2019, there had

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been no designation of any new driving school for over 10 years. The construction of the New Kwun Tong Driving School involved two phases. The site of the first phase involved the driving training and test area, and two containers (one for the test centre and one for storage purposes). The site of the second phase involved four to five containers for the purpose of classroom training, reception counter, changing room and washrooms. Audit examined the designation of the New Kwun Tong Driving School and noted the following irregularities:

- (i) ***Breach of undertaking/tenancy agreement.*** According to the undertaking submitted by the proprietor of the Driving School in its tender submission/tenancy agreement, the proprietor undertook to complete the key preparatory and gearing-up tasks and activities (e.g. site formation and construction) according to the schedule included in its tender submission, and commence the operation of the Driving School within 12 calendar months from the date of entering into the tenancy agreement (i.e. by October 2019). There were delays in completing some of the items, ranging from 48 to 136 days. In particular, the commencement of full operation of the Driving School approved by TD was delayed by about 1.5 months;
- (ii) ***Granting designation and approving provision of off-street training at Driving School before full completion of construction works.*** Despite the fact that the construction works of the Driving School had not yet been fully completed, TD granted designation to the Driving School in August 2019 and approved its provision of off-street training at the School in November 2019; and
- (iii) ***Operation of Driving School without occupation permits.*** While the Driving School had fully commenced its operation since November 2019, it was not until 4 June 2020 (i.e. some six months after the full commencement of the Driving School) that TD had learned from the proprietor that the Driving School had yet to obtain the temporary occupation permits from the Buildings Department. While the temporary occupation permits for the sites of the first phase and second phase were subsequently issued by the Buildings Department on 12 June 2020 and 7 December 2020 respectively, conducting driving training by the proprietor and providing driving test services by TD at the Driving School before

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obtaining the temporary occupation permits were in breach of the Buildings Ordinance (Cap. 123) (para. 3.5);

- (b) ***Need to ensure that required frequencies of inspections for driving training schools are met.*** According to TD's inspection guidelines, on average, each designated driving school and driving improvement school should be inspected on a bi-monthly basis, and each designated pre-service training school should be inspected every three months. Audit analysis of the time elapsed between the inspections conducted for designated driving schools, driving improvement schools and pre-service training schools in the period from the respective effective dates of the current inspection guidelines for the three types of schools (i.e. October 2018, July 2020 and June 2021 respectively) to October 2021 revealed that the required frequencies of inspections stipulated in TD's inspection guidelines were not met, as follows:
- (i) ***Designated driving schools.*** For all the four designated driving schools, they had not been inspected, on average, on a bi-monthly basis (ranging from 2.12 to 2.61 months). Of the 57 inspections conducted for the four schools in the period, the intervals between inspections in 35 (61%) inspections ranged from 2.01 to 6.13 months (averaging 3.09 months); and
- (ii) ***Designated driving improvement schools.*** For the 4 designated driving improvement schools, 1 (25%) had not been inspected, on average, on a bi-monthly basis (i.e. 2.23 months). Of the 7 inspections conducted for this school, 4 (57%) inspections were not conducted at least once in every two months, with intervals between inspections ranging from 2.40 to 4.31 months (averaging 3.09 months) (paras. 3.13 and 3.14); and
- (c) ***Need to ensure that the lists of course results submitted by designated driving improvement schools are accurate.*** According to TD, upon completion of a driving improvement course, each designated driving improvement school is required to submit to TD the course attendance record (i.e. a sign-in record of all participants), the student performance assessment form (i.e. a summary of participants' performance, including in-class performance and results of written assessment) and the list of course results (i.e. a document summarising the course attendance record and the student performance assessment form). TD will upload the list of

## Executive Summary

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course results to its computer system for automatic deduction of three Driving-offence Points for eligible drivers who have successfully completed the driving improvement course. Audit examination of the lists of course results submitted by the designated driving improvement schools in the period from November 2020 to October 2021 revealed the following:

- (i) ***Discrepancies between lists of course results and monthly reports.*** In 8 (67%) of the 12 months, there were discrepancies between the aggregate number of participants as reported in the lists of course results and that reported in the monthly reports submitted by the schools. The monthly discrepancies ranged from 1 to 33 participants; and
- (ii) ***Discrepancies between lists of course results and student performance assessment forms.*** In three lists of course results submitted by two driving improvement schools in February, April and June 2021 respectively, there were 4 participants who were recorded as having successfully completed the driving improvement course, with three Driving-offence Points being deducted automatically by TD's computer system for 3 of them. Audit noted that while the 4 participants were recorded as having passed in the lists of course results, they were recorded as having failed in the corresponding student performance assessment forms (paras. 3.18 and 3.19).

## Licensing control of private driving instructors

4. The Government adopts a “two-pronged approach” in the provision of driver training. Apart from promoting off-street driver training through the establishment of designated driving schools, the Government maintains a proper supply of PDIs for on-street driver training. There are three Groups of PDI licences, namely Group 1 (Private Cars and Light Goods Vehicles), Group 2 (Light Buses and Buses) and Group 3 (Medium Goods Vehicles, Heavy Goods Vehicles and Articulated Vehicles). TD may consider issuing new PDI licences for a particular Group when the number of respective valid licences falls below the benchmark (i.e. 1,170 for Group 1, 130 for Group 2 and 230 for Group 3) by 10% (paras. 3.2, 4.2 and 4.3). Audit examination revealed the following areas for improvement:

## Executive Summary

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- (a) ***Need to take measures to address the high percentages of inactive PDIs.*** While there is no clear and widely accepted definition for determining whether a PDI is active or inactive, in reviewing the benchmarks of PDI licences under the Comprehensive Review on PDI Licences conducted from 2018 to 2019, TD gauged the availability of active PDIs in the market by making an estimate based on the information of PDIs who accompanied learner drivers to attend the driving tests in 2018. According to TD's estimation, 21%, 68% and 69% respectively of the licensed PDIs in Group 1, Group 2 and Group 3 were inactive. Modelling on TD's methodology, Audit analysed the licensed PDIs in Group 1, Group 2 and Group 3 as at 31 May 2021 and noted the following:
- (i) ***Percentages of inactive PDIs remained high.*** Of the 1,048, 116 and 181 Group 1, Group 2 and Group 3 PDIs, 333 (32%), 83 (72%) and 123 (68%) respectively did not offer any driver training in 2020; and
- (ii) ***PDIs repeatedly found to be inactive.*** Of the 333, 83 and 123 inactive Group 1, Group 2 and Group 3 PDIs, 210 (63%), 58 (70%) and 73 (59%) respectively were also found to be inactive in TD's previous two estimations conducted in 2016 and 2018 (paras. 4.5 and 4.6); and
- (b) ***Need to enhance roving inspections of PDIs.*** According to TD, with a view to assessing the standard of PDIs and their methods adopted for giving driving instruction, its Driving Examiners may conduct roving inspections of PDIs. Audit examination of the inspection reports of the 245 roving inspections conducted in the period from 2015 to 2021 revealed the following:
- (i) ***Number of roving inspections conducted.*** The annual numbers of roving inspections conducted fluctuated significantly, ranging from 0 in 2016 to 175 in 2021; and
- (ii) ***Percentages of active PDIs covered by roving inspections.*** Prior to 2021, all the roving inspections were conducted for Group 1 PDIs. Of the 158 PDIs covered by the 175 roving inspections conducted in 2021, 133, 12 and 13 were Group 1, Group 2 and Group 3 PDIs

## Executive Summary

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respectively, representing only 19%, 36% and 22% of the active PDIs as at 31 May 2021 (paras. 4.15 and 4.16).

### **Audit recommendations**

5. **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 for Transport should:**

#### *Provision of driving test services*

- (a) **regularly update the question banks for the driving written tests (para. 2.18(a));**
- (b) **take measures to shorten the waiting time of road tests for non-commercial vehicles, including reassessing the viability of the proposal to streamline the duty reporting arrangement for Driving Examiners and leveraging on the implementation of electronic test form to increase the road test output (para. 2.18(b));**

#### *Management of driving training schools*

- (c) **draw lessons from the designation of the New Kwun Tong Driving School with a view to improving the process of designation of new driving schools, including strengthening the monitoring of proprietors' implementation of key preparatory and gearing-up tasks and activities, and commencement of driving schools in accordance with the undertaking submitted in tender submissions and tenancy agreements, and incorporating the requirement of obtaining occupation permits from the Buildings Department in tenancy agreements (para. 3.11(a)(i) and (ii));**
- (d) **take measures to ensure that the required frequencies of inspections stipulated in the inspection guidelines are met and the lists of course results submitted by designated driving improvement schools are accurate (para. 3.26(a)(i) and (iii));**



## **Executive Summary**

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### ***Licensing control of PDIs***

- (e) **closely monitor the percentages of inactive PDIs in the three Groups and if the percentages remain high, take appropriate measures to address the inactive PDI issue (para. 4.13(a)); and**
- (f) **enhance the roving inspections of PDIs, including setting target frequencies and numbers of scheduled and surprise roving inspections to be conducted and devising a systematic selection mechanism of PDIs to be inspected (para. 4.19(a) and (c)).**

## **Response from the Government**

- 6. The Commissioner for Transport 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 Transport Department (TD) is the authority for administering the Road Traffic Ordinance (Cap. 374) and legislation for the management of road traffic, regulation of public transport services and operation of major transport infrastructures. TD is committed to providing the world's best transport system which is safe, reliable, efficient, environmentally friendly and satisfying to both users and operators. It also strives to keep Hong Kong moving by managing road traffic, regulating public transport services, licensing drivers and vehicles, promoting road safety as well as planning for the future to cope with the growth in demand for transport facilities and services.

1.3 Under its programme area "Licensing of vehicles and drivers", TD aims at operating an efficient vehicle and driver registration and licensing system, and promoting road safety through the efficient regulation of vehicles and drivers. The main areas of work of TD relating to the licensing of drivers under this programme area are to:

- (a) arrange written and road tests;
- (b) monitor the operation of designated driving schools, driving improvement schools and pre-service training schools; and
- (c) issue licences for private driving instructors (PDIs).

According to the 2020 and 2021 Annual Transport Digests published by TD, one of the major contributory factors in the road traffic accidents in Hong Kong in 2019 and 2020 was driver related. Examples of common inappropriate driving behaviour exhibited by drivers included driving inattentively and driving too close to the vehicle in front. In this connection, driving training and driving tests are important means of ensuring that drivers acquire the correct habits and attitudes from the start.

## Introduction

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1.4 Table 1 shows the performance indicators of TD's work relating to the licensing of drivers reported in the Controlling Officer's Reports (CORs) for the period from 2016 to 2020.

**Table 1**

**Performance indicators of TD's work relating to the licensing of drivers  
(2016 to 2020)**

Performance indicator	2016	2017	2018	2019	2020
	(Number)				
Written tests arranged for private car, motor cycle and light goods vehicle drivers	66,704	64,382	64,144	62,346	43,695 (Note 1)
Written tests arranged for taxi drivers	9,260	9,115	8,997	9,967	4,812 (Note 1)
Road tests arranged for private car drivers	53,434	54,028	57,369	58,384	69,581 (Note 2)
Road tests arranged for motor cycle and light goods vehicle drivers	100,970	100,031	94,939	90,066	114,297 (Note 2)
Road tests arranged for other drivers	14,835	15,191	15,494	18,726	16,744

*Source: TD records*

*Note 1: According to TD, the number of written tests arranged in 2020 decreased due to the suspension of written test services from 29 January to 25 May 2020, 29 July to 13 September 2020 and 2 December 2020 to 14 March 2021 amid the coronavirus disease (COVID-19) epidemic.*

*Note 2: According to TD, the number of road tests for private car, motor cycle and light goods vehicle drivers arranged in 2020 increased as the originally scheduled road tests were re-arranged due to the COVID-19 epidemic and additional road tests were arranged.*

*Remarks: According to TD, the written and road tests arranged included both original and re-scheduled tests.*

1.5 The Driving Services Section of TD (see Appendix A for an extract of the organisation chart of TD) is responsible for assessing the driving competency of persons applying for driving licences or driving instructor's licences. Its work relating to this work area include:

- (a) providing driving test services and reviewing driving test standards;
- (b) implementing driver training and driving improvement training policies;
- (c) monitoring the performance of designated driving schools, driving improvement schools and pre-service training schools; and
- (d) liaising with PDIs.

As of January 2022, the Driving Services Section had an establishment of 156 staff.

1.6 The estimated annual expenditure on the programme area "Licensing of vehicles and drivers" in 2021-22 was \$604.1 million (Note 1).

### ***Driving tests and driving licences***

1.7 ***Driver training.*** In Hong Kong, a person can have driving training in a designated driving school (Note 2) or with a PDI. TD recommends learner drivers without any driving experience to have at least 30 hours of driving training before taking the driving tests.

1.8 ***Learner's driving licence.*** Before undertaking on-road driving training for a vehicle (except taxi and special purpose vehicle), a person has to apply for a learner's driving licence, which is valid for 12 months from the date of issue. The

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**Note 1:** *According to TD, there is no breakdown of the annual expenditure solely for the licensing of drivers.*

**Note 2:** *As at 31 January 2022, there were four designated driving schools in Hong Kong, which were situated in Shatin, Yuen Long, Ap Lei Chau and Kwun Tong respectively. According to TD, the four schools were operated under the same group of private companies.*

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requirements for obtaining a learner's driving licence for different classes of vehicles are as follows:

- (a) ***Private car and light goods vehicle.*** A person applying for a learner's driving licence for private car and light goods vehicle has to be:
  - (i) at least 18 years old; and
  - (ii) physically fit to drive (i.e. not suffering from any disease or physical disability specified in the First Schedule of the Road Traffic (Driving Licences) Regulations (Cap. 374B), or any other disease or physical disability which would be liable to cause the driving by the person to be a source of danger to the public — Note 3);
- (b) ***Motor cycle.*** A person applying for a learner's driving licence for motor cycle has to be at least 18 years old and be physically fit to drive. He should have enrolled with a designated driving school for a mandatory training course to acquire the basic skills to manoeuvre a motor cycle and passed the written test and the mandatory competence test; and
- (c) ***Commercial vehicles.*** A person applying for a learner's driving licence for commercial vehicles (Note 4) has to be at least 21 years old and be physically fit to drive. He has to hold a valid full driving licence to drive

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**Note 3:** *In Hong Kong, driving licence applicants/holders are required by law to declare to TD that they are physically fit to drive. As for applicants who are 70 years of age or more, they must provide a Medical Examination Certificate (completed and signed by a registered medical practitioner) to TD for issue of driving licence. Driving licence holders reaching the age of 70 also need to provide a Medical Examination Certificate to TD at least every three years for renewal of driving licence. In November 2021, the Office of The Ombudsman announced the completion of a direct investigation into the requirements for physical fitness certification of driving licence applicants/holders imposed by TD and made a number of recommendations (e.g. establishing a mechanism for medical examination of commercial vehicle drivers reaching a specified age and imposing more stringent requirements for their physical fitness). TD is considering those recommendations and will implement them where feasible and appropriate.*

**Note 4:** *According to TD, for the purpose of classifying driving licences, taxis, medium goods vehicles, heavy goods vehicles, private and public light buses, private and public buses, franchised buses, articulated vehicles and special purpose vehicles are generally categorised as "commercial vehicles".*

a private car or light goods vehicle for at least one year or hold a valid full driving licence issued after the completion of probationary driving period (see para. 1.10(a)) to drive a private car or light goods vehicle immediately preceding his application.

1.9 ***Driving test.*** Depending on different vehicle classes, a driving test may take the form of written test, road test or a combination of both. A person must pass all parts of a driving test before he is eligible to apply for a probationary driving licence or a full driving licence. The requirements for applying for a driving test for non-commercial vehicles (i.e. private car, light goods vehicle and motor cycle) and commercial vehicles are as follows:

- (a) ***Driving test for non-commercial vehicles.*** A person applying for a driving test for non-commercial vehicles has to be at least 18 years old and be physically fit to drive (Note 5); and
- (b) ***Driving test for commercial vehicles.*** A person applying for a driving test for commercial vehicles should meet the following conditions:
  - (i) he has to be at least 21 years old and be physically fit to drive;
  - (ii) he has to hold a valid full driving licence to drive a private car or light goods vehicle for at least one year (if his full driving licence was obtained without undergoing a probationary driving period) or hold a valid full driving licence issued after the completion of probationary driving period to drive a private car or light goods vehicle immediately preceding his application;
  - (iii) he has not been convicted of certain road traffic offences during the five years immediately preceding the application; and

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**Note 5:** *For eligible overseas driving licence holders of any country or place listed in the Fourth Schedule of the Road Traffic (Driving Licences) Regulations, they can apply for direct issue of full driving licence for private car, light goods vehicle or motor cycle without test.*

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- (iv) he has to hold a valid Hong Kong Permanent Identity Card, or hold a Hong Kong Identity Card (other than a Hong Kong Permanent Identity Card) and is not subject to any condition of stay other than a limit of stay as defined in the Immigration Ordinance (Cap. 115).

As at 31 January 2022, there were 17 driving test centres (4 on Hong Kong Island, 6 in Kowloon and 7 in the New Territories) for conducting road tests for commercial vehicles and/or non-commercial vehicles.

1.10 ***Probationary driving licence and full driving licence.*** Upon passing the driving test, a person is eligible to apply for a probationary driving licence or full driving licence, as follows:

- (a) ***Probationary driving licence.*** Any person who applies to take a private car or light goods vehicle driving test on or after 9 February 2009, or a motor cycle driving test on or after 1 October 2000 is required to apply for a probationary driving licence within three years after passing the test. All probationary driving licence holders are subject to additional driving restrictions (Note 6) and only eligible to apply for full driving licences after satisfactory completion of a 12-month probationary driving period;
- (b) ***Full driving licence for non-commercial vehicles.*** For private car, light goods vehicle or motor cycle, a person is required to apply for a full driving licence for the respective class within three years from the date of his completion of the probationary driving period. A person can apply for a full driving licence for light goods vehicle after passing the driving test without undergoing the probationary driving period if he:
  - (i) holds a valid full driving licence to drive a private car for at least three years; or

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**Note 6:** *A probationary driving licence holder is required to display a “P” plate at the front and rear of the vehicle he is driving. He is not allowed to: (a) carry any passenger on the motor cycle or motor tricycle he is driving (applicable to motorcyclists only); (b) drive at a speed in excess of 70 kilometres per hour even on roads with speed limit above that; and (c) drive on the offside lane of expressways where there are three or more traffic lanes.*



- (ii) holds a valid full driving licence issued after the completion of probationary driving period to drive a private car for at least two years.

For overseas driving licence holders of any country or place not listed in the Fourth Schedule of the Road Traffic (Driving Licences) Regulations (see Note 5 to para. 1.9(a)), they may apply for a temporary driving licence to drive a private car or light goods vehicle in Hong Kong. After passing the driving test, they will be issued with a full driving licence without undergoing the probationary driving period; and

- (c) ***Full driving licence for commercial vehicles.*** For commercial vehicles, a person is required to apply for a full driving licence within three years after passing all parts of the relevant driving test.

1.11 As at 31 December 2021, the number of holders of valid learner's driving licence, probationary driving licence and full driving licence were 108,680, 54,374 and 2,329,354 respectively. Table 2 shows the number of valid learner's, probationary and full driving licences by vehicle class as at 31 December 2021.

**Table 2**

**Number of valid learner's, probationary and full driving licences by vehicle class  
(31 December 2021)**

Vehicle class	Valid licence		
	Learner's driving licence	Probationary driving licence	Full driving licence
	(Number)		
Private car	58,042	48,864	2,315,175
Light goods vehicle	50,900	25,496	1,416,688
Motor cycle	9,979	5,446	304,474
Private light bus	5,502	N/A	178,863
Public light bus	6,151	N/A	167,930
Taxi	N/A	N/A	203,880
Private bus	8,145	N/A	138,150
Public bus	8,993	N/A	136,979
Government vehicle	873	N/A	32,480
Franchised bus	248	N/A	25,820
Medium goods vehicle	7,204	N/A	183,773
Heavy goods vehicle	9,683	N/A	92,311
Articulated vehicle	1,631	N/A	43,005
Special purpose vehicle	N/A	N/A	16,581
Motor tricycle	9,948	5,446	304,484

*Source: TD records*

*Remarks: A person passing the driving tests for light goods vehicle, motor cycle and heavy goods vehicle will also be entitled to drive a private car, motor tricycle and medium goods vehicle respectively.*

### Audit review

1.12 The Audit Commission (Audit) has recently conducted a review to examine the licensing services for drivers (Note 7), focusing on the following areas:

- (a) provision of driving test services (PART 2);
- (b) management of driving training schools (PART 3); and
- (c) licensing control of PDIs (PART 4).

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

1.13 The Secretary for Transport and Housing welcomes the audit recommendations. He has said that:

- (a) the Transport and Housing Bureau supports the proposed follow-up actions of TD which would contribute to the goal of delivering more reliable and efficient licensing services for drivers through enhancing the provision of driving test services, management of driving training schools and licensing control of PDIs; and
- (b) to this end, on PDIs, it is worthy to highlight that the Road Traffic (Driving Licences) (Amendment) Regulation 2021 has come into effect since 1 December 2021 with a view to, among others, improving the issuing mechanism for new PDIs' licences and raising the quality of PDIs. TD is undertaking a host of new measures in this regard (see para. 4.3(d) for details).

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**Note 7:** *The issue and renewal of vehicle and driving licences by TD's licensing offices was covered in an audit review on licensing and examination services for vehicles, the results of which were reported in Chapter 4 of the Director of Audit's Report No. 77 of November 2021.*

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1.14 The Commissioner for Transport agrees with the audit recommendations.

## **Acknowledgement**

1.15 During the audit review, in light of the outbreak of the fifth wave of the COVID-19 epidemic, the Government had implemented various special work arrangements and targeted measures for government employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of TD during the course of the audit review amid the COVID-19 epidemic.

## PART 2: PROVISION OF DRIVING TEST SERVICES

2.1 This PART examines the provision of driving test services, focusing on the driving test arrangements.

### Driving test arrangements

2.2 In general, a person has to pass all parts of a driving test before he is eligible to apply for a probationary driving licence or a full driving licence. Depending on the classes of vehicles, the driving tests are of different test types with different requirements, as follows:

#### *Non-commercial vehicles*

- (a) ***Private car and light goods vehicle.*** The driving test for private car and light goods vehicle consists of three parts:
  - (i) ***Computerised written test.*** In the computerised written test, candidates are required to answer 20 multiple-choice questions in 20 minutes. In order to pass the test, candidates have to obtain at least 16 correct answers. The test aims to test candidates' knowledge on road traffic regulations and safe driving. Candidates need to be conversant with the Road Users' Code (RUC — Note 8) before taking the test;
  - (ii) ***Intermediate test.*** In the intermediate test, candidates have to show their ability in mastering a number of manoeuvres (e.g. reversing and parking, making a three-point turn in a narrow road and stopping and starting on a slope); and
  - (iii) ***Practical road test.*** In the practical road test, candidates have to demonstrate their driving skills on roads (e.g. changing lanes,

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**Note 8:** *RUC sets out the rules, advice and information applicable to different types of road users, including drivers, cyclists, passengers and pedestrians, and provides the meaning of different traffic signs/signals and road markings.*

## Provision of driving test services

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overtaking vehicles and entering and leaving junctions) along a test route selected by the Driving Examiner.

Candidates have to pass the computerised written test before taking the road tests (i.e. the intermediate test and practical road test). Candidates who are students of designated driving schools may take the two road tests separately (i.e. the intermediate test first and then the practical road test). Other candidates have to take the two road tests jointly (known as the combined test). Where a pass is obtained for only one part during the combined test, the candidate is required to apply for a re-test of the failed part;

- (b) ***Motor cycle.*** The driving test for motor cycle consists of three parts:
  - (i) ***Computerised written test.*** The computerised written test for motor cycle is the same as that for private car and light goods vehicle;
  - (ii) ***Competence test.*** Candidates must enrol for a mandatory motor cycle training course in a designated driving school to acquire the basic knowledge and skills to manoeuvre a motor cycle before applying through the driving school for the mandatory competence test conducted at its driving test centre. In the competence test, candidates have to demonstrate that they can master four designated basic movements conducted at a compound (i.e. stopping at designated points, turning left, turning right, and stopping in emergency); and
  - (iii) ***Practical road test.*** Candidates have to obtain a pass of the competence test first before taking the practical road test. The purpose and format of the practical road test for motor cycle are similar to those for private car and light goods vehicle;

### ***Commercial vehicles***

- (c) ***Taxi.*** Candidates of the driving test for taxi only need to attend a computerised written test and no road test is required. The computerised written test comprises 90 multiple-choice questions to be answered in 45 minutes. To obtain a pass in the test, a candidate must pass all three parts of the test in one go, as follows:

- (i) **Part A: Taxi Regulations.** This part aims to test candidates' knowledge on the guidelines and regulations related to the taxi industry. Candidates are required to answer 20 questions and have to obtain at least 17 correct answers in order to pass this part;
- (ii) **Part B: Location and Route.** This part aims to test candidates' location knowledge and route planning capacity. Candidates are required to answer 20 questions and have to obtain at least 17 correct answers in order to pass this part; and
- (iii) **Part C: RUC.** This part aims to test the candidates' knowledge on road traffic regulations and safe driving. The questions are set based on RUC. Candidates are required to answer 50 questions and have to obtain at least 43 correct answers in order to pass this part; and
- (d) **Commercial vehicles other than taxi.** Candidates of the driving test for commercial vehicles other than taxi only need to take a road test and no written test is required. The format of the road test is similar to the combined test for private car and light goods vehicle. Candidates should also be able to master a number of specified manoeuvres (e.g. de-coupling and re-coupling procedures for an articulated vehicle). A partial pass is not applicable to commercial vehicles.

Table 3 summarises the test types and requirements of driving tests for different classes of vehicles.

**Table 3**

**Test types and requirements of driving tests for different classes of vehicles**

Vehicle class	Written test	Road test	
		Intermediate test/ competence test	Practical road test
<i>Non-commercial vehicle</i>			
Private car and light goods vehicle	✓	✓ (Note 1)	✓ (Note 1)
Motor cycle	✓	✓	✓
<i>Commercial vehicle</i>			
Taxi	✓	✗	
Other than taxi	✗	✓ (Note 2)	

*Source: Audit analysis of TD records*

*Note 1: Candidates have to take the two tests jointly (i.e. the combined test) unless they are students of designated driving schools. Where a pass is obtained for only one part during the combined test, the candidate is required to apply for a re-test of the failed part.*

*Note 2: The format of the road test is similar to the combined test for private car and light goods vehicle but a partial pass is not applicable.*

***Need to regularly update the question banks for driving written tests***

2.3 Candidates of the driving tests for non-commercial vehicles and taxi are required to take a computerised written test. The written test for non-commercial vehicles has one part and the written test for taxi has three parts. TD maintains a question bank for each part of the written tests. In taking the written tests, test questions are randomly generated from the respective question banks by TD's computer system for the computerised written tests. The formulation of the question banks is as follows:

- (a) ***Taxi written test (Part A).*** The questions in this question bank are based on the Guidelines to Taxi Regulations;



- (b) *Taxi written test (Part B).* The questions in this question bank are based on the Location and Route Questions Booklet; and
- (c) *Taxi written test (Part C) and written test for non-commercial vehicles.* The questions in this question bank are based on RUC.

To facilitate candidates to prepare for the written tests, TD has publicised the Guidelines to Taxi Regulations, the Location and Route Questions Booklet and RUC on its website. The computerised written tests are conducted at the Written Test Centre of TD at the Cheung Sha Wan Government Offices.

2.4 According to TD, the questions for the written tests are reviewed and updated as and when necessary. For example, the question bank for the written test for non-commercial vehicles and Part C of the written test for taxi shall be based on the prevailing version of RUC, and amendments to RUC shall be deemed to be subsidiary legislation and laid before the Legislative Council under the Road Traffic Ordinance.

2.5 Audit noted that:

- (a) the Guidelines to Taxi Regulations were updated in December 2021 and the questions in the question bank for Part A of the written test for taxi were reviewed in early 2022;
- (b) the questions in the question bank for Part B of the written test for taxi were updated annually. Moreover, a comprehensive review on the question bank was conducted in 2019;
- (c) while the latest update of the questions in the question bank for the written test for non-commercial vehicles and Part C of the written test for taxi was made in September 2020 (the latest version of RUC was issued in June 2020), the previous update was made in August 2000 (i.e. 20 years ago); and
- (d) during the 20-year period (from August 2000 to September 2020) since RUC was previously updated, there had been enactment of new traffic regulations, and a number of amendments had been made to the legislations

## **Provision of driving test services**

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related to road safety, such as the prohibition of the use of hand-held mobile phones while driving (updated in July 2000) and the requirement of turning on all front lamps, headlamps and rear lamps at all times while riding on motor cycle (updated in July 2002). These changes had not been included in the written test until September 2020. In other words, no questions on the related issues (e.g. prohibition of the use of hand-held mobile phones while driving) had been asked in the written test for many years before September 2020.

In Audit's view, TD needs to regularly update the question banks for the driving written tests.

### ***Long waiting time of road tests for non-commercial vehicles***

2.6 In its COR, TD has set 4 targets in relation to driving test services, as follows:

- (a) 98% of written tests for non-commercial vehicles are conducted within 45 days upon application for learner's driving licences;
- (b) 98% of written tests for taxi are conducted within 60 days upon application for taxi driving licences;
- (c) 98% of written test results are announced within 15 minutes upon completion of the tests; and
- (d) 95% of road tests for commercial vehicles are conducted within 82 days upon application for the respective vehicle driving licences.

2.7 Audit examined TD's CORs and noted that:

- (a) from 2016 to 2019, TD met all the 4 performance targets (with 100% achieved) set out in CORs. In 2020, TD could not meet 3 of the 4 performance targets due to the intermittent suspensions of written test services and road test services amid the COVID-19 epidemic (see Table 4); and

- (b) prior to 2016, TD had also pledged to conduct 95% of road tests for non-commercial vehicles within 82 days upon application for the respective vehicle driving licences. Starting from 2016, TD has removed the pledge. According to TD:
- (i) it was likely that the demand for driving tests for non-commercial vehicles would continue to increase in the coming years but TD's ability to provide the service would continue to be constrained by the limited number of driving test centres available. The achievement rate of the target would therefore remain low. TD would not forecast an achievement rate based on this consideration; and
  - (ii) the actual number of road tests arranged would continue to be provided to illustrate TD's performance in the year and facilitate comparison between TD's performance with that of the year before (Note 9).

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**Note 9:** *From 2016 to 2020, the actual numbers of road tests arranged for non-commercial vehicles were 154,404, 154,059, 152,308, 148,450 and 183,878 respectively. According to TD, the number in 2020 increased as additional road tests were arranged for candidates affected by the intermittent suspensions of road tests due to the COVID-19 epidemic (see para. 1.4).*

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**Table 4**

**TD's performance in relation to driving test services as reported in COR  
(2016 to 2020)**

Target		Actual performance (%)				
Description	(% of all cases)	2016	2017	2018	2019	2020
Conducting written tests for non-commercial vehicles within 45 days upon application for learner's driving licences	98	100	100	100	100	11
Conducting written tests for taxi within 60 days upon application for taxi driving licences	98	100	100	100	100	43
Announcing written test results within 15 minutes upon completion of the tests	98	100	100	100	100	100
Conducting road tests for commercial vehicles within 82 days upon application for the respective vehicle driving licences	95	100	100	100	100	80

*Source: TD records*

2.8 During the period from 2016 to 2020, about 90% of the road tests arranged were for non-commercial vehicles (see Table 1 in para. 1.4). The waiting time of road tests for non-commercial vehicles is a matter of public concern. Since TD removed the pledge, from time to time, Members of the Legislative Council have raised questions in this regard. Audit analysed the waiting time for new candidates applying for the road tests for non-commercial vehicles at driving test centres as at 31 December of 2015 to 2021 and found that the waiting time had increased significantly (see Table 5).

Table 5

Waiting time of road tests for  
non-commercial vehicles at driving test centres  
(2015 to 2021)

Test centre	Waiting time (Day)							Percentage increase from 2015 to 2021
	As at 31 December							
	2015	2016	2017	2018	2019	2020	2021	
<i>Combined test of private car</i>								
Government test centres in Hong Kong Region	111	125	198	206	191	127	294	165 %
Government test centres in Kowloon and New Territories Region	245	194	267	282	252	158	319	30 %
Test centres located at the four designated driving schools	214	254	204	259	231	194	412	93 %
<i>Combined test of light goods vehicle</i>								
Government test centres in Hong Kong Region	118	156	228	246	239	158	320	171 %
Government test centres in Kowloon and New Territories Region	246	195	261	281	251	155	322	31 %
Test centres located at the four designated driving schools	204	256	194	259	227	197	410	101 %
<i>Practical road test of motor cycle</i>								
Government test centres in Hong Kong Region	67	73	155	213	175	119	257	284 %
Government test centres in Kowloon and New Territories Region	127	201	278	305	213	144	280	120 %
Test centres located at the four designated driving schools	120	151	159	191	92	123	208	73 %

Source: Audit analysis of TD records

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2.9 According to TD, of the 17 driving test centres, 11 of them are exclusively used for providing road tests for non-commercial vehicles and 2 of them are used for both commercial and non-commercial vehicles. Audit notes that although the test demand for non-commercial vehicles has been increasing, not all driving test centres have been fully used. Audit analysed the utilisation of the 13 driving test centres providing road tests for non-commercial vehicles from 2015 to 2019 (Note 10) and found that the number of driving test centres failing to achieve an utilisation rate of more than 80% increased from 5 in 2015 to 7 in 2019 (see Table 6). According to TD, different factors, including the manpower of Driving Examiners (who were responsible for conducting road tests) and traffic conditions, would be taken into consideration when allocating test appointments to driving test centres. In this connection, Audit noted that there was scope for improvement in shortening the waiting time of road tests for non-commercial vehicles, as detailed in paragraphs 2.10 to 2.17.

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**Note 10:** *Due to the intermittent suspensions of road test services amid the COVID-19 epidemic, the utilisation of the test centres in 2020 has been excluded from Audit's analysis.*

Table 6

**Utilisation of 13 driving test centres for road tests for non-commercial vehicles  
(2015 to 2019)**

Utilisation rate (Note)	Number of driving test centres				
	2015	2016	2017	2018	2019
> 80 %	8	7	7	6	6
> 70 % – 80 %	2	3	2	2	2
> 60 % – 70 %	2	1	0	3	2
> 50 % – 60 %	0	1	3	1	2
> 40 % – 50 %	1	1	1	1	1
Total	13	13	13	13	13

Source: Audit analysis of TD records

Note: The utilisation rate of a driving test centre is calculated by dividing the number of working days on which the centre was opened for arranging road tests by the total number of working days in a year.

Remarks:

- (a) A new driving test centre in Kwai Chung commenced operation in November 2016 for reprovisioning an old one (which ceased operation in October 2016). The utilisation rates of the old centre of 2015 and 2016 and the utilisation rates of the new centre from 2017 to 2019 were included in this analysis.
- (b) A new driving test centre in Kwun Tong commenced operation in December 2019 for reprovisioning an old one (which ceased operation in October 2019). The utilisation rate of the new centre was excluded from this analysis.

2.10 **Need to streamline duty reporting arrangement for Driving Examiners.**  
According to TD, the prevailing duty reporting arrangement for Driving Examiners is as follows:

- (a) in the morning of every working day, all Driving Examiners are required to report for duty at the Pui Ching Road Office. They will change uniform and attend briefings given by their supervisors;

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- (b) in order to ensure that road tests are conducted in a fair, efficient and corruption-free manner, the Driving Examiners are assigned to the driving test centres by random computer balloting right before starting of the daily scheduled road tests; and
- (c) after the balloting results are available, the Driving Examiners and administrative staff (i.e. clerical grade officers) will travel to the assigned driving test centres together in the same vehicle as far as practicable (Note 11).

2.11 To increase the driving test output and enhance the efficiency in conducting road tests, in 2019, TD carried out a review on the effectiveness and practicability of a proposal to require all Driving Examiners to report for duty directly at their assigned driving test centres through the use of the latest communication technology (e.g. using instant messaging applications to inform the Driving Examiners the balloting results). The proposal allowed the Driving Examiners to report for duty and work earlier at the driving test centres to maximise the number of time slots available for road tests. In April 2019, TD completed the review. The salient points of the review were as follows:

- (a) it was estimated that about 5,500 additional road tests for non-commercial vehicles could be conducted annually under the proposed arrangement, representing an increase of 3.7% of driving test time slots. The waiting time for the combined test of private car and light goods vehicle and for the practical road test of motor cycle would be shortened by about half a month and about one month respectively; and
- (b) while the feasibility of the proposal could not be totally ruled out, the implementation of the proposal would bring about some

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**Note 11:** *According to TD, in order to meet operational need, staff are permitted to travel to driving test centres by using their private vehicles or hiring taxis. Staff who use their private vehicles can claim duty mileage allowance and those who hire taxis can claim reimbursement of taxi fare incurred. To save travelling costs, the Driving Examiners and administrative staff assigned to the same driving test centre will travel together.*



problems (Note 12) that would affect the overall efficiency of the road test services.

As a result, TD did not pursue the proposal. As an alternative measure to increase road test output, TD considered that it would be more effective to better utilise the driving test centres by seeking to increase the manpower.

2.12 Audit noted that, notwithstanding that the staff strength of Driving Examiners responsible for conducting road tests for non-commercial vehicles has increased by 11 (22%) from 51 in 2019 to 62 in 2021, the waiting time for arranging road tests for non-commercial vehicles has further deteriorated (see Table 5 in para. 2.8).

2.13 In May 2022, regarding the duty reporting and manpower of Driving Examiners, TD informed Audit that:

- (a) given the job nature of Driving Examiners, driving test services were prone to bribery cases. It was of paramount importance to introduce effective measures to maintain a corruption-free environment. To minimise the chances for any corrupt pre-arrangement between Driving Examiners and candidates attending road tests, Driving Examiners were assigned to the driving test centres by random computer balloting right before starting of the daily scheduled road tests. It was also of utmost importance to minimise the chances for tampering with the driving test equipment, and to maintain mutual monitoring of the staff concerned by grouping them together to travel in the same vehicle to the assigned driving test centre as far as practicable. The Independent Commission Against Corruption conducted an assignment study on the administration of driving test services in 2021 and the random assignment of duties to Driving Examiners was considered an effective measure to prevent corruption;

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**Note 12:** *Examples of problems included: (a) uncertainty of timely provision of road test services due to possible failure in communicating with individual Driving Examiners as a result of network problem or breakdown of mobile phones; (b) objection from Driving Examiners due to longer travelling time and greater travelling expenses incurred from their residing places to different driving test centres every working day; and (c) public objections due to the additional traffic burden to busy areas as a result of the advancement of the starting time of road tests.*

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- (b) TD had introduced possible measures to increase driving test output including bidding for additional Driving Examiners in annual Resource Allocation Exercises, engaging retired Driving Examiners under Post-retirement Service Contract Scheme, conducting timely recruitment of Driving Examiners to fill vacancies, utilising vacant test slots released by candidates after their application for test postponement/temporary cancellation of tests by re-deploying these test slots for application by road test repeaters who sought early test opportunity, etc.; and
- (c) while the staff strength of Driving Examiners responsible for conducting road tests for non-commercial vehicles increased by 11 (22%) from 51 in 2019 to 62 in 2021, the number of applications for driving test of non-commercial vehicles also increased by 35,189 (22%) from 156,922 to 192,111 during the same period. The increase in waiting time during the period was due to a significant rise in the number of applicants for road test for non-commercial vehicles coupled with intermittent suspensions of driving test services in 2020 and 2021 amid the COVID-19 epidemic.

2.14 With the increase in staff strength from 51 in 2019 to 62 in 2021, the number of additional road tests that could be conducted under the proposal could be more than the 5,500 estimated in 2019. Audit considers that TD needs to reassess the viability of the proposal to streamline the duty reporting arrangement for Driving Examiners.

2.15 *Need to increase road test output by leveraging on new technology.* At present, a standardised paper driving test form is used by Driving Examiners to assess candidates' performance during road tests. The Driving Examiner will record all the mistakes made by a candidate and endorse the test result on the test form. Under the prevailing arrangement:

- (a) in the morning of every working day, the administrative staff, as the persons-in-charge of the driving test centres, will take the candidates' test forms from the Pui Ching Road Office and travel to the assigned driving test centres for the Driving Examiners to conduct road tests; and
- (b) the administrative staff are also required to bring back the test forms to the Pui Ching Road Office after closure of the test centres every working day. The Driving Examiners will return to the Pui Ching Road Office with the

administrative staff to sign off duty (Note 13). The return trips for some remote test centres would take about an hour of travelling time.

According to TD, as the test forms contain personal data of the candidates, TD staff are not allowed to bring them home.

2.16 In January 2021, TD undertook a project to introduce electronic test form with the use of tablet computers to replace the paper test form with a view to enhancing the efficiency of driving test workflow and reducing human effort. According to TD, with the introduction of the electronic test form:

- (a) the test forms of individual candidates will be assigned to the tablet computer of the respective Driving Examiner wirelessly and automatically;
- (b) during the road test, the Driving Examiner will record all the mistakes made by the candidate on the tablet computer and the test result will be generated automatically;
- (c) after the Driving Examiner has confirmed the test result in the tablet computer, it will be uploaded to TD's computer system wirelessly and automatically. The personal data of the candidate will be deleted from the tablet computer after the completion of the road test; and
- (d) the administrative staff will go back to the Pui Ching Road Office at the end of every working day to return the tablet computers. The Driving Examiners will return to the Pui Ching Road Office with the administrative staff to sign off duty.

As at January 2022, 90 tablet computers had been procured for a trial run of the use of electronic test form. According to TD's plan, the full rollout of the electronic test form at all driving test centres would start in July 2022.

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**Note 13:** *Alternatively, Driving Examiners are allowed to sign off duty at the assigned driving test centres. If the Driving Examiners leave the centres direct after duty hours, they should sign off electronically to record their departure time. They should ensure that the centres are securely locked before their departure.*

## **Provision of driving test services**

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2.17 In Audit's view, the implementation of the electronic test form will obviate the need for the administrative staff and the Driving Examiners to go back to the Pui Ching Road Office every working day to return the tablet computers because no personal data of candidates are stored in the tablet computers after the completion of the road tests. Hence, there is no privacy protection concern. The travelling time saved can be used for conducting more road tests. Audit considers that TD needs to leverage on the implementation of electronic test form to increase the road test output.

## **Audit recommendations**

2.18 **Audit has *recommended* that the Commissioner for Transport should:**

- (a) **regularly update the question banks for the driving written tests; and**
- (b) **take measures to shorten the waiting time of road tests for non-commercial vehicles, including:**
  - (i) **reassessing the viability of the proposal to streamline the duty reporting arrangement for Driving Examiners; and**
  - (ii) **leveraging on the implementation of electronic test form to increase the road test output.**

## **Response from the Government**

2.19 The Commissioner for Transport agrees with the audit recommendations. She has said that TD will:

- (a) conduct reviews on the question banks for the driving written tests regularly, or as necessitated by any major updates on the existing legislations, to ensure that all the questions and answer options are up-to-date; and
- (b) conduct a further review after implementation of the electronic test form (which will be rolled out in July 2022) with a view to enhancing driving test output.

## **PART 3: MANAGEMENT OF DRIVING TRAINING SCHOOLS**

3.1 This PART examines the management of driving training schools by TD, focusing on:

- (a) designation of driving training schools (paras. 3.4 to 3.12); and
- (b) monitoring of driving training schools (paras. 3.13 to 3.27).

3.2 ***Driver training.*** In respect of driver training, the Government adopts a “two-pronged approach”. Apart from promoting off-street driver training through the establishment of designated driving schools, the Government maintains a proper supply of PDIs for on-street driver training (Note 14). The “two-pronged approach” provides a choice for learner drivers, with due regard to the traffic conditions in Hong Kong.

3.3 ***Driving training schools.*** In Hong Kong, there are three types of driving training schools under TD’s monitoring, namely designated driving schools, designated driving improvement schools and designated pre-service training schools. According to the Road Traffic Ordinance, the Commissioner for Transport may, in writing, designate any place as a driving school/driving improvement school/pre-service training school and may impose such conditions relating to the designation as the Commissioner considers appropriate. Details of the three types of schools are as follows:

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**Note 14:** *According to the Comprehensive Review on PDI Licences conducted by TD from 2018 to 2019, for the group of “Private Cars and Light Goods Vehicles”, the ratio of learner driver training provided by PDIs and that provided by designated driving schools was maintained at about 70:30 in the period from 2015 to 2019. For the other two groups of “Light Buses and Buses”, and “Medium Goods Vehicles, Heavy Goods Vehicles and Articulated Vehicles”, the ratios were about 90:10 in the same period (see paras. 4.2 and 4.3).*

## Management of driving training schools

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- (a) ***Designated driving schools.*** According to TD, the market of designated driving schools is open to all potential participants. At present, there are two types of designated driving schools:
- (i) ***Designated driving schools set up on Government short term tenancy sites.*** TD has been sourcing suitable sites for setting up designated driving schools. The tenders for these sites are awarded through competitive tendering (Note 15) based on the highest overall score attained in the marking scheme (Note 16); and
- (ii) ***Designated driving schools set up on sites provided by operators.*** The Government also welcomes application from any operator who can provide suitable site on its own to operate a designated driving school provided that all the pre-requisite requirements (e.g. space requirement for accommodating the facilities for off-street training) are met.

As at 31 January 2022, there were four designated driving schools in Hong Kong. Of the four schools, three (situated in Shatin, Ap Lei Chau and Kwun Tong respectively) were set up on Government short term tenancy sites and one (situated in Yuen Long) was set up on the site provided by the operator;

- (b) ***Designated driving improvement schools.*** With a view to promoting road safety and making drivers more law abiding through better understanding of their driving behaviour and attitude, TD has introduced the Driver

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**Note 15:** *According to TD, such tendering exercises are conducted in collaboration with the Lands Department. While TD is responsible for drawing up the tender terms and basic requirements in relation to the operation of driving schools, and assessment of tenders received, the Lands Department, as the landlord of Government sites, is responsible for preparing the tender terms and the tenancy agreement in relation to land administration.*

**Note 16:** *With a view to establishing a more competitive tendering process, TD has adopted a marking scheme for tender evaluation since the open tender exercise in the third quarter of 2020. Prior to that, the tenders were awarded based on the highest rental proposal with the essential requirements being met.*

Improvement Scheme (Note 17) since September 2002. Under the Driver Improvement Scheme, designated driving improvement schools are responsible for providing driving improvement courses. As at 31 January 2022, there were 16 designated driving improvement schools selected through open invitation exercises. According to TD, with a view to providing more choices to the public to enrol in the driving improvement course, there was no limit set on the number of driving improvement schools to be designated at the time of inviting applications (Note 18); and

- (c) ***Designated pre-service training schools.*** With a view to enhancing the safety and quality of public transport services through raising new drivers' awareness of driving safety and good driving attitude and equipping them with basic knowledge of passenger service and skills in customer service, etc., TD introduced the pre-service course for new public light bus drivers in June 2015 and extended the course requirement to cover new taxi drivers and new public bus drivers in October 2020. Under the pre-service training regime, an applicant for a public light bus, taxi or public bus full driving licence will not be issued with the relevant full driving licence unless he has, in addition to passing the relevant driving test, attended and completed the relevant pre-service course within one year preceding the date of application for the relevant full driving licence. Designated pre-service training schools are responsible for providing the relevant pre-service courses. As at 31 January 2022, there were 12 designated pre-service training schools selected through open invitation exercises. According to

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**Note 17:** *Under the Scheme, while a driver is allowed to voluntarily attend the driving improvement course provided by the designated driving improvement schools, the following drivers are required to attend the driving improvement courses on a mandatory basis within a specified period of time:*

- (a) *offenders who have been convicted of serious traffic offences (e.g. dangerous driving); or*
- (b) *traffic offenders who have accumulated 10 or more Driving-offence Points within two years (calculated on a rolling basis).*

*Subject to certain conditions, a driver who has successfully completed a driving improvement course will be eligible for deduction of 3 Driving-offence Points.*

**Note 18:** *According to TD, all applicants that could satisfy the essential requirements set out by TD would be granted with an approval-in-principle for providing the course, subject to the satisfactory completion of the necessary gearing-up tasks and activities.*

## Management of driving training schools

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TD, similar to designated driving improvement schools, there was no limit set on the number of pre-service training schools to be designated at the time of inviting applications (see Note 18 to para. 3.3(b)).

TD regulates the three types of schools by imposing conditions of designation and setting out the requirements, procedures and standards in respect of their operations in a Code of Practice (e.g. a designated driving school should obtain all necessary licences, permits or written consent from all relevant authorities in respect of its operation) issued under the Road Traffic Ordinance. If a designated school fails to comply with the Code of Practice, subject to the seriousness of the breach, TD may revoke the designation so granted.

## Designation of driving training schools

### *Driving schools*

3.4 According to TD, there had been no designation of any new driving school for over 10 years prior to the designation of the New Kwun Tong Driving School in August 2019 (Note 19). During that period, TD had been arranging designation of driving schools through renewal or reprovisioning of existing schools. To enhance the competition in the operations of designated driving schools, TD had introduced a competitive tendering system in collaboration with the Lands Department to re-tender (see Note 15 to para. 3.3(a)(i)) in 2018 the sites for driving schools set up on Government short term tenancy sites. Prior to September 2021, there was no written guideline for the designation of driving schools. In September 2021, based on the experience in previous tendering and designation exercises, TD drew up a set of guidelines setting out the core principles, procedures and requirements for the designation of driving schools. According to the guidelines:

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**Note 19:** *According to TD, to give way to the development of the “Energizing Kowloon East” Project, the former Kwun Tong Driving School had to cease operations in September 2019. With a view to ensuring an uninterrupted provision of driving training and test services for the public in Kowloon, it was necessary for a new driving school to commence operations well before the closure of the former driving school. In this connection, in 2018, TD, in collaboration with the Lands Department, conducted a tender exercise for the short term tenancy (with a term of four years and nine months) of the Government land for operating the New Kwun Tong Driving School.*



- (a) ***Validity of designation.*** Each designation is valid for a maximum period of five years and is subject to renewal (for schools set up on sites provided by the operators) or re-tendering of the sites (for schools set up on Government short term tenancy sites) upon expiry (Note 20);
- (b) ***Essential requirements.*** The essential requirements for operation as a designated driving school are as follows:
  - (i) the site is of sufficient space to accommodate the facilities for off-street training for the vehicle types that the school is intended for, an administration office for handling course registration and a TD driving test centre for conducting driving tests;
  - (ii) the test routes in the adjacent roads are suitable for testing one's driving competence and the traffic conditions are found acceptable for conducting driving training and tests;
  - (iii) the site is permitted to be used as a driving school (i.e. "driving school" has been included as a permitted use) under the Outline Zoning Plan, or has been approved by the Town Planning Board to be temporarily used for such purpose; and
  - (iv) other conditions or requirements as may be imposed by other Government departments are met;
- (c) ***Procedures for designation.*** The key procedures for designating a site as a driving school are as follows:
  - (i) upon completion of all gearing-up activities in accordance with the execution plans submitted in its tender (or equivalent information for a school set up on a site provided by the operator), the proprietor of the driving school should apply to TD in writing for designation;

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**Note 20:** *According to TD, the implementation of re-tendering of sites for schools set up on Government short term tenancy sites commenced in 2018. Prior to 2018, designation could be renewed upon expiry.*

## Management of driving training schools

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- (ii) TD's Driving Services Section should arrange site inspections to confirm that all training facilities and the training range conform with the prescribed requirements and summarise the inspection records in the form of a checklist;
  - (iii) for sites that are being designated for the first time, the officer of the Driving Services Section should check that occupation permits (Note 21) have been obtained from the Buildings Department for possession of the sites; and
  - (iv) upon satisfactory completion of all gearing-up activities, the Driving Services Section should submit a designation letter enclosing the Code of Practice to the Assistant Commissioner/Administration and Licensing for consideration and approval; and
- (d) ***Compliance with Code of Practice.*** After a designation is granted, the Driving Services Section will conduct regular inspections at the designated driving school. Upon discovery of any breach of the Code of Practice or any other conditions as specified in the designation, the proprietor of the designated driving school will be requested to take follow-up actions immediately and rectify the breach within a reasonable time. If it appears that the proprietor has continued to breach the Code of Practice or other conditions as specified in the designation with no sign of improvement, TD may revoke the designation and consider requesting the Lands Department to terminate the tenancy agreement (for schools set up on Government short term tenancy sites).

### ***Need to improve process of designation of new driving schools***

3.5 Except for the New Kwun Tong Driving School designated in August 2019, there had been no designation of any new driving school for over 10 years

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**Note 21:** *Under the Buildings Ordinance (Cap. 123), no new building shall be occupied unless an occupation permit in respect of such building has been issued. Upon receipt of an application for an occupation permit, officers of the Buildings Department will carry out an inspection and examine the required documents. An occupation permit will only be issued when the building is ready for occupation. For a building required for a temporary purpose only or constructed of short-lived materials, a temporary occupation permit is needed prior to occupation.*

(see para. 3.4). Audit examined the designation of the New Kwun Tong Driving School and noted the following:

- (a) ***Breach of undertaking/tenancy agreement.*** According to the undertaking submitted by the proprietor of the Driving School in its tender submission (undertaking)/tenancy agreement, the proprietor undertook to:
  - (i) complete the key preparatory and gearing-up tasks and activities (namely site formation and construction (Note 22), establishment of the computerised student enrolment and driving test appointment system, procurement of training vehicles and submission of livery design of training vehicles, staff recruitment, commencement of student enrolment, provision of uniform for driving instructors, and application for designation) according to the schedule included in its tender submission; and
  - (ii) commence the operation of the Driving School within 12 calendar months from the date of entering into the tenancy agreement (i.e. by October 2019).

As shown in Table 7, there were delays in completing some of the items, ranging from 48 to 136 days. The actual commencement of full operation of the Driving School approved by TD was delayed by about 1.5 months as compared with that stipulated in the tenancy agreement. However, Audit noted that it was not until December 2020 (see para. 3.5(c)) that the pertinent temporary occupation permit for the site of the second phase was obtained. As far as Audit could ascertain, the tenant (i.e. the Driving School) had not applied to the Lands Department for an extension of the commencement of operation. Furthermore, while the tenancy agreement was the only enforceable instrument prior to the issue of the Code of Practice to the Driving School upon granting of designation, it had not included other remedial clauses (e.g. liquidated damages) to mitigate

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**Note 22:** *According to TD, the construction of the Driving School involved two phases:*

- (a) *the site of the first phase involved the driving training and test area, and two containers (one for the test centre and one for storage purposes); and*
- (b) *the site of the second phase involved four to five containers for the purpose of classroom training, reception counter, changing room and washrooms.*

## Management of driving training schools

Government's losses other than termination of agreement in case of serious breaches (Note 23);

**Table 7**

**Delays in completion of key preparatory and gearing-up tasks and activities  
and commencement of operation  
of New Kwun Tong Driving School**

Item		Completion date		
		As required by undertaking/ tenancy agreement	Actual	Delay (Day)
1	Commencement of student enrolment	Ready	N/A (Note 1)	
2	Staff recruitment	31 December 2018	25 March 2019	84
3	Establishment of computerised student enrolment and driving test appointment system	28 February 2019	N/A (Note 2)	
4	Provision of uniform for driving instructors	31 March 2019	14 August 2019	136
5	Procurement of training vehicles and submission of livery design of training vehicles	31 August 2019	14 August 2019	—
6	Site formation and construction of Driving School	30 September 2019	18 November 2019 (Note 3)	49
7	Application for designation	30 September 2019	6 August 2019 (Note 4)	—
8	Commencement of operation of Driving School	8 October 2019	25 November 2019 (Note 5)	48

Source: Audit analysis of TD records

**Note 23:** As stipulated in the tenancy agreement, failure to comply with any terms and conditions might lead to the termination of the agreement by the Lands Department. According to the Lands Department, it had not been informed by TD of any detected breach of the tenancy agreement and enforcement by termination of the tenancy agreement may not be an effective remedy for early commissioning of the Driving School.

**Table 7 (Cont'd)**

- Note 1: According to TD, while the student enrolment of the Driving School should only commence upon granting of designation by TD, the student enrolment system of the Driving School was ready when the proprietor submitted its tender in August 2018.*
- Note 2: According to TD, since the proprietor of the Driving School's parent company was also operating other designated driving schools in Hong Kong, it would adopt the same computerised student enrolment and driving test appointment system that were used in the three other driving schools. Therefore, the system was considered ready when the proprietor submitted its tender in August 2018.*
- Note 3: According to TD, this was the date on which the proprietor of the Driving School submitted to TD a letter from its Authorised Person, who was responsible for the construction of the Driving School, stating that the site of the first phase (see Note 22 to para. 3.5(a)(i)) of the Driving School was safe for driving training purposes (see para. 3.5(b)(ii)). While it could not retrieve the actual date of its site inspection verifying the completion of site formation and construction of the Driving School, it was understood that the inspection had been conducted.*
- Note 4: In its application for designation of the Driving School, the proprietor attached a letter from its Authorised Person. According to the letter, as of early August 2019, the construction works of the training range of the Driving School had been completed by 78% and were expected to be completed by the end of August 2019. According to TD, the site formation and construction of the Driving School were subsequently completed in November 2019 (see Note 3).*
- Note 5: While the provision of on-street training of the Driving School was approved by TD to commence in August 2019, the provision of off-street training at the Driving School was approved to commence in November 2019 (see para. 3.5(b)). The temporary occupation permits for the sites of the first phase and second phase were subsequently obtained in June and December 2020 respectively (see para. 3.5(c)).*

**Remarks:**

- (a) *The completion dates of items 1 to 7 are included in the undertaking submitted by the proprietor in its tender submission.*
- (b) *The date of commencement of operation of the Driving School (item 8) was included in both the undertaking submitted by the proprietor in its tender submission and tenancy agreement.*
- (b) **Granting designation and approving provision of off-street training at Driving School before full completion of construction works.** Despite the fact that the construction works of the Driving School had not yet been fully completed as of November 2019, TD had granted designation to the Driving School and approved its provision of off-street training at the School, as follows:

## Management of driving training schools

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- (i) according to TD, the proprietor had completed all gearing-up activities except the construction works inside the school premises in August 2019. Having considered the strong driving test demand and long test waiting time, and in order to ensure a seamless transition of driving test services which were planned to commence in early October 2019 (Note 24), in August 2019, TD granted designation to the Driving School with the restriction that it should not conduct any off-street training at the School. This was not in compliance with TD's established procedures that designation should only be granted upon satisfactory completion of all gearing-up activities (see para. 3.4(c)(iv)); and
- (ii) in November 2019, in its application for commencing the provision of off-street training at the site of the first phase (see Note 22 to para. 3.5(a)(i)), the proprietor of the Driving School attached a letter from its Authorised Person (see Note 3 to Table 7 in para. 3.5(a)). According to the Authorised Person's letter, the application for the temporary occupation permit (see Note 21 to para. 3.4(c)(iii)) for the site of the first phase was in progress (Note 25) and the site was safe for driving training purposes. While the proprietor only applied for commencing the provision of off-street training at the site of the first phase and there was no assurance provided by the Authorised Person that the site of the second phase, which involved some containers for, among others, conducting classroom training, was safe for use, TD approved the commencement of the provision of off-street training at the Driving School without setting any restriction on using the site of the second phase; and
- (c) ***Operation of Driving School without occupation permits.*** Audit noted that while the Driving School had fully commenced its operation since November 2019, it was not until 4 June 2020 (i.e. some six months after the full commencement of the Driving School) that TD had learned from

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**Note 24:** *According to TD, the actual commencements of on-street and off-street road test services at the Driving School were in October and December 2019 respectively.*

**Note 25:** *As stated in the Authorised Person's letter, the outstanding works were expected to be completed on 19 November 2019. Upon completion of the works, the records of completion would be submitted to the Buildings Department, and the temporary occupation permit was expected to be issued within one week after submission.*

the proprietor that the Driving School had yet to obtain the temporary occupation permits from the Buildings Department. While the temporary occupation permits for the sites of the first phase and second phase were subsequently issued by the Buildings Department on 12 June 2020 and 7 December 2020 respectively, conducting driving training by the proprietor and providing driving test services by TD at the Driving School before obtaining the temporary occupation permits were in breach of the Buildings Ordinance. According to TD:

- (i) ***Suspension of operation of Driving School.*** After knowing that the Driving School had been operating without the temporary occupation permits issued by the Buildings Department on 4 June 2020, all driving training and driving tests to be conducted at the Driving School had been suspended from 9 June 2020. While the driving training and driving test services were resumed on 13 June 2020 (i.e. one day after obtaining the temporary occupation permit for the site of the first phase), two classrooms in Tin Hau and To Kwa Wan were arranged respectively by the proprietor for conducting theory classes up to 7 December 2020 (i.e. the date of obtaining the temporary occupation permit for the site of the second phase); and
- (ii) ***Impact on learner drivers and driving test candidates.*** While TD did not have records on the number of learner drivers affected during the suspension of driving training, those affected learner drivers were offered two free lessons by the Driving School and they might also opt for a full refund of the course fees paid. Regarding the 77 driving test candidates affected by the suspension of driving test services, with the additional test slots arranged by TD, their driving tests were subsequently conducted in the period from late June to mid-July 2020 (i.e. within one month after the resumption of driving test services).

While TD did not have record on the exact number of driving training hours conducted at the Driving School during the period without the temporary occupation permits (Note 26), 2,006 driving tests were conducted by TD

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**Note 26:** *According to TD, the Driving School delivered a total of some 124,000 practical training hours from 1 November 2019 to 31 December 2020. Records prior to 1 November 2019 were not available.*

inside the Driving School in the period from 13 December 2019 (i.e. the first date of providing driving test services at the Driving School) to 8 June 2020 (i.e. the date before suspending the driving test services).

3.6 In September 2021, and February and May 2022, TD informed Audit that:

- (a) ***Monitoring actions taken by TD during gearing-up period of New Kwun Tong Driving School.*** TD had arranged regular meetings with the Driving School and exchanged emails frequently throughout the gearing-up period to get hold of the latest progress of various gearing-up tasks and activities. For items that were or were likely to be falling behind the schedule submitted in the proprietor's tender, TD had looked into details of the cause and requested the proprietor to proactively address the issues;
- (b) ***Delay in commencing full operation of Driving School.*** The delay was mainly due to the complicated site conditions which rendered more time required for receiving approval from the relevant authorities regarding the building plans of the school premises. TD noted that the proprietor had spared no effort in ensuring the timely commencement of the Driving School. As a matter of fact, the Driving School had completed most gearing-up tasks and activities early and commenced the provision of on-street training in August 2019, which was two months ahead of the original schedule;
- (c) ***Granting designation before completion of all key preparatory and gearing-up activities.*** Having considered that except for the construction works, the Driving School was fully ready to commence operations with all driving instructors and training vehicles in place, as an interim measure, TD granted the designation to the Driving School in August 2019 for providing on-street training only. The Driving School had arranged two classrooms in Tin Hau and To Kwa Wan respectively for conducting theory classes during the interim period from 16 August 2019 (i.e. the date of granting designation to the Driving School and approving the provision of on-street driving training) to 25 November 2019 (i.e. the date of approving the Driving School to conduct off-street training) to ensure that learner drivers could continue to receive their classroom training while the Driving School was completing the construction works inside the school premises. Meanwhile, the Driving School was still required to pay the full



market rental for the site to the Government during the entire gearing-up period;

- (d) ***Provision of off-street training at Driving School approved before full completion of construction works.*** In view of the information provided by the Authorised Person in his letter of November 2019 (see para. 3.5(b)(ii)), TD approved the provision of off-street training at the Driving School with effect from 25 November 2019 after considering the pressing training needs of learner drivers who were transferred from the former Kwun Tong Driving School, which had already closed on 30 September 2019;
- (e) ***Follow-up actions taken regarding operation of Driving School without temporary occupation permits.*** After learning that the proprietor of the Driving School had failed to obtain the temporary occupation permits, TD had closely followed up with the proprietor and the concerned Government departments. In particular, TD had immediately issued a letter to request the proprietor to clarify the situation and take all necessary remedial measures. A meeting with the management of the Driving School was lined up swiftly to discuss the contingency arrangements (e.g. vacating the school premises, suspending the driving training and driving test services, and notifying the affected learner drivers). In parallel, TD also followed up with the Buildings Department with a view to expediting the processing of the Driving School's applications for the temporary occupation permits. Despite the fact that the temporary occupation permit for the site of the first phase was issued on 12 June 2020 (i.e. only nine days after TD discovered the incident), TD issued a warning letter to the proprietor to register its grave concern of the proprietor's deficiency in obtaining the temporary occupation permit in a timely manner and failure to fulfil the statutory requirement and the Code of Practice; and
- (f) ***Promulgation of designation guidelines.*** TD had issued a set of designation guidelines in September 2021, which set out the core principles, procedures and requirements for the designation of driving schools, including the checking of occupation permits prior to the granting of designation.

3.7 In Audit's view, TD needs to draw lessons from the designation of the New Kwun Tong Driving School with a view to improving the process of designation of new driving schools, including:

## Management of driving training schools

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- (a) strengthening the monitoring of proprietors' implementation of key preparatory and gearing-up tasks and activities, and commencement of driving schools in accordance with the undertaking submitted in tender submissions and tenancy agreements;
- (b) incorporating the requirement of obtaining occupation permits from the Buildings Department in tenancy agreements;
- (c) stepping up measures to ensure that a site is designated as a driving school and approved to provide driving training and driving test services only after it has satisfactorily completed all tasks and activities as required by the tenancy agreement (e.g. obtaining occupation permits from the Buildings Department); and
- (d) incorporating clauses in future tenancy agreement of driving schools (e.g. imposition of liquidated damages) enabling the Government to be indemnified against the loss arising from delays in commissioning of the driving schools.

### ***Need to improve process of designation of new driving improvement schools and pre-service training schools***

3.8 In the period from 2017 to 2021, TD conducted two open exercises to invite applications, one for designation of pre-service training schools in January 2020 (Note 27) and one for designation of driving improvement schools in March 2021 (Note 28). Audit examined the two exercises and noted the following:

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**Note 27:** *According to TD, the purpose of this invitation exercise was for designation of pre-service training schools for the implementation of the extended pre-service training requirement in October 2020 (see para. 3.3(c)). Prior to this invitation exercise, there were six designated pre-service training schools.*

**Note 28:** *According to TD, the purpose of this invitation exercise was for designation of driving improvement schools for the implementation of the new driving improvement course in December 2021. The new driving improvement course not only covered safe driving techniques and measures to prevent traffic accidents, but also strengthened participant interaction in class and provided more scenario-based learning and case studies. Prior to this invitation exercise, there were four designated driving improvement schools.*

- (a) ***No documentary evidence showing endorsement of selection criteria of driving improvement schools.*** According to TD's guidelines, for each invitation exercise, a selection board (Note 29) should be formed to endorse the selection criteria (Note 30), adopt evaluation methodology and assess the submissions of applicant schools in accordance with the selection criteria. Audit noted that while a selection board's meeting was held in December 2019 to endorse the selection criteria for the open exercise of pre-service training schools, there was no documentary evidence showing that the selection criteria for the open exercise of driving improvement schools had been properly endorsed by the selection board concerned;
- (b) ***No follow-up actions taken regarding incomplete/potentially incomplete company information provided by applicant schools.*** In the application forms of the two open exercises, applicant schools were required to provide their company information, including a list of all associated companies (Note 31). Audit noted that for some applicant schools which did not include any associated companies in their application forms, there were indications that there were or might be associated companies, as follows:
- (i) for the open exercise of pre-service training schools, two applicant schools had the same ultimate holding company. Furthermore, three other applicant schools had the same list of instructors, and two of them had the same business registration address; and
- (ii) for the open exercise of driving improvement schools, three applicant schools had the same ultimate holding company. Furthermore, four other applicant schools had the same list of instructors, and two of them had the same business registration address.

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**Note 29:** *According to TD's guidelines, the selection board should preferably be chaired by a directorate officer and composed of representatives from relevant sections.*

**Note 30:** *According to TD's guidelines, the selection criteria should be relevant to the assessment of the different qualities of an applicant in relation to the delivery of services required for operating a driving improvement school/pre-service training school. Examples of selection criteria include an applicant's past experience relevant to operating the school, company status and gearing-up proposal.*

**Note 31:** *No definition of an associated company was provided in the application forms.*

## Management of driving training schools

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However, TD had not followed up with those applicant schools on the incomplete/potentially incomplete company information; and

- (c) ***Need to ensure that all requirements are met before granting designation to schools.*** For the 12 pre-service training schools and the 16 driving improvement schools designated in the two open exercises, Audit noted that without taking any follow-up actions, TD had granted designation to some schools before they fully met the requirements, as follows:
  - (i) ***Right to use school premises not proved.*** While a school was required to provide documentary proofs of ownership or a tenancy agreement of the school premises to prove its right to use the school premises, for 1 pre-service training school and 4 driving improvement schools, they were neither the owners nor tenants of the school premises concerned as shown on the documentary proofs of ownership or tenancy agreements submitted; and
  - (ii) ***Certificate of Fire Service Installation and Equipment not checked.*** While a school was required to possess a Certificate of Fire Service Installation and Equipment issued by the Fire Services Department, 5 pre-service training schools and 4 driving improvement schools could not provide the Certificates for inspection by TD's officers (Note 32).

3.9 In February and May 2022, regarding the actions taken throughout the exercises for designation of pre-service training schools in January 2020 and driving improvement schools in March 2021, TD informed Audit that:

- (a) ***Selection criteria of driving improvement schools.*** The selection criteria and composition of selection board for driving improvement schools (see para. 3.8(a)) were drawn up by the Driving Services Section and forwarded to all members of the selection board prior to the invitation exercise. No

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**Note 32:** *Of the 9 schools which could not provide the Certificates, 8 explained that they were tenants of the school premises and the Certificates were issued to the landlords of the school premises concerned. However, Audit noted that in the two exercises, 5 other pre-service training schools and 10 other driving improvement schools were tenants of their respective school premises and were able to provide the Certificates for inspection by TD's officers.*

members of the selection board had raised any comments on the selection criteria and the selection board conducted its business using those selection criteria;

(b) ***Incomplete/potentially incomplete company information provided by applicant schools.*** TD considered the information provided by the applicant schools acceptable taking into consideration the following grounds:

(i) while the applicant schools were required to provide the names of all of their associated companies in the application forms, the information was not an essential requirement; and

(ii) with a view to providing ample choices to the public to enrol in the driving improvement courses and pre-service courses, there was no limit set on the number of driving improvement schools/pre-service training schools to be designated at the time of inviting applications. Regardless of whether they had any associations with other applicant schools, all applicant schools that could satisfy the essential requirements set out by TD would be granted with an approval-in-principle for providing the course, subject to the satisfactory completion of the necessary gearing-up tasks and activities. Therefore, no follow-up actions were required for companies that appeared to be associated companies; and

(c) ***Right to use school premises.*** For the pre-service training school and the four driving improvement schools mentioned in paragraph 3.8(c)(i), the documentary proofs of ownership or tenancy agreements submitted were under the names of their parent companies or associated companies. Therefore, this would not affect their eligibility and ability to provide the courses, and the courses were provided successfully as scheduled. In March 2022, these schools had also furnished TD with the relevant documentary proof of their rights to use their parent/associated companies' premises.

3.10 In Audit's view, TD should improve the documentation of endorsing the selection criteria for designation of driving improvement schools/pre-service training schools by the pertinent selection board. Moreover, TD needs to take measures to ensure that an applicant school is designated only after it has fully met all the

requirements. For example, in view of the separate legal entity principle, confirmation of the right to use the school premises concerned should be obtained if the documentary proof of ownership or tenancy agreement submitted was under the name of an associated company of an applicant school.

### Audit recommendations

3.11 Audit has *recommended* that the Commissioner for Transport should:

- (a) draw lessons from the designation of the New Kwun Tong Driving School with a view to improving the process of designation of new driving schools, including:
  - (i) strengthening the monitoring of proprietors' implementation of key preparatory and gearing-up tasks and activities, and commencement of driving schools in accordance with the undertaking submitted in tender submissions and tenancy agreements;
  - (ii) incorporating the requirement of obtaining occupation permits from the Buildings Department in tenancy agreements;
  - (iii) stepping up measures to ensure that a site is designated as a driving school and approved to provide driving training and driving test services only after it has satisfactorily completed all tasks and activities as required by the tenancy agreement; and
  - (iv) incorporating clauses in future tenancy agreement of driving schools (e.g. imposition of liquidated damages) enabling the Government to be indemnified against the loss arising from delays in commissioning of the driving schools;
- (b) improve the documentation of endorsing the selection criteria for designation of driving improvement schools/pre-service training schools by the pertinent selection board; and

- (c) **take measures to ensure that an applicant school for designation as a designated driving improvement school/pre-service training school is designated only after it has fully met all the requirements.**

### **Response from the Government**

3.12 The Commissioner for Transport agrees with the audit recommendations. She has said that:

- (a) regarding the designation of new driving schools, TD will strengthen the monitoring of proprietors' implementation of key preparatory and gearing up tasks and activities, explore with the Lands Department on the feasibility of incorporating the requirement of obtaining occupation permits from the Buildings Department in the tenancy agreement, and consider practical measures to enable the Government to be indemnified against loss arising from delays in commissioning of the driving schools; and
- (b) regarding the designation of new driving improvement schools and pre-service training schools, TD has revised the guidelines to ensure that:
  - (i) endorsement of the selection criteria by members of the selection board will be properly documented; and
  - (ii) designation will only be granted when all gearing-up tasks and activities have been substantially completed to TD's satisfaction.

### **Monitoring of driving training schools**

#### ***Need to ensure that required frequencies of inspections for driving training schools are met***

3.13 According to TD, with a view to ensuring compliance with the Code of Practice by driving training schools, its officers conduct regular inspections at designated driving schools, driving improvement schools and pre-service training schools. The required frequencies of inspections for the three types of schools stipulated in TD's inspection guidelines are as follows:

## Management of driving training schools

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- (a) ***Designated driving schools and driving improvement schools.*** On average, each designated driving school and driving improvement school should be inspected on a bi-monthly basis; and
- (b) ***Designated pre-service training schools.*** On average, each designated pre-service training school should be inspected every three months.

3.14 Audit analysis of the time elapsed between the inspections conducted for designated driving schools, driving improvement schools and pre-service training schools in the period from the respective effective dates of the current inspection guidelines for the three types of schools (i.e. October 2018, July 2020 and June 2021 respectively) to October 2021 revealed that the required frequencies of inspections stipulated in TD's inspection guidelines were not met, as follows:

- (a) ***Designated driving schools.*** For all the four designated driving schools, they had not been inspected, on average, on a bi-monthly basis (ranging from 2.12 to 2.61 months). Of the 57 inspections conducted for the four schools in the period, the intervals between inspections in 35 (61%) inspections ranged from 2.01 to 6.13 months (averaging 3.09 months), not meeting the stipulated inspection frequency of once every two months; and
- (b) ***Designated driving improvement schools.*** For the 4 (see Note 28 to para. 3.8) designated driving improvement schools, 1 (25%) had not been inspected, on average, on a bi-monthly basis (i.e. 2.23 months). Of the 7 inspections conducted for this school, 4 (57%) inspections were not conducted at least once in every two months, with intervals between inspections ranging from 2.40 to 4.31 months (averaging 3.09 months).

3.15 In February and May 2022, TD informed Audit that:

- (a) some of the inspection schedules were seriously affected by the COVID-19 epidemic. As part of the enhanced social distancing measures and special work arrangements announced by the Government to maintain only essential public services to curb the spread of the virus, TD had reduced the number of the inspections conducted at the driving training schools from January 2020; and



(b) upon relaxation of the social distancing measures and special work arrangements, TD had deployed additional resources to ensure that the suspended inspections were made up as far as practicable. With the additional resources deployed, the average frequency of inspections of the concerned schools during the audited period as mentioned in paragraph 3.14 was largely in line with the stipulated guidelines (see para. 3.13(a)) despite the impact of the COVID-19 epidemic, as follows:

- (i) ***Designated driving schools.*** For the 57 inspections conducted for the four schools, the intervals between inspections ranged from 0.26 to 6.13 months, averaging 2.38 months across all four schools (with each school being inspected every 2.12 to 2.61 months on average); and
- (ii) ***Designated driving improvement schools.*** For the 32 inspections conducted for the four schools, the intervals between inspections ranged from 0.52 to 4.8 months, averaging 1.93 months across all four schools (with each school being inspected every 1.65 to 2.23 months on average).

3.16 As stated in TD's inspection guidelines, on average, each designated driving school, driving improvement school and pre-service training school should be inspected in accordance with the required frequencies to ensure their compliance with the Code of Practice (see para. 3.13). Audit considers that, with a view to strengthening the monitoring of the operations of the driving training schools, TD needs to take measures to ensure that the required frequencies of inspections stipulated in its inspection guidelines are met.

### ***Need to ensure timely submission of monthly reports***

3.17 According to the Code of Practice, each designated driving school, driving improvement school or pre-service training school is required to submit a monthly report (Note 33) to TD no later than the sixteenth day of the following month. Audit examined the monthly reports submitted by the four designated driving schools

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**Note 33:** *Examples of information contained in the monthly report include the time schedule of each class offered, the total number of participants of the courses offered, and the number and details of complaints received.*

## Management of driving training schools

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(Note 34), four designated driving improvement schools (see Note 28 to para. 3.8) and 12 designated pre-service training schools in the period from 1 October 2020 to 30 September 2021, and noted that some monthly reports were submitted late (see Table 8), as follows:

- (a) for the designated driving schools, all the 24 monthly reports were submitted late (averaging 19 days). In particular, the delays in 4 (16%) submissions were more than 30 days, ranging from 47 to 77 days (averaging 62 days);
- (b) for the designated driving improvement schools, 7 (16%) of the 45 monthly reports (excluding three monthly reports of which the dates of submission were not available) were submitted late, ranging from one day to 14 days (averaging five days); and
- (c) for the pre-service training schools, 35 (24%) of the 144 monthly reports were submitted late. The delays ranged from one day to 18 days (averaging five days).

For proper and timely monitoring of the operations of the designated driving schools, driving improvement schools and pre-service training schools (e.g. checking the accuracy of the lists of course results (see para. 3.19(a)) and compliance of the minimum provision requirement (see para. 3.22)), TD needs to take measures to ensure that the monthly reports are submitted by the schools in a timely manner as required by the Code of Practice.

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**Note 34:** *According to TD, regarding the submission of monthly reports, 3 of the 4 designated driving schools have been submitting a consolidated report each month (see Note 2 to para. 1.7).*

Table 8

**Submission of monthly reports by driving training schools  
(1 October 2020 to 30 September 2021)**

Delay	Designated driving school		Designated driving improvement school		Designated pre-service training school	
	Number	Percentage	Number	Percentage	Number	Percentage
No delay	–	N/A	38	84 %	109	76 %
≤ 30 days	20	84 %	7	16 %	35	24 %
> 30 days to 60 days	2 } 24	8 % } 100 %	– } 7	– } 16 %	– } 35	– } 24 %
Over 60 days	2	8 %	–	–	–	–
Total	24	100 %	45	100 %	144	100 %

Source: Audit analysis of TD records

***Need to ensure that the lists of course results submitted by designated driving improvement schools are accurate***

3.18 According to TD, upon completion of a driving improvement course, each designated driving improvement school is required to submit to TD the following records:

- (a) ***Course attendance record.*** The course attendance record is the sign-in record of all participants;
- (b) ***Student performance assessment form.*** The student performance assessment form is a summary of participants' performance, including in-class performance and results of the written assessment; and
- (c) ***List of course results.*** The list of course results is a document summarising the course attendance record and the student performance assessment form.

TD will upload the list of course results to its computer system for, among others, automatic deduction of three Driving-offence Points (see Note 17 to para. 3.3(b)) for eligible drivers who have successfully completed the driving improvement course.

## Management of driving training schools

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3.19 Audit examination of the lists of course results submitted by the designated driving improvement schools in the period from November 2020 to October 2021 revealed the following:

- (a) *Discrepancies between lists of course results and monthly reports.* In 8 (67%) of the 12 months, there were discrepancies between the aggregate number of participants as reported in the lists of course results and that reported in the monthly reports (see para. 3.17). The monthly discrepancies ranged from 1 to 33 participants; and
- (b) *Discrepancies between lists of course results and student performance assessment forms.* In three lists of course results submitted by two driving improvement schools in February, April and June 2021 respectively, there were 4 participants who were recorded as having successfully completed the driving improvement course, with three Driving-offence Points being deducted automatically by TD's computer system for 3 of them (Note 35). Audit noted that while the 4 participants were recorded as having passed in the lists of course results, they were recorded as having failed in the corresponding student performance assessment forms.

3.20 In February and May 2022, TD informed Audit that:

- (a) the sum of the monthly discrepancies (see para. 3.19(a)) and the four participants (see para. 3.19(b)) accounted for 0.36% and 0.02% of the total of 23,127 participants respectively in the period; and
- (b) with a view to improving the efficiency in the marking of course-end assessment of the driving improvement course, TD had gradually rolled out a new automated marking system (Note 36) since February 2021 and the system was fully launched across all four driving improvement schools in

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**Note 35:** *According to TD, deduction of 3 Driving-offence Points was not applicable for the remaining participant because he had: (a) incurred 15 or more Driving-offence Points; (b) within the past two years been deducted Driving-offence Points by completing a driving improvement course; or (c) not incurred any Driving-offence Points on the date he had completed the driving improvement course.*

**Note 36:** *According to TD, since the automatic marking system was adopted, TD had conducted spot checking of the lists of course results submitted by schools instead of a full scale checking.*

May 2021. The discrepancies between the lists of course results and the student performance assessment forms (see para. 3.19(b)) were mainly due to teething problems in adopting the new automated marking system, and TD was working with the schools with a view to streamlining the process to reduce the chances of human errors.

3.21 Audit considers that TD needs to investigate the discrepancies between the lists of course results and the monthly reports/corresponding student performance assessment forms, and rectify TD records where appropriate, including the cases with deduction of Driving-offence Points identified in paragraph 3.19(b). As the lists of course results will be uploaded to TD's computer system for automatic deduction of Driving-offence Points, TD needs to take measures to ensure that the lists of course results submitted by designated driving improvement schools are accurate.

### ***Need to closely monitor compliance of minimum provision requirement stipulated in Code of Practice***

3.22 The pre-service course consists of two modules, namely the Foundation Module and the Mode-specific Module. According to the Code of Practice, each pre-service training school is required to provide at least one class (Note 37) of:

- (a) the Foundation Module per month;
- (b) the Mode-specific Module for public light bus every two months;
- (c) the Mode-specific Module for public bus every two months; and
- (d) the Mode-specific Module for taxi per month.

Failure to meet the minimum provision requirement would be considered a breach of conditions of the Code of Practice and the school is subject to revocation of the designation.

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**Note 37:** *No minimum number of students for each class was set in the Code of Practice.*

## Management of driving training schools

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3.23 According to TD records, in the period from 1 October 2020 to 30 September 2021, the numbers of students enrolled in the Foundation Module, and the Mode-specific Modules for public light bus, public bus and taxi offered by the 12 designated pre-service training schools were 4,517, 1,486, 865 and 3,388 respectively. Audit examination of the classes provided by the 12 designated pre-service training schools in the same period revealed that the minimum provision requirement was not met, as follows:

- (a) ***Foundation Module.*** Of the 12 schools, 7 (58%) did not meet the requirement for providing at least one class of the Foundation Module per month, with number of occasions of non-compliance ranging from 3 to 7;
- (b) ***Mode-specific Module for public light bus.*** Of the 12 schools, 6 (50%) did not meet the requirement for providing at least one class of the Mode-specific Module for public light bus per two months, with number of occasions of non-compliance ranging from 1 to 6;
- (c) ***Mode-specific Module for public bus.*** Of the 12 schools, 10 (83%) did not meet the requirement for providing at least one class of the Mode-specific Module for public bus per two months, with number of occasions of non-compliance ranging from 1 to 6; and
- (d) ***Mode-specific Module for taxi.*** All the 12 schools did not meet the requirement for providing at least one class of the Mode-specific Module for taxi per month, with number of occasions of non-compliance ranging from 3 to 7.

Despite the fact that the minimum provision requirement stipulated in the Code of Practice was not met, there was no documentary evidence available showing that TD had taken any follow-up actions with the designated pre-service training schools concerned.

3.24 In February and May 2022, TD informed Audit that:

- (a) TD considered that the pre-service training schools' inability to meet the minimum provision requirement did not constitute a breach of the Code of Practice under special circumstances brought about by the COVID-19

epidemic and the effect of the newly introduced legislative amendments, as follows:

- (i) ***Impact of the COVID-19 epidemic.*** The driving test services provided by TD had been suspended intermittently since the onset of the COVID-19 epidemic. Given that the prospective taxi, public light bus and public bus drivers were required to pass the relevant driving test(s) within one year after the completion of the pre-service course(s), many aforementioned prospective drivers had decided to defer their training plans until the resumption of driving test services; and
- (ii) ***Effect of the newly introduced legislative amendments.*** Many pre-service training schools did not receive any enrolment for a class when the pre-service course requirement for taxi and public bus drivers was first implemented in October 2020 (see para. 3.3(c)), and hence no class was held. This was because the new pre-service course requirement was only applicable to drivers who applied for the relevant driving test after 1 October 2020, and many drivers had therefore submitted themselves for a test before the effective date to avoid the new requirement.

The monthly reports (see para. 3.17) submitted by the pre-service training schools had also reflected the situations in (i) and (ii). Those schools were therefore not considered as having breached the Code of Practice; and

- (b) TD did not receive any complaints from the public for difficulties in enrolling in the pre-service courses since the launch of the requirement in October 2020.

3.25 With a view to ensuring that classes of the pre-service course are readily available in the market to meet the considerable demand of drivers (see the number of students mentioned in para. 3.23 for an example), TD needs to closely monitor the compliance of the minimum provision requirement set out in the Code of Practice by the pre-service training schools, and take appropriate follow-up actions with the schools which have repeatedly not met the requirement.

## **Audit recommendations**

- 3.26      **Audit has *recommended* that the Commissioner for Transport should:**
- (a)      **take measures to ensure that:**
    - (i)      **the required frequencies of inspections stipulated in the inspection guidelines are met;**
    - (ii)     **the monthly reports are submitted by the driving training schools in a timely manner as required by the Code of Practice; and**
    - (iii)    **the lists of course results submitted by designated driving improvement schools are accurate;**
  - (b)      **investigate the discrepancies between the lists of course results and the monthly reports/corresponding student performance assessment forms, and rectify TD records where appropriate, including the cases with deduction of Driving-offence Points identified in paragraph 3.19(b); and**
  - (c)      **closely monitor the compliance of the minimum provision requirement set out in the Code of Practice by the pre-service training schools, and take appropriate follow-up actions with the schools which have repeatedly not met the requirement.**

## **Response from the Government**

3.27      The Commissioner for Transport agrees with the audit recommendations. She has said that TD:

- (a)      will take measures to ensure that the required frequencies of inspections for driving training schools are met in future;
- (b)      will devise a mechanism to follow up with driving training schools that have not submitted their monthly reports in a timely manner;



- (c) has rectified the records where errors as mentioned in paragraph 3.19 were found. TD will explore with the driving improvement schools on the possible measures to streamline the process of uploading course results to reduce the chances of human errors; and
- (d) will continue to closely monitor the provision of the courses by the pre-service training schools to ensure their compliance with the minimum provision requirement set out in the Code of Practice.

## **PART 4: LICENSING CONTROL OF PRIVATE DRIVING INSTRUCTORS**

4.1 This PART examines the licensing control of PDIs by TD, focusing on:

- (a) licensing of PDIs (paras. 4.2 to 4.14); and
- (b) monitoring of PDIs (paras. 4.15 to 4.20).

### **Licensing of private driving instructors**

4.2 Following a comprehensive review of driver training policy in 1999, the PDI licences were re-arranged into three Groups, namely:

- (a) Group 1 (Private Cars and Light Goods Vehicles);
- (b) Group 2 (Light Buses and Buses); and
- (c) Group 3 (Medium Goods Vehicles, Heavy Goods Vehicles and Articulated Vehicles).

The numbers of valid PDI licences (Note 38) then prevailing for the three Groups (i.e. 1,050 for Group 1, 130 for Group 2 and 230 for Group 3) had been used as benchmarks (Note 39) for TD's periodic reviews of the need to issue new PDI licences. TD may consider issuing new PDI licences for a particular Group when the number of respective valid licences falls below the benchmark by 10%.

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**Note 38:** *A PDI licence is valid for one year and may be renewed at any time during the four months before expiry or within three years after the licence has expired.*

**Note 39:** *According to TD, the benchmarks are reference indicators facilitating consideration of issuance of new PDI licences but not ceiling limits of PDI licences. Given that a PDI licence may be renewed within three years after its expiry, depending on the licence expiry/renewal situation of individual PDIs, the number of valid PDI licences in TD's records may vary even if no new PDI licences are being issued, and hence the number of valid PDI licences at a particular point in time may be more or less than the benchmarks.*

4.3 From 2018 to 2019, TD conducted the Comprehensive Review on PDI Licences and, in April 2020, reported the findings and recommendations of the Review to the Panel on Transport of the Legislative Council. The findings and recommendations of the Review included:

- (a) ***Maintenance of “two-pronged approach”.*** The Review findings revealed that the learner drivers and members of the public chose PDIs or designated driving schools based on their own needs having regard to the expected teaching quality, recommendation by relatives/friends, training schedule, etc. This pointed to the need of maintaining the “two-pronged approach” (see para. 3.2);
- (b) ***Proposed benchmarks of PDI licences.*** Having reviewed the demand and supply situation of the three Groups of PDIs, the projected number of inactive PDIs (Note 40), and the data obtained from the opinion surveys with learner drivers on their actual and preferred training hours, TD proposed the following:
  - (i) raising the benchmark for Group 1 PDI licences from 1,050 to 1,170; and
  - (ii) maintaining the benchmarks for Group 2 and Group 3 PDI licences at 130 and 230 respectively;
- (c) ***Proposed issuing mechanism for new PDI licences.*** Taking into account the valid number of and the new benchmark (see (b)(i)) for Group 1 PDI licences, 226 new licences would be issued. In order to utilise the driving competence and training experience of Group 2 and Group 3 PDIs as well as the restricted driving instructors (Note 41) while encouraging new blood to join the trade, TD proposed refining the issuing mechanism by:

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**Note 40:** *According to TD, there is no clear and widely accepted definition for determining whether a PDI is active or inactive as there are a host of factors affecting whether or not a PDI provides training. For projection purpose, TD assumes that PDIs who have not accompanied any candidate to attend driving tests in a year to be inactive PDIs.*

**Note 41:** *According to TD, restricted driving instructors are employed by organisations (e.g. designated driving schools) and issued with driving instructors’ licences that are subject to a condition that they shall only give driving instruction on behalf of a driving school or other organisations.*

## **Licensing control of private driving instructors**

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- (i) allocating 75% (i.e. 169 of the 226 new Group 1 PDI licences) to eligible members of the public by open application; and
- (ii) allocating the remaining 25% (i.e. 57 of the 226 new Group 1 PDI licences) for application by valid licence holders of Group 2 and Group 3 PDI licences, as well as serving and ex-restricted driving instructors.

Similar issuing mechanism for issue of new Group 2 and/or Group 3 PDI licences would be adopted in future (i.e. 25% of new Group 2 and/or Group 3 PDI licences will be allocated to eligible Group 1 PDIs as well as serving and ex-restricted driving instructors); and

- (d) ***Proposed measures for enhancing quality of PDIs.*** With a view to enhancing the quality of PDIs, including their driving attitude for setting a good example for learner drivers, TD proposed the following measures:

- (i) raising the PDI applicants' minimum licence-holding period of private car and light goods vehicle from three to six years;
- (ii) requiring that, in addition to the requirements for no conviction records on certain traffic offences, the applicants shall not be convicted of careless driving and dangerous driving under the Road Traffic Ordinance within two and five years respectively preceding the date of application;
- (iii) requiring all new PDI licence holders to attend a mandatory induction course before they would be issued with the PDI licences;
- (iv) requiring all existing PDI licence holders to attend a mandatory refresher course once every three years as a pre-requisite for renewal of their PDI licences; and
- (v) requiring all PDIs to display an identity plate inside the vehicles which should be clearly visible to the public.

### 4.4 According to TD:

- (a) regarding the new licence issuing mechanism and quality enhancement measures, the relevant legislative amendments have taken effect since 1 December 2021;
- (b) regarding the issue of the 169 new Group 1 PDI licences to eligible members of the public, about 28,800 applications have been received. As of February 2022, TD was in the progress of conducting driving tests for the applicants according to their ballot order; and
- (c) regarding the issue of the 57 new Group 1 PDI licences to valid licence holders of Group 2 and Group 3 PDI licences, as well as serving and ex-restricted driving instructors, the invitation exercise was under preparation as of February 2022. TD targeted to invite applications in April 2022.

### ***Need to take measures to address the high percentages of inactive PDIs***

4.5 While there is no clear and widely accepted definition for determining whether a PDI is active or inactive (see Note 40 to para. 4.3(b)), in reviewing the benchmarks of PDI licences under the Comprehensive Review on PDI Licences (see para. 4.3), TD gauged the availability of active PDIs in the market by making an estimate based on the information of PDIs who accompanied learner drivers to attend the driving tests in 2018. According to TD's estimation:

- (a) ***Group 1 PDIs.*** Out of the 944 licensed PDIs in Group 1 as of December 2018, 748 (79%) instructors offered driver training in 2018, while 196 (21%) did not engage themselves in providing driver training service during the same period; and
- (b) ***Group 2 and Group 3 PDIs.*** For the licensed PDIs in Group 2 and Group 3 as of December 2018, the percentages of inactive instructors were much higher. In 2018, 68% and 69% of them had not provided driver training service in the market.

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According to TD, based on its continuous liaison with the PDI trade, there might be different reasons behind PDIs who chose not to provide driving training (e.g. comparable job opportunities, personal interests, etc.), and it appeared that the higher percentages of inactive PDIs in Group 2 and Group 3 were mainly due to the limited market needs rather than PDIs' own decision not to offer driver training.

4.6 With a view to assessing the availability of PDIs in the current market, modelling on TD's methodology, Audit analysed the licensed PDIs in Group 1, Group 2 and Group 3 as at 31 May 2021, and noted the following:

- (a) ***Percentages of inactive PDIs remained high.*** Of the 1,048, 116 and 181 Group 1, Group 2 and Group 3 PDIs, 333 (32%), 83 (72%) and 123 (68%) respectively did not offer any driver training in 2020 (see Table 9); and

Table 9

**Active and inactive PDIs  
(31 May 2021)**

	Group 1		Group 2		Group 3	
	Number	Percentage	Number	Percentage	Number	Percentage
Active PDIs	715	68%	33	28%	58	32%
Inactive PDIs	333	32%	83	72%	123	68%
Total	1,048	100%	116	100%	181	100%

Source: Audit analysis of TD records

Remarks: According to TD, PDIs will accompany learner drivers to attend driving tests and the PDI's identity will be recorded in the students' test forms. Inactive PDIs refer to those who have not been recorded in 2020.

- (b) ***PDIs repeatedly found to be inactive.*** Of the 333, 83 and 123 inactive Group 1, Group 2 and Group 3 PDIs, 210 (63%), 58 (70%) and 73 (59%) respectively were also found to be inactive in TD's previous two estimations conducted in 2016 and 2018.

4.7 In February and May 2022, TD said that:

- (a) TD had all along been taking measures to deal with the issue of inactive PDIs with due consideration of the stipulations in laws;
- (b) as there was no clear back-up stipulation in laws or current licensing conditions requiring PDIs to provide a minimum level of driver training service, care was required to handle the inactive PDI issue;
- (c) TD had been closely monitoring the situation of inactive PDIs in its regular reviews in order to assess whether issuance of new PDI licences was necessary. Having said that, TD considered that the information in 2020 might not reflect a full picture of the normal situation as driving test service was suspended intermittently for various periods in 2020 due to the COVID-19 epidemic;
- (d) the following measures would facilitate TD to further closely monitor the situation of inactive PDIs:
  - (i) in order to keep PDIs abreast of the latest development of the profession, TD had introduced the PDI refresher course (see para. 4.3(d)(iv)) after enactment of the amended Road Traffic (Driving Licences) Regulations in 2021. A PDI who wished to renew his/her PDI licence would be required to attend in person the refresher course within three years immediately before the renewal application. Inactive PDIs who did not attend the refresher course in person owing to reasons such as health conditions, personal interest, etc. would not be able to renew their licences under the new legislative requirement; and
  - (ii) from 4 March 2022 onward, all PDIs would be mandatorily required to display the PDI identity plate in the training vehicle while giving driving instruction (see para. 4.3(d)(v)). With the information about licensed PDIs not applying for the identity plate, TD would have a clearer picture on inactive PDIs; and
- (e) regarding encouraging inactive PDIs to provide driver training service, TD would be required to take into account the views of the trade and their

## Licensing control of private driving instructors

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reasons for not providing driving training such as comparable job opportunities, personal interest, etc.

4.8 Audit notes TD's view that care is needed to handle the inactive PDI issue and its concern about encouraging inactive PDIs to provide driver training service. With a view to ensuring that a proper supply of PDIs is maintained in the market for implementing the "two-pronged approach" in respect of driver training (see para. 3.2), and taking into account the significant number of applicants for the new PDI licences (see para. 4.4(b)), TD needs to closely monitor the percentages of inactive PDIs in the three Groups and if the percentages remain high, take appropriate measures to address the inactive PDI issue (e.g. exploring the feasibility of inviting inactive PDIs to surrender their PDI licences where appropriate).

### ***Need to consider investigating possible cases of PDIs giving driving instructions outside entitlements by virtue of their PDI licences***

4.9 According to the Road Traffic (Driving Licences) Regulations, no person shall give driving instruction to any person unless the person giving the driving instruction is the holder of a valid driving instructor's licence which entitles him to give driving instruction for the class of motor vehicle in respect of which driving instruction is given. For example, it is illegal if a person holding only a Group 3 PDI licence, who is entitled to give driving instruction for medium goods vehicles, heavy goods vehicles and articulated vehicles, gives driving instruction for private cars. Any person who contravenes such provision commits an offence and is liable in the case of a first conviction to a fine of \$2,000 and to imprisonment for 3 months and in the case of a second or subsequent conviction to a fine of \$5,000 and to imprisonment for 6 months.

4.10 As mentioned in Table 9 in paragraph 4.6(a), PDIs will accompany learner drivers to attend driving tests and the PDI's identity will be recorded in the students' test forms. Based on such information recorded in the test forms, TD estimated the number of active and inactive PDIs. For PDIs as at 31 May 2021, Audit analysed the 500,302 test forms with their identities recorded in the period from 2015 to 2020 and noted the following:

- (a) 45 PDIs who did not hold a Group 1 PDI licence were recorded in 262 test forms for private cars and light goods vehicles;



- (b) 12 PDIs who did not hold a Group 2 PDI licence were recorded in 25 test forms for light buses and buses; and
- (c) 11 PDIs who did not hold a Group 3 PDI licence were recorded in 11 test forms for medium goods vehicles, heavy goods vehicles and articulated vehicles.

4.11 In February and May 2022, regarding the PDI trade's current practice of accompanying candidates to attend driving test, TD informed Audit that:

- (a) there was no legal provision requiring a candidate to be accompanied by a PDI to attend a driving test or the accompanying person had to be holding a PDI licence entitling him/her to give driving instruction for the class of motor vehicle for which the driving test being conducted;
- (b) it was TD's understanding that under normal circumstances, PDIs would personally accompany their students to attend driving tests and would also provide them with the required vehicles for the test. However, there might be occasions where PDIs might not be able to accompany their students to attend the driving test due to physical difficulties (e.g. sickness, being out of town, attending a driving test with another candidate, etc.). Some private driving schools or PDIs working in partnership might arrange another person or PDI to accompany the affected candidate to attend the driving test in lieu of the PDI actually giving driving instruction to the candidate (Note 42);
- (c) taking into account that accompanying candidates to attend driving test was not a statutory requirement, and that the accompanying persons were mostly PDIs, flexibility should be allowed for the trade to make arrangements which best suited their operations; and

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**Note 42:** *According to TD, many PDIs would have a couple of students at any given one time. These students may occasionally be allotted with the same test slots at different driving test centres. Therefore, the PDIs concerned would need to make arrangements with other PDIs/working counterparts to assist in accompanying these students to the driving test centres and providing them with test vehicles that meet TD's requirements.*

- (d) TD attached great importance to combatting illegal driving training activities, including giving driving instruction in respect of the Group of motor vehicles for which the PDIs concerned were not entitled. TD had been working closely with the Hong Kong Police Force to conduct joint enforcement operations against illegal driving training activities in the past years. In addition, Driving Examiners were assigned to conduct site surveys and roving inspections (see para. 4.15) and liaise with the Hong Kong Police Force to take enforcement actions for any suspected offences in this nature. TD also introduced the PDI identity plate in December 2021 and PDIs were statutorily required to display the identity plate in the motor vehicle when giving driving instruction which would facilitate easy identification on whether the PDIs concerned were entitled to give driving instruction for a particular class of vehicle.

4.12 Taking into account that PDIs with identities recorded in students' test forms may not necessarily be the PDIs giving driving instruction, TD should consider requiring the candidates to declare the PDIs giving driving instruction in their test forms. With a view to ensuring that PDIs only give driving instruction for vehicle classes according to their entitlements, there is a need for TD to consider investigating and following up those possible non-compliant cases mentioned in paragraph 4.10. TD should also take measures to ensure that PDIs only give driving instruction for vehicle classes according to their entitlements where appropriate.

## Audit recommendations

4.13 **Audit has *recommended* that the Commissioner for Transport should:**

- (a) **closely monitor the percentages of inactive PDIs in the three Groups and if the percentages remain high, take appropriate measures to address the inactive PDI issue;**
- (b) **consider requiring the candidates to declare the PDIs giving driving instruction in their test forms;**
- (c) **consider investigating and following up the possible non-compliant cases mentioned in paragraph 4.10; and**

- (d) take measures to ensure that PDIs only give driving instruction for vehicle classes according to their entitlements where appropriate.

## **Response from the Government**

4.14 The Commissioner for Transport agrees with the audit recommendations. She has said that TD will:

- (a) closely monitor the situation of inactive PDIs in regular review;
- (b) consider the arrangement for candidates to declare the PDIs giving driving instruction in their test forms;
- (c) check with the candidates concerned for the cases where PDIs did not hold the respective Group of licence but have accompanied candidates to attend driving tests; and
- (d) continue to take measures to ensure that PDIs only give driving instruction for vehicle classes according to their entitlements.

## **Monitoring of private driving instructors**

### ***Need to enhance roving inspections of PDIs***

4.15 According to TD, with a view to assessing the standard of PDIs and their methods adopted for giving driving instruction, its Driving Examiners may conduct roving inspections of PDIs. According to TD's roving inspection guidelines drawn up in late December 2021 (Note 43), there are three types of roving inspections, namely:

- (a) ***Scheduled roving inspections.*** Scheduled roving inspections are conducted on a daily basis;

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**Note 43:** According to TD, there was no roving inspection guideline before December 2021.

## Licensing control of private driving instructors

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- (b) ***Surprise roving inspections.*** Surprise roving inspections are conducted on an irregular basis on top of scheduled roving inspections; and
- (c) ***Roving inspections upon complaint.*** These roving inspections are conducted to follow up public complaints against PDIs.

After conducting a roving inspection, the responsible Driving Examiner has to prepare an inspection report recording his assessment on the PDI's performance.

4.16 Audit examined the inspection reports of the 245 roving inspections conducted in the period from 2015 to 2021 and noted the following:

- (a) ***Number of roving inspections conducted.*** The annual numbers of roving inspections conducted fluctuated significantly, ranging from 0 in 2016 to 175 in 2021 (see Table 10);

**Table 10**

**Number of roving inspections conducted  
(2015 to 2021)**

<b>Year</b>	<b>Number</b>
2015	3
2016	—
2017	26
2018	1
2019	20
2020	20
2021	175 (Note)
<b>Total</b>	<b>245</b>

*Source:* Audit analysis of TD records

*Note:* In the period from January to June 2021, 4 roving inspections were conducted. In response to Audit's enquiry, in early July 2021, TD informed Audit that with effect from late July 2021, it targeted to conduct 10 to 20 roving inspections per week. In the period from August to December 2021, 151 (with a weekly average of 7) roving inspections were conducted.

(b) **Timing of conducting roving inspections.** According to an opinion survey with PDIs conducted by TD from 2018 to 2019, the common time slots for providing driver training service by PDIs were as follows:

- (i) 88% of PDIs indicated that they provided driver training service between 9:30 a.m. and 4:30 p.m. on weekdays;
- (ii) 86% indicated that they provided driver training service between 9:30 a.m. and 4:30 p.m. on Saturdays;
- (iii) 79% indicated that they provided driver training service between 9:30 a.m. and 4:30 p.m. on Sundays and public holidays; and

## **Licensing control of private driving instructors**

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- (iv) 75% indicated that they provided driver training service between 7:30 p.m. and 11:30 p.m. on weekdays.

However, Audit noted that all of the 245 roving inspections were conducted between 9:30 a.m. and 4:30 p.m. on weekdays, and no roving inspections were conducted during the other three common time slots; and

- (c) ***Percentages of active PDIs covered by roving inspections.*** Prior to 2021, all the roving inspections were conducted for Group 1 PDIs. Of the 158 PDIs covered by the 175 roving inspections conducted in 2021, 133, 12 and 13 were Group 1, Group 2 and Group 3 PDIs respectively, representing only 19%, 36% and 22% of the active PDIs as at 31 May 2021 (see Table 9 in para. 4.6(a)).

4.17 In February and May 2022, TD informed Audit that:

- (a) before June 2021, in order not to affect the provision of driving tests, no designated Driving Examiners were arranged to conduct roving inspections. TD mainly arranged roving inspections upon receipt of complaints on driving training activities. The sources of complaints mainly included the following:
  - (i) public complaints against individual PDIs; and
  - (ii) complaints/requests from Members of the Legislative Council and District Council, etc. about driving training activities and their impact on local traffic;
- (b) after the creation of two designated Driving Examiner I posts in June 2021, TD had put more resources in roving inspections. The respective roving inspection guidelines (see para. 4.15) were laid down to facilitate responsible officers to discharge their duties and the number of roving inspections increased substantially; and
- (c) the current PDI roving inspections were mainly conducted on weekdays, during which 88% of PDIs indicated that they had provided driver training service (see para. 4.16(b)(i)). TD would arrange roving inspections to cover all training hours as mentioned in paragraph 4.16(b)(ii) to (iv).

4.18 As most of the driver training was provided by PDIs (see Note 14 to para. 3.2), it is important to have effective quality assurance measures in place to monitor the performance of PDIs. Audit considers that TD needs to enhance the roving inspections of PDIs, including:

- (a) setting target frequencies and numbers of scheduled and surprise roving inspections to be conducted;
- (b) considering extending the conduct of roving inspections to cover other common time slots for providing driver training service by PDIs; and
- (c) devising a systematic selection mechanism of PDIs to be inspected, taking into consideration the relevant factors (e.g. the number of active PDIs in each Group and activity level of individual PDIs in offering driver training).

### Audit recommendations

4.19 Audit has *recommended* that the Commissioner for Transport should enhance the roving inspections of PDIs, including:

- (a) setting target frequencies and numbers of scheduled and surprise roving inspections to be conducted;
- (b) considering extending the conduct of roving inspections to cover other common time slots for providing driver training service by PDIs; and
- (c) devising a systematic selection mechanism of PDIs to be inspected, taking into consideration the relevant factors.

### Response from the Government

4.20 The Commissioner for Transport agrees with the audit recommendations. She has said that TD will:

- (a) set a target to conduct roving inspections to each PDI of all Groups regularly, and extend the coverage of inspection hours to cover all the time

## **Licensing control of private driving instructors**

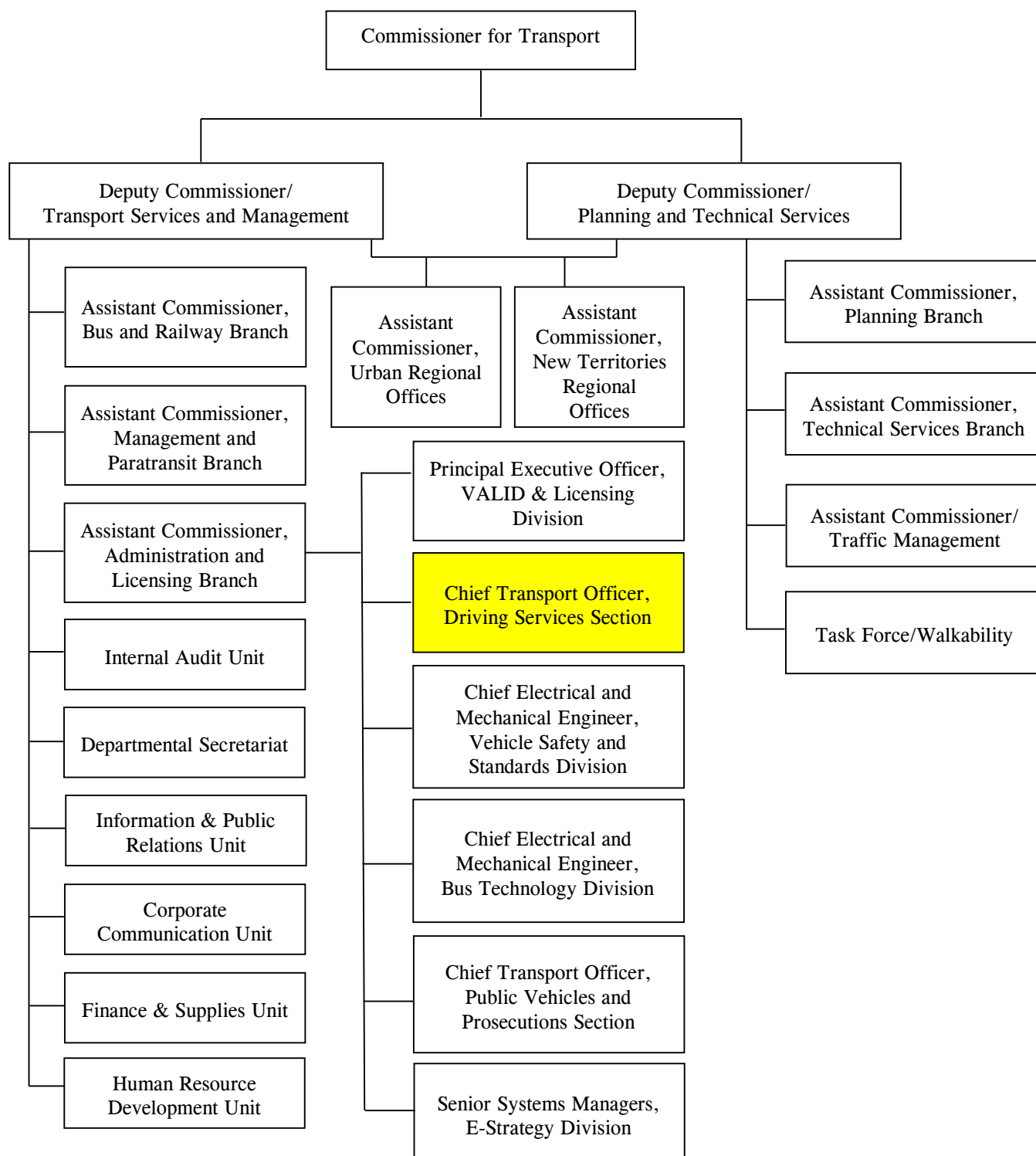
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slots of driving training, including Saturdays, Sundays and public holidays;  
and

- (b) closely monitor the PDIs' performance and standard of driving training through roving inspections.



**Transport Department: Organisation chart (extract)**  
**(31 December 2021)**



Legend:  The Section covered in this audit review

Source: TD records

**Acronyms and abbreviations**

Audit	Audit Commission
COR	Controlling Officer's Report
PDI	Private driving instructor
RUC	Road Users' Code
TD	Transport Department

## **CHAPTER 3**

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

**Management of the development  
at Anderson Road project**

**Audit Commission  
Hong Kong  
10 June 2022**

*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. 78 of the Director of Audit contains 4 Chapters which are available on our website at <https://www.aud.gov.hk>



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# MANAGEMENT OF THE DEVELOPMENT AT ANDERSON ROAD PROJECT

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# **MANAGEMENT OF THE DEVELOPMENT AT ANDERSON ROAD PROJECT**

## **Executive Summary**

1. In 1996, the Government identified a potential site with an area of about 58 hectares between Anderson Road and Sau Mau Ping Road in East Kowloon for boosting land supply for housing. Upon completion of the planning and engineering feasibility study in October 1998 and a review on the findings of the study in January 2007, the feasibility of the planned development (including housing development, government, institution or community facilities, and district open spaces) at the site was confirmed. The development at Anderson Road project (the Project) covered the site formation and associated infrastructure works at the site. The Transport and Housing Bureau was the policy bureau for the Project and the Civil Engineering and Development Department (CEDD) was the works agent responsible for carrying out the works under the Project.

2. A total funding of \$3,543.4 million was approved by the Finance Committee of the Legislative Council between June 1997 and December 2007 for the Project. In August 1997 and May 2006, CEDD awarded two consultancies for the Project (one for the planning and engineering feasibility study and another one for the site investigation, design and construction supervision work) to two consultants (Consultants X and Y respectively). In January 2008 and January 2013, CEDD awarded two works contracts (Contracts A and B) to two contractors (Contractors A and B respectively) for the implementation of the Project. In the event, the Project was substantially completed in December 2016 and the residential sites formed under the Project were used for public housing development. As of October 2021, the Government had incurred \$3,522.1 million (99% of \$3,543.4 million) for the Project.

3. A footbridge system comprising Footbridges A to D was constructed for connecting the planned development (including the public housing development) at the site under the Project with the neighbouring communities of Sau Mau Ping and Shun On. After completion of works, CEDD handed over Footbridges A to D to the relevant government departments (including the Highways Department (HyD) and the Electrical and Mechanical Services Department (EMSD)) between 2016 and 2018 for

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maintenance. The Audit Commission (Audit) has recently conducted a review to examine the implementation of the Project by CEDD and the management of Footbridges A to D.

### Design of footbridge system under the Project

4. Contract A mainly involved the formation of about 20 hectares of land platforms and associated geotechnical and slope stabilisation works, and the construction of Footbridges A to C. In January 2008, CEDD awarded Contract A to Contractor A at a contract sum of \$2,063 million. The contract works (excluding landscape softworks and establishment works) were substantially completed in December 2016. As of October 2021, the contract expenditure was \$2,844.3 million. Contract B mainly involved the construction of Footbridge D. In January 2013, CEDD awarded Contract B to Contractor B at a contract sum of \$151.8 million. The contract works were completed in April 2018 and the final contract sum was \$167.9 million. Consultant Y was the Engineer responsible for supervising the works under Contracts A and B (paras. 2.3 to 2.6).

5. *Significant design changes of the footbridge system after award of Contract A.* Audit noted that:

- (a) under the original design, the footbridge system under the Project comprised 3 footbridges (i.e. Footbridges A to C constructed under Contract A). Before tendering of Contract A (between August 2006 and August 2007), CEDD received views from various stakeholders on the design of the footbridge system under the Project, including the addition of a footbridge and the need for the footbridges to be subject to further review after completion of a traffic review study by the Housing Department (HD) (paras. 2.8 and 2.22(a));
- (b) according to CEDD, to meet the then planned population intake programme of the proposed public housing development in 2015, Contract A (involving more time-consuming construction activities on site formation works) was tendered out in September 2007 and awarded in January 2008 (paras. 2.10 and 2.22(a));
- (c) in March 2009, HD's traffic review study was completed and proposed significant design changes of the footbridge system, including the



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significant modifications of the design of Footbridges A to C and the addition of a new Footbridge D. The significant design changes were accepted by the Transport and Housing Bureau (para. 2.22(b));

- (d) in implementing the works arising from the significant design changes of the footbridge system: (i) Consultant Y instructed Contractor A to proceed with the construction of Footbridges A to C in March 2012 and issued 141 variation orders (VOs) (later valued at a total cost of \$186 million) on the revised details of Footbridges A to C and associated works. Upon receipt of the VOs, Contractor A submitted claims for an extension of time and prolongation cost. CEDD entered into a supplemental agreement with Contractor A in February 2014, under which the Government paid \$70.1 million to accelerate the completion of Footbridges B and C, and settle all claims for events related to the construction of Footbridges A to C that occurred before the execution of the supplemental agreement; and (ii) a new Contract B was awarded in January 2013 for the construction of the new Footbridge D and the final contract sum was \$167.9 million (paras. 2.16, 2.17, 2.19 and 2.22(c));
- (e) in granting its approval for CEDD to enter into the supplemental agreement with Contractor A (see (d)(i) above), the Financial Services and the Treasury Bureau said that: (i) it noted that in face of the target completion date of the Project by 2015, CEDD practically had no choice but to tender Contract A in 2007 although the design of the new footbridge system had yet to be finalised; and (ii) that said, CEDD was reminded that it should in future improve the local consultation process and better assess the requirements of local residents and District Councils for infrastructure works to avoid recurrence of similar situations (para. 2.22(d)); and
- (f) there is scope for CEDD to draw lessons from the significant design changes of the footbridge system under the Project. CEDD needs to make every endeavour to consult stakeholders with a view to finalising the design of works before tendering of contracts in future (paras. 2.21 and 2.22(e)).

6. ***Scope for improvement in contract arrangement.*** According to CEDD, as there was a chance of deleting works for Footbridges A to C and a high chance of introducing substantial modifications to the design of them, the construction of these footbridges was included under a section subject to excision (i.e. the excision contract clause) in the tender documents of Contract A. The objective was to allow CEDD to

## Executive Summary

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reserve the right to instruct Contractor A to commence the construction of Footbridges A to C after completion of the traffic review study by HD. Audit noted that while this contract clause allowed CEDD to decide whether and when to commence the construction of Footbridges A to C, it could not preclude claims (e.g. for extension of time and prolongation cost) from Contractor A arising from the significant design changes of Footbridges A to C after contract award under the contract provisions (see para. 5(d)(i)). In this connection, in October 2006, HD suggested CEDD to implement the site formation and the remaining infrastructure works (including footbridges) in phases through several works contracts. In the event, a single contract (Contract A) was awarded for the construction of Footbridges A to C. There was no documentation on the justifications for adopting this single contract arrangement (paras. 2.9(f) and 2.23(b) to (d)).

### Contract management

7. *Scope for enhancing the management of slope works.* According to CEDD, in connection with the construction works under Contract A, there were: (a) 1 concrete block falling incident (occurred in May 2009). According to Consultant Y, the causes of this incident included no protective measures taken at the slope edge or at the lower sloping area to prevent any material from rolling down the slope, and low awareness of frontline supervisors and workers in taking proactive measures to guard against falling objects from height. After the incident, a barrier was provided at the sloping area immediately below the working area and training had been provided to frontline supervisors and workers to strengthen their awareness; and (b) 3 landslide incidents (2 occurred in May 2013 and 1 occurred in May 2015) and 2 other events relating to damage of retaining walls under construction (occurred in July and September 2012 respectively). These incidents and other events were resulted from the inadequate capacity of the temporary drainage system during the construction stage. In January 2014, CEDD promulgated guidelines on temporary drainage provisions and precautionary measures against severe rainfall during site formation works and construction of reinforced fill structures, with particular reference to the observations and lessons learnt from the 2 landslide incidents in May 2013. In Audit's view, there is scope for enhancing the management of slope works (paras. 3.2 to 3.4).

8. *Need to ensure the timely completion of defects rectification works.* Under Contract A, Contractor A was required to carry out defects rectification works at its own cost within the 12-month maintenance period. Contract A was substantially

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completed in December 2016 and the maintenance period expired in December 2017. However, Audit noted that: (a) according to Consultant Y, a significant amount of defects rectification works had yet to be completed after the expiry of the maintenance period; and (b) according to CEDD, the defects rectification works (excluding the defects rectification works for landscape softworks and establishment works — see para. 9) were completed in July 2020 (i.e. about 2.6 years after the expiry of the maintenance period in December 2017) (paras. 3.10 and 3.11).

9. ***Long time taken to complete all the landscape softworks and establishment works.*** After the substantial completion of Contract A in December 2016, Contractor A was required to carry out the remaining landscape softworks and establishment works. After completion of establishment works, the established vegetation would be inspected by the maintenance departments and then handed over to them for maintenance. Audit noted that the landscape softworks and establishment works under Contract A were completed in phases between January 2020 and September 2021 (i.e. 3 years to nearly 5 years after the substantial completion of Contract A in December 2016). According to CEDD, the defects rectification works for landscape softworks and establishment works and the inspection and handover procedures with the maintenance department on the established vegetation would be completed in the second quarter of 2022, and the account of Contract A would be finalised in the third quarter of 2022. In Audit's view, CEDD needs to ensure that all such works are completed as scheduled, and finalise the account of Contract A as soon as possible (paras. 3.16 to 3.19).

10. ***Scope for improvement in documentation of assessment of contractor's claims.*** According to Consultant Y's assessment of March 2019 on Contractor B's claim for prolongation cost for carrying out the landscape softworks and establishment works for Footbridge A under a section of works of Contract B (Section A), Contractor B was entitled to prolongation cost of \$4.8 million associated with the delay to Section A. When vetting Consultant Y's assessment of Contractor B's claim in March 2019, CEDD reminded Consultant Y that the prolongation cost entitlement under the claim should be solely related to Section A. Should there be expenses related to other sections of works, adjustment on the cost entitlement should be made. In April 2019, Consultant Y said that it noted CEDD's view. In response to Audit's enquiries, in February and April 2022, CEDD said that: (a) the prolongation cost of \$4.8 million granted to Contractor B was not solely for the landscape softworks and establishment works for Footbridge A under Section A; and (b) in the course of the claim assessment, Consultant Y had taken into account additional expenditures arising from a number of VOs under another section of works of Contract B together with

## Executive Summary

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the works under Section A. In Audit's view, in implementing works projects in future, CEDD needs to remind its consultants to properly document their assessments of contractors' claims (paras. 3.20 to 3.22).

### **Management of Footbridges A to D and post-completion review**

11. *Scope for enhancing lift services at Footbridges A to D.* Regarding the management of Footbridges A to D, HyD is responsible for the maintenance of structures and associated components of the footbridges, and EMSD is the maintenance agent of HyD for the electrical and mechanical works of lifts and lighting works. There are a total of 17 lifts installed at Footbridges A to D under EMSD's maintenance. During the 3-year period from January 2019 to December 2021, Audit noted that: (a) there were a total of 183 cases involving suspension of lift services at Footbridges A to D. The duration of suspension of lift services ranged from 6 minutes to 242 hours (or 10 days), averaging 10 hours. Of the 183 cases: (i) 143 (78%) involved equipment failure and required repair work to resume lift services. Of these 143 cases, 86 (60%) involved major repairs of electrical and mechanical parts; and (ii) 40 (22%) did not involve equipment failure and did not require such repair work; (b) for the lifts at Footbridge A, the average number of cases involving suspension of lift services (i.e. 6 cases per lift per year) was the highest among the lifts at the 4 footbridges; and (c) according to EMSD, enhancement measures had been implemented and would continue to be carried out. In Audit's view, HyD needs to, in collaboration with EMSD, continue to closely monitor the proper functioning of the lifts at Footbridges A to D and take enhancement measures as necessary (paras. 4.2 to 4.6).

12. *Need to keep under review the usage of Footbridges A to D.* The Transport Department has the overall responsibility for the planning and provision of pedestrian crossing facilities, including footbridges and subways. Regarding the usage of Footbridges A to D, Audit noted that: (a) according to the traffic surveys conducted at Footbridge A in September 2018 and December 2021, and Footbridge B in June 2020, the pedestrian flows thereat were smooth except that there was room for improvement in the lift services to reduce the lift waiting time; and (b) there would be another housing development at the Anderson Road Quarry site nearby the public housing development at the land platforms formed under the Project. It was planned to connect the housing development at the Anderson Road Quarry site with the neighbouring communities via Footbridges A to D. Upon full population intake in

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around 2026, the Anderson Road Quarry site would accommodate a total population of about 30,000. The additional population would put further pressure on the pedestrian flows and usage of Footbridges A to D, including the lift services at these footbridges. Audit considers that there is a need to keep under review the usage of Footbridges A to D (including the adequacy of pedestrian capacity) and keep monitoring the performance of the lifts at these footbridges to maintain reliable and efficient services (paras. 4.10 and 4.11).

13. ***Need to timely conduct post-completion review.*** According to the Project Administration Handbook for Civil Engineering Works issued by CEDD: (a) a post-completion review is a useful project management tool and should be carried out within a reasonable period, say six months, after the substantial completion of a consultancy agreement or a works contract; and (b) post-completion reviews are generally not warranted for consultancy agreements and works contracts of a project which has a total cost less than \$500 million or of a project which does not involve complicated technical and management issues. Audit noted that the Project involved a significant project expenditure of \$3,522.1 million as of October 2021. While Contracts A and B were substantially completed in December 2016, the post-completion review was not completed until May 2022 (i.e. about 5.4 years thereafter) (paras. 4.18 and 4.19).

## Audit recommendations

14. **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 Civil Engineering and Development should:**

### ***Design of footbridge system under the Project***

- (a) **in implementing site formation and infrastructure works projects in future:**
  - (i) **finalise the design of works before tendering of contracts with a view to avoiding significant design changes after award of contracts and claims from contractors arising therefrom (para. 2.26(a));**

## Executive Summary

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- (ii) where the details of some works could not be finalised under a time-critical project, critically consider the measures for addressing the matter with a view to mitigating the risks arising from significant design changes after contract award (para. 2.26(b)); and
- (iii) document the justifications for the adoption of contract arrangement (para. 2.26(c));

### *Contract management*

- (b) in implementing works projects in future:
  - (i) remind CEDD contractors to take adequate protective measures for working on slopes and provide appropriate training to enhance safety awareness of their staff (para. 3.14(a));
  - (ii) remind CEDD staff and consultants to:
    - follow the guidelines on temporary drainage provisions and precautionary measures against severe rainfall during site formation works and construction of reinforced fill structures (para. 3.14(b)(i)); and
    - closely monitor the defects rectification works of contractors and take necessary measures to ensure the timely completion of such works (para. 3.14(b)(iii)); and
  - (iii) remind CEDD consultants to properly document their assessments of contractors' claims (para. 3.23(c));
- (c) ensure that all the landscape softworks and establishment works under Contract A are completed as scheduled, and finalise the account of Contract A as soon as possible (para. 3.23(a) and (b)); and

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### *Management of Footbridges A to D and post-completion review*

- (d) remind CEDD staff and consultants to conduct post-completion reviews on major works contracts in a timely manner (para. 4.20).

15. Audit has recommended that:

### *Management of Footbridges A to D and post-completion review*

- (a) the Director of Highways should, in collaboration with the Director of Electrical and Mechanical Services, continue to closely monitor the proper functioning of the lifts at Footbridges A to D and keep monitoring their performance to maintain reliable and efficient services (paras. 4.12 and 4.14(b)); and
- (b) the Commissioner for Transport should, in collaboration with the relevant government departments, keep under review the usage of Footbridges A to D (para. 4.14(a)).

## Response from the Government

16. The Director of Civil Engineering and Development, the Director of Highways, the Director of Electrical and Mechanical Services and the Commissioner for Transport 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 In 1996, the Government identified a potential site with an area of about 58 hectares (ha) between Anderson Road and Sau Mau Ping Road in East Kowloon for boosting land supply for housing. Upon completion of the “Planning and Engineering Feasibility Study for Development at Anderson Road” in October 1998 and a review on the findings of the planning and engineering feasibility study in January 2007, the feasibility of the planned development (including housing development, government, institution or community facilities, and district open spaces) at the site was confirmed. The development at Anderson Road project (hereinafter referred to as the Project) covered the site formation and associated infrastructure works at the site (see para. 1.3). The Transport and Housing Bureau (THB — Note 1) was the policy bureau for the Project and the Civil Engineering and Development Department (CEDD — Note 2) was the works agent responsible for carrying out the works under the Project.

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**Note 1:** *In July 2007, THB was formed to take over the policy responsibility for housing matters. Before July 2007, the policy responsibility rested with the then Housing, Planning and Lands Bureau (July 2002 to June 2007), the then Housing Bureau (July 1997 to June 2002) and the then Housing Branch (before July 1997). For simplicity, all previous policy bureaux and branch responsible for the policies on housing matters are also referred to as THB in this Audit Report.*

**Note 2:** *In July 2004, CEDD was formed by merging the then Civil Engineering Department and the then Territory Development Department. For simplicity, the then Civil Engineering Department is also referred to as CEDD in this Audit Report.*

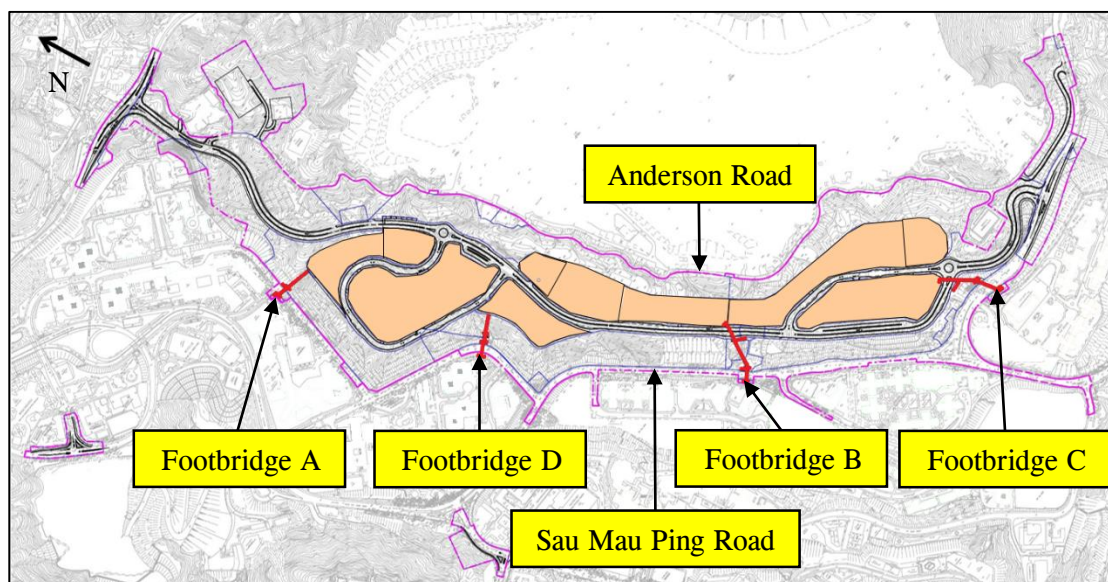
### *Implementation of the Project*

1.3 The Project commenced in January 2008 and was substantially completed in December 2016. The scope of works included the following:

- (a) formation of about 20 ha of land platforms and construction of associated slopes and retaining walls;
- (b) road works of about 4,700 metres (m) in length, including associated footways and road junction improvement works;
- (c) road bridges, footbridges and pedestrian subway. According to the funding paper submitted by THB to the Public Works Subcommittee (PWSC) of the Finance Committee (FC) of the Legislative Council (LegCo) (approved by FC in December 2007 — see Table 1 in para. 1.4), 3 footbridges (Footbridges A to C) would be constructed. In the event, one more footbridge (Footbridge D) was added during construction stage and a total of 4 footbridges were constructed;
- (d) drainage, sewerage and landscaping works; and
- (e) environmental mitigation measures for the abovementioned works.

Figure 1 shows the site plan for the Project.

**Figure 1**  
**Site plan for the Project**



- Legend:
- · — Proposed site boundary
  - Proposed land platforms for housing development, government, institution or community facilities, and district open spaces
  - Proposed footbridges

Source: CEDD records

## Introduction

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1.4 The Project was implemented under three project votes (hereinafter referred to as Project Votes A to C). A total funding of \$3,543.4 million was approved by FC between June 1997 and December 2007 for the Project (see Table 1).

**Table 1**  
**Funding approvals for the Project**  
**(June 1997 to December 2007)**

Date	Particulars	Approved amount (\$ million)
<i>Planning, investigation and detailed design</i>		
Project Vote A		
June 1997	Planning and engineering feasibility study	18.7
Project Vote B		
July 1999	Site investigation and detailed design	57.5
<i>Construction works</i>		
Project Vote C		
December 2007	Site formation and associated infrastructure works	3,467.2
Total		3,543.4

Source: CEDD records

1.5 In August 1997 and May 2006, CEDD awarded two consultancies for the Project (see Table 2) respectively, as follows:

- (a) Consultancy X for the planning and engineering feasibility study; and
- (b) Consultancy Y for the site investigation, design and construction supervision work of the Project which involved two works contracts (Contracts A and B — see para. 1.6).

Table 2

**Consultancies for the Project  
(October 2021)**

<b>Consultancy</b>	<b>Consultant</b>	<b>Particulars</b>	<b>Consultancy fee (\$ million)</b>
X (Awarded in August 1997)	X	Planning and engineering feasibility study	11.3
Y (Awarded in May 2006)	Y	Site investigation, design and construction supervision work for Contracts A and B	26.0
Total			37.3

*Source: CEDD records*

1.6 In January 2008 and January 2013, CEDD awarded two works contracts (Contracts A and B) to two contractors (Contractors A and B respectively) for the implementation of the Project. Contracts A and B were both substantially completed (excluding landscape softworks and establishment works (Note 3)) in December 2016, which were about 28.6 and 13 months later than their original completion dates respectively (see Table 3). Contract expenditures as of October 2021 are shown at Appendix A.

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**Note 3:** *According to CEDD, establishment works include regular inspections, cultivations and other operations as specified to be performed during the period of establishment following completion of the landscape softworks (e.g. planting of vegetation).*

**Table 3**

**Contracts awarded for the Project  
(January 2008 to December 2016)**

<b>Contract</b>	<b>Works</b>	<b>Commencement date</b>	<b>Original completion date (Note)</b>	<b>Actual completion date (Note)</b>	<b>No. of months later than original completion date</b>
A	Site formation and associated infrastructure works	31.1.2008	16.7.2014	2.12.2016	28.6
B	Footbridge D and associated works	31.1.2013	30.11.2015	30.12.2016	13.0

*Source: CEDD records*

*Note: The original completion date and actual completion date referred to dates of completion of all works excluding landscape softworks and establishment works. The landscape softworks and establishment works under Contract B were completed in April 2018, which was about 16.9 months later than the original completion date of November 2016 for such works. As of October 2021, the landscape softworks and establishment works under Contract A were still in progress.*

1.7 The residential sites formed under the Project were used for public housing development, which comprised two public rental housing estates, namely On Tat Estate and On Tai Estate. According to the funding paper submitted by THB to PWSC, the proposed public housing development would provide public housing for a population of about 48,000 in phases between 2015 and 2016. According to CEDD, the residential sites were handed over to the Housing Department (HD — Note 4) between October 2011 and November 2013. In the event, according to HD, the population intake dates for On Tat Estate commenced in phases between June and December 2016, and those for On Tai Estate commenced in phases between June 2017 and July 2018 (Note 5).

### *Project cost*

1.8 As of October 2021, \$3,522.1 million (99%) of the approved project estimate totalling \$3,543.4 million (see para. 1.4) for the Project had been incurred. Of the \$3,522.1 million:

- (a) \$2,913.4 million (83%) was related to expenditures for the Project under Contracts A and B (see Note 4 to Appendix A); and
- (b) the remaining \$608.7 million (17%) comprised resident site staff costs of \$311.9 million, consultancy fees of \$37.3 million (see Table 2 in para. 1.5) and other costs of \$259.5 million (Note 6).

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**Note 4:** *HD is the executive arm of the Hong Kong Housing Authority, which is a statutory body established under the Housing Ordinance (Cap. 283) to develop and implement a public housing programme to help the Government achieve its policy objective on public housing.*

**Note 5:** *According to CEDD: (a) as mentioned in the funding paper submitted by THB to PWSC, HD planned to start construction of the public housing flats in end 2011 to meet the housing development programme; and (b) major land platforms were formed by CEDD and handed over to HD in phases between 2011 and 2013. According to HD, the construction works for the public housing development commenced in phases upon taking over the major land platforms from CEDD between 2011 and 2013, and were completed in phases between 2016 and 2018.*

**Note 6:** *According to CEDD, other costs comprised cost of disposal of excavated materials of \$182.7 million and miscellaneous costs (e.g. expenditures on site investigation works and minor works paid to term contractors) of \$76.8 million.*

### *Construction and management of Footbridges A to D*

1.9 A footbridge system comprising Footbridges A to D was constructed for connecting the planned development (including the public housing development (i.e. On Tat Estate and On Tai Estate)) at the site under the Project (see Figure 1 in para. 1.3) with the neighbouring communities of Sau Mau Ping and Shun On. After the award of Contract A in January 2008, there were significant design changes of the footbridge system under the Project, as follows:

- (a) the design changes of Footbridges A to C (constructed under Contract A) led to variations of works under Contract A (valued at a total cost of \$186 million), payment of acceleration cost (\$23.1 million) and claims from Contractor A (settled at \$47 million); and
- (b) a new Footbridge D was added and constructed under a new Contract B (with a final contract sum of \$167.9 million).

1.10 After completion of works, CEDD handed over Footbridges A to D to the relevant government departments (Note 7) between 2016 and 2018 for maintenance, including:

- (a) **Highways Department (HyD).** It is responsible for the maintenance of structures and associated components of the footbridges (e.g. footbridge decks, staircases, lift towers and drainage); and
- (b) **Electrical and Mechanical Services Department (EMSD) (through the Electrical and Mechanical Services Trading Fund — Note 8).** It is the maintenance agent of HyD for the electrical and mechanical works of lifts (e.g. lift car, lift mechanics and power supply) and lighting works.

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**Note 7:** *Apart from the two government departments mentioned in paragraph 1.10(a) and (b), the following two government departments are also responsible for maintenance of the footbridges: (a) the Food and Environmental Hygiene Department, which is responsible for the cleansing and hygiene of the footbridges; and (b) the Leisure and Cultural Services Department, which is responsible for the maintenance of vegetation at the footbridges.*

**Note 8:** *The Electrical and Mechanical Services Trading Fund (the trading arm of EMSD) provides electrical and mechanical services to customers (including government bureaux/departments).*



### **Audit review**

1.11 In November 2021, the Audit Commission (Audit) commenced a review of the implementation of the Project by CEDD and the management of Footbridges A to D. The audit review has focused on the following areas:

- (a) design of footbridge system under the Project (PART 2);
- (b) contract management (PART 3); and
- (c) management of Footbridges A to D and post-completion review (PART 4).

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

### **Acknowledgement**

1.12 During the audit review, in light of the outbreak of the fifth wave of the coronavirus disease (COVID-19) epidemic, the Government had implemented various special work arrangements and targeted measures for government employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of CEDD, HD, HyD and EMSD during the course of the audit review amid the COVID-19 epidemic.

## PART 2: DESIGN OF FOOTBRIDGE SYSTEM UNDER THE PROJECT

2.1 This PART examines CEDD's work in administering the design of the footbridge system under the Project (paras. 2.8 to 2.27).

### ***Background***

2.2 In January 2008 and January 2013, CEDD awarded two works contracts (i.e. Contracts A and B — see Table 3 in para. 1.6) for the implementation of the Project.

2.3 ***Contract A.*** Contract A was a remeasurement contract (Note 9) covering the site formation and associated infrastructure works for the development site between Anderson Road and Sau Mau Ping Road in East Kowloon. The contract works mainly included:

- (a) formation of about 20 ha of land platforms and associated geotechnical and slope stabilisation works, and earth retaining structures;
- (b) disposal of surplus excavated materials;
- (c) construction of access roads and associated infrastructure works;
- (d) stormwater drainage system and sewerage system;

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**Note 9:** *Under a remeasurement contract, the costs of works are based on the actual quantities of works done to be remeasured and the prices of different works items as priced by the contractor in the Bills of Quantities according to the contract. According to the Project Administration Handbook for Civil Engineering Works issued by CEDD, Bills of Quantities is a list of items giving brief identifying descriptions and estimated quantities of the works to be performed. Bills of Quantities forms a part of the contract documents, and is the basis of payment to the contractor. The main functions of Bills of Quantities are to allow a comparison of tender prices and provide a means of valuing the works.*

- (e) vehicular bridges, footbridges (i.e. Footbridges A to C), subway and noise barrier; and
- (f) landscaping measures (both softworks and hardworks) associated with the establishment of the land platforms and surrounding slope works and the road side amenities.

2.4 In January 2008, CEDD awarded Contract A to Contractor A at a contract sum of \$2,063 million. The works commenced in the same month with a contract period of about 78 months. Consultant Y was the Engineer responsible for supervising the contract works. The contract works (excluding landscape softworks and establishment works) were substantially completed in December 2016, about 28.6 months (870 days) later than the original completion date of July 2014 with extensions of time (EOTs — Note 10) for the whole period granted to Contractor A (Note 11). As of October 2021, the account of Contract A had not been finalised and

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**Note 10:** *According to the General Conditions of Contract for Civil Engineering Works, regarding contract works commencement, completion and delays: (a) the works and any section thereof shall be completed within the time or times stated in the contract calculated from and including the date for commencement notified by the Engineer or such extended time as may be determined; (b) if the contractor fails to complete the works or any section of works within the time for completion or such extended time as may be granted, then the Employer shall be entitled to recover from the contractor liquidated damages for delay; and (c) if in the opinion of the Engineer, the cause of any delay to the progress of the works or any section of works is any of those stipulated in the General Conditions of Contract (e.g. inclement weather, a variation order issued by the Engineer, the contractor not being given possession of site, etc.), then the Engineer shall within a reasonable time consider whether the contractor is entitled to an EOT for completion of the works or any section thereof. According to the Project Administration Handbook for Civil Engineering Works issued by CEDD, an EOT for completion in effect deprives the Government of the right to liquidated damages for delay in completion of the works for the period of the extension and therefore has a financial implication.*

**Note 11:** *According to CEDD: (a) Contract A comprised a total of 20 sections of works and EOTs had been granted to Contractor A for different sections of works throughout the construction period. As the time periods of EOTs for some sections of works overlapped, the summation of EOTs for all sections of works did not necessarily equal to the period of 870 days; and (b) collectively speaking, the completion of Contract A later than the original completion date was largely attributed to major factors of inclement weather and variation orders (some of which involved increase in quantity of rock excavation).*

## Design of footbridge system under the Project

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the up-to-date contract expenditure was \$2,844.3 million (an increase of \$781.3 million (37.9%) over the original contract sum of \$2,063 million — Note 12).

**2.5 Contract B.** Contract B was a remeasurement contract covering Footbridge D and associated works. The contract works mainly included:

- (a) construction of Footbridge D, lift towers, drainage system and a footpath;
- (b) site formation and associated slope works for Footbridge D; and
- (c) landscape softworks and hardworks, and associated establishment works for Footbridge D.

**2.6** In January 2013, CEDD awarded Contract B to Contractor B at a contract sum of \$151.8 million. The works commenced in the same month with a contract period of about 34 months. Consultant Y was the Engineer responsible for supervising the contract works. The contract works (excluding landscape softworks and establishment works) were substantially completed in December 2016. In the event, all works under Contract B (including landscape softworks and establishment works) were completed in April 2018, about 16.9 months (514 days) later than the original completion date of November 2016 with EOTs for the whole period granted to Contractor B (Note 13). The account of Contract B was finalised in May 2020 and the final contract sum was \$167.9 million (an increase of \$16.1 million (10.6%) over the original contract sum of \$151.8 million — Note 14).

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**Note 12:** *According to CEDD, for the \$781.3 million increase over the original contract sum, \$306.6 million was due to price fluctuation adjustment and the remaining was due to other reasons, including remeasurement of quantities and works variations.*

**Note 13:** *EOTs granted to Contractor B were due to unavailability of site for carrying out landscape softworks and establishment works.*

**Note 14:** *According to CEDD, for the \$16.1 million increase over the original contract sum, \$2.1 million was due to price fluctuation adjustment and the remaining was due to other reasons, including remeasurement of quantities and works variations.*

### ***Footbridge system under the Project***

2.7 The footbridge system comprising Footbridges A to D was constructed for connecting the planned development (including the public housing development (i.e. On Tat Estate and On Tai Estate)) at the site under the Project with the neighbouring communities of Sau Mau Ping and Shun On, as follows:

- (a) ***On Tai Estate.*** There are two footbridges connecting to On Tai Estate:
  - (i) Footbridge A connecting On Tai Estate and Lee On Road (see Photographs 1 and 2); and
  - (ii) Footbridge D connecting On Tai Estate and Shun On Road (see Photographs 1 and 3); and
- (b) ***On Tat Estate.*** There are two footbridges connecting to On Tat Estate:
  - (i) Footbridge B connecting On Tat Estate and Sau Mau Ping Road (see Photographs 4 and 5); and
  - (ii) Footbridge C connecting On Tat Estate and Po Lam Road (see Photographs 4 and 6).

## Design of footbridge system under the Project

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Photograph 1

Footbridges A and D  
(July 2016)



Source: CEDD records



**Photograph 2**

**Footbridge A  
(May 2017)**



*Source: CEDD records*

**Photograph 3**

**Footbridge D  
(June 2017)**



*Source: CEDD records*

**Photograph 4**

**Footbridges B and C  
(April 2016)**



*Source: CEDD records*



**Photograph 5**

**Footbridge B  
(June 2016)**



*Source: CEDD records*

**Photograph 6**

**Footbridge C  
(June 2016)**



*Source: CEDD records*

### **Administration of design of footbridge system under the Project**

2.8 Under the original design which, according to CEDD, had taken into consideration the private and public housing development parameters and block layout design agreed at that time, the footbridge system under the Project comprised 3 footbridges (i.e. Footbridges A to C constructed under Contract A). Following consultations with the Kwun Tong District Council (KTDC) and the Sai Kung District Council, the construction of the 3 footbridges under the original design together with other proposed road works were gazetted under the Roads (Works, Use and Compensation) Ordinance (Cap. 370) in September 2000. According to CEDD, the necessary statutory procedures under the Ordinance were completed in March 2002 and the locations of the proposed 3 footbridges were determined having regard to views collected through the consultation conducted in 2002 in accordance with the Ordinance. In 2003, the housing development programme was changed and the Project was put on hold. In October 2005, the implementation work for the Project resumed and there was a change in the development parameters entirely for public housing. In May 2006, Consultancy Y was awarded for the site investigation, design and construction supervision work of the Project (see para. 1.5(b)).

### 2.9 *Consultations with parties concerned before tendering of Contract A.*

Before tendering of Contract A in September 2007, CEDD received views from various stakeholders (including HD (Note 15), KTDC and the Advisory Committee on the Appearance of Bridges and Associated Structures (ACABAS — Note 16)) on the design of the footbridge system under the Project on various occasions (see Appendix B for details). The salient points are as follows:

- (a) in August 2006, HD advised that there would be amendments to the footbridges of the Project, including the addition of a footbridge and re-alignment of Footbridge B;
- (b) in October 2006, HD suggested CEDD to implement the site formation and the remaining infrastructure works (including walkways and footbridges) in phases through several works contracts to meet the population intake of the public housing development. This arrangement had been found satisfactory in another site formation project (Note 17) undertaken by CEDD;

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**Note 15:** *According to HD, during the planning stage of On Tat Estate and On Tai Estate public housing development projects, it was involved in providing advice and comments to CEDD on the Project to better suit the housing development projects to be implemented by HD.*

**Note 16:** *According to Environment, Transport and Works Bureau Technical Circular (Works) No. 36/2004 on “The Advisory Committee on the Appearance of Bridges and Associated Structures (ACABAS)”:* (a) ACABAS was set up in 1984 to advise on the visual merit, general amenity value and related environmental considerations of all proposals to construct bridges and associated structures over, under, on or adjacent to public roads; (b) it is chaired by a Regional Highway Engineer from HyD and comprises representatives from government departments and professional bodies; (c) the primary activity of ACABAS is the vetting of the design of bridges and other structures associated with the public highway system from the aesthetic, visual and greening points of view; and (d) all works departments which need to provide bridges and other structures associated with the public highway system have to obtain the acceptance of the Director of Highways by submitting their design proposals to ACABAS before implementation.

**Note 17:** *The site formation project referred to the site formation and associated infrastructure works for the development near Choi Wan Road and Jordan Valley which commenced in November 2001 and was completed in October 2010. There were 3 works contracts under this project, including 1 for site formation and associated infrastructure works (awarded in November 2001) and 2 for Stages 1 and 2 of the remaining infrastructure works respectively (awarded in December 2005 and January 2007 respectively). The construction of footbridges (3 in total) under this project was implemented under the 2 works contracts for the remaining infrastructure works.*

## **Design of footbridge system under the Project**

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- (c) at a meeting of KTDC in March 2007, a District Council Member raised concerns that the proposed provision of only 3 footbridges might be inadequate to cope with the pedestrian flows arising from the proposed public housing development at the land platforms formed under the Project;
- (d) in May 2007, HD commented that further review of the locations and number of footbridges was required;
- (e) in August 2007, ACABAS commented that the need for the footbridges, in particular Footbridges A and B, was in doubt. Noting that HD would conduct a traffic review study (see para. 2.12) to review the access and landing locations of the footbridges, ACABAS requested Consultant Y to review the need for the footbridges after completion of HD's study; and
- (f) after ACABAS's acceptance of the design proposal of Footbridges A to C, CEDD informed Consultant Y in August 2007 that:
  - (i) Footbridges A to C would only be constructed should their need be justified and confirmed under HD's traffic review study; and
  - (ii) as there was a chance of deleting works for these footbridges and a high chance of introducing substantial modifications to the design of them, relevant contract clauses should be incorporated into Contract A that construction of these footbridges should only be commenced upon receipt of Consultant Y's instruction.

2.10 ***Excision contract clause.*** According to CEDD, before inviting tenders for Contract A, HD indicated that it would conduct a traffic review study in April 2008 to review, among others, the pedestrian facilities connecting the development site under the Project and the existing housing estates in the adjoining areas (see para. 2.12). To allow CEDD to reserve the right to instruct Contractor A to commence the construction of Footbridges A to C after completion of the traffic review study by HD, the construction of Footbridges A to C was included under a section subject to excision (i.e. the excision contract clause) in the tender documents of Contract A, as follows:

- (a) according to Contract A, a section subject to excision means a section of works the details of which are known, but the implementation of which has

not been decided upon by the Employer at the time the tender documents are issued. The works shall only be implemented upon a subsequent decision of the Employer, followed by a written instruction from the Engineer; and

- (b) according to the excision contract clause, Contractor A is obliged to complete the 3 footbridges in 730 days upon receipt of the instruction from Consultant Y by 17 December 2012. According to CEDD, the latest date of instruction was so devised to make sure that the footbridges could be completed to match with the population intake of the proposed public housing development at that time if HD, upon the traffic review study, decided to construct the footbridges under the original design.

According to CEDD, to meet the then planned population intake programme of the proposed public housing development in 2015 envisaged by HD, Contract A (involving more time-consuming construction activities on site formation works) was tendered out in September 2007 (Note 18) (see also para. 2.24 for the adoption of this contract arrangement and the excision contract clause).

**2.11 *LegCo Members' concerns on the footbridge system.*** At a meeting of PWSC in November 2007 considering funding for the construction works under the Project, LegCo Members:

- (a) recapitulated KTDC Members' concerns (see para. 2.9(c));
- (b) suggested that more footbridges should be provided for the proposed public housing development and the locations of the footbridges should be determined having regard to the need for providing convenient pedestrian access link between the proposed public housing development and the neighbouring facilities; and
- (c) opined that the proposed locations of the 3 footbridges should be subject to further consideration in consultation with KTDC.

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**Note 18:** *Funding for the construction works under the Project was approved by FC in December 2007 (see Table 1 in para. 1.4). Approval to invite tenders before securing funding was given by THB in September 2007.*

## Design of footbridge system under the Project

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In response, the Government agreed to reconsider the number of footbridges and their locations taking into account the findings of a traffic review study to be undertaken by HD (see para. 2.12) when the layout and design of the proposed public housing development was ready in 2008-09. In the event, after approval of funding by FC in December 2007 (see Table 1 in para. 1.4), Contract A was awarded and commenced in January 2008.

2.12 ***HD's traffic review study.*** In April 2008, HD commissioned a consultant to conduct a traffic review study for the public housing development at Anderson Road (Note 19). The study was to review, among others (Note 20), the pedestrian facilities within the development site and the provision of external pedestrian linkages between the development site and adjoining areas to suit the need of the future residents at the proposed public housing development.

### ***Significant design changes of the footbridge system***

2.13 In March 2009 (about one year after the commencement of Contract A in January 2008):

- (a) HD completed the traffic review study after local public consultations and community engagements for the proposed public housing development. The study recommended that a new footbridge (i.e. Footbridge D) should be added to the footbridge system to enhance pedestrian connectivity. The study also identified substantial enhancements (e.g. additional lift towers and staircases, additional/lengthened footbridge decks and change of orientation/location of footbridges) to Footbridges A to C to improve the attractiveness and level of comfort of the footbridge system;
- (b) KTDC gave support on the proposed provision of footbridges under the traffic review study; and

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**Note 19:** *According to HD, before the conduct of the traffic review study, the Traffic Impact Assessment conducted by Consultant Y (commissioned by CEDD in 2006 and finalised in 2007) was being used as reference during the early design study.*

**Note 20:** *The traffic review study also reviewed the provision of public transport facilities and the internal road network arrangement to meet the anticipated traffic demand from the proposed public housing development.*

- (c) THB gave support to the construction of the recommended works in accordance with the traffic review study and requested CEDD to proceed with the detailed design and construction of the recommended works accordingly.

2.14 In June 2009, CEDD instructed Consultant Y to proceed with the implementation of the revised footbridge system comprising 4 footbridges (i.e. Footbridges A to D). In October 2009, the design proposal of the revised footbridge system was submitted to and accepted by ACABAS. The revised road works (including construction of the 4 footbridges) was gazetted under the Roads (Works, Use and Compensation) Ordinance in November 2009. The necessary statutory procedures under the Ordinance were completed in September 2010 followed by completion of the detailed design of the revised footbridge system in September 2011.

2.15 According to CEDD:

- (a) Consultant Y had then critically evaluated and compared several implementation options for the revised footbridge system;
- (b) in recognition of the significant design changes of the original Footbridges A to C and the addition of a new Footbridge D, CEDD explored the option to have the revised footbridge system (i.e. Footbridges A to D) constructed by Contractor A by way of a supplemental agreement. Under this arrangement, the construction cost of the revised footbridge system had to be agreed with Contractor A with no binding of valuation based on the rates set out in Contract A for the same or similar item of works (see Note 24 to para. 2.24(c)). In the event, Contractor A expressed its intention to undertake the works at a cost which Consultant Y considered not value for money. Consultant Y recommended CEDD not to accept this costly option;
- (c) as Footbridge D was completely new, Consultant Y advised that it fell outside the ambit of the variation provisions of Contract A. Apart from the option under (b) above, Footbridge D would either be constructed through:

## Design of footbridge system under the Project

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- (i) procurement of a new works contract; or
  - (ii) expanding the original scope of Contract A by way of a supplemental agreement. However, the cost estimate provided by Contractor A for this option was considered too costly and, therefore, this option was not pursued further;
- (d) for Footbridges A to C, Consultant Y considered that constructing the footbridges under a new works contract would generate numerous contractual problems due to interfacing with the main site formation works. Such contractual problems would endanger the timely completion of the infrastructure works of Contract A as well as the footbridges; and
- (e) in view of the above, it was imperative to instruct Contractor A to proceed with the construction of Footbridges A to C, though CEDD was aware of the potential cost and programme implications of variation orders (VOs — Note 21) at the material time.

2.16 In the event, Consultant Y instructed Contractor A to proceed with the construction of Footbridges A to C in March 2012, and thereafter, issued 141 VOs (later valued at a total cost of \$186 million) on the revised details of Footbridges A to C and associated works. In parallel, CEDD instructed Consultant Y to prepare a new works contract solely for the construction of Footbridge D (i.e. Contract B awarded to Contractor B in January 2013). CEDD considered that the above decision was reasonable and proper in respect of protection of government interest at the material time.

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**Note 21:** *According to the General Conditions of Contract for Civil Engineering Works, the Engineer shall: (a) order any variation to any part of the works that is necessary for the completion of the works; (b) have the power to order any variation that for any other reason shall in his opinion be desirable for or to achieve the satisfactory completion and functioning of the works; and (c) determine the sum which in his opinion shall be added to or deducted from the contract sum as a result of issuing a VO.*



2.17 Upon receipt of the VOs, Contractor A submitted claims for an EOT and prolongation cost (Note 22) on the grounds that there were significant modifications of footbridge design and associated site formation works. According to Consultant Y's assessment, Contractor A was entitled to an EOT that would extend the contractual completion dates of the footbridges to April 2016.

2.18 According to CEDD, HD's then required opening dates of Footbridges A, B and C were December 2016, August 2015, June 2015 respectively to match with the population intake of the proposed public housing development. Accordingly, the extended contractual completion dates of the footbridges of April 2016 as assessed by Consultant Y were later than HD's then required opening dates for both Footbridges B and C.

2.19 In the event, after obtaining the Financial Services and the Treasury Bureau's approval in December 2013, CEDD entered into a supplemental agreement with Contractor A in February 2014, under which the Government paid \$70.1 million to accelerate the completion of Footbridges B and C to match with the population intake of the proposed public housing development (\$23.1 million) and settle all claims (including the claim for prolongation cost) for events related to the construction of Footbridges A to C that occurred before the execution of the supplemental agreement (\$47 million). Contractor A also submitted claims for events related to the construction of Footbridges A to C that occurred after the execution of the supplemental agreement (Note 23).

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**Note 22:** *Prolongation costs are generally the time related costs (e.g. the costs of a contractor's site establishment, site overheads and general plant) that are typically affected by a delay to the critical path of construction works. Works contracts include provisions for granting EOTs for completion due to events covered by the contract provisions, such as additional works, inclement weather, etc. The Engineer would assess the actual situation of each case, with the prolongation costs calculated as the time related costs additionally incurred for the relevant delay duration of those events for which prolongation costs are grantable.*

**Note 23:** *According to CEDD: (a) in view of the significant numbers of claims for events under Contract A, Consultant Y adopted a consolidated assessment of the cost entitlement of Contractor A; (b) the claims for events related to the construction of Footbridges A to C that occurred after the execution of the supplemental agreement were assessed together with claims related to other events under Contract A and settled at \$61.2 million; and (c) the cost entitlement of \$61.2 million granted to Contractor A was Consultant Y's assessment against Contractor A's claims, which involved a list of events. There was no breakdown of the amount for individual events.*

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2.20 According to Contract A's supplemental agreement and Contract B, Footbridges A, B, C and D were scheduled to be completed in April 2016, June 2015, March 2015 and November 2015 respectively. In the event:

- (a) Footbridges A, B, C and D were substantially completed in September 2016, January 2016, December 2015 and December 2016 respectively, which were about 5.3 to 13 months later than their scheduled completion dates (see Table 4);
- (b) Footbridges B and C were open to the public in June 2016 to match with the commencement of population intake of On Tat Estate; and
- (c) Footbridges A and D were open to the public in June 2017 to match with the commencement of population intake of On Tai Estate.

**Table 4**

**Completion of Footbridges A to D  
(March 2015 to December 2016)**

<b>Footbridge</b>	<b>Scheduled completion date</b>	<b>Actual completion date</b>	<b>No. of months later than scheduled completion date</b>
A	21.4.2016	28.9.2016	5.3 (Note 1)
B	30.6.2015	23.1.2016	6.8 (Note 1)
C	31.3.2015	9.12.2015	8.3 (Note 2)
D	30.11.2015	30.12.2016	13.0 (Note 1)

*Source: CEDD records*

*Note 1: EOTs for the whole period were granted.*

*Note 2: EOTs of 246.5 days (or 8.1 months) were granted and the remaining 6.5 days (or 0.2 month) were delays subject to liquidated damages.*

### *Need to draw lessons from significant design changes of the footbridge system under the Project*

2.21 Audit noted that the issues mentioned in paragraphs 2.22 and 2.23 below merit CEDD's attention and drawing lessons therefrom in administering future site formation and infrastructure works projects.

2.22 *Significant design changes of the footbridge system after award of Contract A.* Audit noted that:

- (a) Contract A, which involved the construction of Footbridges A to C, was tendered out in September 2007 and awarded in January 2008. Before tendering of Contract A (between August 2006 and August 2007), CEDD received views from various stakeholders (including HD, KTDC and ACABAS) on the design of the footbridge system under the Project (i.e. Footbridges A to C), including the addition of a footbridge and re-alignment of Footbridge B (see para. 2.9(a)), the adequacy of providing only 3 footbridges (see para. 2.9(c)), the need to further review the locations and number of footbridges (see para. 2.9(d)) and the need for the footbridges to be subject to further review after completion of HD's traffic review study (see para. 2.9(e));
- (b) in March 2009, HD's traffic review study was completed and proposed significant design changes of the footbridge system, including the significant modifications of the design of Footbridges A to C and the addition of a new Footbridge D (see para. 2.13(a)). The significant design changes were accepted by THB which requested CEDD to proceed with the detailed design and construction works (see para. 2.13(c));
- (c) in view of the costly price expressed by Contractor A for constructing the revised footbridge system (i.e. Footbridges A to D) or the new Footbridge D by way of a supplemental agreement (see para. 2.15(b) and (c)(ii)), Contractor A was instructed to proceed with the construction of Footbridges A to C under the excision contract clause and variation provisions of Contract A and a new contract solely for the construction of Footbridge D was awarded to Contractor B. In the event, in implementing the works arising from the significant design changes of the footbridge system:

## **Design of footbridge system under the Project**

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### ***Footbridges A to C***

- (i) 141 VOs (later valued at a total cost of \$186 million) were issued under Contract A on the revised details of Footbridges A to C and associated works (see para. 2.16);
- (ii) the Government paid \$70.1 million to accelerate the completion of Footbridges B and C, and settle all claims for events related to the construction of Footbridges A to C that occurred before the execution of the supplemental agreement (see para. 2.19); and

### ***Footbridge D***

- (iii) a new Contract B was awarded in January 2013 for the construction of the new Footbridge D (see para. 2.16) and the final contract sum was \$167.9 million (see para. 2.6). In the event, there was interfacing problem between Contracts A and B relating to site access (see Appendix C for details);
- (d) in granting its approval for CEDD to enter into the supplemental agreement with Contractor A (see para. 2.19), the Financial Services and the Treasury Bureau said that:
- (i) it noted that in face of the target completion date of the Project by 2015, CEDD practically had no choice but to tender Contract A in 2007 although the design of the new footbridge system had yet to be finalised; and
  - (ii) that said, CEDD was reminded that it should in future improve the local consultation process and better assess the requirements of local residents and District Councils for infrastructure works to avoid recurrence of similar situations; and
- (e) in this connection, the original design of Footbridges A to C included in the tender documents of Contract A in September 2007 was largely based on the consultation conducted in 2002 (i.e. about 5 years ago) in accordance with the statutory procedures (see para. 2.8). In view of the change of the housing development programme, the Project was put on hold in 2003 and resumed in October 2005 (see para. 2.8). While the consultations with

various stakeholders after the resumption of the Project (between August 2006 and August 2007) found that they had concerns on the original design of Footbridges A to C (see para. 2.9), CEDD, with the introduction of the excision contract clause coupled with the variation provisions to cater for the potential design changes of Footbridges A to C, tendered out Contract A before finalising the design of the footbridge system in order to meet the then planned population intake programme of the proposed public housing development in 2015 (see para. 2.10). As circumstances and views of stakeholders may have changed when there is a time gap between consultation and the implementation of works projects, CEDD needs to make every endeavour to consult stakeholders with a view to finalising the design of works before tendering of contracts in future.

**2.23     *Scope for improvement in contract arrangement.*     Audit noted that:**

- (a) while CEDD anticipated that there was a high chance of introducing substantial modifications to the design of footbridge system subject to the findings of HD's traffic review study (see para. 2.9(f)), to meet the then planned population intake programme of the proposed public housing development in 2015 envisaged by HD, Contract A (involving more time-consuming construction activities on site formation works) was tendered out in September 2007 (see para. 2.10);
- (b) according to CEDD, relevant contract clauses should be incorporated into Contract A that construction of Footbridges A to C should only be commenced upon receipt of Consultant Y's instruction (see para. 2.9(f)(ii)). As a result, the construction of Footbridges A to C was included under a section subject to excision in the tender documents of Contract A. The objective was to allow CEDD to reserve the right to instruct Contractor A to commence the construction of Footbridges A to C after completion of the traffic review study by HD (see para. 2.10);
- (c) according to Contract A, a section subject to excision meant a section of works the details of which were known, but the implementation of which had not been decided upon by the Employer at the time the tender documents were issued (see para. 2.10(a)). While this contract clause allowed CEDD to decide whether and when to commence the construction of Footbridges A to C, it could not preclude claims (e.g. for EOT and prolongation cost) from Contractor A arising from the significant design

## **Design of footbridge system under the Project**

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changes of Footbridges A to C after contract award under the contract provisions (see para. 2.24(c)). In the event, 141 VOs (later valued at a total cost of \$186 million) were issued under Contract A (see para. 2.16), and CEDD needed to enter into a supplemental agreement with Contractor A relating to the construction of Footbridges A to C (see para. 2.19) and award a new Contract B for the construction of Footbridge D (see para. 2.16); and

- (d) in this connection, in October 2006, HD suggested CEDD to implement the site formation and the remaining infrastructure works (including footbridges) in phases through several works contracts (see para. 2.9(b)). In the event, a single contract (Contract A) was awarded for the construction of Footbridges A to C. There was no documentation on the justifications for adopting this single contract arrangement.

2.24 Regarding the single contract arrangement and the excision contract clause, in February and May 2022, CEDD informed Audit that:

- (a) given the site constraints and the configurations for land platforms of future developments, the proposed footbridges and site formation works were designed in an integrated manner. In this regard, the scope of Contract A covered the site formation works as well as the footbridge construction works. The construction of the footbridges under a separate works contract would generate numerous contractual problems due to interfacing with the main site formation works. Such contractual problems would endanger the timely completion of the infrastructures constructed under Contract A as well as the footbridges. It was therefore considered a practical and preferred option to include both the site formation works and the footbridge construction works in a single works contract;
- (b) under the arrangement of adopting the excision contract clause, Footbridges A to C fell within the ambit of Contract A and the relevant rates were priced in Contract A under a competitive tendering process. Under the variation provisions of Contract A, Consultant Y had the power to issue VOs to instruct Contractor A to construct the footbridges when their designs were changed after HD's traffic review study;
- (c) as mentioned in (a) above, including both the site formation works and the footbridge construction works in a single works contract could avoid

numerous contractual problems and better ensure timely completion of the footbridges. Furthermore, the valuation of VOs would be mainly based on the rates set out in Contract A for the same or similar item of works (Note 24). Having said that, the arrangement of adopting the excision contract clause, coupled with the variation provisions, could not preclude claims (e.g. for EOT and prolongation cost) from Contractor A under the contract provisions; and

- (d) in any case, by adopting the excision contract clause, CEDD could reserve the right to omit the works concerned from Contract A.

2.25 In Audit's view, there is scope for CEDD to draw lessons from the significant design changes of the footbridge system under the Project.

### Audit recommendations

2.26 Audit has *recommended* that, in implementing site formation and infrastructure works projects in future, the Director of Civil Engineering and Development should:

- (a) finalise the design of works (e.g. footbridges) before tendering of contracts, taking into account views from stakeholders and findings of relevant studies (e.g. traffic review study), with a view to avoiding significant design changes after award of contracts and claims from contractors arising therefrom;
- (b) where the details of some works (e.g. footbridges) could not be finalised under a time-critical project, critically consider the measures for addressing the matter (including the contract arrangement for phasing

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**Note 24:** *According to the General Conditions of Contract for Civil Engineering Works, regarding valuing variations: (a) any work carried out which is the same as or similar to any item of work priced in the contract shall be valued at the rate set out in the contract for such item of work; and (b) any work carried out which is not the same as or similar to any item of work priced in the contract shall be valued at a rate based on the rates in the contract so far as may be reasonable, failing which, at a rate agreed between the Engineer and the contractor.*

## **Design of footbridge system under the Project**

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**of works and the provision of appropriate contract clauses) with a view to mitigating the risks arising from significant design changes after contract award (e.g. substantial works variations, contractual claims and disputes, and interfacing problems between contracts); and**

- (c) document the justifications for the adoption of contract arrangement (e.g. using a single contract or multi-contract arrangement).**

## **Response from the Government**

2.27 The Director of Civil Engineering and Development agrees with the audit recommendations.



## **PART 3: CONTRACT MANAGEMENT**

3.1 This PART examines CEDD's work in contract management of works under the Project, focusing on:

- (a) management of slope, piling and defects rectification works under Contract A (paras. 3.2 to 3.15); and
- (b) management of landscape softworks and establishment works under Contracts A and B (paras. 3.16 to 3.24).

### **Management of slope, piling and defects rectification works under Contract A**

#### ***Scope for enhancing the management of slope works***

3.2 The works under Contract A included the formation of about 20 ha of land platforms and associated geotechnical and slope stabilisation works, and earth retaining structures (see para. 2.3(a)). According to CEDD, in connection with the construction works under Contract A, there were 1 concrete block falling incident (occurred in May 2009), 3 landslide incidents (occurred between May 2013 and May 2015), and 2 other events relating to damage of retaining walls under construction (occurred in July and September 2012 respectively) (Note 25). Table 5 shows these incidents and other events.

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**Note 25:** *According to CEDD: (a) while both incidents and other events occurred within Contract A's works site, the former affected areas outside the site boundary and the latter did not; and (b) the performance of Contractor A in aspects related to the incidents/other events (e.g. standard of temporary works such as temporary drainage, provision and maintenance of safe working environment) was duly reflected in the relevant quarterly performance reports of Contractor A and/or discussed at the relevant site meetings with Contractor A.*

Table 5

**Incidents and other events under Contract A  
(May 2009 to May 2015)**

Item	Date	Particulars (Note 1)
<b>(A) Incidents (Note 2)</b>		
<b>Concrete block falling incident</b>		
(a)	14 May 2009	During the site clearance/preparation works for the construction of a retaining wall (hereinafter referred to as Retaining Wall A), a concrete block (dimensions of about 1 m × 1 m × 1 m) rolled down from the edge of a slope and caused damage to two panels of hoarding located adjacent to the slope toe, a catchpit with concrete cover located at the slope toe and a lamp post cover located along pedestrian footpath of Po Lam Road (see para. 3.3(a) for the audit findings).
<b>Landslide incidents</b>		
(b)	22 May 2013	The landslide occurred on a slope (see Photograph 7) with works under construction at the time of the incident. The majority of the landslide debris deposited on Lee On Road (see Photograph 8), resulting in temporary closure of Lee On Road for 2 days (see para. 3.3(b) for the audit findings).
(c)	22 May 2013	A distress involving dislodgement of facing panels and loss of soil occurred at a retaining wall (hereinafter referred to as Retaining Wall B) which was under construction at the time of the incident. The majority of the washout debris was deposited over the hillside in front of Retaining Wall B with a minor amount of debris overspilling the culvert below the wall onto Shun On Road, resulting in temporary closure of a section of Shun On Road for 18 days (see para. 3.3(b) for the audit findings).
(d)	1 May 2015	Spilling of washout water occurred at an existing catchpit using as a temporary drainage system during the construction works under Contract A. The washout water damaged a slope at the downstream area of the temporary drainage system. Part of the slope was eroded (see para. 3.3(c) for the audit findings).

Table 5 (Cont'd)

Item	Date	Particulars (Note 1)
<b>(B) Other events (Note 2)</b>		
(e)	24 July 2012	Retaining Wall B under construction was damaged during the passage of typhoon (see para. 3.3(b)(i) and (iii) for the audit findings).
(f)	24 September 2012	A retaining wall under construction was damaged during the hoist of a red rainstorm warning signal (see para. 3.3(b)(i) for the audit findings).

Source: CEDD records

Note 1: For all the above incidents/other events, fortunately, no person was injured.

Note 2: According to CEDD, while both incidents and other events occurred within Contract A's works site, the former affected areas outside the site boundary and the latter did not.

### Photograph 7

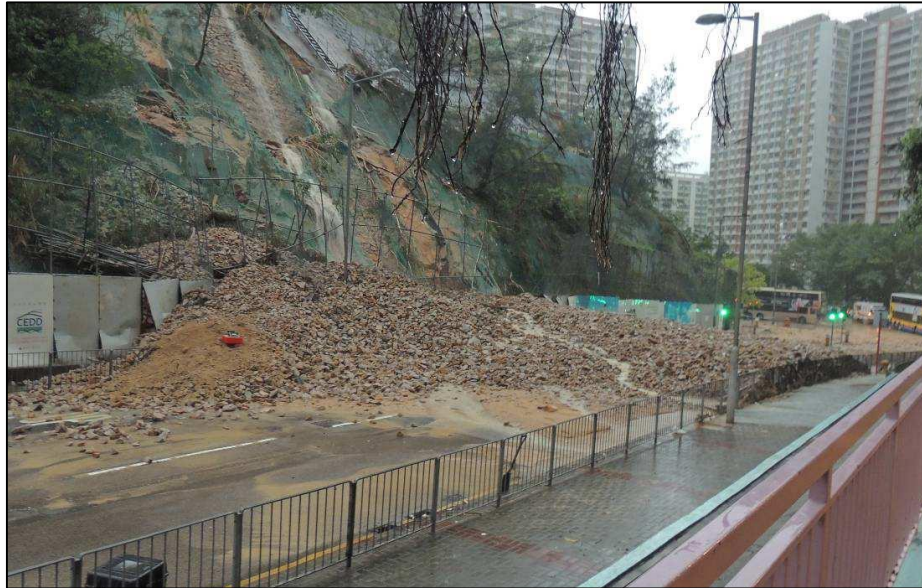
#### Landslide occurred on a slope (22 May 2013)



Source: CEDD records

**Photograph 8**

**Landslide debris deposited on Lee On Road  
(22 May 2013)**



*Source: CEDD records*

3.3 Audit noted that:

- (a) ***Concrete block falling incident in May 2009 (see item (a) in Table 5 in para. 3.2).*** According to Consultant Y:
  - (i) the causes of this incident included no protective measures (e.g. fence and barrier) taken at the slope edge or at the lower sloping area to prevent any material from rolling down the slope, and low awareness of frontline supervisors and workers in taking proactive measures to guard against falling objects from height; and
  - (ii) after the incident, a barrier was provided at the sloping area immediately below the working area to prevent any debris and loose material from rolling down the slope, and training had been provided to the relevant frontline supervisors and workers to strengthen their awareness in taking relevant proactive measures;

- (b) *Landslide incidents in May 2013 (see items (b) and (c) in Table 5 in para. 3.2).* The salient points related to the 2 landslide incidents are as follows:
- (i) according to CEDD, the intense rainstorm in the early morning of 22 May 2013 caused a major washout failure of the slope concerned and distress at Retaining Wall B. These two features (i.e. slope works and Retaining Wall B) were under construction at the time of the incidents. Subsequent landslide investigations revealed that the temporary drainage system at the time of the incidents was unable to cope with the surface runoff arising from the intense rainfall, leading to the area in the vicinity of the features impacted by large amounts of surface water and consequently resulting in the 2 incidents. In this connection, Audit noted that the 2 other events occurred earlier in July and September 2012 respectively (see items (e) and (f) in Table 5 in para. 3.2) were also resulted from the inadequate capacity of the temporary drainage system;
  - (ii) after the incidents, the temporary drainage design was further reviewed. According to CEDD, the review was completed in June 2013 and the recommended temporary drainage measures were carried out and inspected through regular site inspections and safety walks to maintain their effectiveness;
  - (iii) regarding Retaining Wall B damaged in the landslide incident, CEDD commissioned a geotechnical expert to conduct an independent review of Retaining Wall B and the damage resulting from the rainstorm. The review was completed in September 2013. The geotechnical expert commented that the failure of Retaining Wall B was a recurrence of the event in July 2012 (see item (e) in Table 5 in para. 3.2), and provided various recommendations, including design requirements and remedial works for Retaining Wall B. In the same month, CEDD requested Consultant Y to oversee the completion of the remedial works, including conveying the professional advices given by the geotechnical expert to all the parties concerned (e.g. Contractor A and interface contractors) and coordinating with them to implement the recommended follow-up actions if necessary. According to CEDD, further to the recommendations made by the geotechnical expert, CEDD,

## Contract management

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Consultant Y and Contractor A completed the design review and implemented slope monitoring measures from 2013 to 2018; and

- (iv) in January 2014, the Geotechnical Engineering Office (GEO) of CEDD promulgated a GEO Technical Guidance Note on “Guidelines on Temporary Drainage Provisions and Precautionary Measures against Severe Rainfall during Site Formation Works and Construction of Reinforced Fill Structures”. This technical guidance note serves to remind practitioners of the need for adequate temporary drainage provisions, and precautionary and mitigation measures against severe rainfall during site formation works and construction of reinforced fill structures, with particular reference to the observations and lessons learnt from the 2 landslide incidents in May 2013; and

- (c) *Landslide incident in May 2015 (see item (d) in Table 5 in para. 3.2).* Similar to the 2 landslide incidents in May 2013, this incident was also resulted from the inadequate capacity of the temporary drainage system during the construction stage.

3.4 In Audit’s view, in implementing works projects in future, CEDD needs to:

- (a) remind its contractors to:
  - (i) take adequate protective measures for working on slopes (particularly for works close to or at the slope edge near public area); and
  - (ii) provide appropriate training to enhance safety awareness of their staff; and
- (b) remind its staff and consultants to follow the guidelines on temporary drainage provisions and precautionary measures against severe rainfall during site formation works and construction of reinforced fill structures.

***Need to make better estimate of piling works involved in ordering works variations***

3.5 In March 2012, Consultant Y issued VO A (later valued at a cost of \$174.7 million) on the revised details, including piling works, of Footbridges A to C. Under VO A:

- (a) the tentative rockhead (Note 26) levels and pile lengths for the footbridges were specified (Note 27). For Footbridge C, based on the tentative rockhead level, the tentative total pile length was 1,666 m; and
- (b) the actual length of piles would be determined from the information on rockhead level obtained from pre-drill boreholes during pile construction.

3.6 Before the commencement of piling works for Footbridge C, pre-drill boreholes were sunk to obtain ground information (including rockhead level) for determination of pile length. Contractor A found that the actual rockhead level was lower than that specified in VO A. In the event, the as-built total pile length for Footbridge C was 2,164.3 m, which was 498.3 m (30%) longer than the total pile length of 1,666 m (see para. 3.5(a)) as specified in VO A.

3.7 Contractor A submitted a claim for an EOT on the grounds that there was a substantial increase in pile length for Footbridge C (Note 28) arising from a lower

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**Note 26:** *According to CEDD, rockhead is defined as the upper elevation of a rock core of at least 5 m long that is made up of Grade III or better rock (Grades I and II). According to the Guide to Rock and Soil Descriptions issued by CEDD, decomposition grades of rock material are classified into Grades I to VI (with descending rock hardness).*

**Note 27:** *According to CEDD, the tentative rockhead levels and pile lengths were based on available ground investigation information in preparing the VO for the revised footbridges.*

**Note 28:** *According to CEDD, the cost associated with the variation in pile length was \$3.3 million.*

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rockhead level. According to Consultant Y's assessment of Contractor A's claim (Note 29):

- (a) additional time was required for installing piles at Footbridge C arising from a substantial increase in pile length;
- (b) Contractor A was entitled to EOTs of 67 days for completing Footbridge C and the related establishment works (involving two sections of works of Contract A) (Note 30); and
- (c) the commencement of piling works for Footbridge A depended on the completion of piling works for Footbridge C. The delay in completion of Footbridge C had a knock-on effect on the completion of Footbridge A and the related establishment works (Note 31). As such, Contractor A was entitled to EOTs of 63 days for completing Footbridge A and the related establishment works (involving two sections of works of Contract A) (see Note 30 to (b) above).

3.8 In May 2022, CEDD informed Audit that:

- (a) for the purpose of preparing tenders or VOs, it was a common practice in piling works to estimate the tentative rockhead levels by interpolation of borehole information in the vicinity of the works. Such method generally provided reasonable estimation of rockhead levels and avoided the time and cost implications of conducting full geotechnical investigation works during the course of construction; and

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**Note 29:** *According to CEDD, the time for carrying out the additional piling works was not covered by the supplemental agreement (see para. 2.19) and hence, Contractor A was entitled to claim for an EOT.*

**Note 30:** *According to Consultant Y's assessment, Contractor A was not entitled to claim for additional expenditure for the EOTs granted.*

**Note 31:** *According to CEDD, although the landscape softworks and establishment works for Footbridge A were deleted from Contract A and carried out under Contract B (see para. 3.20), there were landscape softworks and establishment works in the vicinity of Footbridge A required to be completed under Contract A.*



- (b) as Contract A was a remeasurement contract and that VO A was valued according to the contract provisions (see Note 24 to para. 2.24(c)) regardless of the difference between the tentative and actual rockhead levels, there would be no overpayment to Contractor A as a result.

3.9 For better cost control, Audit considers that, in implementing works projects in future, CEDD needs to remind its staff and consultants to make better estimate of piling works involved in ordering works variations.

*Need to ensure the timely completion of defects rectification works*

3.10 Under Contract A, Contractor A was required to carry out maintenance works including any works of repair or rectification, or make good any defect, imperfection, shrinkage, settlement or other fault at its own cost within the 12-month maintenance period. Upon the expiry of the maintenance period, all defects rectification works should have been completed to the satisfaction of Consultant Y. Consultant Y should then issue a maintenance certificate stating the date on which Contractor A should have completed its obligation to execute the works under Contract A.

3.11 Contract A was substantially completed in December 2016 and the maintenance period expired in December 2017. Audit noted that:

- (a) according to Consultant Y in October 2017 and May 2018:
  - (i) a significant amount of defects rectification works had yet to be completed after the expiry of the maintenance period (Note 32);

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**Note 32:** *According to CEDD: (a) lists of defects rectification works, with a breakdown by the nature of works, had been regularly prepared by Consultant Y for progress monitoring during and after the maintenance period, and up to the handover of completed works to the maintenance departments; and (b) there was no single comprehensive list of defective works items for the whole Contract A readily available during and after the maintenance period.*

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- (ii) the slow progress of defects rectification works had affected the normal operation of user departments and caused inconvenience to the public; and
  - (iii) Contractor A's delay in completion of the remaining defects rectification works had seriously hindered the completion of Contract A and handover procedures with the maintenance departments; and
- (b) according to CEDD, the defects rectification works (excluding the defects rectification works for landscape softworks and establishment works — see para. 3.17(b)(i)) were completed in July 2020 (i.e. about 2.6 years after the expiry of the maintenance period in December 2017).

### 3.12 According to CEDD:

- (a) it and Consultant Y had closely monitored the progress of defects rectification works under Contract A through weekly progress meetings with Contractor A. Consultant Y had also issued letters to Contractor A from time to time urging Contractor A to expedite the completion of defects rectification works;
- (b) to facilitate a better monitoring of the progress of the remaining defects rectification works, in August 2017, Consultant Y requested Contractor A to prepare a schedule for completing the remaining defects rectification works. In March 2018, Contractor A provided a schedule with 65 milestones for completing such works by August 2018, which was agreed by CEDD and Consultant Y. However, Contractor A could not achieve some of the milestones on schedule and needed to continue to carry out the remaining defects rectification works in 2019;
- (c) the poor performance of Contractor A in carrying out the defects rectification works was duly reflected in the quarterly performance reports of Contractor A during the period from 2017 to 2019. CEDD further imposed additional six-weekly intervening performance reports between the normal reporting periods from March 2018 to May 2019 to intensify the monitoring of the progress of defects rectification works; and

- (d) through close monitoring of works, issue of warning letters and meetings with the management of Contractor A, all defects rectification works were completed in July 2020.

3.13 In Audit's view, in implementing works projects in future, CEDD needs to remind its staff and consultants to closely monitor the defects rectification works of contractors and take necessary measures to ensure the timely completion of such works.

## Audit recommendations

3.14 **Audit has *recommended* that, in implementing works projects in future, the Director of Civil Engineering and Development should:**

- (a) **remind CEDD contractors to:**
  - (i) **take adequate protective measures for working on slopes (particularly for works close to or at the slope edge near public area); and**
  - (ii) **provide appropriate training to enhance safety awareness of their staff; and**
- (b) **remind CEDD staff and consultants to:**
  - (i) **follow the guidelines on temporary drainage provisions and precautionary measures against severe rainfall during site formation works and construction of reinforced fill structures;**
  - (ii) **make better estimate of piling works involved in ordering works variations; and**
  - (iii) **closely monitor the defects rectification works of contractors and take necessary measures to ensure the timely completion of such works.**

### Response from the Government

3.15 The Director of Civil Engineering and Development agrees with the audit recommendations.

### Management of landscape softworks and establishment works under Contracts A and B

3.16 After the substantial completion of Contracts A and B in December 2016, Contractors A and B were required to carry out the remaining landscape softworks (Note 33) and establishment works (see Note 3 to para. 1.6). After completion of establishment works, the established vegetation would be inspected by the maintenance departments and then handed over to them for maintenance.

#### *Long time taken to complete all the landscape softworks and establishment works*

3.17 Audit noted that:

- (a) the landscape softworks and establishment works under Contract A were completed in phases between January 2020 and September 2021 (i.e. 3 years to nearly 5 years after the substantial completion of Contract A in December 2016); and
- (b) as of January 2022:
  - (i) the defects rectification works for landscape softworks and establishment works, and the inspection on the established vegetation with the maintenance department were still in progress;
  - (ii) the handover procedures with the maintenance department had not been completed; and

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**Note 33:** *According to CEDD, some landscape softworks (e.g. planting of vegetation) were completed before the substantial completion of Contracts A and B.*

- (iii) the account of Contract A had not been finalised.

3.18 According to CEDD:

- (a) the landscape softworks and establishment works under Contract A could only be carried out after the completion of defects rectification works on slopes, where landscape softworks would be carried out. The delay in completion of defects rectification works (see para. 3.11(b)) had a knock-on effect on the landscape softworks and establishment works that followed;
- (b) it and Consultant Y had closely monitored the progress of landscape softworks and establishment works under Contract A through weekly progress meetings with Contractor A. Consultant Y had also issued letters to Contractor A from time to time urging Contractor A to expedite the completion of landscape softworks and establishment works (including defects rectification works). The poor performance of Contractor A in completing the rectification of established landscape softworks in 2021 was duly reflected in the relevant quarterly performance report of Contractor A;
- (c) the defects rectification works and the inspection and handover procedures with the maintenance department on the established vegetation would be completed in the second quarter of 2022; and
- (d) after completion of handover procedures, maintenance certificate would be issued to Contractor A and the account of Contract A would be finalised in the third quarter of 2022.

3.19 In Audit's view, CEDD needs to:

- (a) ensure that all the landscape softworks and establishment works (including the defects rectification works, inspection and handover procedures with the maintenance department) under Contract A are completed as scheduled; and
- (b) finalise the account of Contract A as soon as possible.

### *Scope for improvement in documentation of assessment of contractor's claims*

3.20 Contract A included the landscape softworks and establishment works for Footbridges A to C. Such works were also included in Contract B under a section subject to excision (Note 34) (hereinafter referred to as Section A). In August 2015, Consultant Y instructed Contractor B to proceed with the landscape softworks and establishment works for Footbridge A under Section A of Contract B (Note 35). Due to the unavailability of Footbridge A (the actual completion date of Footbridge A was 28 September 2016 — see Table 4 in para. 2.20(a)) for carrying out the related works, Contractor B submitted claims for an EOT and prolongation cost. According to Consultant Y's assessment of March 2019 on Contractor B's claims (hereinafter referred to as Claim A):

- (a) Footbridge A was unavailable for Contractor B to commence the landscape softworks due to the delay in completion of Footbridge A by Contractor A; and

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**Note 34:** *According to Contract B: (a) a section subject to excision means a section of works which is identified in the particular specification and drawing of Contract B, but the implementation of which has not been decided upon by the Employer at the time the tender documents are issued; and (b) the works shall only be implemented upon a subsequent decision of the Employer, followed by a written instruction from the Engineer. According to Consultant Y, the inclusion of the landscape softworks and establishment works for Footbridges A to C in Contract B under a section subject to excision was to allow flexibility in carrying out these works by a third party (other than Contractor A) without affecting the handover of completed works (other than footbridges) in Contract A.*

**Note 35:** *In July 2013, the landscape softworks and establishment works for Footbridge A were deleted from Contract A through a VO issued by Consultant Y. According to CEDD, there was no monetary claim submitted by Contractor A for omitting such works from Contract A. In August 2015, Consultant Y: (a) instructed Contractor B to proceed with the works under Section A of Contract B; and (b) deleted the landscape softworks and establishment works for Footbridges B and C from Section A as these works were carried out under Contract A. According to CEDD, a supplemental agreement under Contract A was executed in February 2014 (see para. 2.19) to advance the completion of Footbridges B and C (including the landscape softworks and establishment works) to earlier dates agreeable to HD while omitting the landscape softworks and establishment works for Footbridge A. Hence, in August 2015, the landscape softworks and establishment works for Footbridges B and C were deleted from Section A of Contract B in order to commensurate with the committed scope of works under the abovementioned supplemental agreement.*

- (b) Contractor B's Claim A was valid. Contractor B was entitled to an EOT of 514 days (from 28 November 2016 to 26 April 2018) for completing the landscape softworks and establishment works for Footbridge A under Section A and prolongation cost of \$4.8 million associated with the delay to Section A.

3.21 Audit noted that there was scope for improvement in assessment of Claim A. The salient points are as follows:

- (a) when vetting Consultant Y's assessment of Claim A in March 2019, CEDD:
  - (i) noted Consultant Y's assessment of Contractor B's entitlement of \$4.8 million for the prolongation cost; and
  - (ii) reminded Consultant Y that the prolongation cost entitlement under Claim A, including the additional site running cost and head office overhead, should be solely related to Section A for the period from 31 December 2017 to 26 April 2018 (Note 36). Should there be expenses related to other sections of works, adjustment on the cost entitlement should be made. In April 2019, Consultant Y said that it noted CEDD's view; and
- (b) in response to Audit's enquiries, in February and April 2022, CEDD said that:
  - (i) the prolongation cost of \$4.8 million granted to Contractor B was not solely for the landscape softworks and establishment works for Footbridge A under Section A;

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**Note 36:** *According to CEDD: (a) of the 514 days (from 28 November 2016 to 26 April 2018) of EOT granted to Contractor B for Section A (see para. 3.20(b)), the prolongation cost before 31 December 2017 had been covered by other claims; and (b) the prolongation cost under Claim A was assessed for the period of 117 days from 31 December 2017 to 26 April 2018.*

## Contract management

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- (ii) during the period from 31 December 2017 to 26 April 2018, Contractor B also carried out various site works which stemmed from a number of VOs (e.g. lighting works of Footbridge D, tree risk assessment and road works) issued during the maintenance period of another section of works (hereinafter referred to as Section B) of Contract B. Notice of claim associated with the VOs concerned was served by Contractor B;
- (iii) in the course of the claim assessment, Consultant Y had taken into account additional expenditures arising from the VOs concerned under Section B together with the works under Section A; and
- (iv) upon its clarification, in April 2022, Consultant Y:
  - confirmed that the prolongation cost of \$4.8 million was a reasonable and fair assessment and that there was no overpayment to Contractor B based on the consolidated assessment of the additional expenditures arising from the VOs concerned under Section B and the works under Section A; and
  - admitted that it had not explicitly stated that its assessment was not limited to the landscape softworks and establishment works for Footbridge A under Section A when seeking CEDD's comments on Claim A.

3.22 In Audit's view, in implementing works projects in future, CEDD needs to remind its consultants to properly document their assessments of contractors' claims.



## **Audit recommendations**

**3.23**      **Audit has *recommended* that the Director of Civil Engineering and Development should:**

- (a)      ensure that all the landscape softworks and establishment works (including the defects rectification works, inspection and handover procedures with the maintenance department) under Contract A are completed as scheduled;**
- (b)      finalise the account of Contract A as soon as possible; and**
- (c)      in implementing works projects in future, remind CEDD consultants to properly document their assessments of contractors' claims.**

## **Response from the Government**

**3.24**      **The Director of Civil Engineering and Development agrees with the audit recommendations.**

## **PART 4: MANAGEMENT OF FOOTBRIDGES A TO D AND POST-COMPLETION REVIEW**

4.1 This PART examines the management of Footbridges A to D by the relevant government departments (paras. 4.2 to 4.17) and post-completion review of the Project by CEDD (paras. 4.18 to 4.21).

### **Management of Footbridges A to D**

4.2 The footbridge system comprising Footbridges A to D was constructed for connecting the planned development (including the public housing development (i.e. On Tat Estate and On Tai Estate)) at the site under the Project with the neighbouring communities of Sau Mau Ping and Shun On. After completion of works, CEDD handed over Footbridges A to D to the relevant government departments for maintenance (see also Note 7 to para. 1.10), including:

- (a) **HyD.** It is responsible for the maintenance of structures and associated components of the footbridges (e.g. footbridge decks, staircases, lift towers and drainage). According to HyD, the maintenance work is outsourced to a contractor under the related term contract for management and maintenance of roads (Note 37); and
- (b) **EMSD.** It is the maintenance agent of HyD for the electrical and mechanical works of lifts (e.g. lift car, lift mechanics and power supply) and lighting works. According to EMSD, the maintenance work is outsourced to contractors under the related maintenance contracts (Note 38).

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**Note 37:** *As of January 2022, HyD had outsourced the maintenance of structures and associated components of Footbridges A to D to a contractor under a 6-year term contract for management and maintenance of roads in Kowloon East excluding expressways and high speed roads.*

**Note 38:** *As of January 2022, EMSD had outsourced the maintenance of lifts and lighting works of Footbridges A to D to contractors under 4 contracts, including: (a) 3 term contracts for the comprehensive maintenance and repair of lift installations at various premises of the Government each for a 3-year period; and (b) 1 term contract for the fault attendance, comprehensive maintenance, repair and replacement of special lighting systems at various premises of HyD for a 3.5-year period.*

*Scope for enhancing lift services at Footbridges A to D*

4.3 According to EMSD:

- (a) there are a total of 17 lifts installed at Footbridges A to D under its maintenance; and
- (b) during the 3-year period from January 2019 to December 2021, there were a total of 183 cases involving suspension of lift services at Footbridges A to D (Note 39), of which 143 (78%) involved equipment failure and required repair work to resume lift services, and 40 (22%) did not involve equipment failure and did not require such repair work (Note 40) (see Table 6). The duration of suspension of lift services ranged from 6 minutes to 242 hours (or 10 days) (see Table 7), averaging 10 hours.

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**Note 39:** *According to EMSD, apart from the 183 cases, there were a total of 223 cases not involving suspension of lift services (e.g. malfunction of air-conditioning system for lift car) at Footbridges A to D during the 3-year period from January 2019 to December 2021.*

**Note 40:** *According to EMSD, lift passengers could notify the lift maintenance contractor by pressing the alarm bell button of the lift or calling the service hotline displayed for assistance. After receiving notifications, registered lift worker would be deployed to the site to check the lift concerned. The lift services would be resumed after checking or carrying out repair work (e.g. replacement or repairing of lift parts) if needed.*

**Table 6**

**Cases involving suspension of lift services at Footbridges A to D  
(January 2019 to December 2021)**

Footbridge	No. of lifts (a)	No. of cases over 3-year period			Average no. of cases per lift per year (e) = (d) ÷ (a) ÷ 3
		Requiring repair work (b)	Not requiring repair work (c)	Total (d) = (b) + (c)	
A	3	38 (76%)	12 (24%)	50 (100%)	6
B	5	52 (85%)	9 (15%)	61 (100%)	4
C	5	30 (67%)	15 (33%)	45 (100%)	3
D	4	23 (85%)	4 (15%)	27 (100%)	2
Overall	17	143 (78%) (Note 1)	40 (22%) (Note 2)	183 (100%)	4

*Source: EMSD records*

*Note 1: According to EMSD, of the 143 cases requiring repair work, 86 (60%) involved major repairs of electrical and mechanical parts (e.g. replacement of control board, suspension ropes and motor) and 57 (40%) involved minor repairs of electrical and mechanical parts (e.g. fine-tuning door alignment, replacement of lift buttons and signal reset).*

*Note 2: According to EMSD, the 40 cases did not involve equipment failure and no repair work was required to resume lift services. The reasons for suspension of lift services for these cases were related to passenger behaviour or other external factors (e.g. debris at door sill and power interruption).*

**Table 7**

**Duration of suspension of lift services at Footbridges A to D  
(January 2019 to December 2021)**

Duration of suspension of lift services	No. of cases				
	Footbridge A	Footbridge B	Footbridge C	Footbridge D	Overall
6 minutes to 3 hours	32 (64%)	40 (66%)	34 (75%)	16 (59%)	122 (67%)
More than 3 to 6 hours	8 (16%)	2 (3%)	3 (7%)	3 (11%)	16 (9%)
More than 6 to 12 hours	2 (4%)	7 (11%)	3 (7%)	2 (7%)	14 (7%)
More than 12 to 48 hours	6 (12%)	10 (16%)	4 (9%)	4 (15%)	24 (13%)
More than 48 to 120 hours	1 (2%)	1 (2%)	1 (2%)	1 (4%)	4 (2%)
More than 120 hours (Note 1)	1 (2%) (Note 2)	1 (2%) (Note 3)	– (0%)	1 (4%) (Note 4)	3 (2%)
Total	50 (100%)	61 (100%)	45 (100%)	27 (100%)	183 (100%)

} 7 (4%)

*Source: EMSD records*

*Note 1: The suspension with the longest duration lasted for 242 hours (or 10 days).*

*Note 2: According to EMSD, this case occurred from late February to early March 2021 and involved a lift at Footbridge A with services suspended for 242 hours (or 10 days) due to the replacement of suspension ropes as recommended by the registered lift contractor after routine inspection.*

*Note 3: According to EMSD, this case occurred in June 2020 and involved a lift at Footbridge B with services suspended for 177 hours (or 7 days), which was caused by flooding during the hoist of a black rainstorm warning signal on 6 June 2020. The lift car and some of the associated components were flooded with dirty water and required intensive cleaning, repairing and testing.*

*Note 4: According to EMSD, this case occurred in December 2019 and involved a lift at Footbridge D with services suspended for 180 hours (or 8 days) due to the malfunction of the lift motor, which was removed and returned to the vendor for repair work.*

### 4.4 Audit noted that:

- (a) for the lifts at Footbridge A, the average number of cases involving suspension of lift services (i.e. 6 cases per lift per year over the 3-year period from January 2019 to December 2021) was the highest among the lifts at the 4 footbridges (see Table 6 in para. 4.3(b));
- (b) during the 3-year period from January 2019 to December 2021, of the 143 cases involving suspension of lift services at Footbridges A to D and requiring repair work, 86 (60%) involved major repairs of electrical and mechanical parts (see Note 1 to Table 6 in para. 4.3(b)). Of the 86 cases, 7 cases involved suspension of lift services of more than 48 hours (see Table 7 in para. 4.3(b)). The longest suspension duration of 242 hours (or 10 days) involved a lift at Footbridge A (see Note 2 to Table 7 in para. 4.3(b)); and
- (c) at a meeting of KTDC in March 2021, a District Council Member raised concerns about the lift services at the 2 footbridges connecting to On Tai Estate (i.e. Footbridges A and D), and said that one lift at Footbridge A had broken down for more than a week (Note 41) and the lifts at Footbridges A and D had been suspended from operation and undergone repair work for more than 80 times since their commissioning.

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**Note 41:** *According to EMSD, this case referred to the case with the longest suspension duration occurred from late February to early March 2021 (see Note 2 to Table 7 in para. 4.3(b)).*

4.5 In April 2022, EMSD informed Audit that:

- (a) except for the 5 lifts at Footbridge B with services suspended at the same period of time during the hoist of a black rainstorm warning signal on 6 June 2020, the services of all lifts at the same footbridge had not been suspended at the same period of time since EMSD took up the maintenance of the electrical and mechanical works of the lifts at Footbridges A to D (Note 42);
- (b) during the 3-year period from January 2019 to December 2021, there were no records of reported lift incident (Note 43); and
- (c) enhancement measures (e.g. conducting additional inspections, keeping more spare parts and notifying users about the maintenance schedules by posting the schedules in the lift towers) had been implemented and would continue to be carried out. When maintenance work was in progress, there would be related notices at all landings of lifts.

4.6 The public housing development (i.e. On Tat Estate and On Tai Estate) is located at land platforms formed under the Project, which are about 30 to 50 m above its surroundings. Footbridges A to D together with their lift services serve an important function of connecting the public housing development with the neighbouring communities of Sau Mau Ping and Shun On, and providing a barrier-free environment. In Audit's view, HyD needs to, in collaboration with EMSD, continue to closely monitor the proper functioning of the lifts at Footbridges A to D (particularly the lifts at Footbridge A which had comparatively more suspension cases on average) and take enhancement measures as necessary.

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**Note 42:** *During the 3-year period from January 2019 to December 2021, there were 3 occasions involving suspension of the services of 2 lifts at the same footbridge at the same period of time for about 2 to 3 hours (1 occasion each for Footbridges A to C). According to EMSD, during the suspension period of the 3 occasions, it was noted that other lifts were still available for use at those footbridges.*

**Note 43:** *According to EMSD, a reported lift incident refers to a lift incident belonging to a type as listed in Schedule 7 of the Lifts and Escalators Ordinance (Cap. 618). Examples of a reported lift incident are: (a) death or injury of a person involving a lift or any associated equipment or machinery of a lift; (b) a breakage of any suspension rope of a lift; and (c) a failure of any brake, overload device, safety component or safety equipment of a lift.*

### *Water dripping problems related to drainage design of footbridges*

4.7 In October 2017, HyD received a complaint from a LegCo Member about dripping water from Footbridge A. HyD then conducted a site inspection and observed that the dripping water might have originated from the planters on Footbridge A. HyD considered that the problem of the dripping water might be related to the drainage design of Footbridge A, in particular how the excess water from the planters was collected after watering, and requested CEDD to instruct Consultant Y to review the drainage design of Footbridge A as well as that of Footbridges B to D as similar design might have been adopted.

4.8 In January 2018, CEDD informed HyD that:

- (a) Consultant Y had reviewed the drainage design for the planters at the decks of Footbridges A to D; and
- (b) aluminium angles had been added to all the footbridge decks underneath the planters to guide all excess water from the planters towards the drainage system at the footbridge decks to eliminate the possibility of water dripping arising from the planters.

4.9 In Audit's view, CEDD needs to take measures to ensure that drainage design of footbridges can cope with water dripping problems (e.g. from the planters after watering) in future works projects involving such works.



*Need to keep under review the usage of Footbridges A to D*

4.10 The Transport Department (TD) has the overall responsibility for the planning and provision of pedestrian crossing facilities, including footbridges and subways. HyD is responsible for the maintenance of structures and associated components of Footbridges A to D (see para. 4.2(a)). EMSD is the maintenance agent of HyD for the electrical and mechanical works of lifts and lighting works (see para. 4.2(b)). Regarding the usage of Footbridges A to D, Audit noted that:

- (a) according to TD, traffic surveys were conducted during the AM and PM peak periods at Footbridge A on 1 day in September 2018 and 7 days in December 2021, and Footbridge B on 1 day in June 2020 (Note 44). According to the traffic surveys, the pedestrian flows thereat were smooth except that there was room for improvement in the lift services to reduce the lift waiting time;
- (b) there would be another housing development at the Anderson Road Quarry site (site formation and associated infrastructure works commenced in December 2016 for progressive completion from 2022 onwards) nearby the public housing development at the land platforms formed under the Project;
- (c) according to a LegCo paper of October 2020:
  - (i) the housing development at the Anderson Road Quarry site involved 8 residential sites for public housing, 1 residential site for private housing, and 2 residential sites for combined private housing and starter homes (Note 45); and

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**Note 44:** *According to TD, traffic surveys at Footbridges A and B were conducted by CEDD and TD respectively.*

**Note 45:** *According to the report on “Planning Study on Future Land Use at Anderson Road Quarry — Feasibility Study” of February 2014, there were a total of 11 residential sites under the housing development at the Anderson Road Quarry site (1 residential site for public housing and 10 residential sites for private housing) to accommodate a total population of about 25,000. Following the decision of the Government in 2019, 7 residential sites originally planned for private housing were reallocated to public housing development.*

## **Management of Footbridges A to D and post-completion review**

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- (ii) the phased population intake would commence from 2023-24 onwards. Upon full population intake in around 2026, the Anderson Road Quarry site would accommodate a total population of about 30,000;
- (d) according to the report on “Planning Study on Future Land Use at Anderson Road Quarry — Feasibility Study” of February 2014, it was planned to connect the housing development at the Anderson Road Quarry site with the neighbouring communities (i.e. Shun Lee Estate, Shun Tin Estate, Sau Mau Ping Estate and Po Tat Estate) via Footbridges A to D; and
- (e) the additional population would put further pressure on the pedestrian flows and usage of Footbridges A to D, including the lift services at these footbridges.

4.11 In view of the changing developments at the areas nearby the public housing development at the land platforms formed under the Project and to match the need of local residents for accessing the neighbouring communities via Footbridges A to D, Audit considers that:

- (a) TD needs to, in collaboration with the relevant government departments, keep under review the usage of Footbridges A to D, including the adequacy of pedestrian capacity; and
- (b) HyD needs to, in collaboration with EMSD, keep monitoring the performance of the lifts at Footbridges A to D to maintain reliable and efficient services.

## Audit recommendations

4.12      Audit has *recommended* that the Director of Highways should, in collaboration with the Director of Electrical and Mechanical Services, continue to closely monitor the proper functioning of the lifts at Footbridges A to D (particularly the lifts at Footbridge A which had comparatively more suspension cases on average) and take enhancement measures as necessary.

4.13      Audit has *recommended* that the Director of Civil Engineering and Development should take measures to ensure that drainage design of footbridges can cope with water dripping problems (e.g. from the planters after watering) in future works projects involving such works.

4.14      Audit has *recommended* that:

- (a)      the Commissioner for Transport should, in collaboration with the relevant government departments, keep under review the usage of Footbridges A to D, including the adequacy of pedestrian capacity; and
- (b)      the Director of Highways should, in collaboration with the Director of Electrical and Mechanical Services, keep monitoring the performance of the lifts at Footbridges A to D to maintain reliable and efficient services.

## Response from the Government

4.15      The Director of Highways and the Director of Electrical and Mechanical Services agree with the audit recommendations in paragraphs 4.12 and 4.14(b).

4.16      The Director of Civil Engineering and Development agrees with the audit recommendation in paragraph 4.13.

4.17      The Commissioner for Transport agrees with the audit recommendation in paragraph 4.14(a). She has said that, while TD considers that the traffic assessments

## **Management of Footbridges A to D and post-completion review**

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conducted have demonstrated the adequacy of capacity of pedestrian connectivity facilities of the Anderson Road Quarry site, TD will, in collaboration with the relevant government departments, keep under review the usage of Footbridges A to D with regard to the gradual population intake of the Anderson Road Quarry site.

### **Post-completion review**

4.18 According to the Project Administration Handbook for Civil Engineering Works issued by CEDD:

- (a) a post-completion review is a useful project management tool and shall be conducted upon the substantial completion of a major consultancy agreement or a major works contract on projects under the Public Works Programme. The emphasis and objective of the review are to gain maximum benefit from the experience accrued, rather than to apportion blame;
- (b) there is no rigid definition for major projects or the minimum number of reviews to be undertaken by departments. As a broad guideline, post-completion reviews are generally not warranted for consultancy agreements and works contracts of a project which has a total cost less than \$500 million or of a project which does not involve complicated technical and management issues;
- (c) indicators that a project involves complicated issues may include project involving a claim of a substantial sum, say over \$1 million;
- (d) a post-completion review should be carried out within a reasonable period, say six months, after the substantial completion of a consultancy agreement or a works contract. For a project that comprises a number of contracts/consultancy agreements, the project office may elect, in view of the benefit of an overall review, to conduct a single post-completion review upon the substantial completion of the last contract; and
- (e) upon the completion of a post-completion review, the department shall prepare a report documenting all concerned issues, findings, conclusions and recommendations for future reference by the department.

### *Need to timely conduct post-completion review*

4.19 Audit noted that the Project involved a significant project expenditure of \$3,522.1 million as of October 2021 (see para. 1.8). The significant design changes of footbridges constructed under the Project resulted in substantial sums of claims or VOs (see paras. 2.16 to 2.19). While Contracts A and B were substantially completed in December 2016, the post-completion review was not completed until May 2022 (i.e. about 5.4 years thereafter).

### **Audit recommendation**

4.20 As a post-completion review is a useful project management tool, Audit has *recommended* that the Director of Civil Engineering and Development should remind CEDD staff and consultants to conduct post-completion reviews on major works contracts in a timely manner.

### **Response from the Government**

4.21 The Director of Civil Engineering and Development agrees with the audit recommendation. He has said that CEDD will remind its staff and consultants to conduct post-completion reviews on major works contracts in a timely manner.

**Appendix A**  
(paras. 1.6 and  
1.8(a) refer)

**Contract expenditures  
(October 2021)**

Contract	Original contract sum	Up-to-date contract expenditure/ final contract sum (Note 1)	Increase		Increase in provision for price fluctuation adjustment (Note 2)		Increase after price fluctuation adjustment	
	(a)	(b)	(c) = (b) – (a)		(d)		(e) = (c) – (d)	
	(\$ million)	(\$ million)	(\$ million)	%	(\$ million)	%	(\$ million)	%
A	2,063.0	2,844.3 (Note 3)	781.3	37.9%	306.6	14.9%	474.7	23.0%
B	151.8	167.9	16.1	10.6%	2.1	1.4%	14.0	9.2%
Total	2,214.8	3,012.2 (Note 4)	797.4	36.0%	308.7	13.9%	488.7	22.1%

Source: CEDD records

Note 1: The account of Contract B was finalised in May 2020. As of October 2021, the account of Contract A had not been finalised and the amount was the up-to-date contract expenditure as of October 2021.

Note 2: The original contract sums of Contracts A and B included provisions for price fluctuation adjustments.

Note 3: For Contract A, of the up-to-date contract expenditure of \$2,844.3 million, \$2,745.5 million was related to the Project, \$97.2 million was related to works funded by other government departments and \$1.6 million was related to the provision of transportation to public works regional laboratories.

Note 4: Of the \$3,012.2 million, \$2,913.4 million was related to the Project, \$97.2 million was related to works funded by other government departments and \$1.6 million was related to the provision of transportation to public works regional laboratories (see Note 3).

**Consultations with parties concerned on design of footbridge system  
under the Project before tendering of Contract A  
(August 2006 to August 2007)**

<b>Party concerned</b>	<b>Date</b>	<b>Particulars</b>
HD	August 2006	At a meeting (with participants including THB, CEDD, HD and Consultant Y) discussing the layout of the Project: (a) HD advised that there would be amendments to the footbridges of the Project, including the addition of a footbridge and re-alignment of Footbridge B; and (b) CEDD advised that there would likely be implications on road gazettal.
	October 2006	CEDD informed HD that: (a) CEDD noted in previous meetings that HD might wish to revise the footbridge layout in order to provide a footbridge system which would be more integrated with the adjoining housing developments; and (b) since it was not necessary to include the construction of footbridges in CEDD's works contract, Consultant Y suggested HD to take up the design and construction of the footbridges in order to allow more flexibility to develop an integrated design with the adjoining housing developments. CEDD found Consultant Y's suggestion worth HD's consideration and sought HD's views on Consultant Y's suggestion.
		In response, HD informed CEDD that: (a) HD considered that the design and construction of the proposed footbridges would have many interfaces with the site formation works (such as forming of the adjoining slope, road works, etc.) and therefore, it was best for CEDD to take up the proposed works; and (b) CEDD could implement the site formation and the remaining infrastructure works (including walkways and footbridges) in phases through several works contracts to meet the population intake of the public housing development. This arrangement had been found satisfactory in another site formation project (see Note 17 to para. 2.9(b)) undertaken by CEDD.

**Appendix B**  
(Cont'd)  
(para. 2.9 refers)

<b>Party concerned</b>	<b>Date</b>	<b>Particulars</b>
KTDC	March 2007	At a meeting of KTDC in March 2007, a District Council Member raised concerns that the proposed provision of only 3 footbridges might be inadequate to cope with the pedestrian flows arising from the proposed public housing development at the land platforms formed under the Project.
HD	April and May 2007	<p>Consultant Y circulated the layout of the proposed footbridges to various government departments (including HD) for comments.</p> <p>HD informed Consultant Y that:</p> <ul style="list-style-type: none"> <li>(a) footbridge decks of the proposed footbridges needed to be extended across roads to enhance the accessibility and connectivity to the neighbouring communities;</li> <li>(b) HD reiterated the addition of a footbridge and re-alignment of Footbridge B to enhance the overall accessibility of the district; and</li> <li>(c) further review of the locations and number of footbridges was required.</li> </ul> <p>In response, Consultant Y informed HD that the footbridge proposal followed the gazetted layout (see para. 2.8) with minor improvement on the footbridge system. Relocation of the proposed footbridges and increasing the number of footbridges would require re-gazetting which would affect the implementation programme of the Project.</p>
ACABAS	June and July 2007	<p>In June and July 2007, CEDD and Consultant Y made the first and second submissions for the proposed Footbridges A to C (under the original design) to ACABAS (see Note 16 to para. 2.9) for consideration respectively. ACABAS considered the submissions not acceptable and commented, among others, that:</p> <ul style="list-style-type: none"> <li>(a) Footbridges A and B appeared to be not serving the functions of footbridges to convey people directly to facilities (such as shopping centre, public transport interchange, bus stops, etc.); and</li> <li>(b) the need and locations of Footbridges A and B should be reviewed.</li> </ul>



**Appendix B**  
(Cont'd)  
(para. 2.9 refers)

Party concerned	Date	Particulars
ACABAS	August 2007	<p>In August 2007, CEDD and Consultant Y made the third submission for the proposed Footbridges A to C (under the original design) to ACABAS for consideration. ACABAS considered the submission acceptable in principle with the following comments:</p> <ul style="list-style-type: none"> <li>(a) the need for the footbridges, in particular Footbridges A and B, was in doubt. Noting that HD would conduct a traffic review study (see para. 2.12) to review the access and landing locations of the footbridges, ACABAS requested Consultant Y to review the need for the footbridges after completion of HD's study; and</li> <li>(b) the detailed design of the footbridges (after confirming their need) should be resubmitted for ACABAS's advice.</li> </ul>

*Source: CEDD records*

### **Interfacing problem between Contracts A and B**

1. The construction works under Contract B had interfaces with the construction works under Contract A. Before carrying out the construction works under Contract B, certain portions of the construction site (hereinafter referred to as Portions A and B) were required to be handed over from Contractor A to Contractor B. In addition, two roads (hereinafter referred to as Roads A and B) were anticipated to be substantially completed under Contract A for Contractor B's use as access to Portions A and B.

2. During the construction stage of Contract B, there was late handover of Portions A and B from Contractor A to Contractor B. In addition, Contractor B's access (via Road A) to Portion A had been blocked and occupied by Contractor A for carrying out its works under Contract A. In the event, Contractor B submitted claims for EOTs and prolongation costs on the grounds that there were delay in possession of Portions A and B, and deprivation of access to Portion A. According to Consultant Y's assessment of Contractor B's claims:

- (a) Portion A and northern part of Portion B, and southern part of Portion B were given possession to Contractor B in April 2015 and January 2016 respectively, which were later than the possession dates of September 2013 as specified in Contract B;
- (b) at the time when Portion A was given possession to Contractor B in April 2015, the works at Road A were still in progress under Contract A. Contractor B's access (via Road A) to Portion A had subsequently been interrupted and was completely blocked in June 2015 by Contractor A for carrying out its works under Contract A;
- (c) the site access issue was resolved in September 2015 between Contractors A and B with the intervention of Consultant Y. Although the site access issue was resolved, Contractor B could only use the access (via Road A) after the construction of some temporary paving. After formation of temporary paved access in October 2015, Contractor B had no restriction on the use of Portion A; and
- (d) Contractor B's claims were valid. Contractor B was entitled to EOTs of 177.5 days for completing Footbridge D and the related establishment works (involving two sections of works of Contract B), and prolongation costs of \$11.1 million.

*Source: CEDD records*

### Acronyms and abbreviations

ACABAS	Advisory Committee on the Appearance of Bridges and Associated Structures
Audit	Audit Commission
CEDD	Civil Engineering and Development Department
EMSD	Electrical and Mechanical Services Department
EOTs	Extensions of time
FC	Finance Committee
GEO	Geotechnical Engineering Office
ha	Hectares
HD	Housing Department
HyD	Highways Department
KTDC	Kwun Tong District Council
LegCo	Legislative Council
m	Metres
PWSC	Public Works Subcommittee
TD	Transport Department
THB	Transport and Housing Bureau
VOs	Variation orders

# **CHAPTER 4**

**Innovation and Technology Bureau  
Innovation and Technology Commission**

**Technology Voucher Programme**

**Audit Commission  
Hong Kong  
10 June 2022**

*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. 78 of the Director of Audit contains 4 Chapters which are available on our website at <https://www.aud.gov.hk>



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# TECHNOLOGY VOUCHER PROGRAMME

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# TECHNOLOGY VOUCHER PROGRAMME

## Executive Summary

1. The Technology Voucher Programme (TVP) was launched in November 2016 under the Innovation and Technology Fund. TVP aims to subsidise eligible local entities in using technological solutions to improve productivity, or facilitate the upgrading or transformation of their business processes. Up to 31 December 2021, 7,075 (55%) of the 12,922 valid TVP applications received had been approved, involving total approved funding of \$1,099.5 million. The Innovation and Technology Commission (ITC), headed by the Commissioner for Innovation and Technology (CIT), is responsible for administering TVP. With effect from 8 June 2021, ITC has appointed the Hong Kong Productivity Council (HKPC) as TVP Secretariat. TVP Committee, comprising members from the Government and the business sector, technology sector and professional services sector, oversees the implementation of TVP and assists ITC in ensuring the proper use of funds. The Audit Commission (Audit) has recently conducted a review of TVP.

### Processing of applications

2. *Need to take timely actions to collect information for processing applications and conduct technical assessments.* For 1,987 (28%) of the 7,075 applications approved in the period from 2017 to 2021, the time elapsed from receipt of applications to completion of vetting and assessments was more than one year. In some cases, the time elapsed could have been shortened if actions had been taken in a more timely manner. For the 25 applications examined by Audit, the case officers had not sought clarifications from the applicants until 1.9 to 9.3 months (averaging 6 months) after the receipt of applications. In 1 of the 25 applications, technical assessment was only conducted 5 months after the case officer had received the applicant's clarification (paras. 2.9 and 2.10).

3. *Applicants not notified of assessment results until long time after project commencements.* Audit examined 155 (4%) of the 3,787 applications approved in 2021 and found that for these applications, the average time elapsed from the dates of project commencement to the dates of notification of assessment results and the

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funding amounts supported was 10.6 months. In 66 (43%) of the 155 applications, the time elapsed was more than one year (para. 2.11).

4. ***Delays in notification of assessment results.*** In 1,225 (53%) of the 2,322 applications submitted to TVP Committee for assessment in 2021, notifications of assessment results were not given within 2 working days after TVP Committee's assessments, contrary to the requirement set out in TVP Manual. The delays ranged from 2 to 7 working days, averaging 5.9 working days. In 2020 (April to December) and 2021, the performance pledge to make available to the applicant the assessment result within 60 working days upon receipt of full information from the applicant was not met for 8% and 1% of the applications respectively (paras. 2.12 and 2.13).

5. ***Need to shorten the time taken for submitting the applications to CIT for approval.*** For the 1,714 applications that were pending submission to CIT for approval as at 31 December 2021, the average time elapsed since the completion of application assessments was 24 days. In 932 (54%) of the applications, the time elapsed was more than 30 days. Audit examined 10 of the 3,787 applications approved by CIT in 2021 and found that for these applications, there was room for improvement in shortening the time elapsed from the completion of assessments by TVP Committee to approval by CIT (paras. 2.18 and 2.19).

## Monitoring of projects

6. ***Delays in project completion.*** As at 31 December 2021, 1,747 TVP projects had been completed with final reports approved. There were delays in the completion of 457 (26%) projects, including 46 (3%) with delays of more than six months, ranging from 6.1 to 17.7 months, averaging 9.9 months. For 25 (54%) of the 46 projects, the required prior approval from TVP Secretariat for the extension in project duration was not obtained (para. 3.3).

7. ***Delays in submission of final reports.*** Up to 31 December 2021, the final reports of 3,218 TVP projects had been due for submission. Final reports of 2,758 (86%) projects had been submitted including 636 (23%) submitted later than the deadline, with delays ranging from 1 day to 13.9 months (averaging 1.7 months). Of the 460 outstanding reports, 180 (39%) had been overdue for more than 6 months (para. 3.8).

## Executive Summary

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8. ***Increasing number of final reports pending approval.*** The number of final reports pending approval increased significantly by almost 5 times from 176 as at 31 December 2018 to 1,036 as at 31 December 2021. As at 31 December 2021, 76 (8%) of the 1,036 final reports pending approval had already been submitted by the applicants to ITC for more than one year (paras. 3.10 and 3.11).

9. ***Need to shorten the time elapsed from receipt of final reports to approval.*** For the 1,747 final reports approved in the period from 2017 to 2021, the average time elapsed from receipt of the reports to approval was on a rising trend, increasing from 2.6 months in 2017 to 8.6 months in 2021. For 774 (45%) reports, the time elapsed was more than 6 months. For 17 (68%) of the 25 final reports examined by Audit, the case officers sought clarifications from the applicants more than 1 month after the receipt of the final reports (ranging from 1.1 to 5.2 months, averaging 2.7 months). For 12 (48%) of the 25 final reports, the final reports were submitted to TVP Committee for assessments more than 2 months after the case officers had received the applicants' clarifications and supplementary information (ranging from 2.2 to 5 months, averaging 3.5 months) (paras. 3.12 and 3.13).

10. ***Performance pledge on assessing final reports not met.*** In April 2020, ITC set a performance pledge to make available to the applicant the assessment result of the final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant. In 2020 (April to December) and 2021, the performance pledge was not met for 8% and 15% of the final reports assessed respectively (para. 3.15).

11. ***Room for improvement for pre-disbursement site visits.*** With effect from January 2020, the target percentage for conducting pre-disbursement site visits has been reduced from 15% to 10%. In the period from 2019 to 2021, the percentage of projects with anomalies identified through the site visits was high and on an increasing trend, from 29% in 2019 to 63% in 2021. However, the number and percentage of projects for which site visits were conducted decreased significantly from 49 (10%) in 2019 to 8 (2%) in 2021 (para. 3.21).

12. ***Need to increase the number of projects selected for post-disbursement site visits.*** The number of projects with final funds disbursed increased significantly by about 2 times from 206 in 2018-19 to 606 in 2020-21. Despite the significant increase, only 5 projects were selected in each financial year for the post-disbursement

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site visits, representing less than 1 % of projects with final funds disbursed in 2019-20 and 2020-21 (para. 3.26).

13. *Need to conduct post-disbursement site visits in a timely manner.* Applicants are required to keep all assets funded under TVP for at least one year after project completion or termination. However, all the 15 post-disbursement site visits reviewed by Audit were conducted more than one year after the completion of the projects (ranging from 12.7 to 27.4 months, averaging 21.5 months). For 1 of the 15 projects, the site visit was conducted 22.6 months after project completion. The asset funded under TVP was not available for inspection during the site visit (paras. 3.25 and 3.27).

14. *Post-project evaluation reports not submitted by applicants.* Up to 31 December 2021, 2,758 projects had been completed for more than 6 months and their post-project evaluation reports should have been submitted. However, post-project evaluation reports had not been submitted for 1,671 (61%) of the 2,758 projects. Of the 2,758 projects, post-project evaluation report forms were not sent to applicants of 1,094 (40%) projects. Moreover, the forms were not sent to applicants of 1,627 (58%) projects within 6 months, but up to 31 months (averaging 9 months) after project completion (para. 3.34).

### Administrative issues

15. *Need to encourage TVP Committee members to attend committee meetings.* In the period from October 2016 to March 2022, 32 TVP Committee meetings were held. The attendance rates of the non-official members in each meeting ranged from 30% to 88%. Eighteen (74%) of the 24 meetings held in the period from 19 October 2016 to 18 October 2020 (i.e. the last two terms of appointment) and 1 (13%) of the 8 meetings held in the period from 19 October 2020 to 31 March 2022 (i.e. the current term of appointment) had attendance rates below 60% (para. 4.5).

16. *Need to ensure that requirements on declarations of interest are complied with.* In the period from October 2016 to December 2021, of the 32 declarations of interest for first appointment due for submission by TVP Committee members, 23 (72%) were submitted late (the delays ranged from 1 day to 197 days, averaging 24 days). For 13 of the 23 late submissions, the declarations of interest were

## Executive Summary

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submitted after the members had attended their first TVP Committee meetings. Of the 74 annual declaration of interest forms due for submission by TVP Committee members, 16 (22%) were submitted late (the delays ranged from 2 to 133 days, averaging 39 days) (para. 4.8).

17. ***Need to ensure that requirements stipulated in Financial Circular are complied with.*** In June 2021, ITC directly appointed HKPC as TVP Secretariat with an estimated implementation fee of \$195.4 million for the three-year period commencing June 2021. CIT said that she was satisfied that the appointment did not constitute procurement of service. According to the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government, 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 Stores and Procurement Regulations, the relevant considerations and decisions should be clearly and properly recorded. Audit found that there was room for improvement in recording clearly and properly the relevant considerations and decisions on the nature of the partnering arrangement with HKPC. Furthermore, according to the Stores and Procurement Regulations, by encouraging participation through open and fair competition, the Government will be better able to obtain responsive and competitive bids that ensure value for money. As a norm, open bidding should be adopted as far as practicable (paras. 4.16 to 4.18).

18. ***Delay in entering into formal agreement with HKPC.*** HKPC has provided secretariat services for the administration of TVP starting from 4 March 2021. However, the formal agreement was not signed until 23 November 2021, more than 8 months after HKPC began providing the services. To avoid unnecessary disputes, formal agreement should always be signed before commencement of services (paras. 4.21 and 4.22).

## Audit recommendations

19. **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 CIT should:**

## **Executive Summary**

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### ***Processing of applications***

- (a) **speed up the vetting and assessments of applications (para. 2.15(a));**
- (b) **ensure that applicants are notified of the assessment results within two working days after TVP Committee's assessments and within 60 working days upon receipt of all the necessary supporting documents (para. 2.15(b));**
- (c) **ensure that applications are submitted to CIT for approval in a more timely manner (para. 2.21);**

### ***Monitoring of projects***

- (d) **remind the applicants that TVP Secretariat's prior approval should be obtained for extension of project duration exceeding six months and take follow-up actions on those projects with unreasonable delays in completion (para. 3.5(a) and (b));**
- (e) **address the issue of delays in submission of final reports by applicants (para. 3.17(a));**
- (f) **closely monitor the processing of final reports with a view to shortening the time elapsed from the receipt of final reports to approval (para. 3.17(d));**
- (g) **ensure that the assessment results of the final reports are made available to applicants within 60 working days (para. 3.17(e));**
- (h) **increase the numbers and percentages of projects selected for both pre-disbursement and post-disbursement site visits as soon as the COVID-19 epidemic situation allows (para. 3.30(b));**
- (i) **ensure that post-disbursement site visits are conducted in a timely manner (para. 3.30(d));**

## **Executive Summary**

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- (j) **remind applicants of the requirement to submit post-project evaluation reports six months after project completion (para. 3.36(a));**

### *Administrative issues*

- (k) **encourage non-official TVP Committee members to avoid absences from committee meetings as far as possible (para. 4.12(a));**
- (l) **ensure that declarations of interest are submitted by TVP Committee members in a timely manner (para. 4.12(b));**
- (m) **ensure that, in future, the requirements stipulated in the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government are complied with in government procurements and in partnering arrangements (para. 4.23(a)); and**
- (n) **in future implementation arrangements, ensure that formal agreement between the Government and the non-government party is signed before commencement of services (para. 4.23(b)).**

## **Response from the Government**

- 20. CIT 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 Innovation and technology are drivers of economic development and competitiveness. They help improve the efficiency and performance of enterprises, which in turn contribute to the sustainable growth of the economy. The Innovation and Technology Fund (ITF) was established by the Government in June 1999 as a statutory fund under the Public Finance Ordinance (Cap. 2) to finance projects that contribute to innovation and technology upgrading and development in manufacturing and services industries in Hong Kong. The Innovation and Technology Commission (ITC), headed by the Commissioner for Innovation and Technology (CIT), is responsible for administering ITF.

1.3 The Technology Voucher Programme (TVP) was launched in November 2016 as a pilot programme under ITF. TVP aims to subsidise eligible local entities in using technological solutions to improve productivity, or facilitate the upgrading or transformation of their business processes. In February 2019, TVP became a regular programme under ITF.

1.4 Since its launch, a series of enhancement measures have been made to TVP. Initially, only small and medium enterprises were eligible for TVP funding. In 2018, the eligibility criteria were expanded to cover non-listed local enterprises. In 2019, the eligibility criteria were further expanded to cover companies incorporated and registered in Hong Kong under the Companies Ordinance (Cap. 622) that were exempted from business registration, and statutory bodies set up in Hong Kong. In 2020, further enhancement measures were made, including an increase in the Government's funding ratio for each TVP project from two-thirds to three-quarters, and an increase in the funding ceiling per applicant from \$400,000 to \$600,000 (see para. 1.6 and Appendix A).

## Introduction

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1.5 In the period from the launch of TVP in November 2016 to 31 December 2021, 16,668 TVP applications were received, of which 12,922 (78%) were valid applications (Note 1). As at 31 December 2021, 9,076 (70%) of the 12,922 applications had been assessed by TVP Committee (see para. 1.11) and 7,075 (55%) had been approved. The total amount of funding approved was \$1,099.5 million, of which \$252.2 million (23%) had been disbursed to the applicants upon project completion and approval of final reports (see Table 1).

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**Note 1:** *The remaining 3,746 (22%) applications comprised 2,637 applications withdrawn before vetting and 1,109 invalid applications identified before vetting.*

Table 1

**Number of TVP applications and amount of funding  
(31 December 2021)**

Year	Applications received	Valid applications	Applications assessed by TVP Committee	Applications approved	Funding approved	Funding disbursed
	(Number)				(\$ million)	
2016 (Note 1)	57	15	—	—	—	—
2017	1,253	577	268	246	31.7	0.4
2018	1,074	703	716	693	98.1	17.0
2019	2,302	1,574	915	813	129.4	63.0
2020	6,310	4,945	1,756	1,536	251.2	88.1
2021	5,672	5,108	5,421	3,787	589.1	83.7
Total	16,668	12,922	9,076	7,075	1,099.5	252.2 (Note 2)

*Source: Audit analysis of ITC records*

*Note 1: TVP was launched in November 2016.*

*Note 2: Apart from initial payments (see Note 2 to Figure 1 in para. 1.12), approved funding was disbursed to applicants upon project completion and final report approval. Hence, the approved funding of \$847.3 million (\$1,099.5 million - \$252.2 million) had not been disbursed, comprising \$599.5 million pending project completion, \$187.8 million pending final report approval and \$60 million due to project termination or withdrawal after approval.*

*Remarks: Up to 30 April 2022, the number of approved applications had increased to 12,299 and the amount of funding approved had increased to \$1,948.3 million.*

### ***Key features of TVP***

1.6 ***Eligibility.*** The eligibility criteria have been relaxed a number of times since the launch of TVP (see Appendix A). At present, local entities fulfilling the following criteria are eligible to apply for funding under TVP:

- (a) registered in Hong Kong under the Business Registration Ordinance (Cap. 310), or incorporated and registered in Hong Kong under the Companies Ordinance, or established in Hong Kong by relevant ordinances as statutory bodies;
- (b) not being a listed company in Hong Kong, and not a government subvented organisation or subsidiary of any government subvented organisation; and
- (c) with substantive business operation in Hong Kong which is related to the project under application at the time of application.

1.7 ***Funding amount and project duration.*** TVP funding is provided on a 3 (government):1 (enterprise/organisation) matching basis. Contribution by the applicant must be made in cash, i.e. contribution in kind is not accepted. Each applicant may receive cumulative funding up to \$600,000 for a maximum of six projects. An applicant is only allowed to undertake one TVP project at a time. Each TVP project should normally be completed within 12 months.

1.8 ***Scope of funding.*** The approved funding can be used to cover the following:

- (a) engagement of technology consultant to provide external consultancy to recommend technological services/solutions to be adopted by the applicant. The consultant must be a local university or research institution, or a company registered in Hong Kong under the Business Registration Ordinance;
- (b) purchase, rental or subscription of customised equipment/hardware, software and technological services or solutions that form an essential part of the project;

- (c) purchase, rental or subscription of off-the-shelf/readily available equipment/hardware, software and technological services or solutions that form an essential part of the project. In general, the costs of such equipment/hardware/software/services or solutions should constitute no more than 50% of the project cost; and
- (d) project auditing for projects with approved funding exceeding \$50,000. The maximum audit fee to be counted towards the total project cost is \$3,000.

Normal business operating costs (e.g. rental of premises, staff salary and other related expenses) will not be funded.

1.9 ***Procurement procedures.*** TVP applicants are required to ensure that all procurements of goods and services are carried out on an open, arm's length and competitive basis in accordance with prudent commercial principles. Procurements of goods and services with an aggregate purchase value not exceeding \$1.4 million are required to be conducted by quotations whereas procurements exceeding \$1.4 million are required to be conducted by way of open tendering.

### ***Administration of TVP***

1.10 ***TVP Secretariat.*** A TVP Team was set up under ITC's Funding Schemes Division, headed by Assistant CIT (Funding Schemes) (Note 2), to act as TVP Secretariat for the administration of TVP (see Appendix B for an extract of the organisation chart of ITC as at 31 January 2022). With effect from 8 June 2021, ITC has appointed the Hong Kong Productivity Council (HKPC) as TVP Secretariat. As at 31 December 2021, TVP Secretariat had an establishment of 109 HKPC staff (including 2 staff on a part-time basis), while TVP Team under ITC had an establishment of 12 staff (Note 3) (including 4 staff on a part-time basis). The responsibilities of TVP Secretariat include:

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**Note 2:** *Assistant CIT (Funding Schemes) is also responsible for the administration of another 12 funding schemes of ITF.*

**Note 3:** *The establishment of TVP team was reduced from 21 in 2020 to 12 in 2021.*

## Introduction

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- (a) receiving applications and providing guidance to applicants in their submission of applications;
- (b) vetting applications and making recommendations to TVP Committee (see para. 1.11) on applications for consideration;
- (c) monitoring the progress and results of approved projects, and making recommendations to TVP Committee on acceptance of final reports;
- (d) arranging disbursements to applicants;
- (e) conducting promotion and publicity activities; and
- (f) maintaining and enhancing the online application system.

Following the appointment of HKPC as TVP Secretariat, vetting and project monitoring (e.g. preparation of funding agreements, processing of change requests, initial payment requests and final reports, conducting site visits and arranging funding disbursements) of applications that were received in July 2020 and thereafter have been handled by HKPC whereas TVP Team under ITC continues to handle applications received before July 2020 and monitor the related projects. TVP Team is also responsible for the formulation of policies and enhancements of TVP, as well as the overall operation of TVP Committee. TVP Team monitors the performance of HKPC as the implementation partner of TVP, through reviewing and approving the annual implementation plans, annual reports and audited accounts, arranging disbursements to applicants via HKPC, and handling enquiries/complaints relating to HKPC's performance.

1.11 ***TVP Committee.*** TVP Committee oversees the implementation of TVP and assists ITC in ensuring the proper use of funds. As at 31 December 2021, TVP Committee comprised 3 ex-officio members from the Government and 18 non-official members from the business sector, technology sector and professional services sector. The terms of reference of TVP Committee are:

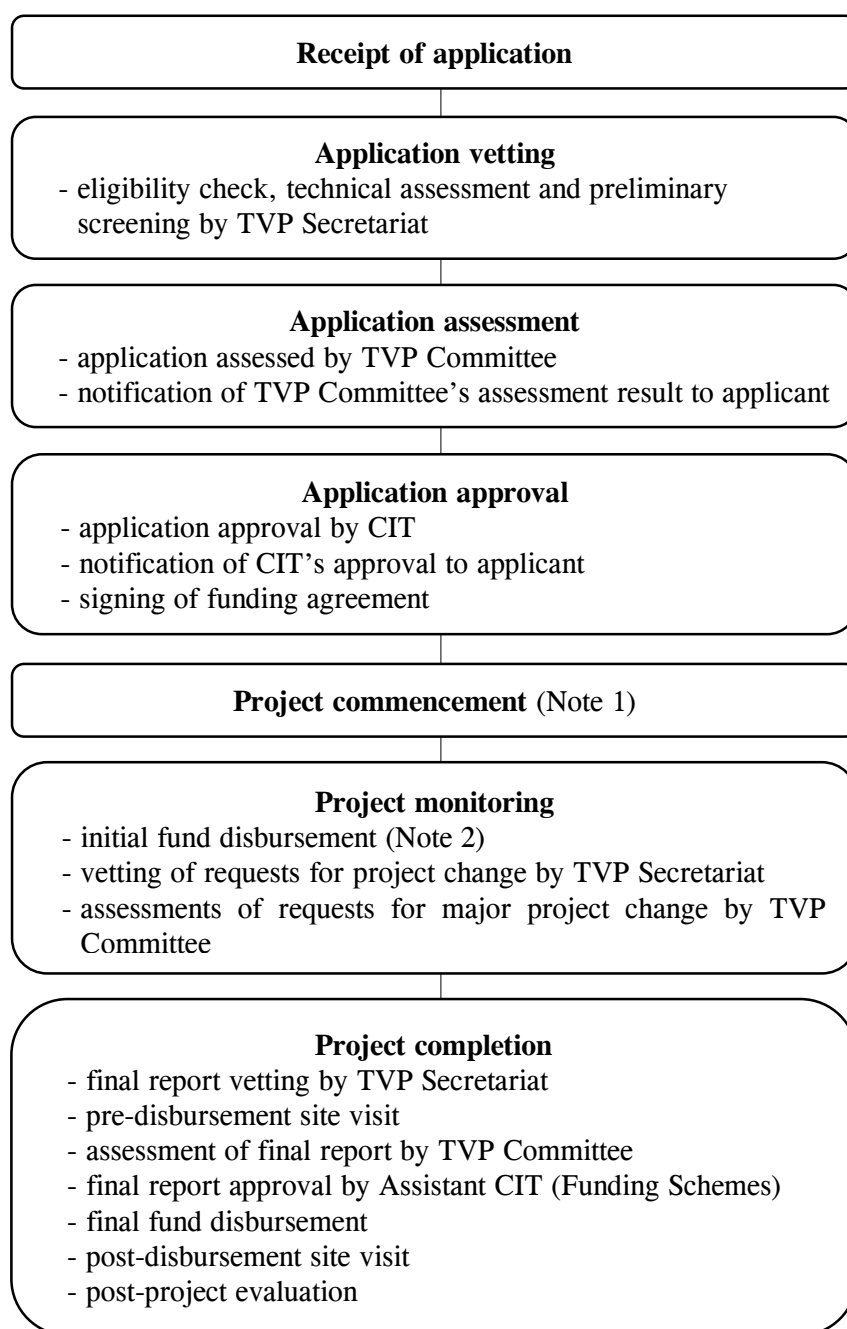
- (a) to advise on the vetting procedures and assessment criteria for TVP;
- (b) to advise whether TVP applications should be approved, the amount to be granted to each approved project, the terms and conditions for approving funds, and the measures in monitoring the disbursement of funds;
- (c) to evaluate and review the modus operandi and effectiveness of TVP; and
- (d) to advise on any other matters relating to TVP.

1.12 ***Processing of TVP applications and monitoring of TVP projects.*** After vetting by TVP Secretariat, eligible applications will be submitted to TVP Committee for assessments. When the assessments are completed, applicants will be notified of the results. Applicants of partially supported applications will be asked to confirm whether they wish to continue their applications. The applications supported by TVP Committee will then be submitted to CIT for approval. After CIT's approval, TVP Secretariat arranges signing of funding agreements with the applicants, and monitors the progress of the approved projects until project completion. Upon project completion, the applicants are required to submit final reports. After vetting by TVP Secretariat, final reports are assessed by TVP Committee. Final reports supported by TVP Committee will be submitted to Assistant CIT (Funding Schemes) for approval, after which disbursement of funding set out in the approved final report will be arranged. Figure 1 shows an overview of the processing of TVP applications and the monitoring of TVP projects.



**Figure 1**

**Processing of TVP applications and monitoring of TVP projects**



*Source: Audit analysis of ITC records*

*Note 1: With effect from 1 June 2020, applicants have been allowed to start their projects on the day following the submission of applications at the earliest (see para. 2.7).*

*Note 2: An initial payment of up to 25% of the approved funding amount may be made to the successful applicant upon the applicant's request after signing of the funding agreement and compliance with relevant conditions.*

### Audit review

1.13 In October 2021, the Audit Commission (Audit) commenced a review of TVP. This audit has focused on the following areas:

- (a) processing of applications (PART 2);
- (b) monitoring of projects (PART 3); and
- (c) administrative issues (PART 4).

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 CIT agrees with the audit recommendations. She has said that:

- (a) ITC appreciates the value for money audit review on TVP and is grateful for the observations and recommendations, which will help ITC and HKPC improve the operation of TVP in order to serve the industry more effectively and efficiently. ITC will work closely with HKPC to ensure the early implementation of improvement measures as appropriate;
- (b) with the enhancements introduced in April 2020, there has been nearly a three-fold increase in the number of applications from 2,302 in 2019 to 6,310 in 2020 and 5,672 in 2021, while ITC's establishment in 2019-20 (i.e. 21 staff (reduced to 12 in December 2021), including 4 staff on a part-time basis) could only process about 2,300 applications per year. Since the number of applications in 2020 and 2021 far exceeded ITC's processing capacity, coupled with the adverse impact of coronavirus disease (COVID-19) epidemic on its normal operation, there has been a sizable backlog of TVP applications. Consequently, ITC has not been able to meet in full the performance pledges as well as the timeframes set out in TVP Manual (an internal operation guide of ITC, with timeframes laid down in early 2020 based on the application situation at that time) as identified in the audit report;

## Introduction

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- (c) to expedite the processing of the applications, ITC appointed HKPC as the implementation partner of TVP in June 2021 after reporting the appointment to the Legislative Council in April 2021. With an establishment of 109 staff (including 2 on a part-time basis) and its expertise, HKPC has assisted ITC to complete the processing of all applications (except one case due to its complexity) received up to end-2021 by end-April 2022. The processing of all 2,591 applications received in 2022 (up to April 2022) is under way and expected to be completed progressively by August 2022. By and large, the processing of TVP applications is now back on track and ITC will work together with HKPC to follow up on Audit's recommendations; and
- (d) the Secretary for Innovation and Technology fully appreciates the difficulties ITC has been facing following the introduction of the enhancements in April 2020 and the endeavours ITC has made to cope with the situation. He reaffirms his full support for ITC to appoint HKPC as the implementation partner of TVP, which has been instrumental in the clearance of the sizable backlog.

## Acknowledgement

1.15 During the audit review, in light of the outbreak of the fifth wave of the COVID-19 epidemic, the Government had implemented various special work arrangements and targeted measures for government employees, including working from home. Audit would like to acknowledge with gratitude the full cooperation of the staff of ITC during the course of the audit review amid the COVID-19 epidemic.

## **PART 2: PROCESSING OF APPLICATIONS**

2.1 This PART examines the processing of TVP applications, focusing on the following areas:

- (a) vetting and assessments of applications (paras. 2.3 to 2.16); and
- (b) approval of applications (paras. 2.17 to 2.22).

### ***Background***

2.2 TVP applications are accepted all year round and are processed as follows (see para. 1.12 and Figure 1):

- (a) ***Application vetting.*** Upon receipt of applications, TVP Secretariat will carry out checking on the applicants' eligibility and conduct preliminary screening and technical assessment of the proposed technological services/solutions. Where necessary, clarifications or supplementary information will be sought from the applicants;
- (b) ***Application assessments.*** After application vetting, valid applications with TVP Secretariat's recommendation will be submitted to TVP Committee for application assessments based on the following:
  - (i) relevance of the proposed project to the applicant's business;
  - (ii) reasonableness of the budget;
  - (iii) reasonableness of the implementation details; and
  - (iv) past records of the consultants and/or service providers, if known to TVP Secretariat.

## Processing of applications

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TVP Secretariat will notify the applicants of the results in writing after assessments by TVP Committee. Applicants of partially supported applications will be asked to confirm whether they wish to continue their applications with a reduced budget supported by TVP Committee; and

- (c) ***Application approval by CIT.*** Applications supported by TVP Committee will then be submitted to CIT for approval and applicants will be further informed of CIT's decision in writing.

## Vetting and assessments of applications

2.3 ***Outstanding applications.*** In the period from the launch of TVP in November 2016 to December 2021, ITC received 16,668 TVP applications, of which 12,922 were valid applications (see para. 1.5). As at 31 December 2021, of the 12,922 applications, 7,075 were approved, 1,707 were vetted and assessed, 246 were rejected, 48 were withdrawn and 3,846 were outstanding applications (i.e. applications for which vetting and assessments had not been completed). Audit noted that during the period from 31 December 2017 to 31 December 2021, the number of outstanding applications increased significantly from 422 applications as at 31 December 2017 to 3,846 as at 31 December 2021 (see Table 2).

**Table 2**

**Number of outstanding TVP applications  
(November 2016 to December 2021)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>Overall</b>
No. of outstanding applications at beginning of period (a)	—	36	422	387	1,100	5,065	—
No. of applications received (b)	57	1,253	1,074	2,302	6,310	5,672	16,668
No. of invalid/rejected/withdrawn applications (c)	21	621	416	776	663	1,543	4,040
No. of applications supported by TVP Committee (d)	0	246	693	813	1,682	5,348	8,782
No. of outstanding applications at end of period (e)=(a)+(b)–(c)–(d)	36	422	387	1,100	5,065	3,846	3,846

*Source: Audit analysis of ITC records*

## Processing of applications

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2.4 Audit examined the 3,846 outstanding applications as at 31 December 2021 (see Table 3) and noted that the applications were received, on average, 4.7 months ago.

**Table 3**

**Ageing analysis of outstanding applications  
(31 December 2021)**

<b>Time elapsed from receipt of applications (Month)</b>	<b>Number of applications</b>
$\leq 3$	1,227 (32 %)
$> 3$ to $\leq 6$	1,329 (35 %)
$> 6$ to $\leq 9$	1,050 (27 %)
$> 9$ (Note)	240 (6 %)
Total	3,846 (100 %)

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 11.8 months.*

2.5 Audit examined the processing status of the 3,846 outstanding applications as at 31 December 2021. The results are summarised in Table 4.

**Table 4**

**Processing status of outstanding applications  
(31 December 2021)**

<b>Processing status</b>	<b>Number of applications</b>	
Vetting not started	2,088	(54%)
Vetting in progress	1,210	(32%)
Vetting completed (to be assessed by TVP Committee)	548	(14%)
Total	3,846	(100%)

*Source: Audit analysis of ITC records*

2.6 In response to Audit's enquiry, ITC informed Audit in April 2022 that:

- (a) there had been a significant increase in the number of TVP applications received from 2,302 in 2019 to 6,310 in 2020 and 5,672 in 2021 (see Table 1 in para. 1.5), which far exceeded the processing capacity of ITC's staff. The significant increase was a result of:
  - (i) the overwhelming responses to the various enhancement measures made to TVP in 2020 (see Appendix A); and
  - (ii) the heightened awareness of the need for digital transformation under the new normal of the COVID-19 epidemic; and
- (b) ITC thus appointed HKPC as the implementation partner of TVP in June 2021 to expedite the processing of the applications, riding on their expertise and resources. The processing of TVP applications had been speeded up significantly.



## Processing of applications

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2.7 ***Early commencement of projects.*** To facilitate the early adoption of the technological services or solutions, with effect from 1 June 2020, applicants have been allowed to start their projects on the day following the submission of applications at the earliest. Applicants who decided to commence the projects before receiving the assessment results are required to submit a duly completed declaration to TVP Secretariat no later than 5 working days after the day of project commencement. In the declarations, applicants have to confirm and declare that they fully understand that the applications may or may not be approved by CIT and they may or may not be granted the full amount of funding they applied for in the applications, and that they undertake not to claim compensation from the Government arising from Government's rejection of the application or not granting the funding requested in the application in full or in part. Up to December 2021, in 2,175 applications (17% of the 12,922 valid applications), the applicants had commenced their projects before receiving the assessment results.

2.8 ***Funding request may not be supported in full.*** Audit examined the 3,787 applications approved in 2021 and noted that funding requests were supported in full for 984 (26%) applications and in part for 2,803 (74%) applications (see Table 5). For the applications with funding request supported in part, the average percentage of funding support was 68% of the funding amount requested.

Table 5

**Funding support of TVP applications approved  
(2021)**

<b>Funding support as a percentage of the funding amount requested</b>	<b>Number of applications</b>
< 50 % (Note)	409 (11 %)
50 % to < 75 %	1,364 (36 %)
75 % to < 100 %	1,030 (27 %)
100 %	984 (26 %)
Total	3,787 (100 %)

*Source: Audit analysis of ITC records*

*Note: The lowest percentage of funding support was 14.5%.*

*Remarks: According to ITC: (a) for prudent use of public resources, it is necessary to review the reasonableness of the budget of each application to decide on an appropriate funding amount; and (b) one of the reasons why full funding was not supported for some applications was that the project costs were considered unreasonably high having regard to projects of similar nature.*

***Long time elapsed from receipt of applications  
to completion of vetting and assessments***

**2.9 Need to take timely actions to collect information for processing applications and conduct technical assessments.** In the period from 2017 to 2021, 7,075 TVP applications were approved (see Table 1 in para. 1.5). Audit examined the 7,075 approved applications and found that:

- (a) for a large number of applications, the time elapsed from receipt of applications to completion of vetting and assessments was long. For 1,987 (28%) approved applications, the time elapsed was more than one year; and

## Processing of applications

- (b) the average time elapsed increased from 3.4 months for applications approved in 2017 to 11.9 months for those approved in 2021. The increase was particularly significant after 2019. The average time elapsed increased by 43% from 4.7 months in 2019 to 6.7 months in 2020 and increased further by 78% to 11.9 months in 2021 (see Table 6).

**Table 6**

**Time elapsed from receipt of applications to  
completion of vetting and assessments  
(2017 to 2021)**

Time elapsed (Month)	Number of applications approved					
	2017	2018	2019	2020	2021	Overall
≤ 3	104	184	126	13	0	427
> 3 to ≤ 6	132	360	520	482	1	1,495
> 6 to ≤ 12	10	149	167	1,039	1,801	3,166
> 12 (Note)	0	0	0	2	1,985	1,987
Total	246	693	813	1,536	3,787	7,075
Average time elapsed (Month)	3.4	4.5	4.7	6.7	11.9	8.9

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 17.9 months.*

According to ITC, the time elapsed increased after 2019 was due to the significant increase in the number of applications (see para. 2.6).

2.10 Audit noted that in some cases, the time elapsed from receipt of applications to completion of vetting and assessments was long and could have been shortened if actions had been taken in a more timely manner. Audit examined 25 applications received during the period from April 2020 to June 2021, and noted that:

- (a) according to TVP Manual issued by ITC, the case officers should seek clarifications from the applicants on matters such as incomplete supporting documents within one month from the dates of receipt of applications. Otherwise, interim replies should be issued. However:
  - (i) the case officers of the 25 applications had not sought clarifications from the applicants until 1.9 to 9.3 months (averaging 6 months) after the receipt of applications; and
  - (ii) in 14 (56%) of the 25 applications, no interim reply had been issued to the applicants; and
- (b) in 1 (4%) of the 25 applications, technical assessment was only conducted 5 months after the case officer had received the applicant's clarification (see Case 1).

### Case 1

#### **Long time elapsed from receipt of application to completion of vetting and assessments (May 2020 to October 2021)**

1. The applicant submitted an application for funding of \$300,000 in May 2020. An interim reply was sent in July 2020 informing the applicant that the application was under assessment. In November 2020 (6 months after the receipt of application), TVP Secretariat sought applicant's clarifications on the application documents. The applicant responded to TVP Secretariat's enquiry in December 2020. In May 2021 (5 months after the receipt of applicant's reply), technical assessment was started to assess the reasonableness of the project costs. The technical assessment was completed about 3 months later in August 2021. In the same month, the application was recommended to TVP Committee for assessment.

2. In September 2021 (16 months after the receipt of application), the application was supported by TVP Committee. In October 2021, CIT approved the application.

#### ***Audit comments***

3. In Audit's view, there is a need for ITC to take earlier actions to obtain the information needed in processing the application and to conduct the technical assessment in a more timely manner.

*Source: Audit analysis of ITC records*

**2.11 Applicants not notified of assessment results until long time after project commencements.** Applicants are notified of the assessment results and the funding amounts supported by TVP Committee after the completion of the application assessments. Audit examined 155 (4%) of the 3,787 applications approved in 2021 and found that the average time elapsed from the dates of project commencement to the dates of notification of assessment results and the funding amounts supported was 10.6 months. In 66 (43%) of the 155 applications, the time elapsed was more than one year (see Table 7).

Table 7

**Time elapsed from project commencement to  
notification of assessment results and funding amounts supported  
(2021)**

<b>Time elapsed (Month)</b>	<b>Number of applications</b>
$\leq 3$	5 (3%)
$> 3$ to $\leq 6$	12 (8%)
$> 6$ to $\leq 12$	72 (46%)
$> 12$ (Note)	66 (43%)
Total	155 (100%)

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 16 months.*

Early commencement of projects can help TVP applicants adopt the technological solutions in their business and operation as early as possible. However, the long time elapsed and the fact that applicants were notified of the percentage of funding amounts supported long time after project commencements and incurring of project costs may cause inconvenience to the applicants.

**2.12 Delays in notification of assessment results.** According to TVP Manual, applicants should be notified of the application assessment results within 2 working days after TVP Committee had completed the application assessments. Audit examined the 2,322 applications submitted to TVP Committee for assessment in 2021. Audit found that in 1,225 (53%) applications, notifications of assessment results were not given within 2 working days after TVP Committee's assessments, contrary to the requirement set out in TVP Manual. The delays ranged from 2 to 7 working days, averaging 5.9 working days (see Table 8 and Case 2 in para. 2.19).

**Table 8****Delays in notifications of assessment results  
(2021)**

<b>Delay (Working day)</b>	<b>No. of applications</b>
No delay	1,097 (47%)
1	0 (0%)
2	204 (9%)
3	87 (4%)
4	0 (0%)
5	0 (0%)
> 5 (Note)	934 (40%)
Total	2,322 (100%)

*Source:* Audit analysis of ITC records

*Note:* The longest delay was 7 days.

2.13 In January 2020, the Independent Commission Against Corruption (ICAC) issued an assignment report on the administration of TVP. In the report, ICAC recommended that, to minimise corruption risks and enhance transparency, ITC should lay down and publicise performance pledge for processing TVP applications within a reasonable timeframe. In April 2020, in response to the recommendation, ITC set a performance pledge to make available to the applicant the assessment result of an application within 60 working days upon receipt of full information including necessary supporting documents from the applicant. Audit noted that in 2020 (April to December) and 2021, the performance pledge was not met for 8% and 1% of the applications respectively.

2.14 While it is a merit that applicants are allowed to start their projects as early as the day following the submission of applications (see para. 2.7), Audit noted that in a large number of applications, funding requests were not supported in full and the

applicants were notified long time after project commencements and incurring of project costs. Audit considers that ITC needs to take measures to:

- (a) speed up the vetting and assessments of applications, including:
  - (i) seeking clarifications from applicants within one month from the dates of receipt of applications in accordance with TVP Manual; and
  - (ii) conducting technical assessments in a more timely manner; and
- (b) ensure that applicants are notified of the assessment results within two working days after TVP Committee's assessments in accordance with TVP Manual and within 60 working days upon receipt of all the necessary supporting documents in accordance with the performance pledge.

### Audit recommendations

2.15 **Audit has *recommended* that CIT should take measures to:**

- (a) **speed up the vetting and assessments of applications, including:**
  - (i) **seeking clarifications from applicants within one month from the dates of receipt of applications in accordance with TVP Manual; and**
  - (ii) **conducting technical assessments in a more timely manner; and**
- (b) **ensure that applicants are notified of the assessment results within two working days after TVP Committee's assessments in accordance with TVP Manual and within 60 working days upon receipt of all the necessary supporting documents in accordance with the performance pledge.**



### Response from the Government

- 2.16 CIT agrees with the audit recommendations. She has said that:
- (a) the increase in the number of applications from 2,302 in 2019 to 6,310 in 2020 and 5,672 in 2021 far exceeded the processing capacity of ITC staff (see para. 1.14(b)). To expedite the processing of applications, ITC appointed HKPC as the implementation partner of TVP in June 2021, riding on their expertise and resources. As at end-April 2022, all applications submitted up to end of 2021 (except one case) had been processed, with another 2,089 applications submitted in 2022 outstanding (i.e. 1,633 under processing by the Secretariat, and 456 vetted applications pending assessments by TVP Committee);
  - (b) ITC will regularly review the timeframes set out in TVP Manual to ensure that they are realistic and reasonable in light of the prevailing circumstances; and
  - (c) ITC will take measures to ensure that the timeframes specified in TVP Manual and the performance pledges will be met.

### Approval of applications

2.17 *Need to shorten the time taken for submitting the applications to CIT for approval.* According to TVP Manual:

- (a) for applications that are supported by TVP Committee for full funding, the applications will be submitted to CIT for approval; and
- (b) for applications that are supported by TVP Committee with conditions (e.g. funding support in part), the applicants will be required to confirm acceptance of funding conditions within three working days after being notified of the assessment results. After receiving the applicants' confirmation, TVP Secretariat will submit the applications to CIT for approval.

2.18 Audit noted that as at 31 December 2021, the application assessments by TVP Committee for 1,714 applications had been completed and were pending submission to CIT for approval. Audit examined the 1,714 applications and noted that the average time elapsed since the completion of application assessments up to 31 December 2021 was 24 days. In 932 (54%) applications, the time elapsed was more than 30 days (see Table 9).

**Table 9**

**Time elapsed since completion of application assessments  
(31 December 2021)**

<b>Time elapsed (Day)</b>	<b>Number of applications</b>
≤ 15	782 (46%)
16 to ≤ 30	0 (0%)
> 30 (Note)	932 (54%)
Total	1,714 (100%)

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 38 days.*

2.19 Audit examined 10 (0.3%) of the 3,787 applications approved by CIT in 2021 and noted that for these applications, there was room for improvement in shortening the time elapsed from the completion of assessments by TVP Committee to approval by CIT. Case 2 is an example.

### Case 2

#### **Long time taken by ITC in submitting applications to CIT for approval (September to October 2021)**

1. In mid-September 2021, the application was given partial funding support by TVP Committee. The applicant was informed of the assessment result 9 working days later in late September 2021. The applicant confirmed his acceptance of funding conditions 8 working days later in October 2021. The application was submitted to CIT for approval 8 working days (13 calendar days) after receiving the applicant's reply. CIT approved the application on the same day.

#### ***Audit comments***

2. In Audit's view, the application should have been submitted to CIT for approval as soon as practicable after receiving the applicant's reply.

*Source: Audit analysis of ITC records*

2.20 Audit considers that ITC needs to take measures to ensure that applications are submitted to CIT for approval in a more timely manner after the applicants confirmed their acceptance of funding conditions.

### **Audit recommendation**

2.21 **Audit has *recommended* that CIT should take measures to ensure that applications are submitted to CIT for approval in a more timely manner after the applicants confirmed their acceptance of funding conditions.**

### **Response from the Government**

2.22 CIT agrees with the audit recommendation. She has said that ITC will set a timeframe in TVP Manual on submission of applications to CIT for approval, and develop management report programmes to monitor the performance.

## **PART 3: MONITORING OF PROJECTS**

3.1 This PART examines issues related to monitoring of TVP projects, focusing on the following areas:

- (a) project implementation (paras. 3.2 to 3.6);
- (b) final report submission and vetting (paras. 3.7 to 3.18);
- (c) site visits (paras. 3.19 to 3.31); and
- (d) post-project evaluation (paras. 3.32 to 3.37).

### **Project implementation**

3.2 According to TVP Guidance Notes for Applications, which form part of the funding agreements:

- (a) TVP projects are required to be carried out strictly in accordance with the funding agreements;
- (b) extension of project duration for more than six months requires prior approval by TVP Secretariat (Note 4); and
- (c) within two months after completion of TVP projects, the applicants should submit final reports and other required documents to TVP Secretariat.

### ***Delays in project completion***

3.3 As at 31 December 2021, 1,747 TVP projects had been completed with final reports approved (see para. 1.12 and Figure 1). Audit examined the 1,747 projects and noted that:

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**Note 4:** *Before 27 February 2019, prior approvals from TVP Secretariat were required for early project completions and all project extensions.*

## Monitoring of projects

- (a) there were delays in the completion of 457 (26%) projects, including 46 (3%) with delays in completion of more than six months, ranging from 6.1 to 17.7 months, averaging 9.9 months (see Table 10); and

**Table 10**

**Delays in project completion  
(31 December 2021)**

Delay (Month)	Number of projects
No delay	1,290 (74 %)
≤ 3	217 (12 %)
> 3 to ≤ 6	194 (11 %)
> 6 to ≤ 12	35 (2 %)
> 12 (Note)	11 (1 %)
	46 (3 %)
Total	1,747 (100 %)

*Source:* Audit analysis of ITC records

*Note:* The longest delay was 17.7 months.

*Remarks:* Delay in project completion refers to the time elapsed from the planned project completion date stated in the funding agreement to the actual project completion date.

- (b) for 25 (54%) of the 46 projects, the required prior approval from TVP Secretariat for the extension in project duration (see para. 3.2(b)) was not obtained. TVP Secretariat was only aware of the delays in project completion after the applicants submitted the final reports.

3.4 In response to Audit's enquiry, ITC informed Audit in April 2022 that there had been more cases of delay in project completion recently due to the impact of the COVID-19 epidemic affecting the businesses of both the applicants and the selected service providers. For cases where applicants did not obtain prior approval for project extension, currently TVP Secretariat would set out the justifications provided by the

applicants in the final report summaries appended to the papers submitted to TVP Committee (see para. 3.7(d)). Notwithstanding this, Audit considers that ITC needs to:

- (a) take measures to remind the applicants that TVP Secretariat's prior approval should be obtained for extension of project duration exceeding six months; and
- (b) take follow-up actions on those projects with unreasonable delays in completion (e.g. withholding disbursement of funds where circumstances warrant).

## Audit recommendations

3.5      **Audit has *recommended* that CIT should:**

- (a) **take measures to remind the applicants that TVP Secretariat's prior approval should be obtained for extension of project duration exceeding six months; and**
- (b) **take follow-up actions on those projects with unreasonable delays in completion (e.g. withholding disbursement of funds where circumstances warrant).**

## Response from the Government

3.6      CIT agrees with the audit recommendations. She has said that:

- (a) ITC and HKPC will issue reminders to the applicants before the project completion dates to remind them of the need to seek TVP Secretariat's prior approval for extension of project duration for more than six months; and
- (b) ITC and HKPC will continue to closely monitor the progress of the projects and consider on a case-by-case basis whether the Government should exercise the right to withhold disbursement of funds where circumstances warrant.

### Final report submission and vetting

3.7 According to the funding agreements:

- (a) within two months after completion of TVP projects, the applicants should submit final reports and other required documents (Note 5) to TVP Secretariat for vetting;
- (b) the final reports shall include a summary of the project expenditure, and a summary and an evaluation of the extent to which the project deliverables have been accomplished and the benefits achieved as set out in the approved applications;
- (c) where necessary, TVP Secretariat will seek clarifications and supplementary information from the applicants regarding the projects;
- (d) after the vetting process, TVP Secretariat will submit the final reports to TVP Committee for assessment. Final reports accepted by TVP Committee will be submitted to Assistant CIT (Funding Schemes) for approval; and
- (e) the final payment of TVP funding will be disbursed to the applicants after Assistant CIT (Funding Schemes)'s approval.

### *Delays in submission of final reports*

3.8 Up to 31 December 2021, 3,218 TVP projects had been completed for two months or more and the final reports of these projects were due for submission. Audit examined the submission of final reports of the 3,218 projects and noted that:

- (a) final reports of 2,758 (86%) projects had been submitted by the applicants. Of these 2,758 reports, 636 (23%) were submitted later than the deadline, with delays ranging from 1 day to 13.9 months (averaging 1.7 months); and

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**Note 5:** *The documents required to be submitted together with the final report include the evidence of project deliverables, the receipts of payment for expenditure items and a statement of income and expenditure for the project (an audited statement of income and expenditure is required for projects with approved funding exceeding \$50,000).*

- (b) final reports of the remaining 460 (14%) projects had not been submitted, with an average overdue period of 5.5 months. Of the 460 outstanding reports, 180 (39%) had been overdue for more than 6 months (see Table 11).

Table 11

**Ageing analysis of overdue final reports  
(31 December 2021)**

Overdue period (Month)	Number of projects
$\leq 3$	164 (36%)
$> 3$ to $\leq 6$	116 (25%)
$> 6$ to $\leq 12$	154 (33%)
$> 12$ to $\leq 18$	25 (5%)
$> 18$ (i.e. 20.5)	1 (1%)
Total	460 (100%)

Source: Audit analysis of ITC records

3.9 In Audit's view, timely submission of final reports and the related documents (see Note 5 to para. 3.7(a)) by applicants is important for ITC's monitoring and evaluation of the extent to which the project deliverables have been accomplished and the benefits achieved as set out in the approved applications (see para. 3.7(b)). If the final reports and the related documents were submitted long after project completion, TVP Secretariat may have difficulties in seeking clarifications and supplementary information from the applicants (see para. 3.7(c)). Audit considers that ITC needs to take measures to address the issue of delays in submission of final reports by applicants.



## Monitoring of projects

### *Processing of final reports*

3.10 ***Increasing number of final reports pending approval.*** Audit noted that in the period from 2017 to 2021, the number of final reports pending approval at year-end (see para. 3.7(d)) increased significantly by almost 5 times from 176 as at 31 December 2018 to 1,036 as at 31 December 2021 (see Table 12).

**Table 12**

**Number of final reports pending approval  
(2017 to 2021)**

	Number of final reports					
	2017	2018	2019	2020	2021	Overall
Pending approval at beginning of period (i.e. 1 January) (a)	—	40	176	324	574	—
Received (b)	47	292	610	843	1,009	2,801
Approved (c)	6	153	459	587	542	1,747
Withdrawn (d)	1	3	3	6	5	18
Pending approval at end of period (i.e. 31 December) (e)=(a)+(b)–(c)–(d)	40	176	324	574	1,036	1,036

Source: *Audit analysis of ITC records*

3.11 Audit examined the 1,036 final reports pending approval as at 31 December 2021 and noted that 76 (8%) of the reports had already been submitted by the applicants to ITC for more than one year (see Table 13). According to ITC, the progress of processing final reports had been affected because some efforts were directed to the competing priority of clearing backlog of applications.

Table 13

**Time elapsed since receipt of final reports from applicants  
(31 December 2021)**

<b>Time elapsed (Month)</b>	<b>Number of final reports</b>
$\leq 3$	251 (24%)
$> 3$ to $\leq 6$	210 (20%)
$> 6$ to $\leq 9$	264 (25%)
$> 9$ to $\leq 12$	235 (23%)
$> 12$ to $\leq 15$	60 (6%)
$> 15$ (Note)	16 (2%)
	76 (8%)
<b>Total</b>	<b>1,036 (100%)</b>

*Source:* Audit analysis of ITC records

*Note:* The longest time elapsed was 28.4 months.

**3.12 Need to shorten the time elapsed from receipt of final reports to approval.** Audit examined the 1,747 final reports approved in the period from 2017 to 2021 and noted that the average time elapsed from receipt of the reports to approval was on a rising trend, increasing from 2.6 months in 2017 to 8.6 months in 2021. For 774 (45%) of the approved final reports, the time elapsed was more than 6 months (see Table 14).

**Table 14**
**Time elapsed from receipt of final reports to approval  
(2017 to 2021)**

Time elapsed (Month)	Number of final reports					
	2017	2018	2019	2020	2021	Overall
≤ 3	3	51	79	57	8	198 (10%)
> 3 to ≤ 6	3	85	288	319	80	775 (45%)
> 6 to ≤ 12	0	17	91	186	400	694 (40%)
> 12 to ≤ 18	0	0	1	21	51	73 (4%)
> 18 (Note)	0	0	0	4	3	7 (1%)
						774 (45%)
Total	6	153	459	587	542	1,747 (100%)
Average time elapsed (Month)	2.6	4.0	4.7	5.9	8.6	6.2

Source: Audit analysis of ITC records

Note: The longest time elapsed was 26 months.

3.13 Audit noted that in many cases, the time elapsed from receipt of final reports to approval was long. According to TVP Manual, the case officers should seek clarifications from the applicants on matters such as incomplete supporting documents within one month from the dates of receipt of final reports. Otherwise, an interim reply should be issued. Audit examined the processing of 25 final reports received in the period from April 2020 to June 2021 and noted that:

- (a) for 17 (68%) final reports, the case officers sought clarifications from the applicants more than 1 month after the receipt of the final reports. The time elapsed ranged from 1.1 to 5.2 months, averaging 2.7 months. For 10 (59%) of the 17 final reports, the case officers did not issue interim replies to the applicants as required; and

- (b) for 12 (48%) final reports, they were submitted to TVP Committee for assessments more than 2 months after the case officers had received the applicants' clarifications and supplementary information. The time elapsed ranged from 2.2 to 5 months (averaging 3.5 months). Case 3 is an example.

According to ITC, the processing of final reports had been affected by the significant increase in the number of TVP applications (see para. 2.6(a)).

### Case 3

#### **Long time elapsed from receipt of final reports to approval (July 2020 to July 2021)**

1. A TVP project, involving TVP funding of some \$50,000, was completed in July 2020. The applicant submitted the final report in September 2020. In February 2021 (5 months after the receipt of the final report), the case officer sought the applicant's clarifications on the final report and requested the applicant to provide additional information and documents. The applicant provided the requested information and documents in March 2021.

2. In June 2021 (3 months after the receipt of applicant's additional information and documents), TVP Secretariat recommended TVP Committee to accept the final report. In the same month, the final report was accepted by TVP Committee and approved by Assistant CIT (Funding Schemes). In July 2021, final payment was disbursed to the applicant.

#### ***Audit comments***

3. In Audit's view, there is a need for ITC to take earlier actions to seek clarifications and obtain the necessary information and documents in processing the final report. There is also a need for ITC to submit recommendation to TVP Committee in a more timely manner after receiving all information and documents from the applicant.

*Source: Audit analysis of ITC records*

## Monitoring of projects

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3.14 As the final payment of TVP funding for a project is disbursed on a reimbursement basis after the final report has been approved, it is important that final reports are processed in a timely manner so that the final payment for completed projects can be disbursed to the applicants as soon as practicable. Audit considers that ITC needs to:

- (a) take measures to ensure that the case officers seek clarifications from the applicants on matters relating to final reports within one month from the dates of receipt of the reports in accordance with TVP Manual;
- (b) endeavour to shorten the time taken to collect all the required information and documents from the applicants for the processing of final reports; and
- (c) closely monitor the processing of final reports with a view to shortening the time elapsed from the receipt of final reports to approval.

### *Performance pledge on assessing final reports not met*

3.15 In its assignment report issued in January 2020 (see para. 2.13), ICAC recommended ITC to lay down a performance pledge for processing final reports within a reasonable timeframe. In April 2020, in response to ICAC's recommendation, ITC set a performance pledge to make available to the applicant the assessment result of the final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant. Audit noted that in 2020 (April to December) and 2021, the performance pledge was not met for 8% and 15% of the final reports assessed respectively (see Table 15).

Table 15

**Achievements of performance pledge  
in making available assessment results of final reports  
(2020 (April to December) and 2021)**

Period	Number of final reports		
	Performance pledge met (a)	Performance pledge not met (b)	Total (c) = (a) + (b)
2020 (April to December) (Note 1)	159 (92%)	14 (8%) (Note 2)	173 (100%)
2021	425 (85%)	75 (15%) (Note 2)	500 (100%)
Overall	584 (87%)	89 (13%)	673 (100%)

*Source: Audit analysis of ITC records*

*Note 1: The performance pledge was set in April 2020.*

*Note 2: The time taken for ITC to make available to the applicants the assessment results of the final reports ranged from 62 to 110 working days (averaging 79 working days) in 2020 (April to December) and from 61 to 186 working days (averaging 100 working days) in 2021.*

3.16 In Audit's view, a performance pledge represents the standard of service ITC is committed to achieve. It is important for ITC to meet the performance pledge. Audit considers that ITC needs to take measures to ensure that the assessment results of the final reports of approved TVP projects are made available to applicants within 60 working days as specified in the performance pledge.

## Audit recommendations

3.17 **Audit has recommended that CIT should take measures to:**

- (a) **address the issue of delays in submission of final reports by applicants;**

## **Monitoring of projects**

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- (b) ensure that the case officers seek clarifications from the applicants on matters relating to final reports within one month from the dates of receipt of the reports in accordance with TVP Manual;
- (c) shorten the time taken to collect all the required information and documents from the applicants for the processing of final reports;
- (d) closely monitor the processing of final reports with a view to shortening the time elapsed from the receipt of final reports to approval; and
- (e) ensure that the assessment results of the final reports of approved TVP projects are made available to applicants within 60 working days as specified in the performance pledge.

## **Response from the Government**

3.18 CIT agrees with the audit recommendations. She has said that:

- (a) while it should be in the interest of the applicants to submit final reports promptly in order to obtain the final payments, ITC will work with HKPC to explore further measures to remind applicants to submit the final reports in a timely manner; and
- (b) ITC will work with HKPC to develop management report programmes for monitoring the processing time of the final reports so that prompt actions could be taken to meet the timeframes set out in TVP Manual and the performance pledge.

## **Site visits**

### ***Room for improvement for pre-disbursement site visits***

3.19 As part of the final report vetting process, TVP Secretariat conducts site visits to selected applicants' premises prior to making final fund disbursements to the applicants. According to TVP Manual, pre-disbursement site visits are mandatory for TVP applications meeting one or more of the following criteria:

- (a) the applicant and the service provider share the same address;
- (b) the total approved project cost is more than \$400,000; and
- (c) the hardware cost accounts for more than 50% of the total approved project cost.

Other projects may also be selected by the case officers for conducting pre-disbursement site visits on a risk basis.

3.20 During the pre-disbursement site visits, case officers examine the pertinent documents (e.g. quotations, invoices, receipts, auditors' reports and statements of project expenditure) and the project deliverables (e.g. checking the model number and serial number of the equipment, and observing the demonstration of the operation of the system). If anomalies are identified (e.g. original copies of invoices, quotation documents or audit reports not available for checking), the applicants will be required to take follow-up actions as appropriate (e.g. obtaining a written confirmation from the service provider that it has genuinely issued the invoice concerned).

3.21 Prior to 2020, ITC's target percentage for conducting pre-disbursement site visits was set at 15% of completed projects with final reports accepted by TVP Committee. With effect from January 2020, the target has been reduced to 10%. Audit noted that in the period from 2019 to 2021, the percentage of projects with anomalies identified through the site visits was high and on an increasing trend, from 29% in 2019 to 63% in 2021. However, the number and percentage of projects for which site visits were conducted decreased significantly from 49 (10%) in 2019 to 8 (2%) in 2021 (see Table 16).



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**Table 16**

**Pre-disbursement site visits of TVP projects  
(2019 to 2021)**

	<b>2019</b>	<b>2020</b>	<b>2021</b>
No. of projects with final reports accepted by TVP Committee (a)	506	559	500
No. of projects with site visits conducted (b)	49	13	8
Percentage of projects with site visits conducted (c) = (b) ÷ (a) × 100 %	10 %	2 %	2 %
No. of projects with anomalies identified through site visits (d)	14	6	5
Percentage of projects with anomalies identified through site visits (e) = (d) ÷ (b) × 100 %	29 %	46 %	63 %

*Source: Audit analysis of ITC records*

3.22 In response to Audit's enquiry, ITC informed Audit in January 2022 that due to the COVID-19 epidemic, in the period from February 2020 to October 2021:

- (a) 37 pre-disbursement site visits (17 in 2020 and 20 in 2021) were suspended; and
- (b) pre-disbursement site visits were only conducted when considered absolutely necessary for the assessments of satisfactory completion of the projects.

3.23 Audit also noted that while some projects not meeting the criteria in TVP Manual (see para. 3.19) may be selected by case officers for conducting pre-disbursement site visits on a risk basis (e.g. the applicant was subject to investigation by law enforcement agency), information was not available on:

- (a) the number of projects meeting the criteria in TVP Manual for mandatory pre-disbursement site visits; and
- (b) the number of mandatory site visits actually conducted.

3.24 Given that the percentage of projects with anomalies identified through the pre-disbursement site visits was high and on an increasing trend, Audit considers that ITC needs to ensure that all mandatory site visits are conducted. ITC also needs to increase the number and percentage of projects selected for the site visits as soon as the situation allows taking into account the latest development of the COVID-19 epidemic and consider exploring alternative means of conducting site visits (e.g. by conducting remote video inspection) with a view to ensuring the effectiveness of final report assessments in situations where physical site visits are not feasible.

### ***Post-disbursement site visits***

3.25 According to TVP Guidance Notes for Applications (which form part of the funding agreement), an applicant is required to keep all assets (including equipment, hardware and software) funded under TVP for at least one year after project completion or termination, and shall make such assets available for inspection upon request. Starting from 2018-19, in addition to pre-disbursement site visits, in each financial year, ITC also performed post-disbursement site visits for five randomly selected projects after their project completion and final fund disbursements. The aim of the post-disbursement site visits is to inspect the projects' books and records, and equipment and hardware purchased, focusing on verifying compliance with TVP requirements after project completion.

3.26 ***Need to increase the number of projects selected for post-disbursement site visits.*** During the period from 2018-19 to 2020-21, the number of projects with final funds disbursed increased significantly by about 2 times from 206 in 2018-19 to 606 in 2020-21. Despite the significant increase, only 5 projects were selected in each financial year for the post-disbursement site visits, representing less than 1% of projects with final funds disbursed in 2019-20 and 2020-21 (see Table 17).

**Table 17****Post-disbursement site visits of TVP projects  
(2018-19 to 2020-21)**

	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>	<b>Overall</b>
No. of projects with final funds disbursed (a)	206	516	606	1,328
No. of projects with site visits conducted (b)	5	5	5	15
Percentage of projects with site visits conducted (c)=(b)÷(a)×100%	2.43%	0.97%	0.83%	1.13%

*Source: Audit analysis of ITC records*

3.27 ***Need to conduct post-disbursement site visits in a timely manner.*** For the 1,328 projects with final fund disbursements made in the period from 2018-19 to 2020-21, ITC has conducted post-disbursement site visits for 15 (1.13%) projects (see Table 17). Audit examined records of site visits for the 15 projects and noted that the visits were not conducted in a timely manner. For all of the 15 projects, site visits were conducted more than one year after the completion of the projects (ranging from 12.7 to 27.4 months, averaging 21.5 months). For 9 (60%) of the 15 projects, site visits were conducted more than one year after the final fund disbursement (ranging from 13.1 to 19.7 months, averaging 15.9 months). As the applicants are not required to keep assets for more than one year after project completion (see para. 3.25), it is undesirable that site visits are not conducted in a timely manner. For instance, in a site visit conducted 22.6 months after project completion (or 18.7 months after the final fund disbursement), the asset funded under TVP (i.e. an IT system) was not available for inspection.

3.28 In response to Audit's enquiry, ITC informed Audit in April 2022 that:

- (a) as specified in TVP Guidance Notes for Applications, the purpose of conducting post-disbursement site visits was for checking books and records that were required to be kept by applicants for seven years;

- (b) ITC would also check whether the deliverables of TVP projects had been kept for at least one year after project completion; and
- (c) ITC would re-visit its working schedule such that the site visits would be conducted at an appropriate time to follow up on the compliance with the relevant requirements.

3.29 According to the funding agreements, applicants are required to keep all equipment, hardware, software and other assets funded by TVP for at least one year after project completion or termination (see para. 3.25). One of the objectives of the post-disbursement site visits is to inspect the equipment and hardware purchased to verify applicants' compliance with TVP requirements. In Audit's view, the post-disbursement site visits would be more effective if conducted in a timely manner. Audit considers that ITC needs to:

- (a) as the number of completed projects with final funds disbursed has increased significantly in recent years, increase the number and percentage of projects selected for post-disbursement site visits as soon as the COVID-19 epidemic situation allows, taking into account the need for social distancing; and
- (b) ensure that post-disbursement site visits are conducted in a timely manner.

## Audit recommendations

3.30 **Audit has *recommended* that CIT should:**

- (a) **ensure that all mandatory pre-disbursement site visits are conducted;**
- (b) **increase the numbers and percentages of projects selected for both pre-disbursement and post-disbursement site visits as soon as the COVID-19 epidemic situation allows, taking into account the need for social distancing;**
- (c) **consider exploring alternative means of conducting site visits (e.g. by conducting remote video inspection) with a view to ensuring the**

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**effectiveness of final report assessments in situations where physical site visits are not feasible; and**

- (d) **ensure that post-disbursement site visits are conducted in a timely manner.**

## **Response from the Government**

3.31 CIT agrees with the audit recommendations. She has said that:

- (a) some of the mandatory pre-disbursement site visits were not conducted in 2020 and 2021 due to the COVID-19 epidemic. ITC will explore with HKPC the use of alternative means (e.g. remote video inspection) for some of the site visits as appropriate;
- (b) ITC will review the number of pre-disbursement site visits regularly to ensure that the target of 10% is reached. ITC would revisit the sample size mechanism with a view to increasing the number of post-disbursement site visits to be conducted; and
- (c) ITC will review the site visit schedule so that post-disbursement site visits will be conducted in a timely manner to follow up on the applicants' compliance with the relevant requirements.

## **Post-project evaluation**

3.32 According to TVP Guidance Notes for Applications (which form part of the funding agreements):

- (a) applicants shall submit post-project evaluation reports to TVP Secretariat six months after project completion; and
- (b) the evaluations cover aspects such as the extent of the projects in achieving business objectives to improve productivity or upgrade/transform their business processes so as to enhance their competitiveness.

Results of the post-project evaluation were regularly reported in TVP Committee meetings and occasionally in the Legislative Council meetings.

### ***Post-project evaluation reports not submitted by applicants***

3.33 Although the post-project evaluation report form is available for download on both ITC's and HKPC's websites, ITC has not asked the applicants to download the report form from the websites for completion 6 months after project completion. In practice, ITC sent the post-project evaluation report forms to some applicants for their completion after the final reports of the projects were approved. Consequently, the forms were sent to the applicants much longer than 6 months after project completion because the final reports were approved much longer than 6 months after project completion. Moreover, as at 31 December 2021, of the 1,747 projects with final reports approved, evaluation forms had not yet been sent to 83 (5%) applicants.

3.34 Up to 31 December 2021, 2,758 projects had been completed for more than 6 months and their post-project evaluation reports should have been submitted. The applicants of 1,087 (39%) of the 2,758 projects had submitted post-project evaluation reports while 1,671 (61%) had not. Audit noted that, of the 2,758 projects:

- (a) post-project evaluation report forms were not sent to the applicants of 1,094 (40%) projects; and
- (b) post-project evaluation report forms were not sent to the applicants of 1,627 (58%) projects within 6 months, but up to 31 months (averaging 9 months) after project completion (see Table 18).

**Table 18**

**Time elapsed from completion of projects to  
sending post-project evaluation report forms to applicants  
(31 December 2021)**

<b>Time elapsed (Month)</b>	<b>Number of projects</b>
≤ 6	37 (2%)
> 6 to ≤ 9	864 (31%)
> 9 to ≤ 12	478 (17%)
> 12 to ≤ 18	260 (9%)
> 18 (Note)	25 (1%)
Subtotal	1,664 (60%)
Post-project evaluation report forms not sent to applicants	1,094 (40%)
Total	2,758 (100%)

*Source: Audit analysis of ITC records*

*Note: The longest time elapsed was 31 months.*

3.35 In Audit's view, the post-project evaluation reports provide useful information for evaluation of project effectiveness and should be submitted by the applicants in a timely manner. Audit considers that ITC needs to take measures to remind applicants of the requirement to submit post-project evaluation reports six months after project completion. To facilitate applicants in submitting the evaluation reports in a timely manner, ITC also needs to draw the applicants' attention to the availability of the post-project evaluation report forms for download on ITC's and HKPC's websites.

## **Audit recommendations**

3.36      **Audit has *recommended* that CIT should:**

- (a)      **take measures to remind applicants of the requirement to submit post-project evaluation reports six months after project completion; and**
- (b)      **draw the applicants' attention to the availability of the post-project evaluation report forms for download on ITC's and HKPC's websites.**

## **Response from the Government**

3.37      **CIT agrees with the audit recommendations.**



## **PART 4: ADMINISTRATIVE ISSUES**

4.1 This PART examines administrative issues of TVP, focusing on the following areas:

- (a) governance issues of TVP Committee (paras. 4.2 to 4.13);
- (b) appointment of HKPC as TVP Secretariat (paras. 4.14 to 4.24); and
- (c) performance measurement and reporting (paras. 4.25 to 4.30).

### **Governance issues of Technology Voucher Programme Committee**

#### ***Need to encourage TVP Committee members to attend committee meetings***

4.2 TVP Committee was set up in October 2016 to advise and make recommendations to ITC in steering and overseeing the implementation of TVP (Note 6). The terms of reference of TVP Committee include advising ITC on:

- (a) whether applications for funding should be approved;
- (b) the amount to be granted to each approved project; and
- (c) the terms of conditions for approving funds and the measures in monitoring the fund disbursements.

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**Note 6:** *In response to Audit's enquiry, ITC informed Audit in April 2022 that in addition to attending meetings, TVP Committee members were also required to assess applications by way of circulation of papers. In the period from October 2020 to December 2021, the 19 non-official members processed a total of 31 papers in 14 rounds of circulation.*

4.3 TVP Committee comprises ex-officio members from the Government and non-official members from the business sector, technology sector and professional services sector including those with professional knowledge and experience in enhancing productivity, or upgrading or transforming business processes. The non-official members are appointed by the Government. Each term of appointment is normally two years starting from 19 October and members are eligible for re-appointment.

4.4 According to TVP Committee's meeting rules and procedures, if less than six members (including at least five non-official members plus one ex-officio member from the Government but excluding the Chairman of the meeting) are present, the meeting may continue but decisions should be circulated to all members for endorsement after the meeting. Decisions that are made by circulations must be endorsed by the Chairman, Vice Chairman and majority of TVP Committee members.

4.5 In the period from October 2016 to March 2022, three terms of appointment were involved, namely two terms from 19 October 2016 to 18 October 2020 and the current term starting from 19 October 2020. In the period, 32 TVP Committee meetings were held. Audit examined the attendance of the non-official members at the meetings held in the period and noted that:

- (a) the attendance rates of the non-official members in each meeting ranged from 30% to 88%; and
- (b) 18 (74%) of the 24 meetings held in the period from 19 October 2016 to 18 October 2020 (i.e. the last two terms of appointment) and 1 (13%) of the 8 meetings held in the period from 19 October 2020 to 31 March 2022 (i.e. the current term of appointment (Note 7)) had attendance rates below 60% (see Table 19).

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**Note 7:** *The current term of appointment will end on 18 October 2022.*

**Table 19**

**Attendance rates of non-official members at TVP Committee meetings  
(October 2016 to March 2022)**

<b>Attendance rate</b>	<b>Number of meetings</b>		
	<b>Last two terms of appointment (19 October 2016 to 18 October 2020)</b>	<b>Current term of appointment (19 October 2020 to 31 March 2022)</b>	<b>Overall</b>
≥ 30% to < 40%	3 (12%)	0 (0%)	3 (9%)
≥ 40% to < 50%	3 (12%)	0 (0%)	3 (9%)
≥ 50% to < 60%	12 (50%)	1 (13%)	13 (41%)
≥ 60% to < 70%	2 (9%)	2 (25%)	4 (13%)
≥ 70% (Note)	4 (17%)	5 (62%)	9 (28%)
Total	24 (100%)	8 (100%)	32 (100%)

*Source: Audit analysis of ITC records*

*Note: The highest attendance rate was 88%.*

4.6 Although the attendance rates of non-official members have improved in the current term of appointment, Audit considers that ITC needs to closely monitor the attendance rates and, when necessary, take measures to encourage non-official TVP Committee members to avoid absences from committee meetings as far as possible.

*Need to ensure that requirements on  
declarations of interest are complied with*

4.7 According to ITC's Guidelines on Declaration of Conflict of Interest by Committee Members of TVP Committee, TVP Committee has adopted a two-tier reporting system for declaration of conflict of interest, as follows:

- (a) TVP Committee members to disclose their general pecuniary interest by submitting a declaration of interest form to TVP Committee at the time of appointment and annually thereafter; and
- (b) TVP Committee members to report on any actual or perceived conflicts of interests as and when they arise:
  - (i) if a member has any actual or potential conflict of interest in any matters under consideration by TVP Committee, he should, as soon as practicable after he has become aware of it, make a declaration to the Chairman (or TVP Committee) prior to the discussion of the item;
  - (ii) when a known direct pecuniary conflict of interest exists, TVP Secretariat may withhold circulation of relevant papers to the member concerned. Where a member is in receipt of a paper for discussion which he knows presents a direct conflict of interest, he should immediately inform TVP Secretariat and return the paper; and
  - (iii) declaration of interest is required when a member is an office-bearer (including the chairman/president, vice-chairman/vice-president, director, advisor and secretary, whether paid or unpaid) or a paid staff of a service provider or contractor of the applicant enterprise if the application is to be approved by TVP Committee.

4.8 In the period from October 2016 to December 2021, Audit found that:

- (a) of the 32 declarations of interest for first appointment due for submission by TVP Committee members:

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- (i) 23 (72%) were submitted late (the delays ranged from 1 day to 197 days, averaging 24 days);
  - (ii) for 13 (57%) of the 23 late submissions, the declarations of interest were submitted after the members had attended their first TVP Committee meetings. TVP Secretariat had not taken remedial actions to ensure that there was no potential conflict of interests before the meetings; and
  - (iii) on 2 (15%) of the 13 occasions (see para. (ii) above), ITC requested the newly appointed members to complete the declaration of interest forms only after they had attended their first TVP Committee meetings;
- (b) of the 74 annual declaration of interest forms due for submission by TVP Committee members:
  - (i) 16 (22%) were submitted late (the delays ranged from 2 to 133 days, averaging 39 days); and
  - (ii) 1 (1%) had not been submitted as at 31 March 2022. Apart from sending a reminder to the member in August 2020, TVP Secretariat had not taken further follow-up actions to chase up the declaration; and
- (c) of the 30 TVP Committee meetings and 40 rounds of circulation in which TVP Committee members made decisions on the acceptance of final reports and support for disbursement of funding to applicants:
  - (i) in 1 (3%) of the 30 Committee meetings, a member who endorsed the acceptance of final reports and supported the disbursement of funding in the meeting was a managing partner of the service provider in the project concerned. While the member had declared such information at the time of appointment and in the annual declaration, he had not declared such information at the meeting as required (see para. 4.7(b)(iii)); and

- (ii) in 4 (10%) of the 40 rounds of circulation, 3 members (one of them was involved in 3 rounds) had not made declarations of conflict of interest prior to responding to the circulations as required (see para. 4.7(b)(i)).

4.9 Managing conflict of interest is important to good governance and maintaining public trust in TVP Committee. Audit considers that ITC needs to ensure that declarations of interest are submitted by TVP Committee members in a timely manner. ITC also needs to ensure that the requirements stipulated in ITC's Guidelines on Declaration of Conflict of Interest by Committee Members of TVP Committee are complied with.

***Need to facilitate TVP Committee members  
in their consideration of meeting papers***

4.10 Audit examined the records of the 11 TVP Committee meetings held in 2020 and 2021 and noted that:

- (a) for each of the meetings, the meeting papers were voluminous, ranging from 948 to 2,190 pages; and
- (b) the meeting papers were issued to members only 3 to 7 days (averaging 5.4 days) before the meetings.

4.11 At the TVP Committee meeting held in December 2021, it was agreed that measures would be taken to facilitate members in their consideration of meeting papers, e.g. providing longer period for their response and arranging more frequent meetings to brief members on the applications. Notwithstanding this, in Audit's view, it is important that meeting papers are issued to TVP Committee members as early as practicable to enable them to have sufficient time to consider the papers before the meeting. Audit considers that ITC needs to issue meeting papers to TVP Committee members as early as possible.

**Audit recommendations**

4.12 **Audit has *recommended* that CIT should:**

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- (a) **closely monitor the attendance rates of non-official TVP Committee members and, when necessary, take measures to encourage them to avoid absences from committee meetings as far as possible;**
- (b) **ensure that declarations of interest are submitted by TVP Committee members in a timely manner;**
- (c) **ensure that the requirements stipulated in ITC's Guidelines on Declaration of Conflict of Interest by Committee Members of TVP Committee are complied with; and**
- (d) **issue meeting papers to TVP Committee members as early as possible.**

## **Response from the Government**

4.13 CIT agrees with the audit recommendations. She has said that:

- (a) in addition to attending meetings, TVP Committee members are also required to process applications via circulation of papers. From October 2020 to March 2022, the 19 non-official members have reviewed 18 rounds of circulation involving 40 papers. Their response rates for each paper ranged from 56% to 94%. ITC is very grateful for members' contribution to TVP Committee's work, especially with the significant increase in the number of applications since 2020;
- (b) in addition to declarations of interest at first appointment and annually, TVP Committee Chairman will invite members to declare their interests at each TVP Committee meeting involving the processing of applications and final reports. To ensure that the declarations are submitted in a timely manner, TVP Secretariat will request the Chairman to remind the members at the TVP Committee meetings if their declarations are still outstanding; and
- (c) to help remind members to declare their interests, TVP Secretariat will check the lists of applicants against members' register of interests or annual declarations and remind the members concerned accordingly.

## **Appointment of Hong Kong Productivity Council as Technology Voucher Programme Secretariat**

4.14 At a meeting of TVP Committee held in July 2020, concerns were expressed on the processing time of applications and final reports. A member suggested that ITC should make reference to other funding schemes to engage third parties to implement TVP. Subsequent to the meeting, ITC studied the options of either outsourcing the administration of TVP through an open tender exercise or appointing HKPC direct. In September 2020, ITC informed the Innovation and Technology Bureau (ITB) that:

- (a) to conduct an open tender exercise, it was estimated that a minimum of 17 weeks would be required, from the preparation of tender documents to the signing of contract with the winning tenderer, before ITC could proceed to hand over the administration of TVP to the winning tenderer. The handover would take another 8 weeks;
- (b) a monthly average of over 730 applications had been received in recent months versus TVP Secretariat's capacity to process a monthly average of 130 applications to be submitted to TVP Committee for consideration. This resulted in a cumulative backlog of over 3,700 applications pending or under assessment by ITC at that time. By the time the outsourcing contract was awarded to the winning tenderer through the open tender exercise, the backlog would increase to over 5,700 applications;
- (c) the conduct of the open tender exercise would draw resources from ITC's already fully stretched manpower, which would lead to even longer processing time of TVP applications;
- (d) HKPC had a long history of providing secretariat services for various government funding programmes under other bureaux/departments;
- (e) with one of its core competence areas as digital transformation and abundant experience accumulated from vetting a huge number of applications of similar nature, ITC considered that HKPC should be fully capable of vetting applications and monitoring approved projects under TVP;



## **Administrative issues**

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- (f) HKPC would make some contributions to the implementation of TVP as the implementation partner; and
- (g) taking the above into consideration, ITC recommended directly appointing HKPC as the implementation partner of TVP. ITC acknowledged that in an ideal situation, open tender would be the most open and transparent process. However, the further build-up of backlog and the long processing time would affect the credibility of ITC as well as TVP, and likely give rise to negative publicity. Given HKPC's rich experience in managing government funding schemes and its close working relationship with ITC, ITC considered that the problems of backlog and the processing time of applications could be addressed.

4.15 ITB agreed in principle to outsource the administration of TVP so as to speed up the processing time. It requested ITC to follow the established procedures stipulated in the Stores and Procurement Regulations (SPRs) in the selection process. In December 2020, ITC informed ITB of the progress of outsourcing the administration of TVP as follows:

- (a) ITC had commenced the preparatory work for an open tender exercise and would, at most, be able to award the tender in April or May 2021 and have the winning tenderer to commence processing applications around June 2021;
- (b) there was a very strong demand for TVP with a monthly average of about 700 applications in the second half of 2020. It was estimated that the backlog would be over 8,000 applications by June 2021; and
- (c) ITC had further examined the option of directly appointing HKPC as the implementation partner of TVP from the operational and the policy perspectives. From the operational perspective, with the experience and know-how of HKPC gained from the implementation of another government funding programme, appointing HKPC direct should be able to clear the backlog at a faster pace than the open tender option. From the policy perspective, TVP was consistent with HKPC's mission to enhance the productivity and competitiveness of enterprises. HKPC was also expected to make some contributions to the implementation of the programme.

In the same month, ITB agreed with ITC's recommendation to directly appoint HKPC as the implementation partner of TVP.

4.16 The arrangement of directly appointing HKPC as the implementation partner of TVP was included in the papers issued to the Legislative Council Panel on Commerce and Industry in April 2021 and to the Finance Committee in May 2021, drawing reference to other similar existing arrangements. In June 2021, ITC appointed HKPC as TVP Secretariat (see para. 1.10). The estimated implementation fee for the three-year period commencing June 2021 was \$195.4 million (Note 8). In the period from June to December 2021, HKPC had processed 4,416 applications.

***Need to ensure that requirements stipulated in Financial Circular are complied with in government procurements and in partnering arrangements involving non-governmental entities***

4.17 According to the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government:

- (a) ***Need to preserve a level playing field.*** Bureaux/departments should observe the need to preserve a level playing field in government procurements and in partnering arrangements involving non-governmental entities, by adhering as far as possible to a fair, open and/or competitive selection process;
- (b) ***Government procurements.*** If the project is primarily owned, organised and funded by the Government, and the Controlling Officer needs to procure a service or good from a non-government/private sector 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 Treasury Branch of the Financial Services and the Treasury Bureau (FSTB) in accordance with SPRs; and

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**Note 8:** *According to ITC: (a) the estimated implementation fee of \$195.4 million denotes the ceiling which ITC would provide to HKPC; and (b) the actual disbursement will be made according to the actual expenditure.*

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- (c) ***Partnering arrangements.*** 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 SPRs, the relevant considerations and decisions should be clearly and properly recorded. The Treasury Branch of FSTB should be consulted if in doubt.

4.18 In response to Audit's enquiry on whether the appointment of HKPC to administer TVP complies with the requirements stipulated in the Financial Circular, ITC informed Audit in April 2022 that:

- (a) ITC confirmed that the Controlling Officer (i.e. CIT) was satisfied that the appointment of HKPC did not constitute procurement of service and therefore was not subject to SPRs; and
- (b) relevant considerations and decisions of the Controlling Officer were documented as follows:
  - (i) HKPC had a long history of acting and being directly appointed as the implementation partner of various government funding programmes. As in the case of these funding programmes under the purview of the respective bureaux/departments, HKPC had been appointed as the implementation partner for TVP without undergoing the tendering procedures under SPRs;
  - (ii) HKPC would make some contributions (Note 9 ) to the implementation of TVP as the implementation partner;
  - (iii) from the policy perspective, ITC, as HKPC's housekeeping department, considered that TVP could assist HKPC in pursuing its mission to enhance the productivity and competitiveness of enterprises, particularly the small and medium enterprises; and
  - (iv) from the operational perspective, with the experience and know-how gained from the implementation of another government funding programme (which bore a certain degree of similarity to

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**Note 9:** *Audit noted that the contribution was related to the costs of HKPC's renovation of office to accommodate the additional staff members with a budget of \$6.1 million.*

TVP), ITC considered that appointing HKPC as the implementation partner (non-procurement option) would allow clearance of backlog of applications at a faster pace than the open tender option (procurement option).

In Audit's view, there was room for improvement in recording clearly and properly the relevant considerations and decisions on the nature of the partnering arrangement with HKPC (see para. 4.17(c)). Furthermore, according to SPRs, by encouraging participation through open and fair competition, the Government will be better able to obtain responsive and competitive bids that ensure value for money. As a norm, open bidding should be adopted as far as practicable.

4.19 Audit considers that ITC needs to ensure that, in future, the requirements stipulated in the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government are complied with in government procurements and in partnering arrangements, including the engagement of a non-government partner to administer TVP upon the expiry of the current contract with HKPC.

### *Delay in entering into formal agreement with HKPC*

4.20 On 8 June 2021, ITC announced that HKPC had been commissioned to serve as TVP Secretariat. According to the agreement between ITC and HKPC, HKPC shall provide the services in two stages, namely the preparatory stage from 4 March 2021 to 7 June 2021, and the implementation stage from 8 June 2021 onwards.

4.21 In Audit's view, it is important to sign formal service agreement before the commencement of service in order to avoid disputes between the parties concerned. Audit noted that while ITC commissioned HKPC to provide secretariat services for the administration of TVP starting from 4 March 2021, the formal agreement was not signed until 23 November 2021, more than 8 months after HKPC began providing the services.

4.22 To avoid unnecessary disputes, formal agreement should always be signed before commencement of services. Audit considers that in future implementation

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arrangements, ITC needs to ensure that formal agreement between the Government and the non-government party is signed before commencement of services.

### **Audit recommendations**

4.23      **Audit has *recommended* that CIT should:**

- (a)      **ensure that, in future, the requirements stipulated in the Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government are complied with in government procurements and in partnering arrangements, including the engagement of a non-government partner to administer TVP upon the expiry of the current contract with HKPC; and**
- (b)      **in future implementation arrangements, ensure that formal agreement between the Government and the non-government party is signed before commencement of services.**

### **Response from the Government**

4.24      CIT agrees with the audit recommendations. She has said that:

- (a)      ITC has carefully considered the pros and cons of directly appointing HKPC as the implementation partner of TVP vis-a-vis the alternative of outsourcing the administration of TVP through an open tender exercise. Such considerations had been discussed between ITC and ITB, and are reflected in the internal correspondence. The direct appointment of HKPC was supported by ITB. As ITC has decided to appoint HKPC under the partnering arrangement, SPRs do not apply. Such arrangement has been a common practice among various bureaux/departments for other funding schemes. ITC has also reported the direct appointment of HKPC to the Legislative Council. ITC will continue to ensure that proper records are documented in future pursuant to the requirements stipulated in the Financial Circular; and

- (b) despite a formal agreement had not been signed before HKPC commenced its services, ITC and HKPC had agreed on the key features of the direct appointment, and HKPC obtained the endorsement of its governing body (i.e. its Council) before HKPC commenced the preparatory work in March 2021 in the interest of time. ITC will ensure that for future appointments, the formal agreement would be signed before commencement of service unless there are exceptional circumstances.

## Performance measurement and reporting

### *Need to ensure that accurate performance information is reported on website*

4.25 In April 2020, in response to ICAC's recommendations (see paras. 2.13 and 3.15), ITC set two new performance pledges, namely:

- (a) *Assessment result of application.* To make available to the applicant the assessment result of an application within 60 working days upon receipt of full information including necessary supporting documents from the applicant; and
- (b) *Assessment result of final report.* To make available to the applicant the assessment result of a final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant.

4.26 ITC reported on its website that its achievements for 2020 (April to December) in meeting the performance pledges were as follows (see paras. 2.13 and 3.15):

- (a) *Assessment result of application.* The performance pledge to make available to the applicant the assessment result of an application within 60 working days upon receipt of full information including necessary supporting documents from the applicant was met for 88% of the applications; and

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- (b) ***Assessment result of final report.*** The performance pledge to make available to the applicant the assessment result of a final report of an approved TVP project within 60 working days upon receipt of full information including necessary supporting documents from the applicant was met for 84 % of the final reports received.

4.27 Audit found that in compiling the percentages for achievement of performance pledges, ITC incorrectly used calendar days (instead of working days as stipulated in the pledges) in the compilation. If working days had been used, the percentages of meeting the pledges would have been 92 % (instead of 88 %) of applications (see para 2.13) and 92 % (instead of 84 %) of final reports (see Table 15 in para. 3.15).

4.28 Performance measurement and reporting is important in providing users of public services with information about the service standards, and in enabling the providers of public services to identify the service quality or areas that should be maintained or improved. Audit considers that ITC needs to take measures to ensure that accurate performance information is reported on its website.

## **Audit recommendation**

4.29 Audit has *recommended* that CIT should take measures to ensure that accurate performance information is reported on ITC's website.

## **Response from the Government**

4.30 CIT agrees with the audit recommendation. She has said that ITC will automate the calculation of the achievements of performance pledge to ensure the accuracy of performance information.

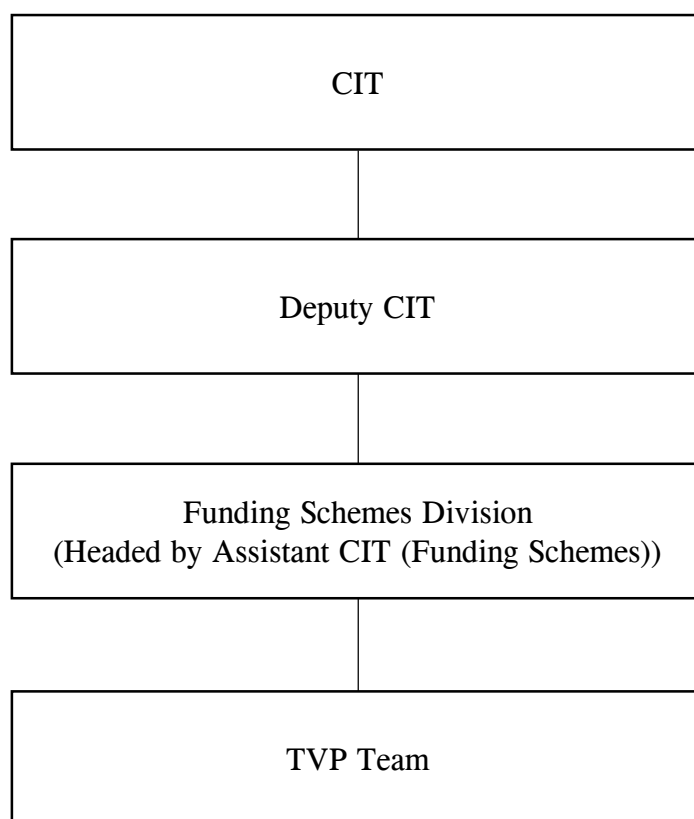
**Enhancement measures for Technology Voucher Programme  
(February 2018 to August 2020)**

<b>Date</b>	<b>Enhancement measures</b>
February 2018	Eligibility was relaxed from small and medium enterprises with at least one year of operation to all non-listed enterprises registered in Hong Kong under the Business Registration Ordinance regardless of their size and duration of operation.
February 2019	TVP became a regular programme under ITF. The eligibility was further expanded to cover companies incorporated and registered in Hong Kong under the Companies Ordinance that were exempted from business registration, and statutory bodies set up in Hong Kong (these companies/organisations should not be receiving recurrent Government subventions). The funding ceiling per enterprise/organisation was doubled from \$200,000 to \$400,000, and the maximum number of approved projects was increased from 3 to 4.
December 2019	An initial payment of up to 25% of the approved funding amount might be made to the successful applicant upon the applicant's request after the signing of the funding agreement and compliance with relevant conditions.
April 2020	The Government's funding ratio for each TVP project was raised from two-thirds to three-quarters. The funding ceiling per applicant was increased from \$400,000 to \$600,000 and the maximum number of approved projects was increased from 4 to 6.
June 2020	The requirement for applicants to obtain approval from ITC before commencement of projects was relaxed. All applicants were allowed to start their projects on the day following the submission of the application at the earliest.
August 2020	The restriction pertaining to related entities for TVP was relaxed. Related entities were no longer treated as one single entity for the purpose of calculating the cumulative funding amount.

*Source: Audit analysis of ITC records*



**Innovation and Technology Commission:  
Organisation chart (extract)  
(31 January 2022)**



*Source: Audit analysis of ITC records*

## Acronyms and abbreviations

Audit	Audit Commission
CIT	Commissioner for Innovation and Technology
FSTB	Financial Services and the Treasury Bureau
HKPC	Hong Kong Productivity Council
ICAC	Independent Commission Against Corruption
ITB	Innovation and Technology Bureau
ITC	Innovation and Technology Commission
ITF	Innovation and Technology Fund
SPRs	Stores and Procurement Regulations
TVP	Technology Voucher Programme