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3 April 2025

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

Sir,

In accordance with the paper tabled in the Provisional Legislative Council on 11 February 1998 on the Scope of Government Audit in the Hong Kong Special Administrative Region — ‘Value for Money Audits’, I have the honour to submit my Report No. 84 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

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The Director of Audit's Report No. 84 contains the following chapters:

Chapter (Note)	Subject
1	Dedicated Fund on Branding, Upgrading and Domestic Sales
2	Hong Kong Council for Accreditation of Academic and Vocational Qualifications
3	Lantau Conservation Fund
4	Management of Mandatory Window Inspection Scheme by the Buildings Department
5	Maritime and Aviation Training Fund
6	Street cleansing services
7	The Society for the Aid and Rehabilitation of Drug Abusers
8	Working Family Allowance Scheme

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 Trade and Industry Department

Dedicated Fund on Branding, Upgrading and Domestic Sales

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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DEDICATED FUND ON BRANDING, UPGRADING AND DOMESTIC SALES

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DEDICATED FUND ON BRANDING, UPGRADING AND DOMESTIC SALES

Executive Summary

1. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Government set up a Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) in June 2012 to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland. In the period from August 2018 to July 2021, the Government extended the geographical coverage of BUD Fund to also include the Association of Southeast Asian Nations markets, and other economies with which Hong Kong had signed Free Trade Agreements and/or Investment Promotion and Protection Agreements. Up to 28 February 2025, the total approved funding commitment of BUD Fund was \$7 billion. It was announced in the 2024 Policy Address and the 2025-26 Budget that the Government would further inject \$1 billion and \$0.75 billion respectively into BUD Fund (pending the approval by the Legislative Council as at 28 February 2025). Up to December 2024, 9,830 BUD Fund applications had been approved, involving total approved funding amount of \$6.05 billion with about 6,500 beneficiary enterprises. There are three types of applications under BUD Fund, i.e. general application, “Easy BUD” application and “E-commerce Easy” application. The Commerce and Economic Development Bureau and the Trade and Industry Department (TID) are responsible for administering BUD Fund. Since the launch of BUD Fund, the Government has engaged the Hong Kong Productivity Council (HKPC) as the implementation partner and the secretariat of BUD Fund (hereinafter referred to as BUD Fund Secretariat). The Audit Commission (Audit) has recently conducted a review of BUD Fund.

Processing of applications

2. *Scope for expediting receipt of all necessary information and clarifications for processing of applications.* Applications received are initially assessed by BUD Fund Secretariat. If further clarification and additional information are required, BUD Fund Secretariat will notify the applicants by email within four weeks from the receipt of application. The applicants are required to provide

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such clarification or information within 14 days. Audit analysed the 7,571 general applications received in the period from January 2021 to December 2024, 789 “Easy BUD” applications received in the period from June 2023 to December 2024, and 25 “E-commerce Easy” applications received in the period from July to December 2024 that were approved/approved with conditions or rejected as at 31 December 2024. Audit found that in some cases, long time had been taken to receive all the necessary information and clarifications from the applicants. The time taken from the date of receiving the applications to the date of receiving all the necessary information and clarifications from the applicants ranged from 2 to 446 days (averaging 120 days) for general applications, 2 to 153 days (averaging 41 days) for “Easy BUD” applications, and 13 to 81 days (averaging 39 days) for “E-commerce Easy” applications (paras. 2.3, 2.6 to 2.8).

3. *Need to identify ways to reduce number of rejected applications, withdrawn applications or applications which could not be processed further as far as possible.* After the completion of initial assessment, the applications will be circulated to the Inter-departmental Committee (IDC) for further assessment. Applications endorsed by IDC are then submitted to the Programme Management Committee (PMC) for final assessment. PMC will decide whether the applications would be approved/approved with conditions or rejected. Audit analysed the 18,585 general applications (received and processed from January 2018 to December 2024), the 1,516 “Easy BUD” applications (received and processed from June 2023 to December 2024) and the 75 “E-commerce Easy” applications (received and processed from July to December 2024). Audit found that 9,956 (53%) general applications, 954 (63%) “Easy BUD” applications, and 60 (80%) “E-commerce Easy” applications were rejected, withdrawn or could not be processed further. While the Government has introduced a series of measures to facilitate enterprises in submitting applications for BUD Fund, there were still a considerable number of rejected applications, withdrawn applications, or applications which could not be processed further due to various reasons including insufficient information and little understanding of application requirements (paras. 2.3, 2.11 to 2.13).

4. *Long time taken to sign funding agreements after issuance of result notification letters.* BUD Fund Secretariat’s Operation Manual stipulates that in general, the funding agreements between BUD Fund Secretariat and the grantees should be signed within six months from the date of issuance of result notification letters. Audit analysed the time elapsed from the date of issuance of result notification letters to the date of signing of funding agreements for 5,481 general applications approved in the period from January 2021 to December 2024 and 515 “Easy BUD”

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applications approved in the period from June 2023 to December 2024 with result notification letters issued. Audit found that: (a) for 64 (1%) of the 5,122 general applications and 5 (1%) of the 485 “Easy BUD” applications with funding agreements signed, the funding agreements were signed more than 6 months after issuance of result notification letters. The delays ranged from 1 day to 1.2 years (averaging 2.8 months) for general applications and 10 days to 3.7 months (averaging 2 months) for “Easy BUD” applications respectively; and (b) as at 31 December 2024, the funding agreements for 359 approved general applications were not yet signed. For 20 (6%) of the 359 general applications, the time elapsed from the date of issuance of result notification letters was more than 6 months, ranging from 6.2 months to 2.3 years (averaging 1 year) (paras. 2.16 and 2.17).

5. *Need to enhance monitoring of applications approved with conditions.* In some cases, an application may be approved with conditions (i.e. an approval-in-principle is given whereby the applicant is required to fulfil one or more conditions set by PMC within a required timeframe). As at 31 December 2024, 600 applications approved with conditions were still pending the applicants to fulfil the stipulated conditions. Audit analysed 124 of the 600 applications where the approvals with conditions had been given more than 6 months ago as at 31 December 2024 and found that: (a) for 75 (60%) applications where the required timeframes for fulfilling the conditions were set at 4 or 6 months from the dates of issuance of result notification letters, the applicants could not fulfil the stipulated conditions within the required timeframes. The delays up to 31 December 2024 ranged from 5 days to 10.8 months (averaging 3.2 months). For the remaining 49 (40%) applications where the required timeframes for fulfilling the conditions were set at 14 days from the dates of issuance of result notification letters, the applicants could not fulfil the stipulated conditions within the required timeframes. The delays up to 31 December 2024 ranged from 5.7 to 13.3 months (averaging 7.5 months); (b) there were no guidelines on the follow-up actions to be taken on the applicants failing to fulfil the conditions stipulated in the approvals with conditions within the required timeframes. No timeframe was set for lapsing the approvals-in-principle for applicants who did not fulfil the stipulated conditions within the required timeframes; and (c) the required timeframes for fulfilling the stipulated conditions by applicants and the actual dates for fulfilling the stipulated conditions by applicants were not recorded in BUD Fund’s computer system. As such, there was no readily available management information on the timeliness of fulfilling the stipulated conditions by the applicants for performance monitoring (paras. 2.20 and 2.21).

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Monitoring of approved projects

6. *Need to ensure timely submission of final reports and progress reports by grantees.* To facilitate the monitoring and evaluation of approved projects, the grantees are required to submit reports to BUD Fund Secretariat for review. The reports will then be submitted to IDC for assessment and thereafter to PMC for consideration and acceptance (para. 3.2). Audit noted the following issues:

- (a) *Delays in submission of final reports and progress reports by grantees.* In 2024, 727 final reports and 17 progress reports submitted by the grantees for projects under general applications, and 146 final reports submitted by the grantees for projects under “Easy BUD” applications were accepted by PMC. Audit reviewed the submission of these reports by the grantees and found that: (i) 333 (46%) of the 727 final reports and 8 (47%) of the 17 progress reports for projects under general applications were submitted late. The delays ranged from 1 to 806 days (averaging 104 days) for final reports and 9 to 519 days (averaging 125 days) for progress reports; and (ii) 37 (25%) of the 146 final reports for projects under “Easy BUD” applications were submitted late. The delays ranged from 1 to 135 days (averaging 43 days) (para. 3.3); and
- (b) *Overdue final reports and progress reports.* As at 31 December 2024, 341 final reports and 16 progress reports for projects under general applications, and 32 final reports for projects under “Easy BUD” applications were overdue for submission. Audit analysed the overdue period of these reports and found that, as at 31 December 2024: (i) for the 341 overdue final reports and the 16 overdue progress reports for projects under general applications, the overdue period ranged from 1 to 642 days (averaging 100 days) for final reports and 1 to 551 days (averaging 157 days) for progress reports; and (ii) for the 32 overdue final reports for projects under “Easy BUD” applications, the overdue period ranged from 1 to 215 days (averaging 73 days) (para. 3.4).

7. *Need to expedite the processing of final reports and progress reports.* As at 31 December 2024, 1,937 final reports and 102 progress reports for projects under general applications, and 75 final reports for projects under “Easy BUD” applications were still under processing. Audit analysed the time elapsed from the dates of the receipt of the reports. Audit found that, up to 31 December 2024: (a) for the 1,937 final reports and 102 progress reports for projects under general applications,

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the time elapsed from the dates of receipt ranged from 1 day to 3.5 years (averaging 300 days) for final reports and 1 day to 3.3 years (averaging 457 days) for progress reports. 586 (30%) of the 1,937 final reports and 58 (57%) of the 102 progress reports had been received for more than 1 year; and (b) for the 75 final reports for projects under “Easy BUD” applications, the time elapsed from the dates of receipt ranged from 1 to 157 days (averaging 42 days). 8 (11%) of the 75 final reports had been received for more than 90 days (para. 3.8).

8. *Need to ensure that on-site checks are conducted within target timeframes.* BUD Fund Secretariat conducts on-site checks on selected projects to verify the project progress and results. The Enhanced Guidelines on On-site Check Mechanism stipulate the criteria for nominating projects for on-site checks and the target timeframes for conducting the checks. Audit reviewed the on-site checks conducted on 20 projects in the period from 2022-23 to 2024-25 (up to September 2024) and found that for 8 (40%) projects, the on-site checks were not conducted within the target timeframes: (a) for 6 (30%) projects, the on-site checks were conducted after the specified timeframe. The delays ranged from 1 day to 16.4 months (averaging 8 months); and (b) for 2 (10%) projects, the on-site checks were conducted before the specified timeframe. The on-site checks were conducted 1 and 2 months before the specified timeframe respectively (paras. 3.13, 3.21 and 3.22).

9. *Need to refine guidelines on on-site checks for “Easy BUD” and “E-commerce Easy” projects.* Audit noted that there were no specific guidelines relating to on-site checks for “Easy BUD” and “E-commerce Easy” projects. For “Easy BUD” projects, according to the minutes of PMC meeting held in December 2022, no on-site check would normally be conducted unless suspicious elements were found. However, the suspicious elements and the circumstances which would warrant the conduct of on-site checks were not specified. For “E-commerce Easy” projects, according to TID, the general parameters of post-project follow-up follow those of the projects under general applications. However, Audit found that the selection criteria and target number of on-site checks for “E-commerce Easy” projects had not been specified (para. 3.29).

10. *Significant increase in amount of residual funds to be recouped from grantees.* For approved projects under general applications and “E-commerce Easy” applications, the grantee can choose to receive an initial payment for its approved project. There are circumstances where, upon the termination or the completion of

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project, the amount of the recognisable funding amount endorsed by PMC is smaller than the amount of initial payment disbursed. Upon the termination or the completion of the project, whichever is earlier, the grantee shall return to the Government via BUD Fund Secretariat any residual funds before the date prescribed by PMC. Audit reviewed the recoupment of residual funds from grantees of terminated projects and completed projects in the period from 2019-20 to 2024-25 (up to 31 December 2024) and found that as at 31 December 2024: (a) the amount of residual funds to be recouped from the grantees of terminated projects was \$73.7 million, which increased significantly by \$72.9 million from \$0.8 million as at 31 March 2020; and (b) the amount of residual funds to be recouped from the grantees of completed projects was \$14.3 million, which increased significantly by \$14.2 million from \$0.1 million as at 31 March 2020 (paras. 3.33 and 3.34).

11. ***Long outstanding residual funds to be recouped from grantees.*** As at 31 December 2024, the amount of residual funds to be recouped from grantees of terminated projects and completed projects was \$73.7 million (involving 150 projects) and \$14.3 million (involving 63 projects) respectively. Audit analysed the recoupment of the residual funds from the grantees of the 150 terminated projects and the 63 completed projects. Audit noted that as at 31 December 2024: (a) for the 150 terminated projects, the time elapsed from the date of project termination ranged from 4 days to 9 years (averaging 1 year). For 50 (33%) projects (involving total residual funds of \$21.8 million or 30% of the total outstanding amount), the time elapsed from the date of project termination was more than 1 year; and (b) for the 63 completed projects, the time elapsed from the date of PMC endorsement of final reports and final audited accounts (i.e. when the amount of residual funds could be determined) ranged from 12 days to 2.4 years (averaging 193 days). For 14 (22%) projects (involving total residual funds of \$3.7 million or 26% of the total outstanding amount), the time elapsed from the date of PMC's endorsement of final reports and final audited accounts was more than 1 year (paras. 3.36 and 3.37).

Other related issues

12. ***Service agreements with BUD Fund Secretariat not updated in a timely manner.*** Since June 2012, HKPC has been engaged as the implementation partner and the secretariat of BUD Fund. The service agreement signed between the Government and HKPC in June 2012 had been updated five times in June 2017, October 2018, September 2020, March 2022 and March 2024 respectively. Audit examined four recent service agreements signed between the Government and HKPC

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and found that all the agreements were signed retrospectively after the effective dates of the agreements. The four agreements were signed 3 to 9 months (averaging 7 months) after the effective dates of the respective agreements (paras. 4.2 and 4.3).

13. ***Delays in submission and approval of Annual Implementation Plans.*** BUD Fund Secretariat is required to produce, for each financial year, an Annual Implementation Plan for acceptance by the Government and PMC. Audit reviewed the records of submissions and approvals of Annual Implementation Plans for the financial years 2019-20 to 2024-25 and found that: (a) for all the 6 years, there were delays in the submissions of Annual Implementation Plans by BUD Fund Secretariat. The delays ranged from 86 to 115 days (averaging 100 days); (b) for 3 (50%) of the 6 years, the Annual Implementation Plans were submitted to PMC after the commencement of the respective financial years. The Plans for these 3 years were submitted 21 to 23 days (averaging 22 days) after the commencement of the respective financial years; and (c) for the recent 4 (67%) of the 6 years, TID indicated its approvals in writing 8 to 14 weeks (averaging 11 weeks) after PMC had reached a conclusion. For the first 2 (33%) years, there was no documentary evidence showing TID's indication of approvals in writing for the Annual Implementation Plans (paras. 4.6 and 4.8).

14. ***Delays in submission of Annual Reports and audited accounts by BUD Fund Secretariat.*** According to the service agreements signed between the Government and HKPC, BUD Fund Secretariat should produce to PMC an Annual Report and audited accounts of BUD Fund within three months after the end of each financial year. Audit examined the submissions of 5 sets of Annual Reports and audited accounts for the financial years from 2019-20 to 2023-24 and found that there were delays in the submissions of 4 (80%) sets of Annual Reports and audited accounts. The delays ranged from 8 to 90 days (averaging 36 days) for Annual Reports and 9 to 92 days (averaging 38 days) for audited accounts (paras. 4.10 and 4.11).

15. ***Need to appoint more young people to PMC.*** In October 2017, the Government announced that it 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% by June 2022. Audit reviewed the appointments of PMC members for the three terms from July 2020 to June 2022, July 2022 to June 2024 and July 2024 to June 2026 respectively. Audit found that the number of young members appointed were 2, 2 and 1 for the three terms

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respectively. Of the total number of non-official PMC members appointed, the overall ratios of young members were only 13 %, 13 % and 8 % for the three terms respectively (paras. 4.21 and 4.22).

16. *Need to improve first-tier declarations of interests.* PMC adopts a two-tier reporting system for members to declare matters which may give rise to a conflict of interests. Audit examined the first-tier declarations made in the period from July 2020 to December 2024 and found that all the 14 declarations of interests on first appointment were made after the dates of first appointment of the members concerned. The declarations were made 1 to 21 days (averaging 6 days) after the first appointment of the members concerned (paras. 4.32 and 4.33).

Audit recommendations

17. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

Processing of applications

- (a) **ascertain the reasons for the long time taken to receive all necessary information and clarifications for some applications for grant (para. 2.14(a));**
- (b) **take measures to expedite the receipt of all necessary information and clarifications from the applicants for processing applications for grant (para. 2.14(b));**
- (c) **identify ways to reduce the number of rejected applications, withdrawn applications or applications which could not be processed further as far as possible (para. 2.14(c));**
- (d) **take measures to ensure that the funding agreements are signed within the timeframe specified in BUD Fund Secretariat's Operation Manual (para. 2.18);**

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- (e) **take measures to ensure that the applicants fulfil the conditions stipulated in the approvals with conditions within the required timeframes (para. 2.23(a));**
- (f) **enhance guidelines on handling applications approved with conditions, including:**
 - (i) **the follow-up actions to be taken on the applicants failing to fulfil the conditions stipulated in the approvals with conditions within the required timeframes (para. 2.23(b)(i)); and**
 - (ii) **setting timeframe for lapsing the approvals-in-principle for the applicants who have not fulfilled the stipulated conditions within the required timeframes (para. 2.23(b)(ii));**
- (g) **take measures to ensure that the required timeframes and actual timeframes for fulfilling conditions stipulated in approvals with conditions by the applicants are recorded in BUD Fund's computer system and compile management information on the timeliness of fulfilling stipulated conditions by the applicants for performance monitoring (para. 2.23(c));**

Monitoring of approved projects

- (h) **take measures to ensure the timely submission of final reports and progress reports by the grantees (para. 3.11(a));**
- (i) **urge the grantees to submit the overdue final reports and progress reports as early as possible (para. 3.11(b));**
- (j) **enhance measures to expedite the processing of the final reports and progress reports (para. 3.11(c));**
- (k) **take measures to ensure that on-site checks are conducted within the target timeframes stipulated in the Enhanced Guidelines on On-site Check Mechanism (para. 3.31(c));**

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- (l) **refine guidelines on on-site checks to include specific guidelines for “Easy BUD” and “E-commerce Easy” projects, including:**
 - (i) **specifying the suspicious elements and the circumstances which warrant the conduct of on-site checks for “Easy BUD” projects (para. 3.31(e)(i)); and**
 - (ii) **specifying the selection criteria and the target number of on-site checks for “E-commerce Easy” projects (para. 3.31(e)(ii));**
- (m) **ascertain the reasons for the significant increase in amount of residual funds to be recouped from grantees of terminated projects and completed projects (para. 3.43(a));**
- (n) **enhance the monitoring of the amount of residual funds to be recouped from grantees of terminated projects and completed projects (para. 3.43(b));**
- (o) **closely monitor the recoupment of residual funds from grantees of terminated and completed projects, in particular, those from the long outstanding cases (para. 3.43(c));**
- (p) **step up measures to recoup residual funds from grantees of terminated and completed projects as soon as possible (para. 3.43(d));**

Other related issues

- (q) **take measures to ensure that BUD Fund Secretariat submits the Annual Implementation Plans within the stipulated timeframe (para. 4.17(a));**
- (r) **take measures to ensure that Annual Reports and audited accounts of BUD Fund are submitted by BUD Fund Secretariat within the stipulated timeframe (para. 4.17(b)); and**
- (s) **take measures to ensure that first-tier declarations of interests are made by PMC members in a timely manner (para. 4.36(c)).**

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18. Audit has also *recommended* that the Director-General of Trade and Industry should take measures to:

- (a) ensure that the service agreements between the Government and BUD Fund Secretariat are updated in a timely manner (para. 4.16(a)); and
- (b) ensure that Annual Implementation Plans are approved by TID within the stipulated timeframe and such approvals are properly documented (para. 4.16(b)).

19. Audit has also *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should step up efforts to appoint more young people to PMC (para. 4.35(a)).

Response from the Government

20. The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations.

PART 1: INTRODUCTION

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

Background

1.2 To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Government set up a Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) in June 2012 to assist enterprises in exploring and developing the Mainland market through developing brands, upgrading and restructuring their operations and promoting domestic sales in the Mainland. In August 2018, the Government extended the geographical coverage of BUD Fund to also include the Association of Southeast Asian Nations (ASEAN) markets. In January 2020, a further expansion of the geographical coverage was implemented to cover other economies with which Hong Kong had signed Free Trade Agreements (FTAs) to assist enterprises in taking the economic opportunities. In July 2021, the geographical coverage of BUD Fund was extended to include all economies with which Hong Kong had signed Investment Promotion and Protection Agreements (IPPAs). The Commerce and Economic Development Bureau (CEDB) and the Trade and Industry Department (TID) are responsible for administering BUD Fund.

1.3 ***Approved funding commitment.*** The Chief Executive of the Hong Kong Special Administrative Region announced in the 2011-12 Policy Address the proposal to set up BUD Fund. In May 2012, the Government sought the approval of the Finance Committee of the Legislative Council to create a non-recurrent commitment of \$1 billion for setting up BUD Fund. In the period from June 2018 to May 2024, five rounds of approvals were sought to increase the funding commitment of BUD Fund, thereby increasing the total approved funding commitment of BUD Fund to \$7 billion (see Table 1).

1.4 ***Proposed increases in funding commitment.*** In the 2024 Policy Address, the Chief Executive announced the proposal to inject \$1 billion into BUD Fund for support measures including expanding the geographical coverage of BUD Fund's E-commerce Easy (see para. 1.7(c)) to the 10 ASEAN countries, and providing targeted funding support for enterprises to implement green transformation projects.

Introduction

In the 2025-26 Budget, the Financial Secretary announced the proposal to make a further injection into BUD Fund to support the development of local enterprises and help them go global. The proposed injection was \$0.75 billion. As at 28 February 2025, the proposed increases in funding commitment associated with the 2024 Policy Address and the 2025-26 Budget were pending the approval by the Legislative Council (see Table 1).

Table 1

**Funding commitment of BUD Fund
(2012 to 2025)**

Date	Approval sought/to be sought	Funding commitment (\$ billion)
<i>Approved funding commitment</i>		
May 2012	Approved by the Finance Committee of the Legislative Council	1.00
June 2018		1.50
December 2019		2.00
April 2021		1.50
May 2023	Approved by way of Appropriation Bill 2023	0.50
May 2024	Approved by way of Appropriation Bill 2024	0.50
Total approved funding commitment		7.00
<i>Proposed increases in funding commitment</i>		
October 2024 (Note)	Approval to be sought by way of Appropriation Bill 2025	1.00
February 2025 (Note)		0.75
Total proposed increases in funding commitment		1.75

Source: Audit Commission analysis of TID records

Note: In October 2024, the Chief Executive announced in the 2024 Policy Address the proposal to inject \$1 billion into BUD Fund. In February 2025, the Financial Secretary announced in the 2025-26 Budget the proposal to make a further injection into BUD Fund. The proposed injection was \$0.75 billion. As at 28 February 2025, the proposed increases in funding commitment were pending the approval by the Legislative Council.

Introduction

1.5 ***BUD Fund applications and funding approved.*** In the period from the launch of BUD Fund in June 2012 to December 2024, 9,830 BUD Fund applications had been approved, involving total approved funding amount of \$6.05 billion with about 6,500 beneficiary enterprises. The number of BUD Fund applications received and approved, and the amount of funding approved and disbursed in the period from 2012 to 2024 are shown in Table 2.

Table 2

**Number of BUD Fund applications received and approved
and amount of funding approved and disbursed
(2012 to 2024)**

Year	Number of applications		Amount of funding	
	Received	Approved (Note 1)	Approved (\$ billion)	Disbursed (\$ billion)
2012 to 2019 (Note 2)	5,613	2,340	1.04	0.26
2020	3,521	881	0.58	0.27
2021	2,580	894	0.63	0.59
2022	2,637	1,337	0.96	0.69
2023	4,739	1,693	1.15	0.81
2024	7,262	2,685	1.69	1.10
Total	26,352	9,830	6.05	3.72

Source: Audit Commission analysis of BUD Fund Secretariat records

Note 1: The figures refer to the number of applications approved in the year. These applications may not be received in the same year. The figures do not include applications approved with conditions (see para. 2.20).

Note 2: BUD Fund was launched in June 2012.

Dedicated Fund on Branding, Upgrading and Domestic Sales

BUD Fund programmes and applications

1.6 ***Types of programmes.*** There are two types of programmes under BUD Fund:

- (a) ***Mainland Programme.*** The Mainland Programme provides funding to eligible enterprises to develop business in the Mainland; and
- (b) ***FTA/IPPA Programme.*** The FTA/IPPA Programme provides funding to eligible enterprises to develop business in economies with which Hong Kong has signed FTAs and/or IPPAs. As at 31 December 2024, the geographical coverage of FTA/IPPA Programme covered 39 economies (Note 1).

1.7 ***Types of applications.*** There are three types of applications under BUD Fund:

- (a) ***General application.*** General application is the major type of applications under BUD Fund;
- (b) ***“Easy BUD” application.*** Easy BUD was launched in June 2023 to facilitate small and medium enterprises in preparing applications and implementing projects. The processing time of an “Easy BUD” application is shortened with simplified application and streamlined assessment arrangements. The funding ceiling per project is lower (i.e. \$100,000 (see para. 1.9)) under an “Easy BUD” application; and

Note 1: *The geographical coverage of FTA/IPPA Programme included the 10 ASEAN countries (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam), Australia, Austria, Bahrain, Belgo-Luxembourg Economic Union, Canada, Chile, Denmark, the four member states of the European Free Trade Association (Iceland, Liechtenstein, Norway and Switzerland), Finland, France, Georgia, Germany, Italy, Japan, Korea, Kuwait, Macao, Mexico, the Netherlands, New Zealand, Peru, Sweden, Türkiye, the United Arab Emirates and the United Kingdom.*

Introduction

- (c) ***“E-commerce Easy” application.*** E-commerce Easy was launched in July 2024 whereby enterprises can flexibly make use of a maximum funding of \$1 million to implement e-commerce projects for developing their businesses in the Mainland and the 10 ASEAN countries (Note 2) within the cumulative funding ceiling of \$7 million per enterprise (see para. 1.9).

Key features of BUD Fund

1.8 ***Eligibility.*** Non-listed enterprises registered in Hong Kong under the Business Registration Ordinance (Cap. 310) with substantive business operations in Hong Kong are eligible to apply for BUD Fund, irrespective of whether they belong to the manufacturing or service sector and whether they already have any business operations in the Mainland, FTA and/or IPPA economies.

1.9 ***Funding amount.*** Funding will be provided on a matching basis, i.e. the Government will cover a maximum of 25% of the total approved project cost and the applicant has to contribute no less than 75% of the total approved project cost in cash (audit fees are also subject to the matching ratio) (Note 3). During the tenure of BUD Fund, each applicant may obtain funding for a maximum of 70 approved projects and the total cumulative funding ceiling is \$7 million under BUD Fund. The funding ceiling per project under a general application or an “E-commerce Easy” application is \$800,000, whereas the funding ceiling per project under an “Easy BUD” application is \$100,000. The total approved funding of all approved applications and/or on-going projects (including general applications, “Easy BUD” applications

Note 2: *With effect from 14 March 2025, the geographical coverage of E-commerce Easy has been expanded to the 10 ASEAN countries.*

Note 3: *The current matching ratio is applicable to applications received from 14 March 2025 onwards. For applications received before 14 March 2025, the Government would cover a maximum of 50% of the total approved project cost and the applicant had to contribute no less than 50% of the total approved project cost in cash (except the audit fees of approved projects).*

and “E-commerce Easy” applications) for an applicant is limited to not exceeding \$800,000 at any one time (Note 4).

1.10 ***Project duration.*** Each funded project under a general application or an “E-commerce Easy” application should be completed within 24 months, whereas each funded project under an “Easy BUD” application should be completed within 12 months.

1.11 ***Scope of funding.*** Projects that assist individual Hong Kong enterprises in exploring and developing the Mainland, FTA and/or IPPA markets through developing brands, upgrading and restructuring operations and promoting sales are eligible. Examples that fall within the scope of these areas are:

Branding

- (a) ***Brand strategy and positioning*** — corporate brand visioning, and product and service planning;
- (b) ***Brand building, design and communication*** — brand identity and personality development, and rebranding;
- (c) ***Brand management*** — brand assessment and brand protection;

Upgrading and restructuring

- (d) ***Product innovation and repositioning*** — product strategy and new product development;
- (e) ***Material management*** — supply chain planning and execution;

Note 4: *With respect to applications received from 14 March 2025 onwards, the funding ceiling per project under a general application or an “E-commerce Easy” application has been adjusted from \$1 million to \$800,000. The limit on the total approved funding of all approved applications and/or on-going projects for an applicant to not exceeding \$800,000 at any one time was also implemented on the same day.*

Introduction

- (f) *Technology upgrading* — manufacturing technology upgrading, and process and business automation;

Domestic sales

- (g) *Domestic sales strategic planning* — visioning process and strategy formulation;
- (h) *Domestic sales business operation management* — operation transformation; and
- (i) *Domestic sales channel management* — marketing strategy and research, and sales and distribution development.

Administration of BUD Fund

1.12 **TID.** TID's Industries Support Division is headed by the Assistant Director-General of Trade and Industry (Industries Support). The Dedicated Fund on Branding, Upgrading and Domestic Sales Branch (BUD Fund Branch) is established under TID's Industries Support Division to oversee the implementation of BUD Fund. As at 31 December 2024, BUD Fund Branch, headed by a Principal Trade Officer, had an establishment and strength of 14 staff, and was supported by 5 non-civil service contract staff. An extract of the organisation chart of TID as at 31 December 2024 is shown in Appendix A.

1.13 **Implementation partner and secretariat.** Since the launch of BUD Fund in June 2012, the Government has engaged the Hong Kong Productivity Council (HKPC) as the implementation partner and the secretariat of BUD Fund (hereinafter referred to as BUD Fund Secretariat). BUD Fund Secretariat's work includes:

- (a) assisting eligible enterprises in making applications;
- (b) conducting initial assessments of all applications, providing recommendations and coordinating the further assessments by the Inter-departmental Committee (IDC — see para. 1.14) and the Programme Management Committee (PMC — see para. 1.15);

- (c) monitoring the implementation progress and evaluating the results of projects;
- (d) disbursing funds to successful applicants;
- (e) providing secretariat services for IDC and PMC; and
- (f) planning and organising publicity and promotional activities.

According to the service agreements signed between the Government and HKPC, BUD Fund Secretariat is required to produce, for each financial year, Annual Implementation Plan, Annual Report and audited accounts of the preceding year for acceptance by the Government and PMC. In 2023-24, the implementation fee paid by the Government to HKPC was \$95 million. The BUD Fund Team under HKPC's Technology Funding Division is responsible for the work relating to the implementation of BUD Fund. HKPC's BUD Fund Team is headed by a Head and a Deputy Head, and reports to the General Manager, Technology Funding, and the Chief Operating Officer, Funding Scheme Branch. As at 31 December 2024, HKPC's BUD Fund Team had a staff size of 120. An extract of the organisation chart of HKPC as at 31 December 2024 is shown in Appendix B.

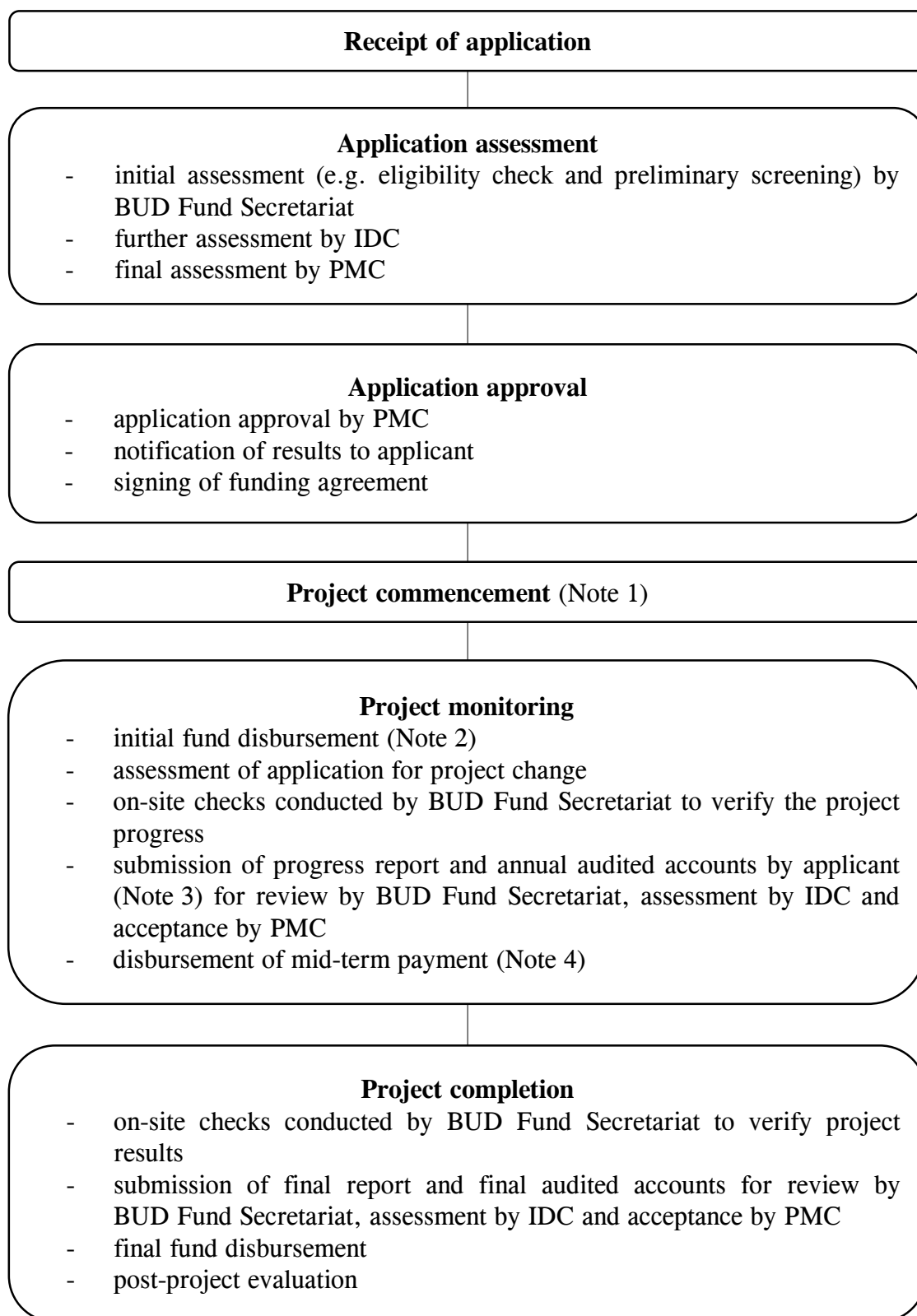
1.14 **IDC.** IDC comprises members from relevant government bureau/departments, including CEDB, TID, the Cultural and Creative Industries Development Agency, the Environmental Protection Department, and the Innovation and Technology Commission. It assesses all applications (except for withdrawn applications) and project reports having regard to the results of the initial assessment conducted by BUD Fund Secretariat. IDC will formulate its recommendations on the approval or otherwise of the applications and acceptance or otherwise of project reports, the amount to be granted, the terms and conditions for approving the grant, etc., for consideration by PMC.

1.15 **PMC.** PMC is chaired by the Director-General of Trade and Industry and comprises ex-officio members and non-official members drawn widely from the trade, industrial and professional sectors. PMC advises and makes recommendations to the Government on the overall implementation of BUD Fund, including Annual Implementation Plans and budgets, operation, progress as well as outcomes and effectiveness of BUD Fund. PMC will assess all applications (except for withdrawn applications) and project reports having regard to the recommendations of IDC. PMC

will decide whether the applications would be approved/approved with conditions or rejected and whether the project reports would be accepted.

1.16 ***Processing of BUD Fund applications and monitoring of approved projects.*** BUD Fund is open for application all year round. Applicants shall fill in their application forms and upload all supporting documents in the online application platform. Upon receiving an application, BUD Fund Secretariat will conduct an initial assessment, and seek clarification or supplementary information from the applicant as necessary. After the initial assessment, the application will be assessed by IDC and then by PMC. After PMC's approval, a funding agreement will be signed between BUD Fund Secretariat and the applicant. BUD Fund Secretariat is responsible for the monitoring of the project, including conducting on-site checks, and reviewing of reports and audited accounts of the projects submitted by grantees. The procedures for the processing of BUD Fund applications and the monitoring of approved projects are shown in Figure 1.

Figure 1

Processing of BUD Fund applications and monitoring of approved projects

Source: Audit Commission analysis of TID records

Introduction

Figure 1 (Cont'd)

- Note 1: Applicants are also allowed to start their projects after the date of submission of applications (i.e. date of BUD Fund Secretariat's confirmation of receipt of application forms and the required documents).*
- Note 2: Applicants can choose whether to receive initial payment for their approved projects (see para. 3.33). For an applicant who opts to receive initial payment, the initial payment will only be made to the applicant after the signing of the funding agreement. Initial payment is not applicable to "Easy BUD" applications.*
- Note 3: Applicants of projects with duration over 18 months are required to submit progress reports and annual audited accounts. The requirement is not applicable to "Easy BUD" applications, which have project duration of up to 12 months.*
- Note 4: A mid-term payment of up to 50% of the approved funding amount may be made to the applicant on a reimbursement basis only if the duration of the project is over 18 months and the applicant has not opted to receive initial payment, and when the progress report and annual audited accounts are accepted by PMC. Mid-term payment is not applicable to "Easy BUD" applications.*

Audit review

1.17 In December 2024, the Audit Commission (Audit) commenced a review of BUD Fund. This audit has focused on the following areas:

- (a) processing of applications (PART 2);
- (b) monitoring of approved projects (PART 3); and
- (c) other related 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

1.18 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agree with the audit recommendations and would like to thank Audit for the review. The Secretary for Commerce and

Economic Development and the Director-General of Trade and Industry have said that:

- (a) the Government would continue to steadfastly support local enterprises, especially small and medium enterprises, providing necessary support to small and medium enterprises in a more timely, focused and financially sustainable manner. The Government would also carefully utilise public resources under BUD Fund to ensure that it would effectively assist small and medium enterprises in enhancing competitiveness to tackle the uncertainties of the global economy and developing markets outside Hong Kong, and reinforcing Hong Kong's role as an international trade centre as supported by the National 14th Five-Year Plan; and
- (b) the Director-General of Trade and Industry, in collaboration with the Executive Director, Hong Kong Productivity Council, will follow up on the recommendations as appropriate.

Acknowledgement

1.19 Audit would like to acknowledge with gratitude the full cooperation of the staff of TID and HKPC during the course of the audit review.

PART 2: PROCESSING OF APPLICATIONS

2.1 This PART examines the processing of BUD Fund applications, focusing on the following areas:

- (a) assessments of applications (paras. 2.2 to 2.15);
- (b) signing of funding agreements (paras. 2.16 to 2.19); and
- (c) handling of applications approved with conditions (paras. 2.20 to 2.24).

Assessments of applications

2.2 Applications for BUD Fund are accepted all the year round. To apply for grant under BUD Fund, an applicant is required to submit to BUD Fund Secretariat a completed application form and supporting documents (e.g. copy of Business Registration Certificate, proof of substantive business operations in Hong Kong) through BUD Fund Secretariat's electronic application system. In the application form, the applicant needs to provide the details of the proposed project including the project objectives, target markets, deliverables, budget, and declaration on not having received or applied for funding support for the same project measures from other sources.

2.3 Applications received in the period from 1 October 2019 to 13 March 2025 were processed by BUD Fund Secretariat on a continual basis (Note 5). Applications received are initially assessed by BUD Fund Secretariat. If further clarification and additional information are required, BUD Fund Secretariat will notify the applicants by email within four weeks from the receipt of application. The applicants are required to provide such clarification or information within 14 days. After the completion of initial assessment, the applications will be circulated to IDC for further assessment. Applications endorsed by IDC are then submitted to PMC for final

Note 5: *General applications and “E-commerce Easy” applications received on or after 14 March 2025 are processed in batches, usually on a quarterly basis. Applications received after the cut-off date will be processed in the following batch. “Easy BUD” applications received on or after 14 March 2025 will continue to be processed on a continual basis.*

assessment. PMC will decide whether the applications would be approved/approved with conditions or rejected.

2.4 In the initial assessment, BUD Fund Secretariat checks the completeness of the applications and the eligibility of the applicants, and whether the proposed projects are in line with the following guiding principles:

- (a) the project should lead to immediate or long-term business development of the applicant in the Mainland or FTA and/or IPPA markets in the specific areas of branding, upgrading and restructuring of business operations, and/or promoting sales;
- (b) the project should have good prospects of improving the competitive advantage of the applicant or its product/service in the Mainland or FTA and/or IPPA markets;
- (c) the project should have concrete deliverables to facilitate progress monitoring and evaluation of project outcome;
- (d) the project should include solid actions for developing business in the Mainland or FTA and/or IPPA markets; and
- (e) the project should have a reasonable budget with itemised cost breakdown and detailed justifications of costs and expenses.

Scope for expediting receipt of all necessary information and clarifications for processing of applications

2.5 Since 2017, the Government has set performance targets to complete the processing of applications for grant. The performance targets to complete the processing of applications for grant are as follows:

- (a) ***General applications.*** The processing of general applications should be completed within 60 working days;
- (b) ***“Easy BUD” applications.*** The processing of “Easy BUD” applications should be completed within 30 working days; and

Processing of applications

- (c) ***“E-commerce Easy” applications.*** The processing of “E-commerce Easy” applications should be completed within 60 working days.

According to TID, the performance targets are applied upon the receipt of complete applications (i.e. all the necessary documentary proof and clarifications as requested by BUD Fund Secretariat are provided). The performance targets and the actual results are reported in TID’s Controlling Officer’s Reports (CORs) annually. According to TID’s CORs, since the performance targets were set in 2017 and up to 2024, the targets to complete the processing of applications had been fully met.

2.6 ***General applications.*** In the period from January 2021 to December 2024, BUD Fund Secretariat received 15,315 general applications. As at 31 December 2024, of the 15,315 applications, 5,481 (36%) were approved, 548 (3%) were approved with conditions (see para. 2.20), 1,542 (10%) were rejected, 3,054 (20%) were under processing, 3,358 (22%) were withdrawn by the applicants and 1,332 (9%) could not be processed further due to insufficient documents/clarifications from the applicants. Audit analysed the 7,571 (i.e. 5,481 + 548 + 1,542) general applications that were approved/approved with conditions or rejected, and the 3,054 general applications under processing and found that:

- (a) ***Applications approved/approved with conditions or rejected.*** Audit analysed the 7,571 general applications received in the period that were approved/approved with conditions or rejected as at 31 December 2024. Audit found that in some cases, long time had been taken to receive all the necessary information and clarifications from the applicants:
- (i) the time taken from the date of receiving the applications to the date of receiving all the necessary information and clarifications from the applicants ranged from 2 to 446 days (averaging 120 days). In particular, for 1,379 applications, it took more than 6 months (183 days) to receive all necessary information and clarifications from the applicants (see Table 3); and

Table 3

Time taken from receipt of general applications to receipt of all necessary information and clarifications from the applicants (January 2021 to December 2024)

Time taken	Number of applications
60 days or less	1,549 (20.46%)
More than 60 to 120 days	2,688 (35.51%)
More than 120 to 183 days	1,955 (25.82%)
More than 183 to 365 days	1,378 (18.20%)
More than 365 days (Note)	1 (0.01%)
	1,379 (18.21%)
Total	7,571 (100.00%)

Source: Audit analysis of BUD Fund Secretariat records

Note: The longest time taken was 446 days. According to BUD Fund Secretariat, this was due to the special circumstances in that the applicant had to provide relevant tendering and procurement documents of a high-value equipment for addressing the enquiries from IDC and PMC on the reasonableness of the project measure and the financial capability of the applicant.

- (ii) the time elapsed from the date of receiving the applications to the date of completing the processing of the applications ranged from 29 to 486 days (averaging 183 days); and
- (b) **Applications under processing.** As at 31 December 2024, 3,054 general applications were still under processing (Note 6). Audit analysed the processing time of the 3,054 applications and found that, as at 31 December 2024:

Note 6: According to BUD Fund Secretariat, of the 3,054 general applications, 2,062 (68%) applications were received from September to December 2024, and these cases were mostly pending the provision of necessary information and clarifications.

Processing of applications

- (i) for 1,897 (62%) applications, the time elapsed from the date of receiving the applications was more than 60 days, ranging from 61 to 336 days (averaging 139 days); and
- (ii) for 2,561 (84%) applications, not all necessary information and clarifications had been received from the applicants. For 1,412 (55%) of 2,561 applications, the time elapsed from the date of receiving the applications was more than 60 days, ranging from 61 to 299 days (averaging 126 days).

2.7 ***“Easy BUD” applications.*** In the period from June 2023 to December 2024, BUD Fund Secretariat received 1,676 “Easy BUD” applications. As at 31 December 2024, of the 1,676 applications, 518 (31%) were approved, 44 (3%) were approved with conditions, 227 (13%) were rejected, 160 (10%) were under processing, 460 (27%) were withdrawn by the applicants and 267 (16%) could not be processed further due to insufficient documents/clarifications from applicants. Audit analysed the 789 (i.e. 518 + 44 + 227) “Easy BUD” applications that were approved/approved with conditions or rejected, and the 160 “Easy BUD” applications under processing and found that:

- (a) ***Applications approved/approved with conditions or rejected.*** Audit analysed the 789 “Easy BUD” applications that were approved/approved with conditions or rejected as at 31 December 2024. Audit found that in some cases, long time had been taken to receive all the necessary information and clarifications from the applicants:
 - (i) the time taken from the date of receiving the applications to the date of receiving all the necessary information and clarifications from the applicants ranged from 2 to 153 days (averaging 41 days). In particular, for 37 applications, it took more than 3 months to receive all necessary information and clarifications; and
 - (ii) the time elapsed from the date of receiving the applications to the date of completing the processing of the applications ranged from 31 to 199 days (averaging 80 days); and
- (b) ***Applications under processing.*** As at 31 December 2024, 160 “Easy BUD” applications were still under processing. Audit analysed the

processing time of the 160 applications and found that, as at 31 December 2024:

- (i) for 83 (52%) applications, the time elapsed from the date of receiving the applications was more than 30 days, ranging from 31 to 96 days (averaging 51 days); and
- (ii) for 98 (61%) applications, not all necessary information and clarifications had been received from the applicants. For 26 (27%) of 98 applications, the time elapsed from the date of receiving the applications was more than 30 days, ranging from 31 to 53 days (averaging 38 days).

2.8 ***“E-commerce Easy” applications.*** In the period from July to December 2024, BUD Fund Secretariat received 227 “E-commerce Easy” applications (Note 7). As at 31 December 2024, of the 227 applications, 7 (3%) were approved, 8 (4%) were approved with conditions, 10 (4%) were rejected, 152 (67%) were under processing, 36 (16%) were withdrawn by the applicants and 14 (6%) could not be processed further due to insufficient documents/clarifications from applicants. Audit analysed the 25 (i.e. 7 + 8 + 10) “E-commerce Easy” applications that were approved/approved with conditions or rejected, and the 152 “E-commerce Easy” applications under processing and found that:

- (a) ***Applications approved/approved with conditions or rejected.*** Audit analysed the 25 “E-commerce Easy” applications that were approved/approved with conditions or rejected as at 31 December 2024. Audit found that in some cases, long time had been taken to receive all the necessary information and clarifications from the applicants:
 - (i) the time taken from the date of receiving the applications to the date of receiving all the necessary information and clarifications from the applicants ranged from 13 to 81 days (averaging 39 days); and

Note 7: *According to BUD Fund Secretariat, the majority (78%) of “E-commerce Easy” applications were received in or after September 2024.*

Processing of applications

- (ii) the time elapsed from the date of receiving the applications to the date of completing the processing of the applications ranged from 34 to 150 days (averaging 97 days); and
- (b) ***Applications under processing.*** As at 31 December 2024, 152 “E-commerce Easy” applications were still under processing. Audit analysed the processing time of the 152 applications and found that, as at 31 December 2024:
 - (i) for 78 (51%) applications, the time elapsed from the date of receiving the applications was more than 60 days, ranging from 61 to 152 days (averaging 96 days); and
 - (ii) for 117 (77%) applications, not all necessary information and clarifications had been received from the applicants. For 47 (40%) of 117 applications, the time elapsed from the date of receiving the applications was more than 60 days, ranging from 61 to 152 days (averaging 93 days).

2.9 Audit considers that TID needs to, in collaboration with HKPC:

- (a) ascertain the reasons for the long time taken to receive all necessary information and clarifications for some applications for grant; and
- (b) take measures to expedite the receipt of all necessary information and clarifications from the applicants for processing applications for grant.

Need to identify ways to reduce number of rejected applications, withdrawn applications or applications which could not be processed further as far as possible

2.10 In the period from January 2018 to December 2024, 23,542 grant applications (comprising 21,639 general applications, 1,676 “Easy BUD” applications and 227 “E-commerce Easy” applications) were received. As at 31 December 2024, the processing of 18,585 (86%) of the 21,639 general applications, 1,516 (90%) of the 1,676 “Easy BUD” applications and 75 (33%) of the 227 “E-commerce Easy”

Processing of applications

applications had been completed. The analysis of the applications received and processed is shown in Table 4.

Table 4
Analysis of applications received and processed
(2018 to 2024)

Year (Note 1)	Number of applications				
	Approved/ approved with conditions	Rejected	Withdrawn (Note 2)	Could not be processed further (Note 3)	Total
<i>General applications</i>					
2018	607 (56%)	157 (15%)	318 (29%)	—	1,082 (100%)
2019	656 (38%)	380 (22%)	512 (30%)	173 (10%)	1,721 (100%)
2020	1,337 (38%)	480 (13%)	907 (26%)	797 (23%)	3,521 (100%)
2021	1,059 (41%)	494 (19%)	669 (26%)	358 (14%)	2,580 (100%)
2022	1,358 (51%)	260 (10%)	768 (29%)	251 (10%)	2,637 (100%)
2023	2,227 (54%)	445 (11%)	1,053 (25%)	420 (10%)	4,145 (100%)
2024 (Note 4)	1,385 (48%)	343 (12%)	868 (30%)	303 (10%)	2,899 (100%)
Overall	8,629 (47%)	2,559 (14%)	5,095 (27%)	2,302 (12%)	18,585 (100%)
<i>“Easy BUD” applications</i>					
2023 (Note 5)	211 (36%)	83 (14%)	192 (32%)	108 (18%)	594 (100%)
2024 (Note 4)	351 (38%)	144 (16%)	268 (29%)	159 (17%)	922 (100%)
Overall	562 (37%)	227 (15%)	460 (30%)	267 (18%)	1,516 (100%)
<i>“E-commerce Easy” applications</i>					
2024 (Notes 4 and 6)	15 (20%)	10 (13%)	36 (48%)	14 (19%)	75 (100%)

Source: Audit analysis of BUD Fund Secretariat records

Table 4 (Cont'd)

- Note 1: This refers to the year in which the applications were received. The processing of the applications may not be completed in the same year.*
- Note 2: The number of applications withdrawn comprises applications withdrawn by applicants before PMC's assessment and after the applications have been approved by PMC.*
- Note 3: This refers to the number of applications that could not be processed further because the applicants could not provide the information, clarifications or the documentary proof requested by BUD Fund Secretariat, IDC or PMC within the required timeframe.*
- Note 4: For applications received in 2024, as at 31 December 2024, the processing of 2,899 of the 5,953 general applications, 922 of the 1,082 "Easy BUD" applications and 75 of the 227 "E-commerce Easy" applications have been completed.*
- Note 5: Easy BUD was launched in June 2023.*
- Note 6: E-commerce Easy was launched in July 2024.*

2.11 General applications. Audit analysed the 18,585 general applications received and processed in the period from January 2018 to December 2024 and noted that of the 18,585 applications, 9,956 (53%) applications were rejected, withdrawn or could not be processed further (i.e. 2,559 (14%) were rejected, 5,095 (27%) were withdrawn, and 2,302 (12%) could not be processed further). Audit analysed the 18,585 general applications and found that:

- (a) **Applications rejected.** 2,559 (14%) general applications were rejected. The reasons for rejection included:
- (i) the applicant could not show that it had sufficient ability to implement the proposed project;
 - (ii) the information/clarification provided by the applicant was insufficient;
 - (iii) the applicant did not obtain the required licence for developing its business; and
 - (iv) the proposed project did not fall within the funding scope;

- (b) ***Applications withdrawn.*** 5,095 (27%) general applications were withdrawn by the applicants before or after PMC's assessment in the period. Of the 5,095 withdrawn applications, 4,532 (89%) were withdrawn before assessments by PMC. The reasons for withdrawal included:
- (i) the applicant found that the application required adjustments and was not ready for further processing;
 - (ii) the applicant could not provide the required supplementary information by the deadline and decided to withdraw the application; and
 - (iii) the applicant showed little understanding of the application requirements and preferred to withdraw the application; and
- (c) ***Applications could not be processed further.*** 2,302 (12%) general applications could not be processed further because the applicants could not provide the information, clarifications or the documentary proof requested by BUD Fund Secretariat, IDC or PMC within the required timeframe.

2.12 ***“Easy BUD” applications and “E-commerce Easy” applications.*** Audit analysed the 1,516 “Easy BUD” applications and the 75 “E-commerce Easy” applications received and processed since their commencement in June 2023 and July 2024 respectively and up to December 2024. Audit found that of the 1,516 “Easy BUD” applications, 954 (63%) applications were rejected, withdrawn or could not be processed further (i.e. 227 (15%) were rejected, 460 (30%) were withdrawn and 267 (18%) could not be processed further). Audit also found that of the 75 “E-commerce Easy” applications, 60 (80%) applications were rejected, withdrawn or could not be processed further (i.e. 10 (13%) were rejected, 36 (48%) were withdrawn and 14 (19%) could not be processed further). Audit found that some of the “Easy BUD” applications and “E-commerce Easy” applications were rejected, withdrawn or could not be processed further because:

- (a) the applicant failed to submit audit reports as financial proof;
- (b) the applicant did not obtain the required licence for developing its business;
- (c) the proposed project did not fall within the funding scope; and

Processing of applications

- (d) local entities were involved in project implementation, which was not permitted under Easy BUD.

2.13 Since the launch of BUD Fund in 2012, the Government has introduced a series of measures to facilitate enterprises in submitting applications for BUD Fund, for example:

- (a) simplifying the application forms;
- (b) redesigning BUD Fund's website to provide graphic illustration of the application process, application tips and success stories, such that enterprises can obtain simple and clear information on the application requirements; and
- (c) providing free one-on-one consultation service to enterprises to answer enquiries relating to applications, such that enterprises can carry out project planning and submit applications by themselves, without having to resort to consultant agencies for assistance.

In Audit's view, while the Government has introduced a series of measures to facilitate enterprises in submitting applications for BUD Fund, there were still a considerable number of rejected applications, withdrawn applications, or applications which could not be processed further due to various reasons including insufficient information (see paras. 2.11(a)(ii), 2.11(b)(ii), 2.11(c) and 2.12(a)) and little understanding of application requirements (see paras. 2.11(a)(iv), 2.11(b)(iii), 2.12(c) and 2.12(d)). Audit considers that TID needs to, in collaboration with HKPC, identify ways to reduce the number of rejected applications, withdrawn applications or applications which could not be processed further as far as possible, including stepping up measures to further enhance applicants' understanding of the application requirements.

Audit recommendations

2.14 **Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **ascertain the reasons for the long time taken to receive all necessary information and clarifications for some applications for grant;**
- (b) **take measures to expedite the receipt of all necessary information and clarifications from the applicants for processing applications for grant; and**
- (c) **identify ways to reduce the number of rejected applications, withdrawn applications or applications which could not be processed further as far as possible, including stepping up measures to further enhance applicants' understanding of the application requirements.**

Response from the Government

2.15 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendations. He has said that:

- (a) since the performance target on the processing time of BUD Fund applications was set in 2017, the target to complete the processing of BUD Fund applications upon the receipt of all required information from the applicants has been fully met. In June 2023, Easy BUD, a simplified application track was set up with streamlined application and vetting arrangements and the target processing time for each “Easy BUD” application was halved from 60 days to 30 days;
- (b) most of the period surveyed by Audit coincided with the coronavirus disease (COVID-19) epidemic. As such, the normal operations of many applicants, in particular the small and medium enterprises, were seriously affected which had resulted in delay in their submission of the required supplementary information and supporting documents to BUD Fund Secretariat during the affected period. BUD Fund Secretariat had provided flexibility to the affected applicants in terms of the submission timeframe of the required information and clarifications;
- (c) while TID and BUD Fund Secretariat have all along adopted a facilitating approach to request from the applicants for more information and clarification in order that the most complete picture may be presented to

Processing of applications

PMC for consideration, they fully appreciate the need for applicants to provide the required information and clarifications in a timely manner. With the endorsement of PMC, BUD Fund Secretariat has implemented a rationalised mechanism since January 2025 whereby applicants would be provided a maximum of 14 days to provide the required information or clarifications concerning any unclear budget items in their applications. If the applicants cannot furnish the requested information within the stipulated timeframe, the associated cost item would not be funded; and

- (d) TID and BUD Fund Secretariat have adhered to the funding guidelines diligently to ensure that only worthy applications compliant with all the funding criteria are approved. Furthermore, applications may be withdrawn on the applicants' own accord due to their own business reasons. That said, the facilitating approach as mentioned above in relation to seeking clarifications is to allow applications to be supplemented with full information for consideration by PMC, thereby maximising the chance of success. TID and BUD Fund Secretariat have undertaken a suite of measures to enhance applicants' understanding of the requirements. As a result, the percentage of general applications that were rejected or could not be processed further has declined from 32% in 2019 to 22% in 2024 (i.e. a reduction of 31%). While TID and BUD Fund Secretariat would continue their efforts to further enhance applicants' understanding of the requirements, they would continue to uphold the funding requirements such that only meritorious applications are approved to safeguard the prudent use of public money.

Signing of funding agreements

Long time taken to sign funding agreements after issuance of result notification letters

2.16 According to the Guide to Application for BUD Fund, the successful applicant is required to sign a funding agreement with BUD Fund Secretariat. PMC reserves the right to consider lapsing the approval decision in case the applicant fails to sign the funding agreement with BUD Fund Secretariat for a prolonged period of time without justifications deemed acceptable by BUD Fund Secretariat. BUD Fund Secretariat's Operation Manual stipulates that in general, the funding agreements between BUD Fund Secretariat and the grantees should be signed within six months from the date of issuance of result notification letters.

2.17 Audit analysed the time elapsed from the date of issuance of result notification letters to the date of signing of funding agreements for 5,481 general applications approved in the period from January 2021 to December 2024 and 515 “Easy BUD” applications approved in the period from June 2023 to December 2024 with result notification letters issued (Note 8). Audit found that the funding agreements were not always signed within the timeframe specified in BUD Fund Secretariat’s Operation Manual (i.e. within six months from the date of issuance of result notification letters):

(a) **General applications.** Audit found that, of the 5,481 general applications:

(i) ***Funding agreements signed more than 6 months after issuance of result notification letters.*** As at 31 December 2024, the funding agreements for 5,122 applications had been signed:

- the time elapsed from the date of issuance of result notification letters to the date of signing of funding agreements ranged from 2 days to 1.7 years (averaging 1.4 months); and
- for 64 (1%) of the 5,122 applications, the funding agreements were signed more than 6 months after issuance of result notification letters. The delays ranged from 1 day to 1.2 years (averaging 2.8 months) (see Table 5); and

Note 8: *For 3 of the 518 “Easy BUD” applications approved in the period, as at 31 December 2024, the result notification letters had not been issued.*

Table 5

**Delays in signing of funding agreements for general applications
(January 2021 to December 2024)**

Delay	Number of applications
6 months or less	58 (90%)
More than 6 to 12 months	3 (5%)
More than 12 months (Note)	3 (5%)
Total	64 (100%)

Source: Audit analysis of BUD Fund Secretariat records

Note: The longest delay was 1.2 years. According to BUD Fund Secretariat, this was due to the special circumstances in that the application required extensive verification of the eligibility of a non-Hong Kong resident in providing a personal guarantee with respect to the initial payment to be disbursed. The funding agreement was signed within two weeks after the grantee had returned the residual fund for another completed BUD Fund project.

- (ii) **Funding agreements not yet signed more than 6 months after issuance of result notification letters.** As at 31 December 2024, the funding agreements for 359 approved applications were not yet signed. For 20 (6%) applications, the time elapsed from the date of issuance of result notification letters was more than 6 months, ranging from 6.2 months to 2.3 years (averaging 1 year). For 6 (2%) applications, the time elapsed was more than 1 year; and
- (b) **“Easy BUD” applications.** Audit found that, of the 515 “Easy BUD” applications:
- (i) **Funding agreements signed more than 6 months after issuance of result notification letters.** As at 31 December 2024, the funding agreements of 485 applications had been signed:

- the time elapsed from the date of issuance of result notification letters to the date of signing of funding agreements ranged from 5 days to 9.7 months (averaging 1.3 months); and
 - for 5 (1 %) of the 485 applications, the funding agreements were signed more than 6 months from the date of issuance of result notification letters. The delays ranged from 10 days to 3.7 months (averaging 2 months); and
- (ii) ***Funding agreements not yet signed.*** As at 31 December 2024, the funding agreements for 30 approved “Easy BUD” applications were not yet signed. The time elapsed from the date of issuance of result notification letters ranged from 12 days to 4.9 months (averaging 1.1 months).

Audit recommendation

2.18 Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council, take measures to ensure that the funding agreements are signed within the timeframe specified in BUD Fund Secretariat’s Operation Manual (i.e. within six months from the date of issuance of result notification letters).

Response from the Government

2.19 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendation. He has said that BUD Fund Secretariat will enhance its internal operational workflow to ensure that funding agreements are signed within the timeframe stipulated in its Operation Manual unless there are justified reasons for the deviation.

Handling of applications approved with conditions

2.20 In some cases, an application may be approved with conditions (i.e. an approval-in-principle is given whereby the applicant is required to fulfil one or more conditions set by PMC within a required timeframe). Examples of the conditions include:

- (a) provision of documentary proofs on having obtained the relevant licence for carrying on the proposed business;
- (b) provision of documentary proofs on having started the trademark registration process; and
- (c) clarifications of cost items or adjustments to budgets.

The conditions and the required timeframes for the applicants to fulfil the conditions are stipulated in the result notification letters issued to applicants. For conditions involving obtaining the relevant licence and/or starting trademark registration process (see (a) and (b) above), the applicants are required to fulfil the conditions within 4 to 9 months from the dates of issuance of result notification letters, otherwise the approvals-in-principle will lapse. For conditions solely involving the clarifications of cost items or adjustments to budgets (see (c) above), the required timeframe is set at 14 days from the dates of issuance of result notification letters.

Need to enhance monitoring of applications approved with conditions

2.21 As at 31 December 2024, 600 applications approved with conditions (comprising 548 general applications, 44 “Easy BUD” applications and 8 “E-commerce Easy” applications) were still pending the applicants to fulfil the stipulated conditions. Audit noted that BUD Fund Secretariat did not have readily available information as to whether the applicants had fulfilled the stipulated conditions within the required timeframes. Audit analysed 124 of the 600 applications where the approvals with conditions had been given more than 6 months ago as at 31 December 2024 and found that:

- (a) ***Need to ensure applicants fulfil conditions stipulated in approvals with conditions within required timeframes.*** For the 124 applications, the time elapsed from the date of approvals with conditions up to 31 December 2024 ranged from 6.2 to 16.8 months (averaging 8.1 months):
- (i) for 75 (60%) applications, the stipulated conditions involved obtaining the relevant licence and/or starting trademark registration process. The required timeframes for fulfilling the conditions were set at 4 or 6 months from the dates of issuance of result notification letters. For all the 75 applications, the applicants could not fulfil the stipulated conditions within the required timeframes. The delays up to 31 December 2024 ranged from 5 days to 10.8 months (averaging 3.2 months); and
 - (ii) for the remaining 49 (40%) applications, the stipulated conditions solely involved the clarifications of cost items or adjustments to budgets and the required timeframes for fulfilling the conditions were set at 14 days from the dates of issuance of result notification letters. For all the 49 applications, the applicants could not fulfil the stipulated conditions within the required timeframes. The delays up to 31 December 2024 ranged from 5.7 to 13.3 months (averaging 7.5 months);
- (b) ***Need to enhance guidelines on handling applications approved with conditions.*** There were no guidelines on the follow-up actions to be taken on the applicants failing to fulfil the conditions stipulated in the approvals with conditions within the required timeframes. No timeframe was set for lapsing the approvals-in-principle for applicants who did not fulfil the stipulated conditions within the required timeframes; and
- (c) ***Required timeframes and actual timeframes for fulfilling stipulated conditions not recorded in BUD Fund's computer system.*** Audit found that the required timeframes for fulfilling the stipulated conditions by applicants and the actual dates for fulfilling the stipulated conditions by applicants were not recorded in BUD Fund's computer system. As such, there was no readily available management information on the timeliness of fulfilling the stipulated conditions by the applicants for performance monitoring.

Processing of applications

- 2.22 Audit considers that TID needs to, in collaboration with HKPC:
- (a) take measures to ensure that the applicants fulfil the conditions stipulated in the approvals with conditions within the required timeframes;
 - (b) enhance guidelines on handling applications approved with conditions, including:
 - (i) the follow-up actions to be taken on the applicants failing to fulfil the conditions stipulated in the approvals with conditions within the required timeframes; and
 - (ii) setting timeframe for lapsing the approvals-in-principle for the applicants who have not fulfilled the stipulated conditions within the required timeframes; and
 - (c) take measures to ensure that the required timeframes and actual timeframes for fulfilling conditions stipulated in approvals with conditions by the applicants are recorded in BUD Fund's computer system and compile management information on the timeliness of fulfilling stipulated conditions by the applicants for performance monitoring.

Audit recommendations

2.23 **Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **take measures to ensure that the applicants fulfil the conditions stipulated in the approvals with conditions within the required timeframes;**
- (b) **enhance guidelines on handling applications approved with conditions, including:**

- (i) **the follow-up actions to be taken on the applicants failing to fulfil the conditions stipulated in the approvals with conditions within the required timeframes; and**
- (ii) **setting timeframe for lapsing the approvals-in-principle for the applicants who have not fulfilled the stipulated conditions within the required timeframes; and**
- (c) **take measures to ensure that the required timeframes and actual timeframes for fulfilling conditions stipulated in approvals with conditions by the applicants are recorded in BUD Fund's computer system and compile management information on the timeliness of fulfilling stipulated conditions by the applicants for performance monitoring.**

Response from the Government

2.24 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendations. He has said that:

- (a) the operational arrangements of handling applications approved with conditions have been rationalised since November 2024 such that the approval-in-principle will automatically lapse if the applicants cannot fulfil the conditions within the timeframes as specified in the result notification letters issued to the applicants. The aforementioned requirements would be clearly spelt out in the result notification letter for individual cases and have been stipulated in the latest guide to applications so as to ensure that applicants understand the applicable arrangements. Extension of deadline for fulfilment of the conditions will only be granted to the applicants in exceptional cases, subject to the provision of satisfactory justifications and supporting documents; and
- (b) BUD Fund Secretariat will enhance BUD Fund's computer system to record the required timeframes and actual timeframes for fulfilling conditions stipulated in approvals with conditions by the applicants, and compile relevant management information for monitoring the status of the applications.

PART 3: MONITORING OF APPROVED PROJECTS

3.1 This PART examines the work of TID and BUD Fund Secretariat in the monitoring of approved projects, focusing on the following areas:

- (a) submission of reports (paras. 3.2 to 3.12);
- (b) on-site checks (paras. 3.13 to 3.32); and
- (c) recoupment of residual funds (paras. 3.33 to 3.44).

Submission of reports

Need to ensure timely submission of final reports and progress reports by grantees

3.2 To facilitate the monitoring and evaluation of approved projects, the grantees are required to submit reports to BUD Fund Secretariat for review. Depending on the project duration, the arrangement for the submission of reports and audited accounts is as follows:

- (a) ***Projects with duration of 18 months or below.*** The grantees of these projects are required to submit a final report together with the final audited accounts within two months upon project completion; and
- (b) ***Projects with duration more than 18 months and up to 24 months.*** The grantees of these projects are required to submit:
 - (i) a progress report and annual audited accounts for the first 12 months within one month after the relevant 12-month period; and
 - (ii) a final report together with the final audited accounts within two months upon project completion.

The reports and audited accounts submitted by the grantees will be reviewed by BUD Fund Secretariat. The reports will then be submitted to IDC for assessment and thereafter to PMC for consideration and acceptance.

3.3 *Delays in submission of final reports and progress reports by grantees.* In 2024, 727 final reports and 17 progress reports submitted by the grantees for projects under general applications, and 146 final reports submitted by the grantees for projects under “Easy BUD” applications were accepted by PMC. Audit reviewed the submission of these reports by the grantees and found that:

Projects under general applications

- (a) *Final reports for projects under general applications.* Of the 727 final reports, 333 (46%) were submitted late, the delays ranged from 1 to 806 days (averaging 104 days) (see Table 6) (Note 9);

Note 9: *In response to Audit’s enquiry, TID informed Audit in March 2025 that 66 of the 68 final reports that were submitted late for more than 180 days were related to projects implemented during COVID-19 epidemic, necessitating additional time to prepare and submit the reports. Reminders and chasers had been issued to remind the grantees to submit the final reports.*

Monitoring of approved projects

Table 6

Delays in submission of final reports for projects under general applications (2024)

Delay	Number of final reports
30 days or less	94 (28%)
More than 30 to 60 days	73 (22%)
More than 60 to 180 days	98 (29%)
More than 180 to 365 days	59 (18%)
More than 365 days (Note)	9 (3%)
	68 (21%)
Total	333 (100%)

Source: Audit analysis of BUD Fund Secretariat records

Note: The longest delay was 806 days. According to BUD Fund Secretariat, the final report with the longest delay was due for submission during COVID-19 epidemic. The delay was mainly due to the inability of the grantee to submit report and supporting documents despite repeated reminders by BUD Fund Secretariat.

- (b) **Progress reports for projects under general applications.** Of the 17 progress reports, 8 (47%) were submitted late, the delays ranged from 9 to 519 days (averaging 125 days) (Note 10); and

Projects under “Easy BUD” applications

- (c) **Final reports for projects under “Easy BUD” applications.** Of the 146 final reports, 37 (25%) were submitted late, the delays ranged from

Note 10: In response to Audit’s enquiry, TID informed Audit in March 2025 that 2 of the 8 progress reports that were submitted late were related to projects implemented during COVID-19 epidemic, necessitating additional time to prepare and submit the reports. Reminders and chasers had been issued to remind the grantees to submit the progress reports.

1 to 135 days (averaging 43 days). For 20 (14%) of the 146 final reports, the delays were more than 30 days (averaging 71 days).

3.4 ***Overdue final reports and progress reports.*** Audit reviewed the records of submission of final reports and progress reports by grantees. Audit found that, as at 31 December 2024, 341 final reports and 16 progress reports for projects under general applications, and 32 final reports for projects under “Easy BUD” applications were overdue for submission. Audit analysed the overdue period of these reports and found that, as at 31 December 2024:

Projects under general applications

- (a) ***Overdue final reports for projects under general applications.*** For the 341 overdue final reports, the overdue period ranged from 1 to 642 days (averaging 100 days). Of the 341 overdue final reports, 62 (18%) had been overdue for more than 180 days. 4 (1%) final reports had been overdue for more than 365 days;
- (b) ***Overdue progress reports for projects under general applications.*** For the 16 overdue progress reports, the overdue period ranged from 1 to 551 days (averaging 157 days). Of the 16 overdue progress reports, 5 (31%) had been overdue for more than 180 days. 3 (19%) progress reports had been overdue for more than 365 days; and

Projects under “Easy BUD” applications

- (c) ***Overdue final reports for projects under “Easy BUD” applications.*** For the 32 overdue final reports, the overdue period ranged from 1 to 215 days (averaging 73 days). 22 (69%) of the 32 final reports had been overdue for more than 30 days.

3.5 Audit considers that TID needs to, in collaboration with HKPC:

- (a) take measures to ensure the timely submission of final reports and progress reports by the grantees; and

Monitoring of approved projects

- (b) urge the grantees to submit the overdue final reports and progress reports as early as possible.

Need to expedite the processing of final reports and progress reports

3.6 Upon the receipt of final reports and progress reports, BUD Fund Secretariat will review the project progress and evaluate the project results by comparing the project progress/deliverables reported in reports against its implementation plan and deliverables set out in the approved project proposal appended to the funding agreement. All final reports and progress reports will be submitted to IDC for assessment and thereafter to PMC for consideration and acceptance.

3.7 In case a final report or progress report is rejected by PMC, the grantee is required to resubmit the progress/final report within one month after the relevant notification by BUD Fund Secretariat. If the report is rejected twice, the grantee may not resubmit the report and the funding may be curtailed. The grantee may also be required to return the funding that has already been disbursed in respect of the project.

3.8 As at 31 December 2024, 1,937 final reports and 102 progress reports for projects under general applications, and 75 final reports for projects under “Easy BUD” applications were still under processing. Audit analysed the time elapsed from the dates of the receipt of the reports. Audit found that, up to 31 December 2024:

Projects under general applications

- (a) ***Final reports for projects under general applications.*** For the 1,937 final reports that were still under processing, the time elapsed from the dates of receipt ranged from 1 day to 3.5 years (averaging 300 days). Of the 1,937 final reports, 586 (30%) had been received for more than 1 year (see Table 7);

Table 7

**Time elapsed from the receipt of final reports
for projects under general applications
(31 December 2024)**

Time elapsed	Number of final reports
90 days or less	404 (21 %)
More than 90 to 180 days	384 (20 %)
More than 180 days to 1 year	563 (29 %)
More than 1 to 2 years	426 (22 %) } 586
More than 2 years (Note)	160 (8 %) } (30 %)
Total	1,937 (100 %)

Source: Audit analysis of BUD Fund Secretariat records

Note: The longest time elapsed was 3.5 years. According to BUD Fund Secretariat, the final report with the longest time elapsed was due for submission during COVID-19 epidemic. The delay was mainly due to the inability of the grantee to submit supporting documents despite repeated reminders by BUD Fund Secretariat.

- (b) **Progress reports for projects under general applications.** For the 102 progress reports that were still under processing, the time elapsed from the dates of receipt ranged from 1 day to 3.3 years (averaging 457 days). Of the 102 progress reports, 58 (57 %) had been received for more than 1 year (see Table 8); and

Table 8

**Time elapsed from the receipt of progress reports
for projects under general applications
(31 December 2024)**

Time elapsed	Number of progress reports
90 days or less	11 (11%)
More than 90 to 180 days	14 (14%)
More than 180 days to 1 year	19 (18%)
More than 1 to 2 years	38 (37%)
More than 2 years (Note)	20 (20%)
	58 (57%)
Total	102 (100%)

Source: Audit analysis of BUD Fund Secretariat records

Note: The longest time elapsed was 3.3 years. According to BUD Fund Secretariat, while the project was implemented during COVID-19 epidemic, the grantee had failed to submit outstanding supporting documents at various junctures despite repeated reminders by BUD Fund Secretariat for over 2.4 years.

Projects under “Easy BUD” applications

- (c) **Final reports for projects under “Easy BUD” applications.** For the 75 final reports that were still under processing, the time elapsed from the dates of receipt ranged from 1 to 157 days (averaging 42 days). Of the 75 final reports, 8 (11%) had been received for more than 90 days.

3.9 According to BUD Fund Secretariat, the long processing time of final reports and progress reports was because:

- (a) the reports submitted by grantees generally had many discrepancies and lacked clarity;

- (b) most of the grantees were small and medium enterprises with limited manpower to follow up with the project administration work and prepare the reports/documents required; and
- (c) COVID-19 epidemic in the past few years had caused significant disturbance to the normal operation of the business community and lengthened the overall response time.

3.10 Audit considers that TID needs to, in collaboration with HKPC, enhance measures to expedite the processing of the final reports and progress reports, for example, by taking measures to facilitate grantees in the preparation and submission of the final reports and progress reports.

Audit recommendations

3.11 Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:

- (a) take measures to ensure the timely submission of final reports and progress reports by the grantees;
- (b) urge the grantees to submit the overdue final reports and progress reports as early as possible; and
- (c) enhance measures to expedite the processing of the final reports and progress reports, for example, by taking measures to facilitate grantees in the preparation and submission of the final reports and progress reports.

Response from the Government

3.12 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendations. He has said that:

Monitoring of approved projects

- (a) since December 2024, TID and BUD Fund Secretariat have implemented an enhanced project monitoring mechanism for reminding grantees the timely submission of project reports and more effective handling of projects with overdue reports. Under the enhanced mechanism, BUD Fund Secretariat would issue reminder to grantees for submission of report before the completion date of the project, issue chaser and reminder if the report is overdue for a specific timeframe, and recommend project termination if the report remains overdue for a prolonged period of time;
- (b) the adjustment of the initial payment ratio for BUD Fund projects from 75% to 20% of the approved government funding since 14 March 2025 would further provide a better incentive for grantees to submit their final reports promptly in order to obtain the final payments early;
- (c) BUD Fund Secretariat has all along adopted a facilitating approach to grantees in relation to processing of progress/final reports. It would not lightly recommend rejection of progress/final reports due to inadequacies in the first submission of progress/final reports. This is particularly the case as most of the period surveyed by Audit coincided with COVID-19 epidemic. This has posed substantial difficulties for grantees to gather the supporting documents from the target markets. At the same time, TID also needs to robustly vet all reports before disbursing payments so as to safeguard the prudent use of public money, thereby requiring BUD Fund Secretariat to diligently seek clarifications from grantees. That said, TID recognises the importance to ensure timely submission of reports, and has thus taken the aforementioned initiatives to enhance the mechanism before the present Audit review; and
- (d) BUD Fund Secretariat has been taking various measures to facilitate grantees' submissions of progress and final reports, such as briefing the grantees on the report submission schedule and information required for completion of reports when signing funding agreements, providing one-to-one consultation sessions to grantees, and providing useful information on the webpage of BUD Fund for grantees' reference. TID will work with BUD Fund Secretariat to explore further measures, such as arranging seminar/webinar on tips of preparing reports to facilitate grantees' timely submission of reports.

On-site checks

3.13 BUD Fund Secretariat conducts on-site checks on selected projects to verify the project progress and results. During the on-site checks, the officer-in-charge inspects items set out on a checklist (e.g. quotations documents, invoices and receipts, recruitment records and employment records) and the project deliverables (e.g. the number of staff employed and the equipment purchased). If non-compliances are identified, the officer-in-charge will contact the grantees to take follow-up actions such as providing further documentary proof or take any other viable rectification measures.

3.14 The Enhanced Guidelines on On-site Check Mechanism were endorsed by PMC and issued in December 2021. The Guidelines stipulate the objectives and criteria for nominating projects for on-site checks, including the criteria for projects subject to mandatory checks. The Guidelines also set out the target timeframe for conducting the checks and the reasons for selecting the projects for on-site checks under each selection criteria. According to the Guidelines, the projects are selected for on-site checks having regard to four specified criteria:

Projects subject to mandatory on-site checks

- (a) quality of the progress/final reports submitted;
- (b) past/existing performance of the grantee and potential risk of abuse in delivering the approved project;

Projects selected for on-site checks, but not on a mandatory basis

- (c) complexity/innovation and scale of the project implemented; and
- (d) significant changes in delivering the project measures (e.g. deviation of the project work and/or result from the project proposal approved by PMC).

3.15 In the period from 2021-22 to 2024-25 (up to December 2024), 722 on-site checks were conducted by BUD Fund Secretariat (see Table 9).

Monitoring of approved projects

Table 9

**On-site checks conducted by BUD Fund Secretariat
(2021-22 to 2024-25 (up to December 2024))**

	Number of on-site checks				
	2021-22	2022-23	2023-24	2024-25 (up to December 2024)	Total
Projects under general applications	92	130	242	257	721
Projects under “Easy BUD” applications (Note)	—	—	—	1	1
Total	92	130	242	258	722

Source: Audit analysis of BUD Fund Secretariat records

Note: Easy BUD was launched in June 2023.

Remarks: Due to COVID-19 epidemic, some on-site checks were conducted by way of video conferencing. The percentage of on-site checks conducted by video conferencing ranged from 1% in 2024-25 (up to December 2024) to 64% in 2021-22.

On-site checks not conducted as scheduled

3.16 The Enhanced Guidelines on On-site Check Mechanism require that information on the number of projects with on-site check conducted or scheduled to be reported in the quarterly operational reports for PMC’s information. The Guidelines also stipulate that, to enhance the accountability in the process of nominating projects for on-site checks, the nomination justifications are also required to be specified in the operational reports.

3.17 In the quarterly operational reports, BUD Fund Secretariat reports:

- (a) the projects with on-site checks conducted during the reporting period;

- (b) the projects with on-site checks deferred and the revised schedule; and
- (c) the projects identified for on-site checks in the specified quarter and the nomination justifications.

3.18 In the 13 quarterly operational reports covering the period from April 2021 to June 2024, 301 projects were identified for conducting on-site checks. Audit reviewed the 301 projects and found that, for 177 (59%) projects, on-site checks had not been conducted as scheduled:

- (a) the on-site checks for 9 (5%) projects were subsequently cancelled due to the termination of projects. The time elapsed from the scheduled deadline of conducting the respective on-site checks up to the date when the cancellation was reported to PMC ranged from 6 to 19 months (averaging 10 months);
- (b) for 167 (94%) projects, the on-site checks were subsequently conducted on a deferred time. The period of deferral ranged from 3 to 24 months (averaging 6 months); and
- (c) for 1 (1%) project, as at 31 December 2024, the on-site checks still had not been conducted. As at 31 December 2024, the time elapsed from the scheduled deadline of conducting on-site checks was 6 months.

3.19 In response to Audit's enquiry, BUD Fund Secretariat informed Audit in March 2025 that:

- (a) the main reason for the deferred on-site checks in late 2021 to 2022 was COVID-19 epidemic and the lockdown situation, especially in the Mainland;
- (b) the selected projects were reported to PMC during the period, indicating that BUD Fund Secretariat was required to complete the checks in the post-epidemic period. BUD Fund Secretariat completed most of the deferred on-site checks in 2023; and

Monitoring of approved projects

- (c) following the cancellation of the isolation order issuance arrangement in January 2023, the number of deferred on-site checks has returned to normal levels.

3.20 In Audit's view, as the projects are selected for on-site checks having regard to four specified criteria (e.g. quality of the progress/final reports submitted, past/existing performance of the grantee and potential risk of abuse in delivering the approved project), the delays in conducting on-site checks might not be conducive for effective project monitoring and early detection of suspicious or problematic cases. Audit considers that TID needs to, in collaboration with HKPC, ascertain the reasons for not conducting the on-site checks as scheduled and take measures to ensure that on-site checks are successfully conducted as scheduled as far as practicable.

Need to ensure that on-site checks are conducted within target timeframes

3.21 The Enhanced Guidelines on On-site Check Mechanism stipulate the criteria for nominating projects for on-site checks and the target timeframes for conducting the checks. Table 10 shows the target timeframes for conducting the on-site checks for projects selected in accordance with the specified criteria.

Table 10

Target timeframes for conducting on-site checks

Selection criteria	Target timeframe for conducting on-site checks
(a) Quality of the progress/final reports submitted	Between 6 and 10 months after the due date of the progress/final reports
(b) Past/existing performance of the grantee and potential risk of abuse in delivering the approved project	Within 3 months before project completion date, if feasible, or as soon as practicable after the problematic issue has been identified
(c) Complexity/innovation and scale of the project implemented	Between 3 months before project completion date and 6 months after the due date of final reports (i.e. 8 months after project completion date)
(d) Significant changes in delivering the project measures (e.g. deviation of the project work and/or result from the project proposal approved by PMC)	

Source: Audit analysis of BUD Fund Secretariat records

3.22 Audit reviewed the on-site checks conducted on 20 projects in the period from 2022-23 to 2024-25 (up to September 2024) and found that for 8 (40%) of the 20 projects, the on-site checks were not conducted within the target timeframes:

- (a) for 6 (30%) projects, the on-site checks were conducted after the specified timeframe. The delays ranged from 1 day to 16.4 months (averaging 8 months); and
- (b) for 2 (10%) projects, the on-site checks were conducted before the specified timeframe. The on-site checks were conducted 1 and 2 months before the specified timeframe respectively.

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3.23 In response to Audit's enquiry, BUD Fund Secretariat informed Audit in March 2025 that:

- (a) regarding the 6 projects where the on-site checks were conducted after the specified timeframe (see para. 3.22(a)), the on-site checks for 2 projects were affected by COVID-19 epidemic due to lockdown of cities and isolation orders in the Mainland, and the on-site checks for the other 3 projects were deferred because the grantees provided insufficient documents and belated replies for on-site checks; and
- (b) the deferred cases were reported in the quarterly operational reports and the actual conduct of on-site checks were also dependent on grantees' availability.

3.24 Audit considers that TID needs to, in collaboration with HKPC, take measures to ensure that on-site checks are conducted within the target timeframes stipulated in the Enhanced Guidelines on On-site Check Mechanism.

Projects subject to mandatory on-site checks not selected for on-site checks

3.25 The Enhanced Guidelines on On-site Check Mechanism stipulate that the projects involving initial payment and with reports overdue by more than 6 months without reasonable justification are subject to mandatory on-site checks under the selection criteria of "quality of the progress/final reports submitted". For these projects, the on-site checks should be conducted between 6 and 10 months after the report due dates.

3.26 Audit reviewed 7 projects subject to mandatory on-site checks to be conducted by 31 December 2024 (i.e. involving initial payment and with reports overdue by more than 6 months as at 31 August 2024). However, as at 31 December 2024, 2 (29%) of the 7 projects had not been selected for on-site checks.

3.27 Audit considers that TID needs to, in collaboration with HKPC, take measures to ensure that projects subject to mandatory on-site checks (e.g. projects involving initial payment and with reports overdue by more than 6 months without

reasonable justification) are selected for on-site checks according to the Enhanced Guidelines on On-site Check Mechanism.

Need to refine guidelines on on-site checks for “Easy BUD” and “E-commerce Easy” projects

3.28 Easy BUD and E-commerce Easy were launched in June 2023 and July 2024 respectively. As at 31 December 2024, 518 “Easy BUD” applications and 7 “E-commerce Easy” applications had been approved. As at 31 December 2024, one on-site check was conducted for “Easy BUD” projects and no on-site check was conducted for “E-commerce Easy” projects.

3.29 Audit noted that there were no specific guidelines relating to on-site checks for “Easy BUD” and “E-commerce Easy” projects. For “Easy BUD” projects, according to the minutes of PMC meeting held in December 2022, no on-site check would normally be conducted unless suspicious elements were found, considering the relatively low financial risk as initial payment would not be involved and the approved funding amount per project was capped at \$100,000. However, the suspicious elements and the circumstances which would warrant the conduct of on-site checks were not specified. For “E-commerce Easy” projects, according to TID, the general parameters of post-project follow-up follow those of the projects under general applications. However, Audit found that the selection criteria and target number of on-site checks for “E-commerce Easy” projects had not been specified.

3.30 Audit considers that TID needs to, in collaboration with HKPC, refine guidelines on on-site checks to include specific guidelines for “Easy BUD” and “E-commerce Easy” projects, including:

- (a) specifying the suspicious elements and the circumstances which warrant the conduct of on-site checks for “Easy BUD” projects; and
- (b) specifying the selection criteria and the target number of on-site checks for “E-commerce Easy” projects.

Audit recommendations

3.31 Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:

- (a) ascertain the reasons for not conducting the on-site checks as scheduled;
- (b) take measures to ensure that on-site checks are successfully conducted as scheduled as far as practicable;
- (c) take measures to ensure that on-site checks are conducted within the target timeframes stipulated in the Enhanced Guidelines on On-site Check Mechanism;
- (d) take measures to ensure that projects subject to mandatory on-site checks (e.g. projects involving initial payment and with reports overdue by more than 6 months without reasonable justification) are selected for on-site checks according to the Enhanced Guidelines on On-site Check Mechanism; and
- (e) refine guidelines on on-site checks to include specific guidelines for “Easy BUD” and “E-commerce Easy” projects, including:
 - (i) specifying the suspicious elements and the circumstances which warrant the conduct of on-site checks for “Easy BUD” projects; and
 - (ii) specifying the selection criteria and the target number of on-site checks for “E-commerce Easy” projects.

Response from the Government

3.32 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendations. He has said that:

- (a) some of the on-site checks at the grantees' premises in Hong Kong or the grantees' local entities in the target markets were not conducted in 2020 to 2022 as originally scheduled due to the tightened border control measures and quarantine requirements during COVID-19 epidemic;
- (b) TID and BUD Fund Secretariat will regularly review the number and time schedule of on-site checks to be conducted taking into account various factors, such as the estimated number of applications to be approved/projects to be completed in the year. BUD Fund Secretariat will strive to ensure that the on-site checks are conducted as scheduled according to the selection criteria and timeframes stipulated in the Enhanced Guidelines on On-site Check Mechanism and report to PMC on any deviating cases and the reasons of deviation; and
- (c) the prevailing on-site check guidelines are overarching in nature and are applicable to both general applications and "E-commerce Easy" applications which are the same as each other in terms of payment options and funding ceiling per project. TID and BUD Fund Secretariat will refine the on-site check guidelines to specify the suspicious elements and circumstances which warrant the conduct of on-site checks for "Easy BUD" projects and specify that the prevailing guidelines are also applicable to "E-commerce Easy" projects.

Recoupment of residual funds

3.33 For approved projects under general applications and "E-commerce Easy" applications, the grantee can choose to receive an initial payment for its approved project (Note 11). For applications received before 20 January 2020, the ratio of initial payment was up to 25% of the approved funding amount. For applications received in the period from 20 January 2020 to 13 March 2025, the ratio was 75%. For applications received from 14 March 2025 onwards, the ratio was adjusted to 20%. There are circumstances where, upon the termination or the completion of project, the amount of the recognisable funding amount endorsed by PMC is smaller than the amount of initial payment disbursed. Upon the termination or the completion of the project, whichever is earlier, the grantee shall return to the Government via BUD Fund Secretariat any residual funds before the date prescribed by PMC. Since

Note 11: *Initial payment is not applicable to "Easy BUD" applications.*

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the launch of BUD Fund in 2012 and up to 31 December 2024, BUD Fund Secretariat had recouped residual funds of \$172 million from grantees (i.e. \$114 million of the \$189 million from the grantees of terminated projects, and \$58 million of the \$73 million from the grantees of completed projects). In the same period, residual funds of \$457,551 (involving 5 terminated projects) had been written off.

Significant increase in amount of residual funds to be recouped from grantees

3.34 Audit reviewed the recoupment of residual funds from grantees of terminated projects and completed projects in the period from 2019-20 to 2024-25 (up to 31 December 2024) and found that:

- (a) ***Residual funds to be recouped from grantees of terminated projects.*** Since the launch of BUD Fund in 2012 and up to 31 December 2024, 1,107 (11 %) of the 9,830 approved projects were terminated. Audit found that, as at 31 December 2024, the amount of residual funds to be recouped from the grantees of terminated projects was \$73.7 million, which increased significantly by \$72.9 million from \$0.8 million as at 31 March 2020; and
- (b) ***Residual funds to be recouped from grantees of completed projects.*** Audit found that as at 31 December 2024, the amount of residual funds to be recouped from the grantees of completed projects was \$14.3 million, which increased significantly by \$14.2 million from \$0.1 million as at 31 March 2020 (see Table 11).

Table 11

**Amount of residual funds to be recouped from
grantees of terminated and completed projects
(31 March 2020 to 31 December 2024)**

Date	Residual funds to be recouped	
	Terminated projects (\$ million)	Completed projects (\$ million)
31 March 2020	0.8	0.1
31 March 2021	1.4	—
31 March 2022	4.6	1.5
31 March 2023	12.7	3.7
31 March 2024	37.5	7.7
31 December 2024	73.7	14.3

Source: Audit analysis of BUD Fund Secretariat records

3.35 Audit considers that TID needs to, in collaboration with HKPC:

- (a) ascertain the reasons for the significant increase in amount of residual funds to be recouped from grantees of terminated projects and completed projects; and
- (b) enhance the monitoring of the amount of residual funds to be recouped from grantees of terminated projects and completed projects.

Long outstanding residual funds to be recouped from grantees

3.36 ***Residual funds of terminated projects.*** As at 31 December 2024, the total approved funding amount of BUD Fund was \$6.05 billion, involving 9,830 approved applications. The amount of residual funds to be recouped from grantees of terminated projects as at 31 December 2024 was \$73.7 million, involving

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150 projects. The amount of residual funds to be recouped ranged from \$49,500 to \$750,000 in each project (averaging \$491,292). Audit analysed the recoupment of the residual funds from the grantees of the 150 terminated projects and noted that as at 31 December 2024:

- (a) the time elapsed from the date of project termination ranged from 4 days to 9 years (averaging 1 year); and
- (b) for 50 (33%) terminated projects (involving total residual funds of \$21.8 million or 30% of the total outstanding amount), the time elapsed from the date of project termination was more than 1 year (see Table 12).

Table 12

**Ageing analysis of residual funds
to be recouped from grantees of terminated projects
(31 December 2024)**

Time elapsed from date of project termination	Number of projects	Amount (\$ million)
6 months or less	73 (49%)	37.4 (50%)
More than 6 months to 1 year	27 (18%)	14.5 (20%)
More than 1 to 2 years	28 (19%)	14.5 (20%)
More than 2 to 3 years	8 (5%)	4.6 (6%)
More than 3 years (Note)	14 (9%)	2.7 (4%)
Total	150 (100%)	73.7 (100%)

Source: Audit analysis of BUD Fund Secretariat records

Note: As at 31 December 2024, the longest time elapsed was 9 years from the date of project termination, involving residual funds of \$125,000. According to BUD Fund Secretariat, this was due to the specific circumstances that the grantee was undergoing compulsory winding up, and the liquidation process of the grantee had not been completed yet as at 31 December 2024.

3.37 *Residual funds of completed projects.* As at 31 December 2024, the amount of residual funds to be recouped from grantees of completed projects was \$14.3 million, involving 63 projects. The amount of residual funds to be recouped ranged from \$4,000 to \$630,565 in each project (averaging \$227,609). Audit analysed the recoupment of the residual funds from the grantees of the 63 completed projects and noted that as at 31 December 2024:

- (a) the time elapsed from the date of PMC endorsement of final reports and final audited accounts (i.e. when the amount of residual funds could be determined) ranged from 12 days to 2.4 years (averaging 193 days); and
- (b) for 14 (22%) completed projects (involving total residual funds of \$3.7 million or 26% of the total outstanding amount), the time elapsed from the date of PMC's endorsement of final reports and final audited accounts was more than 1 year (see Table 13).

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Table 13

**Ageing analysis of residual funds
to be recouped from grantees of completed projects
(31 December 2024)**

Time elapsed from date of PMC's endorsement of final reports and final audited accounts	Number of projects	Amount (\$ million)
90 days or less	28 (44%)	5.9 (41%)
More than 90 to 180 days	18 (29%)	3.7 (26%)
More than 180 to 270 days	1 (2%)	0.3 (2%)
More than 270 days to 1 year	2 (3%)	0.7 (5%)
More than 1 year (Note)	14 (22%)	3.7 (26%)
Total	63 (100%)	14.3 (100%)

Source: Audit analysis of BUD Fund Secretariat records

Note: As at 31 December 2024, the longest time elapsed was 2.4 years from the date of PMC's endorsement of final reports and final audited accounts of the projects, involving residual funds of \$47,196.

3.38 Audit considers that TID needs to, in collaboration with HKPC:

- (a) closely monitor the recoupment of residual funds from grantees of terminated and completed projects, in particular, those from the long outstanding cases; and
- (b) step up measures to recoup residual funds from grantees of terminated and completed projects as soon as possible.

Room for improvement in recoupment of residual funds

3.39 According to BUD Fund Secretariat's Operation Manual, the procedures for recoupment of residual funds from the grantee are as follows:

- (a) upon PMC's endorsement on the termination of the project or the endorsement of the final report of completed project, BUD Fund Secretariat will issue a letter requesting the grantee to return the residual fund immediately, and in any event no later than 7 calendar days from the date of demand for terminated projects or 30 calendar days from the date of demand for completed projects;
- (b) if payment is not received by the deadline, BUD Fund Secretariat will initiate further actions, such as issuing reminders and conducting site visits;
- (c) if the grantee still does not return the grant, BUD Fund Secretariat will issue a final reminder, advising the grantee to repay by a deadline of no more than 7 calendar days from the issue of the final reminder, failing which legal actions may be initiated after the deadline of the reminder; and
- (d) if the grantee still fails to return the grant by the deadline, BUD Fund Secretariat will inform TID for consideration of further action.

3.40 Audit reviewed 5 terminated projects with long outstanding residual funds involving residual funds ranging from \$266,325 to \$746,730 (averaging \$484,640) and time elapsed of 278 to 552 days (averaging 403 days) from the dates of project termination up to 31 December 2024. Audit noted that for 1 project (involving residual funds of \$746,730 and time elapsed of 453 days from the date of project termination up to 31 December 2024), the final reminder issued to the grantee did not specify the final repayment deadline by which legal actions may be initiated if the grantee failed to repay by the deadline (see para. 3.39(c)).

3.41 In response to Audit's enquiry, TID informed Audit in March 2025 that:

- (a) under the enhanced project monitoring mechanism implemented on 20 December 2024, the updated final reminder had mentioned that the grantees should return the funds no later than seven days from the date of

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the final reminder and had advised the grantees that legal actions might be initiated after the deadline of the reminder. The template of the updated reminder was rolled out on 30 December 2024; and

- (b) TID and BUD Fund Secretariat had implemented the enhanced project monitoring mechanism. Under the mechanism, BUD Fund Secretariat would issue a letter to grantees to inform them of PMC's decision on the same day that PMC endorses the termination of the project. If BUD Fund Secretariat's initial recovery actions, including the issuance of reminders/chasers and its liaisons with grantees, fail to recoup the residual funds, the cases would be referred to TID. TID would, after BUD Fund Secretariat had provided all case details to TID, consult the Department of Justice on the next steps forward. The Department of Justice would take into account the specific circumstance of each case, and consider whether litigation actions were to be pursued.

3.42 Audit considers that TID needs to, in collaboration with HKPC, take measures to ensure that the procedures for recoupment of funds stipulated in BUD Fund Secretariat's Operation Manual are complied with.

Audit recommendations

3.43 **Audit has *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **ascertain the reasons for the significant increase in amount of residual funds to be recouped from grantees of terminated projects and completed projects;**
- (b) **enhance the monitoring of the amount of residual funds to be recouped from grantees of terminated projects and completed projects;**
- (c) **closely monitor the recoupment of residual funds from grantees of terminated and completed projects, in particular, those from the long outstanding cases;**

- (d) **step up measures to recoup residual funds from grantees of terminated and completed projects as soon as possible; and**
- (e) **take measures to ensure that the procedures for recoupment of funds stipulated in BUD Fund Secretariat's Operation Manual are complied with.**

Response from the Government

3.44 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendations. He has said that:

- (a) due to COVID-19 epidemic from 2020 to 2022, some grantees were unable to implement their BUD Fund projects as originally planned or could only complete part of the approved project measures. This resulted in an increased number of terminated projects and completed projects that were required to return residual funds;
- (b) in January 2020, in order to assist small and medium enterprises in tiding over the economic downturn at that time, the initial payment ratio of BUD Fund projects was increased from 25% to 75% of the approved government funding. This was believed to be the major reason leading to an increase in both the number of projects requiring repayment of disbursed grants and the repayment amounts involved. CEDB and TID have therefore reviewed the disbursement arrangements having regard to the operational experience in the past few years and the current market situation, and adjusted the initial payment ratio to 20% for applications received since 14 March 2025. Following the adjustment, it is expected that the number of cases requiring grant recoupment would decrease, thereby enhancing the overall efficiency of fund disbursements and reducing the administrative burden and financial risk associated with such cases;
- (c) TID and BUD Fund Secretariat have implemented an enhanced project monitoring mechanism since December 2024 for reminding grantees the timely submission of project reports and more effective handling of projects with overdue reports. Under the enhanced mechanism, projects with long overdue reports will be recommended for termination within a specified

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timeframe, thus expediting the commencement of the recoupment process;
and

- (d) TID and BUD Fund Secretariat will ensure that the enhanced project monitoring mechanism and the relevant operational arrangements are adhered to.

PART 4: OTHER RELATED ISSUES

4.1 This PART examines other related issues of BUD Fund, focusing on the following areas:

- (a) engagement of HKPC as implementation partner and secretariat (paras. 4.2 to 4.19);
- (b) governance issues of PMC (paras. 4.20 to 4.38); and
- (c) use of information technology in enhancing operation (paras. 4.39 to 4.43).

Engagement of Hong Kong Productivity Council as implementation partner and secretariat

Service agreements with BUD Fund Secretariat not updated in a timely manner

4.2 Since June 2012, HKPC has been engaged as the implementation partner and the secretariat of BUD Fund. The service agreement signed between the Government and HKPC in June 2012 had been updated five times in June 2017, October 2018, September 2020, March 2022 and March 2024 respectively. Since the launch of BUD Fund, several rounds of enhancement measures have been introduced. The enhancement measures on BUD Fund approved by the Legislative Council were incorporated in the updated agreements. According to the service agreements, in carrying out the activities as the implementation partner of BUD Fund, HKPC is required to follow all conditions and requirements as set out in the related Legislative Council Paper and the Finance Committee Papers.

4.3 Audit examined four recent service agreements signed between the Government and HKPC and found that all the agreements were signed retrospectively after the effective dates of the agreements. The four agreements were signed 3 to 9 months (averaging 7 months) after the effective dates of the respective agreements (see Table 14).

Table 14

**Effective dates and signing dates of service agreements
between the Government and HKPC
(August 2018 to March 2024)**

Effective date	Date of signing agreement	Time elapsed from effective date to date of signing agreement (Month)
1 August 2018	31 October 2018	3
20 January 2020	18 September 2020	8
30 July 2021	25 March 2022	8
16 June 2023	20 March 2024	9
Average		7

Source: Audit analysis of TID records

4.4 In response to Audit's enquiry, TID informed Audit in March 2025 that:

- (a) the service agreements were multi-year in nature and the agreements reflected the circumstances as at the inception of the service agreements;
- (b) at all times, the relationship between the Government and HKPC had been duly covered and governed by a service agreement;
- (c) to capture the latest circumstances during the course of the service agreements, the Government had also been relying on the co-existing mechanism of Annual Implementation Plan for detailed control over HKPC. However, as there were more frequent, substantial enhancements rolled out for BUD Fund, the details of the service agreements, particularly effective dates of enhancements and relevant details, would also need to be updated so as to reflect these for administrative tidiness; and

- (d) TID remained in total oversight of HKPC as BUD Fund Secretariat through a continuous series of service agreements and Annual Implementation Plan mechanism.

4.5 In Audit's view, to safeguard the Government's interests, TID needs to take measures to ensure that the service agreements between the Government and BUD Fund Secretariat are updated in a timely manner.

Delays in submission and approval of Annual Implementation Plans

4.6 According to the service agreements signed between the Government and HKPC, BUD Fund Secretariat is required to produce, for each financial year, an Annual Implementation Plan for acceptance by the Government and PMC. The Annual Implementation Plan provides the basis against which the performance of BUD Fund Secretariat is evaluated. It includes important information of the implementation of BUD Fund for the following financial year (e.g. financial estimates and performance indicators).

4.7 According to the service agreements signed between the Government and HKPC:

- (a) Annual Implementation Plan should be submitted by BUD Fund Secretariat to PMC on or before 31 December immediately preceding the financial year to which the Annual Implementation Plan relates, unless otherwise specified by the Government;
- (b) PMC should specify its conclusion on accepting the Annual Implementation Plan or not; and
- (c) the Annual Implementation Plan requires approval by the Government in writing. TID will normally indicate its approval within two weeks after PMC has reached a conclusion.

4.8 Audit reviewed the records of submissions and approvals of Annual Implementation Plans for the financial years 2019-20 to 2024-25. Audit found that:

Other related issues

- (a) for all the 6 years, there were delays in the submissions of Annual Implementation Plans by BUD Fund Secretariat. The delays ranged from 86 to 115 days (averaging 100 days);
- (b) for 3 (50%) of the 6 years, the Annual Implementation Plans were submitted to PMC after the commencement of the respective financial years. The Plans for these 3 years were submitted 21 to 23 days (averaging 22 days) after the commencement of the respective financial years. Therefore, the Annual Implementation Plans of these 3 years could not be approved by TID before the commencement of the respective financial years; and
- (c) for the recent 4 (67%) of the 6 years, long time was taken by TID to indicate its approvals in writing for the Annual Implementation Plans. TID indicated its approvals 8 to 14 weeks (averaging 11 weeks) after PMC had reached a conclusion. For the first 2 (33%) years, there was no documentary evidence showing TID's indication of approvals in writing for the Annual Implementation Plans.

4.9 Audit considers that TID needs to:

- (a) in collaboration with HKPC, take measures to ensure that BUD Fund Secretariat submits the Annual Implementation Plans within the stipulated timeframe; and
- (b) take measures to ensure that Annual Implementation Plans are approved by TID within the stipulated timeframe and such approvals are properly documented.

Delays in submission of Annual Reports and audited accounts by BUD Fund Secretariat

4.10 According to the service agreements signed between the Government and HKPC, BUD Fund Secretariat should produce to PMC within three months after the end of each financial year:

- (a) an Annual Report describing the implementation activities organised under BUD Fund and achievements of BUD Fund in respect of that financial year; and
- (b) audited accounts of BUD Fund in respect of that financial year.

4.11 For the financial years from 2019-20 to 2023-24, BUD Fund Secretariat submitted 5 sets of Annual Reports and audited accounts to PMC. Audit examined the submissions of Annual Reports and audited accounts, and found that there were delays in the submissions of 4 (80%) sets of Annual Reports and audited accounts. The delays ranged from 8 to 90 days (averaging 36 days) for Annual Reports and 9 to 92 days (averaging 38 days) for audited accounts.

4.12 Audit considers that TID needs to, in collaboration with HKPC, take measures to ensure that Annual Reports and audited accounts of BUD Fund are submitted by BUD Fund Secretariat within the stipulated timeframe.

Need to improve response rates of satisfaction surveys conducted by BUD Fund Secretariat

4.13 Throughout the application process, BUD Fund Secretariat collects the feedback from applicants/grantees by way of conducting satisfaction surveys. There are 3 types of satisfaction surveys:

- (a) ***Customer Satisfaction Surveys.*** BUD Fund Secretariat conducts Customer Satisfaction Surveys to gauge the views of applicants on the assistance provided by BUD Fund Secretariat after the submission of application forms. The Surveys seek applicants' feedback on various aspects of assistance and the overall quality of services provided by BUD Fund Secretariat;
- (b) ***Completion Surveys.*** Completion Surveys are conducted upon grantees' completion of projects to gauge the views of grantees on overall usefulness of BUD Fund in supporting their business development in various areas, such as enhancing corporate image and enhancing product competitiveness; and

Other related issues

- (c) **Tracking Surveys.** Tracking Surveys are conducted one year after grantees' completion of their projects to gauge the views of grantees on overall usefulness of BUD Fund in long-term business development.

4.14 Audit analysed the response rates of the satisfaction surveys conducted in the period from 2019-20 to 2023-24 and found that:

- (a) the response rates of the Tracking Surveys were lower than those of the Customer Satisfaction Surveys and Completion Surveys, ranging from 21 % to 26 % (averaging 23 %); and
- (b) the response rates of the Customer Satisfaction Surveys increased from 34 % in 2019-20 to 84 % in 2021-22, but decreased to 47 % in 2023-24 (averaging 51 %) (see Table 15).

Table 15

**Response rates of satisfaction surveys
(2019-20 to 2023-24)**

	2019-20	2020-21	2021-22	2022-23	2023-24	Average
Customer Satisfaction Surveys	34 %	40 %	84 %	48 %	47 %	51 %
Completion Surveys	74 %	69 %	71 %	72 %	77 %	73 %
Tracking Surveys	26 %	22 %	21 %	22 %	26 %	23 %

Source: Audit analysis of BUD Fund Secretariat records

- 4.15 Audit considers that TID needs to, in collaboration with HKPC:
- (a) ascertain the reasons for the decreased response rates of the Customer Satisfaction Surveys in recent years; and
 - (b) take measures to improve the response rates of the satisfaction surveys, in particular the Tracking Surveys.

Audit recommendations

4.16 Audit has *recommended* that the Director-General of Trade and Industry should take measures to:

- (a) ensure that the service agreements between the Government and BUD Fund Secretariat are updated in a timely manner; and
- (b) ensure that Annual Implementation Plans are approved by TID within the stipulated timeframe and such approvals are properly documented.

4.17 Audit has also *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:

- (a) take measures to ensure that BUD Fund Secretariat submits the Annual Implementation Plans within the stipulated timeframe;
- (b) take measures to ensure that Annual Reports and audited accounts of BUD Fund are submitted by BUD Fund Secretariat within the stipulated timeframe;
- (c) ascertain the reasons for the decreased response rates of the Customer Satisfaction Surveys in recent years; and
- (d) take measures to improve the response rates of the satisfaction surveys, in particular the Tracking Surveys.

Response from the Government

4.18 The Director-General of Trade and Industry generally agrees with the audit recommendations in paragraph 4.16. He has said that:

- (a) in recent years, given the continuous surge of applications following the various rounds of enhancements (an increase of 320% in 2024 as compared with 2019), more time was required by BUD Fund Secretariat to prepare the Annual Implementation Plan so as to suitably reflect the manpower and overall budget requirements based on the latest caseload situation. The Annual Implementation Plan also has to factor in the planned activities for smoothly implementing the enhancements in the affected years. Likewise, the service agreement between the Government and HKPC also faced similar challenges when it came to updating the parameters due to the scale and frequency of the enhancements in recent years. As such, TID will review the timeframe set out in the service agreement between the Government and HKPC on the submission of Annual Implementation Plan to ensure that it is realistic and reasonable in light of the prevailing circumstances, and collaborate with BUD Fund Secretariat in the timely preparation of Annual Implementation Plan and submission of Annual Reports and audited accounts; and
- (b) upon the submission of the Annual Implementation Plans to PMC, they will be discussed and endorsed at PMC meetings chaired by the Director-General of Trade and Industry. The approvals of the Annual Implementation Plan are encapsulated and properly documented in the relevant minutes of PMC meetings. TID will review the arrangements of indicating the Government's approval of the Annual Implementation Plans as stipulated in the service agreement and ensure their timely approvals.

4.19 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendations in paragraph 4.17.

Governance issues of Programme Management Committee

4.20 PMC advises and makes recommendations to the Government on the overall implementation of BUD Fund, including Annual Implementation Plans and budgets, operation, progress as well as outcomes and effectiveness of BUD Fund. As at 31 December 2024, PMC had 16 members, comprising 3 ex-officio members (including the Director-General of Trade and Industry as the Chairman) and 13 non-official members drawn widely from the trade, industrial and professional sectors. The appointing authority of PMC members rests with the Secretary for Commerce and Economic Development. BUD Fund Secretariat provides secretariat services for PMC.

Need to appoint more young people to PMC

4.21 The Government has established guidelines and principles for appointments to advisory and statutory bodies to ensure that members of the public have equal opportunities to participate in public affairs through services on these bodies. Regarding the participation of young people, in October 2017, the Government announced that it 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% by June 2022 (Note 12).

4.22 Audit reviewed the appointments of PMC members for the three terms from July 2020 to June 2022, July 2022 to June 2024 and July 2024 to June 2026 respectively. Audit found that the number of young members appointed were 2, 2 and 1 for the three terms respectively. Of the total number of non-official PMC members appointed, the overall ratios of young members were only 13%, 13% and 8% for the three terms respectively.

4.23 Audit considers that CEDB and TID need to step up efforts to appoint more young people to PMC.

Note 12: *The date of first appointment of a member on a continuous service of an advisory and statutory body will be used for the purpose of calculating the youth participation rate.*

Low attendance of one member at PMC meetings

4.24 Audit examined the attendance records of PMC meetings held in the period from July 2020 to June 2024 for members who had served PMC for at least one complete term (each term is two years). Audit found that the attendance of one member at PMC meetings held in the period was 25% for the term from July 2022 to June 2024. Despite the low attendance of the member, the member was re-appointed in the following term. According to TID, the member had been offering constructive advice to PMC and it was desirable for members with experience to stay on.

4.25 Audit considers that CEDB and TID need to closely monitor the attendance of members at PMC meetings and take effective measures to encourage members with low attendance to attend meetings as far as possible.

Need to distribute meeting agendas and discussion papers to PMC members within the specified timeframe

4.26 According to BUD Fund Secretariat's guidelines, the agenda and necessary documents required for consideration and resolution would be distributed no later than one week prior to the PMC meetings as far as possible.

4.27 Audit reviewed the records of the 22 PMC meetings held in the period from March 2019 to October 2024 and found that, for 8 (36%) meetings, the meeting agendas and discussion papers were not distributed to PMC members within the specified timeframe (i.e. no later than one week before the meetings). For the 8 meetings, on average, the meeting agendas and discussion papers were distributed to PMC members 4 days (ranging from 1 to 6 days) before the scheduled meetings. Audit also noted that the discussion papers often comprised substantial information (e.g. Annual Implementation Plans, Operational Reports and project lists recommended for approval). For the 8 meetings, on average, 212 pages of discussion papers were covered in each meeting, ranging from 70 to 392 pages.

4.28 To facilitate discussions of PMC members at meetings, Audit considers that TID needs to, in collaboration with HKPC, distribute meeting agendas and discussion papers to PMC members within the specified timeframe as far as possible.

Need to distribute meeting minutes to PMC members within the specified timeframe

4.29 According to BUD Fund Secretariat's guidelines, the meeting minutes would be distributed to PMC members two weeks after the respective PMC meetings.

4.30 Audit reviewed the records of the 22 PMC meetings held in the period from March 2019 to October 2024 and found that, for all 22 meetings, the meeting minutes were distributed to PMC members more than two weeks after the respective PMC meetings. On average, the meeting minutes were distributed to PMC members 77 days (ranging from 48 to 114 days) after the respective meetings.

4.31 Audit considers that TID needs to, in collaboration with HKPC, distribute meeting minutes to PMC members within the specified timeframe.

Need to improve first-tier declarations of interests

4.32 PMC adopts a two-tier reporting system for members to declare matters which may give rise to a conflict of interests:

- (a) ***First-tier declarations.*** The first-tier declaration is to require non-official members to register their interests upon appointment. Non-official members shall register in writing their personal interests, direct or indirect, pecuniary or otherwise, when they are first appointed to PMC, and annually thereafter. The registration shall be made on a standard form; and
- (b) ***Second-tier declarations.*** If a member (including the Chairman) has any direct personal or pecuniary interests in any matter under consideration by PMC, he must, as soon as practicable after he has become aware of it, disclose to the Chairman or PMC prior to the discussion of the item. The Chairman or PMC shall decide whether the member disclosing an interest may speak or vote on the matter, may remain in the meeting as an observer, or should withdraw from the meeting.

4.33 ***Delays in making first-tier declarations.*** Audit examined the first-tier declarations made in the period from July 2020 to December 2024 and found that all the 14 declarations of interests on first appointment were made after the dates of first appointment of the members concerned. The declarations were made 1 to 21 days (averaging 6 days) after the first appointment of the members concerned.

4.34 Audit considers that TID needs to, in collaboration with HKPC, take measures to ensure that first-tier declarations of interests are made by PMC members in a timely manner.

Audit recommendations

4.35 **Audit has *recommended* that the Secretary for Commerce and Economic Development and the Director-General of Trade and Industry should:**

- (a) **step up efforts to appoint more young people to PMC; and**
- (b) **closely monitor the attendance of members at PMC meetings and take effective measures to encourage members with low attendance to attend meetings as far as possible.**

4.36 **Audit has also *recommended* that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council:**

- (a) **distribute meeting agendas and discussion papers to PMC members within the specified timeframe as far as possible;**
- (b) **distribute meeting minutes to PMC members within the specified timeframe; and**
- (c) **take measures to ensure that first-tier declarations of interests are made by PMC members in a timely manner.**

Response from the Government

4.37 The Secretary for Commerce and Economic Development and the Director-General of Trade and Industry generally agree with the audit recommendations in paragraph 4.35. The Secretary for Commerce and Economic Development has said that:

- (a) PMC has participated in the Member Self-recommendation Scheme for Youth and two youth members would be recruited under the Scheme for joining PMC. Upon the completion of the appointment formalities in the first half of 2025, the youth ratio of PMC will reach 20%, i.e. exceeding the benchmark of 15%; and
- (b) CEDB and TID have been and will continue to monitor the attendance rate of members at PMC meetings. The attendance rate of the member concerned has increased to 67% since the new term commenced in July 2024.

4.38 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, generally agrees with the audit recommendations in paragraph 4.36. He has said that:

- (a) with the surge in the number of applications by 320% between 2019 and 2024, the workload of BUD Fund Secretariat and TID in application processing and project monitoring have increased immensely. TID will work with BUD Fund Secretariat to distribute meeting agendas, discussion papers and minutes to PMC members as early as practicable; and
- (b) BUD Fund Secretariat will issue emails to remind PMC members of timely submission of first-tier declarations of interests.

Use of information technology in enhancing operation

Need to closely monitor the progress of adoption of artificial intelligence (AI) in operation of BUD Fund

4.39 BUD Fund Secretariat devised a plan on utilising AI solutions to expedite the vetting process of BUD Fund applications. The scope and timeframe for the project of adopting generative AI in the operation of BUD Fund as set out in BUD Fund Secretariat's plan in December 2023 are shown in Table 16.

Table 16

Project of adopting generative AI in the operation of BUD Fund (December 2023)

Phase	Scope	Timeframe
Pre-development phase	To carry out pre-development consultation study and to seek relevant approval	November 2023 to January 2024
Phase 1	Internal user management and interface, customer frontend enhancement and data capturing	February to May 2024
Phase 2	Internal user management and interface, data classification, prototype of chatbot with case analysis	June to August 2024
Phase 3	AI report writing, extension of approval summary assessment module, and deployment of data lake	September 2024 to March 2025

Source: BUD Fund Secretariat records

4.40 The progress of the project of adopting generative AI was reported in PMC meetings. According to BUD Fund Secretariat in its reports in the PMC meetings in July and October 2024:

- (a) ***Pre-development phase.*** The pre-development consultation study had been completed in January 2024. A consultant was engaged to conduct an analysis on utilising AI solutions to expedite the vetting process of BUD Fund applications;
- (b) ***Phase 1.*** Phase 1, which focused on the development of an AI chatbot to address enquiries related to BUD Fund's Guide to Application and yardsticks, had been completed in May 2024;
- (c) ***Phase 2.*** Phase 2, which involved knowledge management and the development of an AI assistant to address enquiries related to some licensing requirements for the Mainland and certain markets with which Hong Kong has signed FTAs and/or IPPAs, and price ranges for budget items, had been completed in August 2024; and
- (d) ***Phase 3.*** Phase 3 involved the development of an AI assessment portal, which would provide assessment recommendations for the consideration of BUD Fund Secretariat's officers and would assist BUD Fund Secretariat in the vetting process and enhance the vetting efficiency. "Easy BUD" applications would be used in the trial run. The implementation of Phase 3, which was originally targeted for completion in March 2025, was rescoped to better address cybersecurity and protection of personal data. The project completion date was expected to be in the third quarter of 2025.

4.41 In view of the potential benefits of the adoption of AI to expedite the vetting process of BUD Fund applications and to assist officers in work relating to the regulatory regimes and market access requirements, Audit considers that TID needs to, in collaboration with HKPC, closely monitor the progress of the project of adopting generative AI in the operation of BUD Fund and ensure that the project is completed in a timely manner.

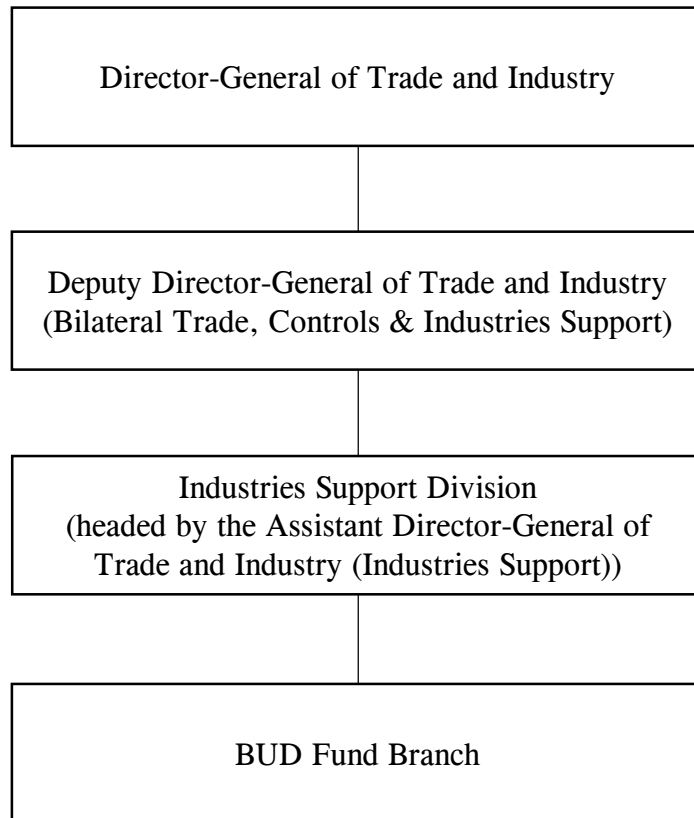
Audit recommendation

4.42 **Audit has recommended that the Director-General of Trade and Industry should, in collaboration with the Executive Director, Hong Kong Productivity Council, closely monitor the progress of the project of adopting generative AI in the operation of BUD Fund and ensure that the project is completed in a timely manner.**

Response from the Government

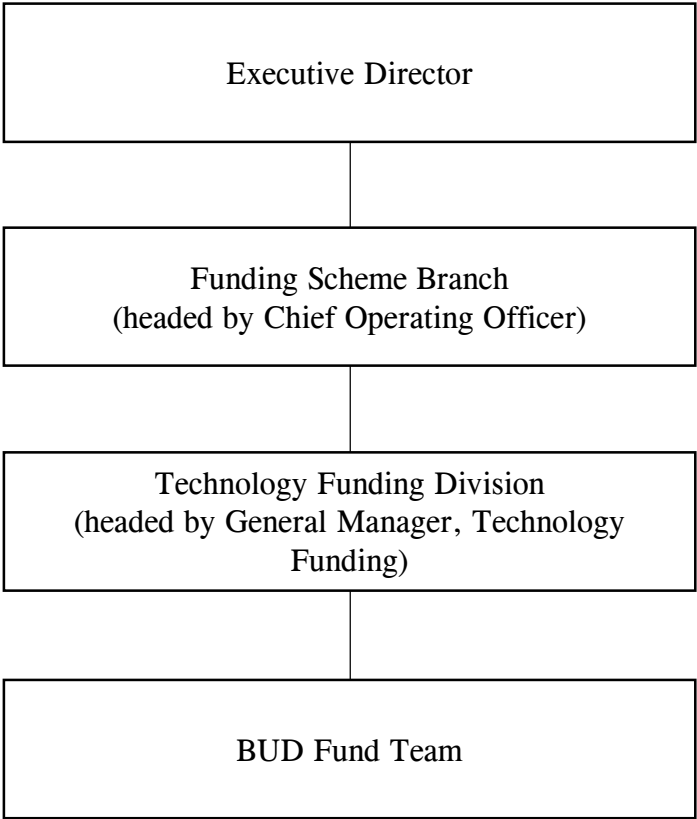
4.43 The Director-General of Trade and Industry, with the support of the Executive Director, Hong Kong Productivity Council, agrees with the audit recommendation.

**Trade and Industry Department:
Organisation chart (extract)
(31 December 2024)**



Source: TID records

**Hong Kong Productivity Council:
Organisation chart (extract)
(31 December 2024)**



Source: BUD Fund Secretariat records

Acronyms and abbreviations

AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
Audit	Audit Commission
BUD Fund	Dedicated Fund on Branding, Upgrading and Domestic Sales
CEDB	Commerce and Economic Development Bureau
COR	Controlling Officer's Report
FTA	Free Trade Agreement
HKPC	Hong Kong Productivity Council
IDC	Inter-departmental Committee
IPPA	Investment Promotion and Protection Agreement
PMC	Programme Management Committee
TID	Trade and Industry Department

CHAPTER 2

**Education Bureau
Hong Kong Council for Accreditation of
Academic and Vocational Qualifications**

**Hong Kong Council for Accreditation of
Academic and Vocational Qualifications**

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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HONG KONG COUNCIL FOR ACCREDITATION OF ACADEMIC AND VOCATIONAL QUALIFICATIONS

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HONG KONG COUNCIL FOR ACCREDITATION OF ACADEMIC AND VOCATIONAL QUALIFICATIONS

Executive Summary

1. Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ), formerly the Hong Kong Council for Academic Accreditation, was established in 1990 as an independent statutory body to provide authoritative advice on academic standards of degree programmes in higher education institutions in Hong Kong. In 2007, the Hong Kong Council for Academic Accreditation was reconstituted under the Hong Kong Council for Accreditation of Academic and Vocational Qualifications Ordinance (Cap. 1150) to form HKCAAVQ. HKCAAVQ took on responsibility for the vocational and professional education and training sector and statutory roles as the Accreditation Authority and the Qualifications Register Authority under the Qualifications Framework (QF) under the Accreditation of Academic and Vocational Qualifications Ordinance (Cap. 592). HKCAAVQ provides quality assurance, accreditation and assessment services to education and training institutions, course providers and the general public. In addition to its statutory roles, HKCAAVQ also provides advisory and consultancy services in education qualifications and standards to government bureaux/departments and other organisations in Hong Kong and the Asia-Pacific region. HKCAAVQ is primarily financed through the charging of fees for accreditation services, qualifications and other assessment services, and advisory and consultancy services rendered. In the period from 2019-20 to 2023-24, the income of HKCAAVQ ranged from \$105.9 million to \$125.5 million each year, and the expenditure of HKCAAVQ ranged from \$82.4 million to \$100.3 million each year. The Audit Commission (Audit) has recently conducted a review of HKCAAVQ.

Provision of services

2. *Need to take measures to ensure that accreditation reports are issued within the specified timelines.* According to HKCAAVQ's manual, HKCAAVQ should issue the accreditation report within 16 to 24 weeks (depending on the type of accreditation and QF level) after the date of receipt of the accreditation document. Audit analysed the 1,654 accreditations completed in the period from 2019-20 to

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2023-24. Audit found that, for 400 (24%) accreditations, the accreditation reports were not issued within the specified timelines. The delays ranged from 1 day to 29.1 weeks (averaging 2.6 weeks) (para. 2.4).

3. ***Need to ensure that assessments of the specialists' performance are duly completed.*** After each accreditation exercise, HKCAAVQ staff will assess the performance of the specialists in the exercise and give ratings according to their performance and their suitability to serve as accreditation panel members in future accreditation exercises, namely "Green" (i.e. comfortable with engagement in future accreditation exercises), "Yellow" (i.e. some concerns over engagement in future accreditation exercises) and "Red" (i.e. serious concerns over engagement in future accreditation exercises). Audit examined 20 accreditation exercises completed in 2023-24. Audit found that, for 5 (25%) accreditation exercises involving 31 specialists, there was no documentary evidence showing that ratings were given to 20 (65%) of the 31 specialists on their performance and their suitability to serve as panel members in future accreditation exercises (paras. 2.7 and 2.8).

4. ***Need to document the rationale on the assessment and the follow-up actions of the specialists' performance.*** As at 31 December 2024, 705 specialists were engaged by HKCAAVQ. Audit reviewed the ratings of the 705 specialists and found that: (a) there were no guidelines on the assessment of specialists' performance in accreditation exercises and the follow-up actions to be taken on specialists whom HKCAAVQ had concerns over engagement in future accreditation exercises; and (b) of the 705 specialists, 12 (2%) were rated as "Yellow" in past accreditation exercises. However, there was no documentary evidence showing the rationale of giving the ratings of "Yellow" and the follow-up actions taken on these specialists (paras. 2.7 and 2.10).

5. ***Room for improvement in declarations of interests by specialists.*** Audit examination of the submission of declaration forms by 91 specialists in 20 accreditation exercises completed in 2023-24 found that: (a) 3 (3%) declaration forms were returned to HKCAAVQ after the submission deadline. The delays ranged from 6 to 73 days (averaging 31 days); (b) 15 (16%) declaration forms were not dated by the specialists concerned; and (c) 1 (1%) declaration form was not signed by the specialist concerned (para. 2.12).

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6. ***Need to take measures to ensure that qualifications assessments are completed within the target processing time.*** According to HKCAAVQ, it has set a time target to complete a qualifications assessment within 15 working days starting from the next working day of the acknowledgement of receipt of all required documents. Audit analysed the processing time of 24,150 qualifications assessments completed in the period from 2019-20 to 2023-24. Audit found that: (a) 5,200 (22%) were not completed within the target processing time. The delays in completion ranged from 1 to 394 working days (averaging 12.8 working days); and (b) the percentage of qualifications assessments which were not completed within the target processing time increased from 13% in 2020-21 to 32% in 2023-24 (para. 2.20).

7. ***Need to improve the handling of suspected fraudulent academic qualifications cases.*** In the period from 2019-20 to 2023-24, HKCAAVQ reported 113 cases of suspected fraudulent academic qualifications to the Hong Kong Police Force. Audit found that: (a) the number of suspected fraudulent academic qualifications cases reported in HKCAAVQ's Annual Reports for 2019-20, 2020-21 and 2021-22 was understated by 8, 1 and 5 respectively; (b) HKCAAVQ's guidelines did not include specific circumstances which warrant the attention of the handling officers in examination of the cases of suspected fraudulent academic qualifications; and (c) for the 32 cases of suspected fraudulent academic qualifications reported to the Hong Kong Police Force in 2023-24, the average time elapsed between the receipt dates of prima facie evidence and clarification and the dates of reporting to the Hong Kong Police Force was 73 days. The time elapsed ranged from 0 to 172 days (paras. 2.26 to 2.29).

8. ***Room for improvement in monitoring non-compliant advertisements relating to QF.*** In the period from 2019-20 to 2023-24, HKCAAVQ identified 140 non-compliant advertisements relating to QF, ranging from 4 to 55 non-compliant advertisements each year. Audit found that there is room for improvement in HKCAAVQ's monitoring of non-compliant advertisements: (a) HKCAAVQ monitored the non-compliant advertisements only through 5 newspapers and 1 social media platform; (b) for 21 (38%) of the 55 non-compliant advertisements in 2023-24, in contrary to HKCAAVQ's guidelines, there was no documentary evidence showing that HKCAAVQ had checked whether the advertisements concerned had been rectified; and (c) in the period from 2019-20 to 2023-24, there were 71 operators with non-compliant advertisements. Of the 71 operators, 29 (41%) had more than one non-compliant advertisements (paras. 2.40 and 2.42).

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9. ***Need to take measures to ensure that non-local course assessments are completed within the target processing time.*** Audit analysed the 2,524 cases of non-local course assessments completed in the period from 2019-20 to 2023-24 (comprising 153 cases of new applications for registration, 1,663 cases of annual returns for registered courses and 708 cases of notifications of changes to registered courses). Audit found that in 459 (18%) cases, HKCAAVQ did not complete the assessments within the target processing times: (a) for 55 (36%) of the 153 cases of new applications for registration, the delays in completion of the assessments ranged from 1 to 433 days (averaging 94 days); (b) for 195 (12%) of the 1,663 cases of annual returns for registered courses, the delays in completion of the assessments ranged from 1 to 416 days (averaging 57 days); and (c) for 209 (30%) of the 708 cases of notifications of changes to registered courses, the delays in completion of the assessments ranged from 1 to 452 days (averaging 66 days) (para. 2.49).

Corporate governance and human resource management

10. ***Low attendance of some members at Council/Committee meetings.*** Audit examined the attendance records of the Council and Committee meetings held in the period from October 2019 to September 2024 for members who had served the Council/Committees for at least one complete term (each term is two years). Audit found that the attendance of two members at some Council/Committee meetings held in the period was low (i.e. below 50%). While the two members had low attendance at Council/Committee meetings for the first term, they were still re-appointed for the second term. There was no documentary evidence showing that the Education Bureau had taken into account the attendance of the members at Council/Committee meetings in considering their re-appointments (paras. 3.6 and 3.7).

11. ***Room for improvement in declarations of interests.*** Audit examination of the first-tier declarations of interests made by Council/Committee members in the period from October 2019 to September 2024 revealed that: (a) in 2 (40%) of the 5 years, the requests for completion of first-tier declaration forms were sent out 10 and 17 days after the commencement of the respective terms during the period; and (b) for the 19 declarations of interests on first appointment, 9 (47%) were completed 1 to 346 days (averaging 91 days) after the due dates. For the 90 annual declarations of interests, 32 (36%) were completed 1 to 312 days (averaging 78 days) after the due dates (para. 3.15).

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12. ***Need to expedite the issue of the updated Strategic Plan.*** Audit reviewed the preparation of Strategic Plans and progress reports in the period from October 2019 to December 2024. Audit found that: (a) as at 31 December 2024, the updated Strategic Plan for the period from 1 October 2023 to 30 September 2027 had not been issued (i.e. with a delay of 15 months from the original commencement date of 1 October 2023); and (b) the latest progress report only covered the period up to 14 September 2023. As at 31 December 2024, an updated progress report covering the period since 15 September 2023 had not been issued (para. 3.19).

13. ***Need to reduce staff turnover.*** According to HKCAAVQ's current Strategic Plan, a target on staff turnover rate was set as 20% or below for the period from 2019-20 to 2021-22, and 15% or below for the period from 2022-23 to 2023-24. Audit reviewed the staff turnover analyses conducted by HKCAAVQ in the period from 2019-20 to 2023-24. Audit noted that: (a) the actual staff turnover rates decreased from 20.7% in 2019-20 to 3.3% in 2020-21, and then increased to 21.1% in 2023-24; and (b) the actual staff turnover rates were above the targets in 3 (60%) of the 5 years, by 0.7 percentage points in 2019-20, 7.4 percentage points in 2022-23 and 6.1 percentage points in 2023-24 (para. 3.26).

14. ***Need to ensure compliance with policy on appointments in recruitment exercises.*** In the period from 2019-20 to 2023-24, there were 2 recruitment exercises in which the interview panel members declared interests with the candidates. Audit reviewed the records of the 2 recruitment exercises and noted that in 1 (50%) recruitment exercise: (a) an interview panel member declared having a previous working relationship with one of the candidates; (b) while HKCAAVQ's policy on appointments stipulated that an interview panel member who had declared an interest with a candidate should refrain from assessing the candidate concerned, the interview panel member continued to assess the candidate concerned and gave scores to the candidate in an interview assessment form; and (c) no documentary evidence was available to show the justifications for the deviation from HKCAAVQ's policy on appointments (para. 3.32).

15. ***Need to invite more potential candidates for individual consultants.*** Audit reviewed all the 48 contracts for individual consultants engaged by HKCAAVQ since the issue of the relevant guidelines in January 2020 and up to December 2024. Audit noted that: (a) in each of 12 (25%) of the 48 contracts, only 1 potential candidate was invited to provide services, and the potential candidate accepted the invitation; and

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(b) the award of the 48 contracts involved a total of 25 individual consultants, of which 7 (28%) consultants were awarded contracts for 3 times or more (para. 3.39).

16. *Need to ensure that requirements on post-training continuous service for management development programmes and professional development programmes are complied with.* According to the policy and procedures on staff development issued by HKCAAVQ, a staff member nominated for a management development programme or a professional development programme is required to serve a specified period of post-training continuous service depending on the amount of financial sponsorship. Audit examined 21 cases of sponsorship for management development programmes and professional development programmes approved in the period from 2019-20 to 2023-24 with sponsorship of \$10,000 or above. Audit noted that in 2 (10%) of the 21 cases: (a) the staff members who had each received sponsorship of \$10,800 failed to serve the required period of post-training continuous service of 6 months; and (b) no documentary evidence was available to show that full refund of the sponsorship was required from the staff members. As at 31 December 2024, the sponsorship had not been recovered (paras. 3.46 and 3.47).

Other issues

17. *Need to strengthen guidance and regulation over matters concerning the safeguarding of national security.* The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (HKSAR) was implemented on 30 June 2020. The Law stipulates that it is the constitutional duty of the HKSAR to safeguard national security. Besides, the Safeguarding National Security Ordinance took effect on 23 March 2024. It is stated in the Preamble of the Ordinance that any institution, organization and individual in the HKSAR must abide by the law of the HKSAR applicable for safeguarding national security. Audit examined the agreements/contracts entered into between HKCAAVQ and external parties (e.g. operators, service providers, specialists and individual consultants). Audit noted that, as at 31 December 2024, except for a contract relating to the provision of building management and security services signed with a service provider in June 2024, there were no specific clauses concerning the safeguarding of national security in other agreements/contracts with external parties (paras. 4.2 and 4.3).

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18. ***Need to enhance competition of tender exercises.*** Audit reviewed all the 23 tender exercises for procurement of services conducted in the period from 2019-20 to 2023-24. Audit noted that in 12 (52%) exercises, the competition was limited and the responses from contractors were lukewarm: (a) in each of 11 (48%) exercises, only 1 tender was received; and (b) in 1 (4%) exercise, only 2 tenders were received (para. 4.9).

19. ***Room for improvement in fixed asset management.*** Audit reviewed the records of the stocktaking exercises conducted in the period from 2019-20 to 2024-25 (up to 31 December 2024) and noted that: (a) up to 31 December 2024, HKCAAVQ did not have any guidelines or procedures governing the frequency and the coverage of stocktaking exercises; and (b) during the period, except for a stocktaking exercise for computer equipment conducted in June 2024, no other stocktaking exercises had been conducted. On 5 February 2025, Audit examined 40 fixed asset items recorded in the fixed asset register of HKCAAVQ, and 5 fixed asset items found in HKCAAVQ's office. Audit noted room for improvement in the control and recording of fixed assets: (a) for 7 (18%) of the 40 items in the fixed asset register, no identification was recorded; and (b) for 2 (40%) of the 5 fixed asset items found in HKCAAVQ's office, they were not recorded in the fixed asset register (paras. 4.16 and 4.18).

20. ***Need to improve arrangements of air passage and hotel accommodation for non-local specialists.*** Non-local specialists participating in HKCAAVQ's accreditation exercises in Hong Kong are provided with air passage and hotel accommodation. According to HKCAAVQ's guidelines, upon non-local specialists' requests and subject to HKCAAVQ's prior approval, the air passage for non-local specialists to arrive in Hong Kong earlier or stay behind and extra nights of hotel accommodation can be arranged provided that non-local specialists bear the extra costs. Audit examined the arrangements of air passage and hotel accommodation for the 5 non-local specialists with requests for modification of arrangements of air passage and hotel accommodation in 2 site visits for accreditation exercises conducted in 2023-24 and found that: (a) for 2 (40%) of the 5 non-local specialists, extra nights of hotel accommodation were arranged in light of the non-local specialists' requests. For 1 (50%) of the 2 non-local specialists, while the non-local specialist agreed to bear the extra cost of \$1,569 incurred for one additional night of hotel accommodation in November 2023, HKCAAVQ did not take action to recover the extra cost from the non-local specialist. As at 31 December 2024, the extra cost had not been recovered; and (b) for 3 (60%) of the 5 non-local specialists, no documentary evidence was available to show that comparison of air passage costs between the itinerary requested

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by each non-local specialist and the planned itinerary was conducted (paras. 4.24 and 4.25).

Audit recommendations

21. **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 Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:**

Provision of services

- (a) **take measures to ensure that accreditation reports are issued within the specified timelines (para. 2.16(a));**
- (b) **take measures to ensure that the assessments of the specialists' performance are duly completed and documented (para. 2.16(b));**
- (c) **formulate guidelines on the assessment of specialists' performance in accreditation exercises and the follow-up actions to be taken on specialists whom HKCAAVQ has concerns over engagement in future accreditation exercises (para. 2.16(c));**
- (d) **take measures to ensure that the rationale on the assessment of the specialists' performance and the follow-up actions taken are documented (para. 2.16(d));**
- (e) **take measures to ensure that the declarations of interests forms are duly completed by the specialists and submitted to HKCAAVQ in a timely manner (para. 2.16(e));**
- (f) **take measures to ensure that qualifications assessments are completed within the target processing time (para. 2.32(a));**
- (g) **take measures to ensure the accuracy of the number of suspected fraudulent academic qualifications cases reported in HKCAAVQ's Annual Reports (para. 2.32(c));**

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- (h) **enhance the guidelines on handling of suspected fraudulent academic qualifications (para. 2.32(d));**
- (i) **take measures to ensure that cases of suspected fraudulent academic qualifications are reported to the Hong Kong Police Force in a timely manner (para. 2.32(e));**
- (j) **enhance the monitoring of non-compliant advertisements relating to QF (para. 2.44(c));**
- (k) **take measures to ensure that follow-up actions are taken on non-compliant advertisements relating to QF according to guidelines and step up measures on operators repeatedly having non-compliant advertisements relating to QF (para. 2.44(d) and (e));**
- (l) **take measures to ensure that non-local course assessments are completed within the target processing time (para. 2.60(a));**

Corporate governance and human resource management

- (m) **closely monitor the attendance rates of members at the Council/Committee meetings and take effective measures to encourage members with low attendance to attend meetings as far as possible (para. 3.21(a));**
- (n) **make timely requests to Council/Committee members for making the first-tier declarations of interests and strengthen measures to ensure that Council/Committee members make the first-tier declarations of interests in a timely manner (para. 3.21(d) and (e));**
- (o) **take measures to expedite the issue of the updated Strategic Plan and the updated progress report on the implementation of the Strategic Plan (para. 3.21(h));**
- (p) **take measures to reduce the staff turnover by taking into account the major reasons for leaving HKCAAVQ as indicated by staff members during exit interviews (para. 3.34(a));**

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- (q) take measures to ensure compliance with HKCAAVQ's policy on appointments in recruitment exercises, and document the justifications for any deviation from the policy (para. 3.34(c));
- (r) take measures to invite more potential candidates for individual consultants (para. 3.43(b));
- (s) take measures to ensure that the requirements on post-training continuous service for management development programmes and professional development programmes are complied with (para. 3.63(a));

Other issues

- (t) take measures to strengthen guidance and regulation over matters concerning the safeguarding of national security (para. 4.6);
- (u) ascertain the reasons why the responses from contractors were lukewarm in some tender exercises and take appropriate follow-up actions, and take measures to enhance competition of tender exercises (para. 4.13(a) and (b));
- (v) take measures to ensure that stocktaking exercises are conducted in accordance with HKCAAVQ's asset control procedures and take measures to improve the control and recording of fixed assets (para. 4.37(a) and (d));
- (w) take measures to ensure that extra costs incurred for non-local specialists' requests for modification of hotel accommodation arrangements are borne by non-local specialists (para. 4.37(f)); and
- (x) take measures to ensure that comparison of air passage costs between the itineraries requested by non-local specialists and the planned itineraries is conducted and documented (para. 4.37(g)).

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22. Audit has also *recommended* that the Secretary for Education should take into account the attendance of members at Council/Committee meetings in considering their re-appointments (para. 3.22(b)).

Response from the Government and Hong Kong Council for Accreditation of Academic and Vocational Qualifications

23. The Secretary for Education and the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications 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 Third Plenary Session of the 20th Central Committee of the Communist Party of China highlighted the need to support Hong Kong in building itself into an international hub for high-calibre talents. The Chief Executive of the Hong Kong Special Administrative Region (HKSAR) announced in his 2024 Policy Address that the Government would set up the Committee on Education, Technology and Talents to co-ordinate and drive the integrated development of education, technology and talents, expand connections, formulate policies to attract and cultivate talents, foster the development of technologies, and also promote Hong Kong as an international hub for high-calibre talents. In addition, the Government is committed to developing Hong Kong into an international hub for post-secondary education and improving the regulatory and quality assurance mechanisms of self-financing post-secondary institutions. According to the Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ), in response to the 2024 Policy Address, it is actively supporting the development of:

- (a) universities of applied sciences, including corresponding accreditations and monitoring;
- (b) applied degree programmes in line with the Education Bureau (EDB)'s policy; and
- (c) Hong Kong as an international hub for post-secondary education by supporting:
 - (i) the establishment of quality non-local programmes in Hong Kong through accreditations; and
 - (ii) quality non-local programmes provision from the Mainland and other places through accreditations (with collaboration with other quality assurance agencies).

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1.3 **HKCAAVQ.** HKCAAVQ, formerly the Hong Kong Council for Academic Accreditation, was established in 1990 as an independent statutory body to provide authoritative advice on academic standards of degree programmes in higher education institutions in Hong Kong. In 2007, the Hong Kong Council for Academic Accreditation was reconstituted under the Hong Kong Council for Accreditation of Academic and Vocational Qualifications Ordinance (HKCAAVQO — Cap. 1150) to form HKCAAVQ. HKCAAVQ took on responsibility for the vocational and professional education and training (VPET) sector and statutory roles as the Accreditation Authority and the Qualifications Register (QR) Authority under the Qualifications Framework (QF — Note 1) under the Accreditation of Academic and Vocational Qualifications Ordinance (AAVQO — Cap. 592).

1.4 **Functions of HKCAAVQ.** According to HKCAAVQO, the functions of HKCAAVQ include:

- (a) conducting accreditation tests in relation to operators, assessment agencies, learning programmes, qualifications and individuals;
- (b) promoting the methods and practices of conducting accreditation tests;
- (c) disseminating information on standards of learning programmes;
- (d) establishing relationships with accreditation or quality assurance bodies, and education and training authorities outside Hong Kong;
- (e) conducting seminars, conferences and other forms of instructional or promotional activities;
- (f) conducting or commissioning research into the maintenance or monitoring of standards of education and of training; and

Note 1: *In 2008, QF was launched. QF is a seven-level hierarchy covering academic, vocational, and continuing education sectors. Only qualifications that have been quality assured will be listed on QR for recognition under QF (see para. 1.8(c)). They may either be higher education qualifications offered by local self-accrediting institutions (i.e. the University Grants Committee-funded institutions and the Hong Kong Metropolitan University) or qualifications that have been quality assured by HKCAAVQ.*

- (g) performing functions outside Hong Kong with the prior approval of the Secretary for Education.

Governance and organisation structure

1.5 ***The Council.*** The governing body of HKCAAVQ is its Council, which is established under HKCAAVQO. The Council shall consist of:

- (a) not less than 15 and not more than 21 members appointed by the Chief Executive of the HKSAR. Of the appointed members, not less than 4 and not more than 7 shall be persons who are not residents of Hong Kong. The appointed members shall be persons who have quality assurance or accreditation related expertise or experience, or good standing in the field of education and training or in any industry. The Chief Executive shall appoint a Chairman and a Vice-chairman from among the appointed members. The Chief Executive has delegated the authority to appoint members of the Council, including the Chairman and the Vice-chairman, to the Secretary for Education;
- (b) the Permanent Secretary for Education or his representative; and
- (c) the Executive Director of HKCAAVQ.

As at 31 December 2024, the Council had 22 members, including 20 appointed members (comprising 1 Chairman, 1 Vice-chairman, 13 local members and 5 non-local members) and 2 ex-officio members (comprising a Deputy Secretary for Education representing the Permanent Secretary for Education and the Executive Director of HKCAAVQ). The Council meets three times a year. The work of the Council is supported by five standing committees, namely the Qualifications and Accreditation Committee (QAC), the Finance Committee (FC), the Personnel and Administration Committee (PAC), the Business Development Committee (BDC) and the Risk Management Committee (RMC).

1.6 ***Organisation structure.*** Under HKCAAVQO, the Council shall appoint an Executive Director to be the principal executive officer, and the Council may appoint/engage employees and engage the services of advisers on any matters arising out of or connected with any function of the Council. The Executive Director, supported by two Deputies (overseeing academic accreditation, and vocational and

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professional accreditation respectively)), leads HKCAAVQ in the implementation of the Council's decisions, functions and policies. As at 31 December 2024, HKCAAVQ had a staff establishment of 103 and a staff strength of 90. An extract of organisation chart of HKCAAVQ as at 31 December 2024 is at Appendix A.

Monitoring mechanism

1.7 EDB has the overall policy responsibility for HKCAAVQ's work. According to HKCAAVQO, HKCAAVQ shall, not later than five months before the close of each financial year, submit to the Secretary for Education for his prior approval a programme of proposed activities, estimates of its income and expenditure, a statement of fee charging policy, and a schedule of proposed fees for the next financial year. According to AAVQO, HKCAAVQ, as the Accreditation Authority and QR Authority, shall in each year submit to the Secretary for Education for his prior approval a statement of fee charging policy and a schedule of fees.

Services provided by HKCAAVQ

1.8 HKCAAVQ provides quality assurance, accreditation and assessment services to education and training institutions, course providers and the general public. In addition to its statutory roles, HKCAAVQ also provides advisory and consultancy services in education qualifications and standards to government bureaux/departments and other organisations in Hong Kong and the Asia-Pacific region. The major services provided by HKCAAVQ are:

- (a) ***Accreditation services.*** HKCAAVQ accredits academic and VPET programmes by applying its accreditation standards to ensure that the learning programmes and their operators meet the quality standards for recognition under QF and entry into QR. The accreditation services include:
 - (i) ***Academic accreditation.*** HKCAAVQ provides a range of academic accreditation services, including accreditation of programmes offered by post-secondary institutions at postgraduate, degree and sub-degree levels, and non-local learning programmes registered or exempted from registration under the Non-local Higher and Professional Education (Regulation) Ordinance (NLHPERO — Cap. 493); and

- (ii) ***Vocational and professional accreditation.*** HKCAAVQ provides accreditation and quality assurance services for VPET. VPET operators come from various sectors including private education/training institutes, public organisations, non-governmental organisations, professional bodies and commercial corporations of various scales;
- (b) ***Assessment services.*** HKCAAVQ provides a range of assessment services, such as qualifications assessment services for the general public, organisations and government bureaux/departments on non-local qualifications;
- (c) ***Maintenance of QR.*** QR is an on-line database of qualifications that provides information on qualifications, the associated programmes and providers. Qualifications accredited by HKCAAVQ are eligible for entry into QR for recognition under QF. Under AAVQO, HKCAAVQ is appointed as QR Authority. Its functions include determining the entry or removal of a qualification into/from QR, ensuring and enhancing the credibility of QR structure, and monitoring advertisements relating to QF; and
- (d) ***Advisory and consultancy services.*** HKCAAVQ provides a range of advisory and consultancy services, such as the advisory services for EDB on non-local course assessments. HKCAAVQ provides professional advice to the Registrar of Non-local Higher and Professional Education Courses in the assessment of non-local courses registered or exempted from registration under NLHPERO.

Income and expenditure

1.9 HKCAAVQ is primarily financed through the charging of fees for accreditation services, qualifications and other assessment services, and advisory and consultancy services rendered. HKCAAVQ also receives government grants for the daily maintenance and regular upgrading of QR, and the implementation of projects funded by the Quality Enhancement Support Scheme under the Self-financing Post-secondary Education Fund.

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1.10 In the period from 2019-20 to 2023-24, the income of HKCAAVQ ranged from \$105.9 million to \$125.5 million each year, and the expenditure of HKCAAVQ ranged from \$82.4 million to \$100.3 million each year (see Table 1).

Table 1
Income and expenditure of HKCAAVQ
(2019-20 to 2023-24)

	2019-20	2020-21	2021-22	2022-23	2023-24
	(\$ million)				
<i>Income</i>					
Revenue from contracts with customers (Note 1)	96.0	98.9	103.7	115.2	104.5
Government grants (Note 2)	7.3	7.2	5.9	5.4	4.8
Investment and other income	2.6	2.7	3.1	4.9	8.1
Total (a)	105.9	108.8	112.7	125.5	117.4
<i>Expenditure</i>					
Staff costs	58.4	60.5	61.4	61.0	65.0
Direct accreditation and consultancy costs	10.3	8.8	9.1	13.1	20.5
Administrative expenses	13.6	12.8	12.0	11.9	13.7
Council meeting and committee expenses	0.9	0.3	0.3	0.6	1.1
Total (b)	83.2	82.4	82.8	86.6	100.3
Surplus (c) = (a) – (b)	22.7	26.4	29.9	38.9	17.1

Source: Audit Commission analysis of HKCAAVQ records

Note 1: Revenue from contracts with customers included accreditation services fees, qualifications and other assessment fees, QR registration fees, and advisory and consultancy services fees.

Note 2: Government grants included the recurrent funding support received for the daily maintenance and regular upgrading of QR, and the grants received for implementing the projects under the Quality Enhancement Support Scheme.

Audit review

1.11 In November 2024, the Audit Commission (Audit) commenced a review of HKCAAVQ. This audit has focused on the following areas:

- (a) provision of services (PART 2);
- (b) corporate governance and human resource management (PART 3); and
- (c) other 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 and Hong Kong Council for Accreditation of Academic and Vocational Qualifications

1.12 The Secretary for Education agrees with the audit recommendations. She has said that she welcomes the audit review of HKCAAVQ and is grateful for the useful comments and recommendations. EDB will work with HKCAAVQ in taking appropriate follow-up actions on the recommendations.

1.13 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that he welcomes the audit review and would like to express his sincere gratitude to Audit for the audit work on HKCAAVQ, and is committed to further improving the operation of HKCAAVQ in the spirit of continuous enhancement in accordance with all Audit observations and recommendations.

Acknowledgement

1.14 Audit would like to acknowledge with gratitude the full cooperation of the staff of EDB and HKCAAVQ during the course of the audit review.

PART 2: PROVISION OF SERVICES

2.1 This PART examines the provision of services by HKCAAVQ, focusing on the following areas:

- (a) accreditation services (paras. 2.2 to 2.17);
- (b) assessment services (paras. 2.18 to 2.33);
- (c) maintenance of QR (paras. 2.34 to 2.45); and
- (d) other issues related to provision of services (paras. 2.46 to 2.61).

Accreditation services

2.2 *Revenue from accreditations and number of accreditations completed.* HKCAAVQ accredits academic and VPET programmes to ensure that the learning programmes and their operators meet the quality standards for recognition under QF and entry into QR. Table 2 shows the revenue from accreditations and number of accreditations completed in the period from 2019-20 to 2023-24.

Table 2

**Revenue from accreditations
and number of accreditations completed
(2019-20 to 2023-24)**

		2019-20	2020-21	2021-22	2022-23	2023-24
Academic accreditations	Revenue (\$ million)	29.7	31.5	29.5	38.4	38.0
	Number of accreditations completed	86	83	50	114	106
Vocational and professional accreditations	Revenue (\$ million)	21.6	26.1	31.0	26.4	23.7
	Number of accreditations completed	157	223	314	280	241

Source: Audit analysis of HKCAAVQ records

2.3 **Accreditation process.** HKCAAVQ uses the Four-Stage Quality Assurance Process to accredit operators and their learning programmes under QF. Details are as follows:

- (a) **Initial Evaluation (IE).** IE is an evaluation of whether a programme provider has the organisational competency to effectively manage and provide adequate resources for the development, delivery, assessment and quality assurance of its learning programmes and educational/training services;
- (b) **Learning Programme Accreditation (LPA) and Learning Programme Re-accreditation (Re-LPA).** LPA is an overall evaluation of a learning programme to determine whether its planning and management, syllabuses, delivery arrangements and assessment methods are able to achieve its claimed objectives and deliver its intended learning outcomes. Re-LPA is the re-accreditation of programmes before the expiry date of their LPA validity period;

- (c) ***Programme Area Accreditation (PAA).*** PAA is conferred on operators with sufficient quality assurance competency and maturity at the organisational level and a good track record in delivery of their accredited programmes. Upon obtaining a PAA status, an operator may develop and operate learning programmes within an approved programme area at the approved QF level or lower levels without going through LPA and Re-LPA; and
- (d) ***Periodic Institutional Review (PIR).*** Operators granted a PAA status have to undertake PIR in order to maintain their PAA status. PIR is repeated at regular intervals according to the validity period of the PAA status.

Need to take measures to ensure that accreditation reports are issued within the specified timelines

2.4 According to HKCAAVQ's manual, HKCAAVQ should issue the accreditation report within 16 to 24 weeks (depending on the type of accreditation and QF level) after the date of receipt of the accreditation document. Audit analysed the 1,654 accreditations completed in the period from 2019-20 to 2023-24. Audit found that, for 400 (24%) accreditations, the accreditation reports were not issued within the specified timelines. The delays ranged from 1 day to 29.1 weeks (averaging 2.6 weeks) (see Table 3).

Table 3

**Number of accreditations with accreditation reports
not issued within the specified timelines
(2019-20 to 2023-24)**

Accreditation process	Specified timeline (Week)	Number of accreditations completed	Number of accreditations with accreditation reports not issued within the specified timelines
IE, LPA and Re-LPA	16 (QF Levels 1 to 3)	1,079	266 (25%)
	20 (QF Levels 4 to 7)	558	123 (22%)
PAA	24	8	5 (63%)
PIR	24	9	6 (67%)
Overall		1,654	400 (24%)

Source: Audit analysis of HKCAAVQ records

2.5 According to HKCAAVQ, the reasons for failure in issuing the accreditation reports within the specified timelines as set out in HKCAAVQ's manual included:

- (a) complexity of the accreditation exercises, especially on new areas;
- (b) additional time for factual accuracy checks as required by operators; and
- (c) change of site visit dates as required by operators.

2.6 Audit considers that HKCAAVQ needs to take measures to ensure that accreditation reports are issued within the specified timelines.

Need to ensure that assessments of the specialists' performance are duly completed

2.7 HKCAAVQ maintains a register of specialists from which it shortlists those with relevant experience and expertise for participation in accreditation exercises and other work as required. As at 31 December 2024, 705 specialists (comprising 605 local specialists and 100 non-local specialists) were engaged by HKCAAVQ. Specialists serve as members of accreditation panels on a voluntary basis. The appointment period of specialists is normally 6 years, splitting into 2 consecutive terms of appointment of 3 years. The appointment of the second term is subject to no negative observations in accreditation exercises. After each accreditation exercise, HKCAAVQ staff will assess the performance of the specialists in the exercise and give ratings according to their performance and their suitability to serve as panel members in future accreditation exercises, namely “Green” (i.e. comfortable with engagement in future accreditation exercises), “Yellow” (i.e. some concerns over engagement in future accreditation exercises) and “Red” (i.e. serious concerns over engagement in future accreditation exercises).

2.8 Audit examined 20 accreditation exercises completed in 2023-24. Audit found that, for 5 (25%) accreditation exercises involving 31 specialists, there was no documentary evidence showing that ratings were given to 20 (65%) of the 31 specialists on their performance and their suitability to serve as panel members in future accreditation exercises.

2.9 Audit considers that HKCAAVQ needs to take measures to ensure that the assessments of the specialists' performance are duly completed and documented.

Need to document the rationale on the assessment and the follow-up actions of the specialists' performance

2.10 Audit reviewed the ratings of the 705 specialists as at 31 December 2024 (see para. 2.7) and found that:

- (a) there were no guidelines on the assessment of specialists' performance in accreditation exercises and the follow-up actions to be taken on specialists whom HKCAAVQ had concerns over engagement in future accreditation exercises; and

- (b) of the 705 specialists, 12 (2%) were rated as “Yellow” in past accreditation exercises (Note 2). However, there was no documentary evidence showing the rationale of giving the ratings of “Yellow” and the follow-up actions taken on these specialists. In this connection, of the 12 specialists:
 - (i) 11 (92%) had been appointed for second term or re-appointed; and
 - (ii) 10 (83%) participated in subsequent accreditation exercises.

2.11 Audit considers that HKCAAVQ needs to:

- (a) formulate guidelines on the assessment of specialists’ performance in accreditation exercises and the follow-up actions to be taken on specialists whom HKCAAVQ has concerns over engagement in future accreditation exercises; and
- (b) take measures to ensure that the rationale on the assessment of the specialists’ performance and the follow-up actions taken are documented.

Room for improvement in declarations of interests by specialists

2.12 As part of the process for the formation of accreditation panels for accreditation exercises, each specialist is required to declare any conflict of interests with the operator by submitting a declaration form to HKCAAVQ. Audit examination of the submission of declaration forms by 91 specialists in 20 accreditation exercises completed in 2023-24 found that:

- (a) 3 (3%) declaration forms were returned to HKCAAVQ after the submission deadline. The delays ranged from 6 to 73 days (averaging 31 days);
- (b) 15 (16%) declaration forms were not dated by the specialists concerned; and
- (c) 1 (1%) declaration form was not signed by the specialist concerned.

Note 2: *None of the 705 specialists were rated as “Red” in past accreditation exercises.*

Provision of services

2.13 Audit considers that HKCAAVQ needs to take measures to ensure that the declarations of interests forms are duly completed by the specialists and submitted to HKCAAVQ in a timely manner.

Need to ensure that the information of the specialists register on HKCAAVQ's website is accurate and up-to-date

2.14 HKCAAVQ publicises the names, areas of study and training, and industries of the specialists on the specialists register on its website. According to the specialists register on HKCAAVQ's website as at 20 January 2025, there were 800 specialists. Audit found that, of the 800 specialists, the appointment period of 100 (13%) had expired for 1.7 to 12.7 months (averaging 8.6 months) as at 20 January 2025.

2.15 Audit considers that HKCAAVQ needs to take measures to ensure that the information of the specialists register on its website is accurate and up-to-date.

Audit recommendations

2.16 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:

- (a) take measures to ensure that accreditation reports are issued within the specified timelines;
- (b) take measures to ensure that the assessments of the specialists' performance are duly completed and documented;
- (c) formulate guidelines on the assessment of specialists' performance in accreditation exercises and the follow-up actions to be taken on specialists whom HKCAAVQ has concerns over engagement in future accreditation exercises;
- (d) take measures to ensure that the rationale on the assessment of the specialists' performance and the follow-up actions taken are documented;

- (e) **take measures to ensure that the declarations of interests forms are duly completed by the specialists and submitted to HKCAAVQ in a timely manner; and**
- (f) **take measures to ensure that the information of the specialists register on HKCAAVQ's website is accurate and up-to-date.**

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

2.17 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that:

- (a) HKCAAVQ will review the planning and management of accreditation exercises, relevant allocation of resources, and use of technology in meeting the target processing time. In addition, collaborations with operators are to be enhanced in order to support operators in understanding the requirements of accreditation exercises, so as to enhance the effectiveness and efficiency of the exercises and meet the target processing time;
- (b) HKCAAVQ will review and enhance the specialists' assessment mechanism, including formulation of guidelines and rationale of assessment, with documentation requirements for all necessary steps from initiation of such assessments to taking necessary follow-up actions;
- (c) HKCAAVQ will review and enhance the control measures by incorporating an alert mechanism, ensuring that all declarations of interests forms are completed and submitted to HKCAAVQ in a timely manner;
- (d) HKCAAVQ will continue to ensure that the information on the specialists register is accurate and up-to-date; and
- (e) information of the specialists register on HKCAAVQ's website has been updated.

Assessment services

2.18 HKCAAVQ provides a range of assessment services, such as qualifications assessments (see para. 2.19). In the period from 2019-20 to 2023-24, the assessment services generated revenues totalling \$97.8 million, ranging from \$16.9 million to \$22.9 million each year.

2.19 *Qualifications assessments.* HKCAAVQ provides qualifications assessment services for the general public, organisations, and government bureaux/departments on non-local qualifications. It offers a professional opinion on whether the totality of the educational qualifications of an individual meets the standard of a particular level under QF. In the period from 2019-20 to 2023-24:

- (a) HKCAAVQ completed 24,150 qualifications assessments, ranging from 4,070 to 5,763 qualifications assessments each year; and
- (b) the number of qualifications assessments completed increased by 19% from 4,825 in 2019-20 to 5,763 in 2023-24.

Need to take measures to ensure that qualifications assessments are completed within the target processing time

2.20 According to HKCAAVQ, it has set a time target to complete a qualifications assessment within 15 working days starting from the next working day of the acknowledgement of receipt of all required documents. Audit analysed the processing time of 24,150 qualifications assessments completed in the period from 2019-20 to 2023-24. Audit found that:

- (a) 5,200 (22%) were not completed within the target processing time of 15 working days. The delays in completion ranged from 1 to 394 working days (averaging 12.8 working days); and
- (b) the percentage of qualifications assessments which were not completed within the target processing time increased from 13% in 2020-21 to 32% in 2023-24 (see Table 4).

Table 4

**Number of qualifications assessments not completed
within the target processing time
(2019-20 to 2023-24)**

Year	Number of qualifications assessments completed	Number of qualifications assessments not completed within the target processing time
2019-20	4,825	1,128 (23 %)
2020-21	4,070	545 (13 %)
2021-22	4,234	628 (15 %)
2022-23	5,258	1,049 (20 %)
2023-24	5,763	1,850 (32 %)
Overall	24,150	5,200 (22 %)

Source: Audit analysis of HKCAAVQ records

2.21 In response to Audit's enquiry, HKCAAVQ informed Audit in February 2025 that the reasons for not meeting the target processing time of qualifications assessments included:

- (a) complexity of the cases;
- (b) significant increase in the number of cases over the years;
- (c) time required for response from accreditation bodies/awarding bodies/applicants; and
- (d) time required for checking false qualifications.

2.22 Audit considers that HKCAAVQ needs to take measures to ensure that qualifications assessments are completed within the target processing time.

Need to expedite clearance of outstanding cases of qualifications assessments

2.23 Audit analysed the number of outstanding cases of qualifications assessments in the period from 2019-20 to 2023-24. Audit found that the number of outstanding cases of qualifications assessments increased by 116% from 802 as at 31 March 2020 to 1,733 as at 31 March 2024 (see Table 5).

Table 5

**Outstanding cases of qualifications assessments
(31 March 2020 to 31 March 2024)**

Date	Number of outstanding cases of qualifications assessments
31 March 2020	802
31 March 2021	957
31 March 2022	1,057
31 March 2023	1,567
31 March 2024	1,733

Source: Audit analysis of HKCAAVQ records

2.24 Of the 1,733 outstanding cases of qualifications assessments as at 31 March 2024, HKCAAVQ had issued acknowledgement of receipt of all required documents for 486 (28%) cases. Audit analysed the ageing of the 486 outstanding cases of qualifications assessments and found that 143 (29%) cases had been overdue (i.e. the cases which were not completed within 15 working days starting from the next working day of the acknowledgement of receipt of all required documents). Of the 143 cases:

- (a) 83 (58%) cases had been overdue for 1 to 50 working days;
- (b) 18 (13%) cases had been overdue for 51 to 100 working days;

- (c) 29 (20%) cases had been overdue for 101 to 150 working days; and
- (d) 13 (9%) cases had been overdue for more than 150 working days.

2.25 Audit considers that HKCAAVQ needs to expedite clearance of outstanding cases of qualifications assessments, in particular for the long outstanding cases.

Need to improve the handling of suspected fraudulent academic qualifications cases

2.26 In the period from 2019-20 to 2023-24, HKCAAVQ reported 113 cases of suspected fraudulent academic qualifications to the Hong Kong Police Force. The number of cases reported increased by 78% from 18 in 2021-22 to 32 in 2023-24.

2.27 ***Need to ensure the accuracy of the number of suspected fraudulent academic qualifications cases reported in HKCAAVQ's Annual Report.*** Audit reviewed the records of suspected fraudulent academic qualifications reported to the Hong Kong Police Force from 2019-20 to 2023-24 and found that the number of suspected fraudulent academic qualifications cases reported in HKCAAVQ's Annual Reports for 2019-20, 2020-21 and 2021-22 was understated by 8, 1 and 5 respectively (see Table 6). According to HKCAAVQ, the difference between the actual number of cases and the number of cases reported in its Annual Reports was due to error in data retrieval from the computer system.

Table 6

**Cases of suspected fraudulent academic qualifications
reported to the Hong Kong Police Force
(2019-20 to 2023-24)**

	2019-20	2020-21	2021-22	2022-23	2023-24	Overall
Actual number of cases (a)	16	25	18	22	32	113
Number of cases reported in HKCAAVQ's Annual Reports (b)	8	24	13	22	32	99
Difference (c) = (a) – (b)	8 (50%)	1 (4%)	5 (28%)	0 (0%)	0 (0%)	14 (12%)

Source: Audit analysis of HKCAAVQ records

2.28 ***Need to enhance guidelines on handling of suspected fraudulent academic qualifications.*** HKCAAVQ promulgated guidelines on handling of suspected fraudulent academic qualifications. However, Audit noted that the guidelines had not been reviewed or revised for over 8 years since its last revision in September 2016. Furthermore, the guidelines did not include specific circumstances which warrant the attention of the handling officers in examination of the cases of suspected fraudulent academic qualifications.

2.29 ***Need to report suspected fraudulent academic qualifications cases in a timely manner.*** According to HKCAAVQ, if prima facie evidence is received from qualifications awarding bodies to prove that an academic qualification is fraudulent, after clarification with the applicant, HKCAAVQ will report the case to the Hong Kong Police Force. Audit analysed the time elapsed between the receipt dates of prima facie evidence and clarification and the dates of reporting for the 32 cases of suspected fraudulent academic qualifications reported to the Hong Kong Police Force in 2023-24 (see Table 6 in para. 2.27) (Note 3). Audit found that:

Note 3: *According to HKCAAVQ, the cases may possibly involve commission of criminal offences such as fraud and forged documents.*

- (a) the average time elapsed between the receipt dates of prima facie evidence and clarification and the dates of reporting to the Hong Kong Police Force was 73 days. The time elapsed ranged from 0 to 172 days (Note 4); and
- (b) for 13 (41%) of the 32 cases, the time elapsed between the receipt dates of prima facie evidence and clarification and the dates of reporting to the Hong Kong Police Force ranged from 0 to 50 days. For 9 (28%) cases, the time elapsed ranged from 51 to 100 days. For 10 (31%) cases, the time elapsed was more than 100 days.

2.30 In response to Audit's enquiry, HKCAAVQ informed Audit in February and March 2025 that:

- (a) suspected fraudulent academic qualifications were highly complex cases that necessitated additional time to obtain confirmation and gather documentation to support the cases; and
- (b) the time elapsed for reporting to the Hong Kong Police Force was due to:
 - (i) the time required for the review officer to review the case in ascertaining reasonable suspicion with prima facie evidence available; and
 - (ii) the time required for preparing the case file with witness statement for submission.

2.31 Audit considers that HKCAAVQ needs to:

- (a) take measures to ensure the accuracy of the number of suspected fraudulent academic qualifications cases reported in its Annual Reports;

Note 4: *For the cases which HKCAAVQ received prima facie evidence and clarification, and reported the case to the Hong Kong Police Force on the same day, the time elapsed was referred to as 0 day.*

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- (b) enhance the guidelines on handling of suspected fraudulent academic qualifications (e.g. including specific circumstances which warrant the attention of the handling officers in examination of the cases); and
- (c) take measures to ensure that cases of suspected fraudulent academic qualifications are reported to the Hong Kong Police Force in a timely manner.

Audit recommendations

2.32 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:

- (a) **take measures to ensure that qualifications assessments are completed within the target processing time;**
- (b) **expedite clearance of outstanding cases of qualifications assessments, in particular for the long outstanding cases;**
- (c) **take measures to ensure the accuracy of the number of suspected fraudulent academic qualifications cases reported in HKCAAVQ's Annual Reports;**
- (d) **enhance the guidelines on handling of suspected fraudulent academic qualifications (e.g. including specific circumstances which warrant the attention of the handling officers in examination of the cases); and**
- (e) **take measures to ensure that cases of suspected fraudulent academic qualifications are reported to the Hong Kong Police Force in a timely manner.**

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

2.33 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that:

- (a) HKCAAVQ will review the planning and management of qualifications assessment services, relevant allocation of resources, and use of technology in meeting the targets regarding processing time and clearance of outstanding cases, including incorporating an enhanced alert system for monitoring and informing applicants of the status of applications and timeline;
- (b) HKCAAVQ will review the process of data retrieval from the computer system and ensure that proper checking is conducted to ensure the accuracy of records maintained by HKCAAVQ regarding the number of reported cases;
- (c) HKCAAVQ will review and devise more detailed guidelines on handling of suspected fraudulent academic qualifications in accordance with the audit recommendations, including providing specific guidance for scenarios that warrant the particular attention of handling officers in examination, with a view to reporting suspected fraudulent cases to the Hong Kong Police Force in a timely manner; and
- (d) regarding the enhanced arrangement and handling of suspected fraudulent academic qualifications, HKCAAVQ:
 - (i) has already liaised with the Hong Kong Police Force and agreed to adopt a streamlined reporting process with a designated contact point in the District Intelligence Section to assist in handling the reported cases and expedite investigation; and
 - (ii) has been liaising with the Hong Kong Police Force to provide all necessary support in combating possible crimes in relation to the suspected cases and will continue the close collaboration with the Hong Kong Police Force in positively addressing the public's expectation.

Maintenance of Qualifications Register

2.34 Qualifications accredited by HKCAAVQ are eligible for entry into QR for recognition under QF. Under AAVQO, HKCAAVQ is also appointed as QR Authority (see para. 1.3). Its functions include:

- (a) determining the entry or removal of a qualification into/from QR;
- (b) ensuring and enhancing the credibility of QR structure; and
- (c) monitoring advertisements relating to QF.

As at 31 March 2024, there were 9,116 QR entries. In the period from 2019-20 to 2023-24, revenue totalling \$22.5 million, ranging from \$4.3 million to \$4.7 million each year, was generated from QR registration fees.

Need to consider setting more challenging time targets on completing the vetting of QR entries

2.35 According to HKCAAVQ, the time targets of completing the vetting of QR entries for non-self-accrediting operators and self-accrediting operators are 5 and 6 working days respectively. Audit analysed the time taken for completing the vetting of QR entries in the period from 2019-20 to 2023-24. Audit found that:

- (a) vetting of 12,356 (99.9%) of 12,369 QR entries for non-self-accrediting operators were completed within the time target of 5 working days. The average time taken for completing the vetting of the 12,356 QR entries was only 0.5 working day (ranging from 0 to 5 working days), which was much shorter than the time target of 5 working days; and
- (b) vetting of 5,200 (99.0%) of 5,255 QR entries for self-accrediting operators were completed within the time target of 6 working days. The average time taken for completing the vetting of the 5,200 QR entries was only 0.6 working day (ranging from 0 to 3 working days), which was much shorter than the time target of 6 working days.

2.36 To ensure effective performance management, Audit considers that HKCAAVQ needs to consider setting more challenging time targets on completing the vetting of QR entries.

Need to ensure that the time targets of completing the vetting of QR entries published on HKCAAVQ's website are accurate and up-to-date

2.37 According to HKCAAVQ, the time targets of completing the vetting of QR entries for non-self-accrediting operators and self-accrediting operators are 5 and 6 working days respectively (see para. 2.35). On 15 January 2025, Audit reviewed HKCAAVQ's website and noted that the time targets published on the website were not up-to-date:

- (a) ***QR entries for non-self-accrediting operators.*** The time target published on the website was 8 working days; and
- (b) ***QR entries for self-accrediting operators.*** The time target published on the website was 15 working days.

2.38 In response to Audit's enquiry, HKCAAVQ informed Audit in January 2025 that the time targets published on its website were outdated. Audit considers that HKCAAVQ needs to take measures to ensure that the time targets of completing the vetting of QR entries published on its website are accurate and up-to-date.

Room for improvement in monitoring non-compliant advertisements relating to QF

2.39 According to AAVQO:

- (a) no person shall publish or cause to be published an advertisement which claims, represents or holds out that a qualification obtainable from a granting body or from the completion of a learning programme is recognised under QF unless all of the following information is contained in the advertisement:

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- (i) QF level;
 - (ii) QR registration number assigned by QR Authority; and
 - (iii) the validity period of the relevant QR entry; and
- (b) any person who contravenes the above commits an offence and is liable on conviction to a fine of \$50,000.

2.40 HKCAAVQ is responsible for monitoring and taking follow-up actions on non-compliant advertisements relating to QF. In the period from 2019-20 to 2023-24:

- (a) HKCAAVQ identified 140 non-compliant advertisements, ranging from 4 to 55 non-compliant advertisements each year; and
- (b) the number of non-compliant advertisements increased by 450% from 10 in 2019-20 to 55 in 2023-24 (see Table 7).

Table 7

**Non-compliant advertisements relating to QF identified by HKCAAVQ
(2019-20 to 2023-24)**

	2019-20	2020-21	2021-22	2022-23	2023-24
Number of non-compliant advertisements identified	10	4	17	54	55

Source: HKCAAVQ records

2.41 According to HKCAAVQ's guidelines on monitoring non-compliant advertisements:

- (a) for peak months of July and August, HKCAAVQ adopted a proactive approach to perform daily advertisement monitoring through 6 media sources (including 5 newspapers and 1 social media platform);
- (b) for non-peak months (i.e. other than July and August), HKCAAVQ adopted a reactive approach to follow up only upon suspected cases reported by the public, HKCAAVQ staff, or any parties concerned; and
- (c) HKCAAVQ would contact the operators with non-compliant advertisements to request them for rectification of the non-compliant advertisements by the deadline stipulated in the email to the operators concerned. Upon the deadline, HKCAAVQ would follow up by checking the compliance of the advertisements concerned.

2.42 Audit found that there is room for improvement in HKCAAVQ's monitoring of non-compliant advertisements:

- (a) HKCAAVQ monitored the non-compliant advertisements only through the 5 newspapers and 1 social media platform. There might be merits for HKCAAVQ to identify non-compliant advertisements from other media sources (e.g. other newspapers and social media platforms);
- (b) for 21 (38%) of the 55 non-compliant advertisements in 2023-24 (see Table 7 in para. 2.40), in contrary to HKCAAVQ's guidelines, there was no documentary evidence showing that HKCAAVQ had checked whether the advertisements concerned had been rectified; and
- (c) in the period from 2019-20 to 2023-24, there were 71 operators with non-compliant advertisements. Of the 71 operators, 29 (41%) had more than one non-compliant advertisements (see Table 8).

Table 8

**Operators with non-compliant advertisements relating to QF
(2019-20 to 2023-24)**

Number of non-compliant advertisements	Number of operators
1	42
More than 1 to 5	25
More than 5 (Note)	4
Total	71

Source: Audit analysis of HKCAAVQ records

Note: The largest number of non-compliant advertisements was 9.

2.43 Audit considers that HKCAAVQ needs to:

- (a) enhance the monitoring of non-compliant advertisements relating to QF, for example, by identifying non-compliant advertisements relating to QF from more media sources (e.g. other newspapers and social media platforms);
- (b) take measures to ensure that follow-up actions are taken on non-compliant advertisements relating to QF according to guidelines; and
- (c) step up measures on operators repeatedly having non-compliant advertisements relating to QF.

Audit recommendations

2.44 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:

- (a) **consider setting more challenging time targets on completing the vetting of QR entries;**
- (b) **take measures to ensure that the time targets of completing the vetting of QR entries published on HKCAAVQ's website are accurate and up-to-date;**
- (c) **enhance the monitoring of non-compliant advertisements relating to QF, for example, by identifying non-compliant advertisements relating to QF from more media sources (e.g. other newspapers and social media platforms);**
- (d) **take measures to ensure that follow-up actions are taken on non-compliant advertisements relating to QF according to guidelines; and**
- (e) **step up measures on operators repeatedly having non-compliant advertisements relating to QF.**

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

2.45 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that:

- (a) HKCAAVQ will review and enhance the time targets on completing the vetting of QR entries to ensure continued enhancement in a practicable manner, and continue to ensure that the relevant time targets on HKCAAVQ's website are accurate and up-to-date;
- (b) HKCAAVQ will enhance the monitoring and follow-up actions on non-compliant advertisements, including enhancing the monitoring methodology by conducting regular search-engine-based surveillance to ensure an extensive coverage, and recording clearly the follow-up actions taken, rectifications made, and the progress against the target timelines;

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- (c) HKCAAVQ will review and enhance the follow-up actions on repeated non-compliant advertisement cases, including reporting to law enforcement agencies where appropriate; and
- (d) the time targets of completing the vetting of QR entries provided on HKCAAVQ's website have been updated.

Other issues related to provision of services

2.46 *Advisory and consultancy services.* HKCAAVQ provides a range of advisory and consultancy services, such as the advisory services for EDB on non-local course assessments (see para. 2.48). In the period from 2019-20 to 2023-24, the advisory and consultancy services generated revenues totalling \$102.1 million, ranging from \$15.2 million to \$24.2 million each year.

Need to take measures to ensure that non-local course assessments are completed within the target processing time

2.47 According to NLHPERO, all non-local courses (i.e. courses conducted in Hong Kong which lead to the award of non-local higher academic or professional qualifications) must be registered (i.e. registered courses), unless they have been exempted from registration (i.e. exempted courses). Exempted courses are conducted by non-local institutions/non-local professional bodies in collaboration with local institutions of higher education. As at 31 December 2024, there were 772 non-local courses (comprising 346 registered courses and 426 exempted courses).

2.48 Since 1997, for non-local courses, EDB has appointed HKCAAVQ as the advisor to provide assessment services on operators' applications for course registration, annual returns and notifications of major changes. According to HKCAAVQ, the target processing times are as follows:

- (a) assessment services on new applications for registration are normally completed within 90 days;
- (b) assessment services on annual returns for registered courses are normally completed within 90 days; and

- (c) assessment services on notifications of changes to registered courses are normally completed within 42 days.

2.49 Audit analysed the 2,524 cases of non-local course assessments completed in the period from 2019-20 to 2023-24 (comprising 153 cases of new applications for registration, 1,663 cases of annual returns for registered courses and 708 cases of notifications of changes to registered courses). Audit found that in 459 (18%) cases, HKCAAVQ did not complete the assessments within the target processing times:

- (a) *New applications for registration.* For 55 (36%) of the 153 cases, the delays in completion of the assessments ranged from 1 to 433 days (averaging 94 days);
- (b) *Annual returns for registered courses.* For 195 (12%) of the 1,663 cases, the delays in completion of the assessments ranged from 1 to 416 days (averaging 57 days); and
- (c) *Notifications of changes to registered courses.* For 209 (30%) of the 708 cases, the delays in completion of the assessments ranged from 1 to 452 days (averaging 66 days) (see Table 9).

Table 9**Number of cases of non-local course assessments not completed within the target processing time (2019-20 to 2023-24)**

	Target processing time (Day)	Number of cases completed	Number of cases not completed within the target processing time
New applications for registration	90	153	55 (36%)
Annual returns for registered courses	90	1,663	195 (12%)
Notification of changes to registered courses	42	708	209 (30%)
Overall		2,524	459 (18%)

Source: Audit analysis of HKCAAVQ records

2.50 In response to Audit's enquiry, HKCAAVQ informed Audit in February 2025 that the reasons for the delays included:

- (a) further information required from operators to conclude the assessments; and
- (b) requests from operators for longer response time or delayed response from the operators.

2.51 Audit considers that HKCAAVQ needs to take measures to ensure that non-local course assessments are completed within the target processing time.

Room for improvement in reviewing fees and charges

2.52 According to HKCAAVQ, fees of its services are in general charged on a full-cost recovery basis. Audit noted that HKCAAVQ did not have guidelines relating to review on fees and charges.

2.53 Audit examined the fee reviews conducted by HKCAAVQ in the period from 2019-20 to 2023-24 and found that while HKCAAVQ reviewed the fees for accreditations and qualifications assessments on an annual basis, such reviews were not conducted for QR registration fees and non-local courses assessment fees. Furthermore, except for conducting a costing exercise for accreditation exercises of PAA and PIR at QF Levels 1 to 3 in August 2019, there was no documentary evidence showing that HKCAAVQ had conducted fresh costing exercises in other fee reviews.

2.54 Audit considers that HKCAAVQ needs to:

- (a) formulate guidelines relating to review on fees and charges of its services; and
- (b) take measures to ensure that fees are regularly reviewed and, where necessary, revised, and fresh costing exercises are regularly conducted according to guidelines, with a view to ensuring that the fees are charged on a full-cost recovery basis.

Room for improvement in performance reporting

2.55 HKCAAVQ reports the performance of its services (e.g. the number of cases conducted on accreditations, qualifications assessments, QR entries and non-local course assessments) to QAC every four months. Audit found that, except for the processing time of QR entries, HKCAAVQ had not reported the processing time of accreditations, qualifications assessments and non-local course assessments to QAC.

2.56 For better performance management, Audit considers that HKCAAVQ needs to consider reporting more performance indicators to QAC (e.g. target and

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actual processing times of accreditations, qualifications assessments and non-local course assessments).

Need to keep under review on performing functions outside Hong Kong

2.57 According to HKCAAVQO, the functions of HKCAAVQ include performing functions outside Hong Kong with the prior approval of the Secretary for Education (see para. 1.4(g)). In October 2024, HKCAAVQ reported to BDC that it had adopted strategies in maintaining a healthy financial position, including:

- (a) continuing to capture opportunities locally and in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) by extending the accreditation services, in particular Mainland cities of Guangdong and Macao; and
- (b) exploring and establishing non-local accreditation activities.

2.58 According to HKCAAVQ, it actively supports the development of GBA and Belt and Road initiatives:

- (a) regarding the development of GBA initiatives, HKCAAVQ had provided consultancy service to the relevant authorities in the Guangdong Province to support the development of the Guangdong Lifelong Education Qualifications Framework, including providing assistance in establishing a quality assurance mechanism, accreditation standards and procedures, piloting accreditation exercises, and developing guidelines for setting up a qualifications register, thereby laying the foundation for further liaison and co-operation between the qualifications frameworks of the two places in the long term, with a view to facilitating mutual recognition of qualifications in more industries. In addition, HKCAAVQ was one of the recognised quality assurance agencies in Macao and had conducted a lot of external quality assurance reviews for the higher education institutions in Macao; and
- (b) regarding the development of Belt and Road initiatives, HKCAAVQ was in the process of developing collaborations with the quality assurance agencies in countries such as Kazakhstan, the United Arab Emirates and Bahrain. HKCAAVQ would gradually develop joint accreditation activities with the quality assurance agencies in these countries and support

operators/institutions in Hong Kong and the Mainland offering programmes in these countries.

2.59 Audit considers that HKCAAVQ needs to keep under review its work relating to performing functions outside Hong Kong with a view to facilitating co-operation with the quality assurance agencies outside Hong Kong.

Audit recommendations

2.60 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:

- (a) take measures to ensure that non-local course assessments are completed within the target processing time;
- (b) formulate guidelines relating to review on fees and charges of HKCAAVQ's services;
- (c) take measures to ensure that fees are regularly reviewed and, where necessary, revised, and fresh costing exercises are regularly conducted according to guidelines, with a view to ensuring that the fees are charged on a full-cost recovery basis;
- (d) consider reporting more performance indicators to QAC (e.g. target and actual processing times of accreditations, qualifications assessments and non-local course assessments); and
- (e) keep under review HKCAAVQ's work relating to performing functions outside Hong Kong with a view to facilitating co-operation with the quality assurance agencies outside Hong Kong.

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

2.61 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that HKCAAVQ will:

- (a) review the planning and management of non-local course assessments, relevant allocation of resources, communication with operators and use of technology in meeting the target processing time;
- (b) review all fees and charges of HKCAAVQ's services, and develop guidelines on conducting regular fee reviews and the relevant costing methods in ensuring the services are charged on a full-cost recovery basis;
- (c) devise performance indicators in relation to accreditation and assessment services and regularly report to QAC the performance targets; and
- (d) keep under regular review HKCAAVQ's work relating to performing functions outside Hong Kong, including reporting relevant reviews to the Council, with a view to facilitating co-operation with quality assurance agencies outside Hong Kong.

PART 3: CORPORATE GOVERNANCE AND HUMAN RESOURCE MANAGEMENT

3.1 This PART examines the corporate governance and human resource management issues of HKCAAVQ, focusing on the following areas:

- (a) corporate governance (paras. 3.2 to 3.24);
- (b) staff turnover and staff recruitment (paras. 3.25 to 3.35);
- (c) engagement of individual consultants (paras. 3.36 to 3.44); and
- (d) training for staff (para. 3.45 to 3.64).

Corporate governance

Governance structure

3.2 ***The Council.*** The governing body of HKCAAVQ is its Council, which is established under HKCAAVQO. As at 31 December 2024, the Council had 22 members which consisted of:

- (a) 20 appointed members (comprising the Chairman, the Vice-chairman, 13 local members and 5 non-local members); and
- (b) 2 ex-officio members (comprising a Deputy Secretary for Education representing the Permanent Secretary for Education and the Executive Director of HKCAAVQ).

Each term of the Council is two years. The Council meets three times a year (i.e. in January, May and September).

3.3 ***Standing Committees.*** The work of the Council is supported by five standing committees:

Corporate governance and human resource management

- (a) QAC, among other duties, considers and makes recommendations to the Council on policies and procedures on accreditations, maintenance of QR and assessment services. QAC holds meetings three times a year. As at 31 December 2024, all of the 22 Council members were members of QAC;
- (b) FC, among other duties, considers and recommends, for the Council's approval, the annual budget and the audited financial statements of HKCAAVQ, and considers the medium and long-term financial plans of HKCAAVQ. FC holds meetings three times a year. As at 31 December 2024, 11 of the 22 Council members were members of FC;
- (c) PAC, among other duties, keeps under review the staffing structure and monitors the human resources policies and practices of HKCAAVQ. PAC holds meetings three times a year. As at 31 December 2024, 14 of the 22 Council members were members of PAC;
- (d) BDC, among other duties, provides strategic advice to the Council on matters concerning HKCAAVQ's business development including new areas of business and consulting services. BDC holds meetings once a year. As at 31 December 2024, 4 of the 22 Council members were members of BDC; and
- (e) RMC, among other duties, assists the Council in carrying out the oversight in risk management. RMC holds meetings once a year. As at 31 December 2024, RMC had 7 members (comprising 5 Council members and 2 HKCAAVQ staff).

“Six-board Rule” not complied with

3.4 As an advisory and statutory body, HKCAAVQ is required to comply with the guidelines and principles established by the Government on appointments of Council members. “Six-board Rule” means not appointing a person 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. Audit reviewed the records of appointments and re-appointments of the 33 non-official Council members who had served the Council in the period from October 2019 to September 2024 and found that, of the 33 members, 1 (3%) was re-appointed as a Council member in October 2019 even though the member had already been appointed to seven advisory

and statutory bodies at that time. According to EDB, the member was re-appointed for his last two-year term in view of his valuable contributions to HKCAAVQ and the need for continuity and smooth transition.

3.5 Audit considers that EDB needs to take measures to ensure that “Six-board Rule” is complied with as far as practicable.

Low attendance of some members at Council/Committee meetings

3.6 Audit examined the attendance records of the Council and Committee meetings held in the period from October 2019 to September 2024 for members who had served the Council/Committees for at least one complete term (each term is two years). Audit found that the attendance of two members at some Council/Committee meetings held in the period was low (i.e. below 50%):

- (a) for the first member, the attendance rates of:
 - (i) QAC meetings were 0% and 33% for the first term and second term respectively; and
 - (ii) FC meetings were 0% and 17% for the first term and second term respectively; and
- (b) for the second member, the attendance rates of:
 - (i) QAC meetings were 33% and 33% for the first term and second term respectively;
 - (ii) Council meetings was 33% for the second term; and
 - (iii) PAC meetings was 33% for the second term.

3.7 Audit noted that, while the two members had low attendance at Council/Committee meetings for the first term (see para. 3.6), they were still re-appointed for the second term. There was no documentary evidence showing that

EDB had taken into account the attendance of the members at Council/Committee meetings in considering their re-appointments.

3.8 Audit considers that HKCAAVQ needs to closely monitor the attendance rates of members at the Council/Committee meetings and take effective measures to encourage members with low attendance to attend meetings as far as possible.

3.9 Audit also considers that EDB needs to take into account the attendance of members at Council/Committee meetings in considering their re-appointments.

Need to issue meeting agendas and discussion papers to members in accordance with the stipulated timeframe

3.10 According to HKCAAVQ's guidelines, the Council/Committee Secretary shall, except with the permission of the meeting Chairman, issue meeting agendas and discussion papers to Council/Committee members normally two weeks before the meeting. Audit reviewed the records of the 60 meetings of the Council, QAC, FC and PAC held in the period from October 2019 to September 2024. Audit found that:

- (a) ***Council meetings.*** For 14 (93%) of the 15 Council meetings, meeting agendas and discussion papers were not issued to Council members in accordance with the stipulated timeframe (i.e. two weeks before the meetings). The meeting agendas and discussion papers were issued to Council members 7 to 13 days (averaging 10 days) before the scheduled meetings; and
- (b) ***Committee meetings.*** For all of the 45 Committee meetings, meeting agendas and discussion papers were not issued to Committee members in accordance with the stipulated timeframe (i.e. two weeks before the meetings). The meeting agendas and discussion papers were issued to Committee members 6 to 13 days (averaging 9 days) before the scheduled meetings.

3.11 Audit considers that HKCAAVQ needs to issue meeting agendas and discussion papers to Council/Committee members in accordance with the stipulated timeframe.

Need to circulate draft notes of meetings in a timely manner

3.12 According to HKCAAVQ's guidelines, the Council/Committee Secretary shall, except with the permission of the meeting Chairman, circulate the draft notes of the Council/Committee meetings, as approved by the meeting Chairman, to members within one calendar month of the meeting. Audit reviewed the circulation of draft notes of the 60 meetings of the Council, QAC, FC and PAC held in the period from October 2019 to September 2024. Audit found that:

- (a) ***Council meetings.*** 12 (80%) of the 15 draft notes of Council meetings were not circulated to members within the stipulated timeframe (i.e. within one calendar month of the meetings). The delays ranged from 2 to 25 days (averaging 9 days); and
- (b) ***Committee meetings.*** 10 (22%) of the 45 draft notes of Committee meetings were not circulated to members within the stipulated timeframe (i.e. within one calendar month of the meetings). The delays ranged from 2 to 85 days (averaging 32 days).

3.13 Audit considers that HKCAAVQ needs to take measures to ensure that the draft notes of Council/Committee meetings are circulated to Council/Committee members within the stipulated timeframe.

Room for improvement in declarations of interests

3.14 According to HKCAAVQ's guidelines, it adopts the two-tier reporting system for Council/Committee members to declare matters which may give rise to a conflict of interest:

- (a) ***First-tier declaration.*** The members should declare interests upon appointment and thereafter on an annual basis in writing by using a standard form and return the completed form to the Council Secretary within 30 calendar days upon HKCAAVQ's requests. New interests or any subsequent changes should be registered within 30 calendar days as they first arise; and

- (b) ***Second-tier declaration.*** If a member is in receipt of a discussion/decision paper which he/she knows presents a direct or indirect conflict of interest, pecuniary or otherwise, he/she should inform the Council Secretary as soon as practical prior to the meeting. The Secretary shall bring this to the attention of the meeting Chairman. The member, who discloses the interest should be temporarily excused from the meeting. The meeting Chairman shall put to vote whether the member concerned may be present at that part of the meeting, and may speak or vote on the matter. All cases of declaration or disclosure of interests made at a meeting shall be recorded in the notes of the meeting.

3.15 ***Need to improve first-tier declarations of interests.*** Audit examination of the first-tier declarations of interests made by Council/Committee members in the period from October 2019 to September 2024 revealed that:

- (a) ***Need to issue requests for making first-tier declarations of interests in a timely manner.*** In 2 (40%) of the 5 years, the requests for completion of first-tier declaration forms were sent out 10 and 17 days after the commencement of the respective terms during the period; and
- (b) ***Some first-tier declarations of interests were completed after the due dates.*** According to HKCAAVQ's guidelines, the declaration forms should be completed and returned to the Council Secretary within 30 calendar days upon HKCAAVQ's requests. For the 19 declarations of interests on first appointment, 9 (47%) were completed 1 to 346 days (averaging 91 days) after the due dates. For the 90 annual declarations of interests, 32 (36%) were completed 1 to 312 days (averaging 78 days) after the due dates.

3.16 ***Need to improve second-tier declarations of interests.*** Audit reviewed the notes of meetings of the Council and Committee meetings held in the period from October 2019 to September 2024. In the period, 7 agenda items were discussed in both Council and QAC meetings. Audit found that for 4 (57%) agenda items, 5 members who served both the Council and QAC had declared their interests in QAC meetings, but the members concerned did not declare interests in the Council meetings when discussing the relevant agenda items.

3.17 *Decisions on declarations of interests made by members not documented.*

Audit reviewed the notes of meetings of the Council and Committee meetings held in the period from October 2019 to September 2024. In the 15 Council meetings held in the period, 8 declarations of interests were made by the members. In the 15 QAC meetings held in the period, 17 declarations of interests were made by the members. Audit found that, for 5 (63%) of the 8 declarations made in the Council meetings and for 16 (94%) of the 17 declarations made in the QAC meetings, the relevant notes of meetings did not document whether:

- (a) the members concerned had temporarily been excused from the meeting; and
- (b) the meeting Chairman had put to vote whether the members concerned may be present at that part of the meeting, and may speak or vote on the matter.

3.18 Audit considers that HKCAAVQ needs to:

- (a) make timely requests to Council/Committee members for making the first-tier declarations of interests;
- (b) strengthen measures to ensure that Council/Committee members make the first-tier declarations of interests in a timely manner;
- (c) take measures to ensure that the requirements on second-tier declarations of interests are complied with by Council/Committee members; and
- (d) when a Council/Committee member discloses the interest in a matter to be considered in a meeting, take measures to ensure that proper documentation is made on whether:
 - (i) the member concerned has temporarily been excused from the meeting; and
 - (ii) the meeting Chairman has put to vote whether the member concerned may be present at that part of the meeting, and may speak or vote on the matter.

Need to expedite the issue of the updated Strategic Plan

3.19 The aim of HKCAAVQ's strategic planning is to provide a statement of vision, mission and values of HKCAAVQ and outline objectives and strategies designed to realise the mission and vision. Strategic Plans also include key performance indicators to measure achievements of the identified objectives. HKCAAVQ's Strategic Plans are prepared on a 4-year cycle effective from 1 October 2015. After issue of Strategic Plans, HKCAAVQ submits progress reports on the implementation of the Strategic Plans to the Council. Audit reviewed the preparation of Strategic Plans and progress reports in the period from October 2019 to December 2024. Audit found that:

- (a) as at 31 December 2024, the updated Strategic Plan for the period from 1 October 2023 to 30 September 2027 had not been issued (i.e. with a delay of 15 months from the original commencement date of 1 October 2023). In January 2025, the Council approved the revision of the timeline of drafting the updated Strategic Plan to August 2025 and extension of the coverage of the current Strategic Plan up to August 2025; and
- (b) the latest progress report only covered the period up to 14 September 2023. As at 31 December 2024, an updated progress report covering the period since 15 September 2023 had not been issued.

3.20 In view of the changing circumstances since the issue of the current Strategic Plan, Audit considers that HKCAAVQ needs to take measures to expedite the issue of the updated Strategic Plan and the updated progress report on the implementation of the Strategic Plan.

Audit recommendations

3.21 **Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:**

- (a) **closely monitor the attendance rates of members at the Council/Committee meetings and take effective measures to encourage members with low attendance to attend meetings as far as possible;**

- (b) **issue meeting agendas and discussion papers to Council/Committee members in accordance with the stipulated timeframe;**
 - (c) **take measures to ensure that the draft notes of Council/Committee meetings are circulated to Council/Committee members within the stipulated timeframe;**
 - (d) **make timely requests to Council/Committee members for making the first-tier declarations of interests;**
 - (e) **strengthen measures to ensure that Council/Committee members make the first-tier declarations of interests in a timely manner;**
 - (f) **take measures to ensure that the requirements on second-tier declarations of interests are complied with by Council/Committee members;**
 - (g) **when a Council/Committee member discloses the interest in a matter to be considered in a meeting, take measures to ensure that proper documentation is made on whether:**
 - (i) **the member concerned has temporarily been excused from the meeting; and**
 - (ii) **the meeting Chairman has put to vote whether the member concerned may be present at that part of the meeting, and may speak or vote on the matter; and**
 - (h) **take measures to expedite the issue of the updated Strategic Plan and the updated progress report on the implementation of the Strategic Plan.**
- 3.22 **Audit has also *recommended* that the Secretary for Education should:**
- (a) **take measures to ensure that “Six-board Rule” is complied with as far as practicable; and**

- (b) take into account the attendance of members at Council/Committee meetings in considering their re-appointments.

Response from the Government and Hong Kong Council for Accreditation of Academic and Vocational Qualifications

3.23 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that HKCAAVQ will:

- (a) enhance the monitoring mechanism in ensuring that:
 - (i) members' attendance is duly monitored and encouraged. HKCAAVQ will report to EDB as appropriate for cases requiring attention;
 - (ii) agendas, papers and draft notes of meeting are issued within the timeline with the support of an alert mechanism;
 - (iii) timely requests are made to members on making the first-tier declarations of interests and the response time is closely monitored;
 - (iv) all the requirements in relation to the second-tier declarations of interests are complied with and with proper documentations; and
 - (v) proper documentations are kept on all actions taken and decisions made upon declarations of interests at meetings; and
- (b) ensure that the development and issue of updated Strategic Plans and progress reports are within the stipulated timeline.

3.24 The Secretary for Education agrees with the audit recommendations. She has said that:

- (a) “Six-board Rule” is complied with as far as possible. The “Six-board Rule” is a general rule and standard requirement observed by EDB in appointment exercises, aiming to ensure that the candidate serving on an advisory and statutory body does not take on more than he or she can practically handle and provide opportunities for more candidates to serve the community. EDB will continue to be vigilant when considering the appointment and re-appointment of members of HKCAAVQ, taking into account factors including but not limited to the number of advisory and statutory bodies that the candidates concerned are already serving, the need for succession planning, and also the nature of the appointment, with a view to ensuring that members would not take on more than they can practically handle. The justifications would also continue to be documented; and
- (b) EDB attaches great importance to the participation and contributions of members, including but not limited to attendance at meetings, when considering the re-appointment of members. EDB will continue to work closely with HKCAAVQ to obtain relevant records and information for future re-appointment exercises, and actions will be taken to encourage and facilitate members concerned to continue to contribute to HKCAAVQ including attending relevant meetings.

Staff turnover and staff recruitment

3.25 In the period from 2019-20 to 2023-24, the staff establishment of HKCAAVQ remained at 103, whereas the actual headcount (excluding temporary staff) at the end of each financial year ranged from 87 to 94 (i.e. falling short of the staff establishment by 9 to 16).

Need to reduce staff turnover

3.26 According to HKCAAVQ’s current Strategic Plan (see para. 3.19(a)), a target on staff turnover rate (Note 5) was set as 20% or below for the period from 2019-20 to 2021-22, and 15% or below for the period from 2022-23 to 2023-24.

Note 5: *According to HKCAAVQ, the staff turnover rate is calculated as: (total number of staff members leaving HKCAAVQ during the year) ÷ (average number of staff members in the year) × 100%.*

Corporate governance and human resource management

Audit reviewed the staff turnover analyses conducted by HKCAAVQ in the period from 2019-20 to 2023-24. Audit noted that:

- (a) the actual staff turnover rates decreased from 20.7% in 2019-20 to 3.3% in 2020-21, and then increased to 21.1% in 2023-24; and
- (b) the actual staff turnover rates were above the targets in 3 (60%) of the 5 years, by 0.7 percentage points in 2019-20, 7.4 percentage points in 2022-23 and 6.1 percentage points in 2023-24 (see Table 10).

Table 10

**Staff turnover rate of HKCAAVQ
(2019-20 to 2023-24)**

	2019-20	2020-21	2021-22	2022-23	2023-24
Target (a)	20% or below			15% or below	
Actual (b)	20.7%	3.3% (Note)	16.3%	22.4%	21.1%
Above / (below) target (Percentage points) (c) = (b) – (a)	0.7	(16.7)	(3.7)	7.4	6.1

Source: Audit analysis of HKCAAVQ records

Note: According to HKCAAVQ, the extremely low staff turnover rate in 2020-21 was due to the coronavirus disease (COVID-19) epidemic situation when staff members were reluctant to make a change, which was not representative of the long term trend.

3.27 Audit reviewed the records of exit interviews with the 75 staff members who left HKCAAVQ in the period from 2019-20 to 2023-24. Audit noted that the top three reasons for leaving HKCAAVQ as indicated by the staff members were:

- (a) higher pay or better benefits;
- (b) career prospects; and

- (c) family reasons.

3.28 Audit considers that HKCAAVQ needs to take measures to reduce the staff turnover by taking into account the major reasons for leaving HKCAAVQ as indicated by staff members during exit interviews.

Need to expedite the recruitment process for filling vacant posts

3.29 In the period from 2019-20 to 2023-24, 75 posts became vacant due to staff members leaving HKCAAVQ. Audit examined the records of recruitment for filling the 75 vacant posts and noted that some vacant posts were not filled in a timely manner:

- (a) 55 (73%) vacant posts were filled 2 to 611 days (averaging 146 days) after the posts became vacant; and
- (b) 2 (3%) vacant posts were still under recruitment process as at 31 December 2024. The time elapsed from the dates when the posts became vacant to 31 December 2024 were 431 and 1,187 days respectively.

3.30 Audit considers that HKCAAVQ needs to take measures to expedite the recruitment process with a view to filling the vacant posts in a timely manner.

Need to ensure compliance with policy on appointments in recruitment exercises

3.31 According to the policy on appointments issued by HKCAAVQ, in each recruitment exercise, all interview panel members should declare any potential conflict of interests before conducting the interviews. An interview panel member who had declared an interest with a candidate should refrain from assessing the candidate concerned.

3.32 In the period from 2019-20 to 2023-24, there were 2 recruitment exercises in which the interview panel members declared interests with the candidates. Audit

reviewed the records of the 2 recruitment exercises and noted that in 1 (50%) recruitment exercise:

- (a) an interview panel member declared having a previous working relationship with one of the candidates;
- (b) while HKCAAVQ's policy on appointments stipulated that an interview panel member who had declared an interest with a candidate should refrain from assessing the candidate concerned, the interview panel member continued to assess the candidate concerned and gave scores to the candidate in an interview assessment form. The candidate was ranked first among all other candidates by the interview panel and was recommended for appointment; and
- (c) no documentary evidence was available to show the justifications for the deviation from HKCAAVQ's policy on appointments.

3.33 Audit considers that HKCAAVQ needs to take measures to ensure compliance with its policy on appointments in recruitment exercises, and document the justifications for any deviation from the policy.

Audit recommendations

3.34 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should take measures to:

- (a) reduce the staff turnover by taking into account the major reasons for leaving HKCAAVQ as indicated by staff members during exit interviews;
- (b) expedite the recruitment process with a view to filling the vacant posts in a timely manner; and
- (c) ensure compliance with HKCAAVQ's policy on appointments in recruitment exercises, and document the justifications for any deviation from the policy.

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

3.35 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that HKCAAVQ will:

- (a) enhance the exit survey/interview arrangement to better understand the reasons for staff turnover;
- (b) address staff turnover issues by further enhancing staff development and exposure, and following up on the implementation of the remuneration structure review outcomes including annual salary review, taking into account the findings from the exit surveys and interviews;
- (c) extend the possible means in soliciting applications for positions in order to fill the vacant posts in a timely manner; and
- (d) ensure full compliance of the policy on appointments in recruitment exercises with enhanced administrative control, including documentation of the justifications for deviation, if any, and strengthening the monitoring procedures.

Engagement of individual consultants

3.36 HKCAAVQ engages experienced professionals with specialties in higher education and/or quality assurance to provide project-based and time-limited services as individual consultants. According to the guidelines on engagement of individual consultants issued by HKCAAVQ:

- (a) individual consultants are engaged on contract for services and there are no employment relationships between the consultants and HKCAAVQ; and
- (b) individual consultants may be sourced through various means taking into account the specific credentials and experiences required and the urgency of the need of consultants (e.g. former staff members or specialists with

proven satisfactory performance, potential candidates identified from job interviews, etc.).

In the period from 2019-20 to 2023-24, HKCAAVQ's annual expenditure on engaging individual consultants ranged from \$0.9 million to \$4.7 million. As at 31 December 2024, 11 individual consultants were engaged through contracts for services by HKCAAVQ.

Need to improve reporting on the engagement of individual consultants

3.37 In a meeting of PAC held in January 2020, PAC reviewed the guidelines on engagement of individual consultants proposed by HKCAAVQ and suggested HKCAAVQ to submit a report on engagement of individual consultants for information annually. Since the issue of the relevant guidelines in January 2020 and up to December 2024, 48 contracts for individual consultants were awarded involving a total of 25 individual consultants. Audit noted that, up to December 2024, except for the first annual report on engagement of individual consultants (involving 1 individual consultant engaged in 2020) submitted to PAC in January 2021, no annual reports on engagement of individual consultants had been submitted.

3.38 Audit considers that HKCAAVQ needs to submit a report on engagement of individual consultants to PAC for information annually.

Need to invite more potential candidates for individual consultants

3.39 Audit reviewed all the 48 contracts for individual consultants engaged by HKCAAVQ since the issue of the relevant guidelines in January 2020 and up to December 2024 (see para. 3.37). Audit noted that:

- (a) ***Need to invite more potential candidates.*** In each of 12 (25%) of the 48 contracts, only 1 potential candidate was invited to provide services, and the potential candidate accepted the invitation; and
- (b) ***Some consultants were awarded contracts many times.*** The award of the 48 contracts involved a total of 25 individual consultants. Of the 25 consultants, 7 (28%) consultants were awarded contracts for 3 times or more (see Table 11).

Table 11

**Number of contracts awarded to individual consultants
(January 2020 to December 2024)**

Number of contracts awarded to each individual consultant	Number of individual consultants
1	12 (48%)
2	6 (24%)
3	5 (20%)
4	1 (4%)
5	1 (4%)
Total	25 (100%)

Source: Audit analysis of HKCAAVQ records

3.40 Audit considers that HKCAAVQ needs to take measures to invite more potential candidates for individual consultants.

Need to ensure that performance evaluations are conducted for individual consultants

3.41 Audit reviewed the records of the 48 contracts for individual consultants engaged by HKCAAVQ (involving 25 consultants) since the issue of the relevant guidelines in January 2020 and up to December 2024. As at 31 December 2024, 37 contracts were completed. Audit noted that there was no documentary evidence showing that performance evaluations had been conducted for the individual consultants engaged in 36 (97%) of the 37 contracts.

3.42 Audit considers that HKCAAVQ needs to take measures to ensure that performance evaluations are conducted for individual consultants.

Audit recommendations

3.43 **Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:**

- (a) **submit a report on engagement of individual consultants to PAC for information annually;**
- (b) **take measures to invite more potential candidates for individual consultants; and**
- (c) **take measures to ensure that performance evaluations are conducted for individual consultants.**

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

3.44 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that HKCAAVQ will:

- (a) submit annual report to PAC on individual consultants engaged by HKCAAVQ for information and comment;
- (b) explore ways to invite more potential candidates for individual consultants such as exploring further platforms for placing advertisement to better reach out to the public and target audience; and
- (c) conduct performance evaluations with documentation on all individual consultants.

Training for staff

3.45 HKCAAVQ assigns or approves staff to undertake external development activities with a view to enabling staff to gain wider exposure and broader perspectives on their work. Such external development activities include, among others,

management development programmes, professional development programmes and individual staff development activities:

- (a) ***Management development programmes.*** HKCAAVQ may nominate suitable senior staff members to attend selected management development programmes for the purpose of leadership training and/or succession planning. Financial sponsorship will be provided to cover the full tuition fees of the selected programmes;
- (b) ***Professional development programmes.*** HKCAAVQ may identify suitable professional development programmes for relevant staff members to strengthen or update their professional knowledge in performing accreditation and assessment duties. HKCAAVQ may at its discretion provide full or partial sponsorship in support of the tuition fees of the selected programmes; and
- (c) ***Individual staff development activities.*** HKCAAVQ may, subject to funding availability, allocate a per capita training budget for its staff on an annual basis. Staff members are encouraged to make use of the annual per capita training budget to pursue their identified training and development needs (e.g. pursuing job-related studies and/or professional examinations) not covered by the in-house activities. A staff member may receive such sponsorship more than once per financial year with the maximum annual reimbursement capped at the per capita budget.

Need to ensure that requirements on post-training continuous service for management development programmes and professional development programmes are complied with

3.46 According to the policy and procedures on staff development issued by HKCAAVQ, in view of the substantial resources commitment required for the provision of development activities, a staff member nominated for a management development programme (see para. 3.45(a)) or a professional development programme (see para. 3.45(b)) is required to:

- (a) complete the entire programme;

- (b) serve a specified period of post-training continuous service depending on the amount of financial sponsorship:
 - (i) for sponsorship of \$10,000 to \$20,000 per programme, the length of post-training continuous service requirement is 6 months; and
 - (ii) for sponsorship above \$20,000 per programme, the length of post-training continuous service requirement is 1 year; and
- (c) refund the sponsorship and/or relevant fees in full if the staff member fails to serve the specified post-training continuous service period. The notice period in the event of resignation will not be counted as the period of post-training continuous service.

3.47 In the period from 2019-20 to 2023-24, HKCAAVQ approved 25 cases of sponsorship for staff members' participation in management development programmes and professional development programmes (Note 6), with a total sponsorship of around \$288,000 approved. Of the 25 cases, the staff members in 21 (84%) cases each received sponsorship of \$10,000 or above. Audit noted that in 2 (10%) of the 21 cases:

- (a) the staff members who had each received sponsorship of \$10,800 failed to serve the required period of post-training continuous service of 6 months (see para. 3.46(b)(i)). They continued to serve HKCAAVQ after the completion of the sponsored development programmes in September 2023 for 1.4 and 5.8 months respectively (excluding the notice period) (see para. 3.46(c)); and
- (b) no documentary evidence was available to show that full refund of the sponsorship was required from the staff members. As at 31 December 2024, the sponsorship had not been recovered.

Note 6: *Sponsorship was provided by HKCAAVQ to cover the programme fees in full. The sponsorship provided to each staff member ranged from \$8,800 to \$37,011, averaging \$11,528.*

3.48 Audit considers that HKCAAVQ needs to take measures to ensure that the requirements on post-training continuous service for management development programmes and professional development programmes are complied with.

Need to enhance management of individual staff development activities

3.49 In the period from 2019-20 to 2023-24, HKCAAVQ allocated a per capita training budget of \$2,000 for its staff every year. In the same period, there were 67 cases of sponsorship approved for individual staff development activities (see para. 3.45(c)) (Note 7), with a total sponsorship of around \$200,000 approved. Audit examined the 67 cases of sponsorship approved and noted that:

- (a) ***Post-training continuous service not required.*** According to HKCAAVQ's policy and procedures on staff development, post-training continuous service may be required from staff members who have received sponsorship of \$10,000 or above per programme for individual staff development activities. In 3 (4%) of the 67 cases, sponsorship above \$10,000, ranging from \$22,302 to \$36,000, was involved. Audit noted that post-training continuous service was not required in any of the 3 cases; and
- (b) ***No justifications provided in some cases with sponsorship approved exceeding the per capita training budget.*** Audit noted that in 29 (43%) of the 67 cases, the accumulated sponsorship approved for the staff members in the year upon approval of the cases exceeded the per capita budget of \$2,000 in the same year by \$209 to \$34,000 (averaging \$4,872). In 23 (79%) of the 29 cases, no documentary evidence was available to show the justifications for approving sponsorship exceeding the per capita budget.

Note 7: *The 67 cases of sponsorship approved involved 56 different development activities and 30 different staff members. A development activity could involve participation from one or more staff members. A staff member could participate in one or more development activities.*

3.50 Audit considers that HKCAAVQ needs to:

- (a) require post-training continuous service for staff members who have received financial sponsorship of \$10,000 or above per programme for individual staff development activities; and
- (b) take measures to ensure that the sponsorship approved for each staff member is within the annual per capita training budget for individual staff development activities and provide justifications in approving financial sponsorship above the per capita training budget.

Need to ensure that sponsorship applications for individual staff development activities are submitted within the specified timeframe

3.51 According to HKCAAVQ's policy and procedures on staff development, an applicant for staff development sponsorship should submit a completed application form and relevant supporting documents for attending the activity (e.g. letter of invitation, proposed itinerary for non-local activity, quotations and justifications) at least two weeks prior to the commencement of the activity. No retrospective approval will normally be given.

3.52 Audit reviewed the 67 cases of sponsorship approved for individual staff development activities in the period from 2019-20 to 2023-24 (see para. 3.49). Audit noted that:

- (a) for 10 (15%) of the 67 cases, the commencement dates of the activities were not available. It could not be ascertained whether the sponsorship applications were submitted within the specified timeframe;
- (b) for 20 (35%) of the remaining 57 cases, the sponsorship applications were submitted later than the specified timeframe (i.e. two weeks prior to the commencement of the activity), with delays ranging from 2 to 556 days, averaging 53 days. In 3 (15%) of the 20 cases, the sponsorship applications were submitted after the commencement of the activities (ranging from 174 to 542 days, averaging 297 days); and

- (c) retrospective approvals were given in all of the 20 cases. No documentary evidence was available to show the justifications for granting the retrospective approvals.

3.53 Audit considers that HKCAAVQ needs to take measures to ensure that:

- (a) the commencement dates of the activities of the sponsorship applications for individual staff development activities are properly recorded for performance monitoring; and
- (b) sponsorship applications for individual staff development activities are submitted within the specified timeframe and justifications for granting retrospective approvals are documented.

Need to ensure that original receipts and documentary proofs for satisfactory completion of the activities are provided for reimbursement of individual staff development activities

3.54 According to HKCAAVQ's policy and procedures on staff development, sponsorship for individual staff development activities will be given on a reimbursement basis subject to satisfactory completion of the activities. For reimbursement, staff members are required to provide the original receipts and the documentary proofs for satisfactory completion of the activities.

3.55 Audit examined 30 of the 67 cases of sponsorship approved for individual staff development activities in the period from 2019-20 to 2023-24 (see para. 3.49). Audit noted that:

- (a) ***Original receipts not provided for reimbursement for some cases.*** In 6 (20%) of the 30 cases, the original receipts were not provided by the staff members for reimbursement; and
- (b) ***No documentary proofs for satisfactory completion of the activities provided for reimbursement for some cases.*** In 20 (67%) of the 30 cases, no documentary proofs for satisfactory completion of the activities were provided by the staff members for reimbursement. According to HKCAAVQ, in 9 (45%) of the 20 cases, documentary proofs for

satisfactory completion of the activities could not be provided by the staff members as the organisers of the activities did not issue any proof of completion for the activities.

3.56 Audit considers that HKCAAVQ needs to take measures to ensure that original receipts and documentary proofs for satisfactory completion of the activities are provided for reimbursement of individual staff development activities.

Need to ensure that reports on outcome and benefits are submitted for sponsored external development activities

3.57 According to HKCAAVQ's policy and procedures on staff development, a staff member undertaking a sponsored external development activity will be required to complete the sponsored activity and submit a report on the outcome and benefits of the activity. The report will be made available to other colleagues for knowledge exchange.

3.58 Audit examined 92 cases of sponsorship approved in the period from 2019-20 to 2023-24 (comprising the 25 cases for management development programmes and professional development programmes (see para. 3.47), and the 67 cases for individual staff development activities (see para. 3.49)). As at 31 December 2024, the sponsored external development activities in 80 of the 92 cases had been completed. Audit noted that no reports on the outcome and benefits of the activities had been submitted for any of the 80 cases.

3.59 Audit considers that HKCAAVQ needs to take measures to ensure that reports on the outcome and benefits of the activities are submitted by staff members undertaking the sponsored external development activities.

Need to ascertain the reasons why the actual expenses were less than the budgeted expenses for staff training

3.60 HKCAAVQ sets out an annual staff development plan to enhance the knowledge, skills and competencies of its staff to facilitate their professional growth and development, support talent retention and cultivate a work environment that improves employee engagement and commitment. The plan stipulates an annual

budget for staff training which is proposed during the budgetary process for endorsement by FC and approval by the Council.

3.61 Audit reviewed HKCAAVQ's budgeted expenses and actual expenses for staff training in the period from 2019-20 to 2023-24. Audit noted that the actual expenses were less than the budgeted expenses for staff training every year over the 5-year period, representing 26% to 57% of the budgeted expenses in each year, averaging 37% (see Table 12).

Table 12

**Budgeted expenses and actual expenses for staff training
(2019-20 to 2023-24)**

	2019-20	2020-21	2021-22	2022-23	2023-24
	(\$'000)				
Budgeted expense (a)	330.0	330.0	310.0	800.0	1,000.0
Actual expense (b)	87.2	127.5	176.6	271.4	271.7
Actual expense as a percentage of budgeted expense (c) = (b) ÷ (a) × 100%	26%	39%	57%	34%	27%

Source: Audit analysis of HKCAAVQ records

3.62 Audit considers that HKCAAVQ needs to ascertain the reasons why the actual expenses were less than the budgeted expenses for staff training, and take appropriate follow-up actions with a view to enhancing staff development.

Audit recommendations

3.63 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:

Corporate governance and human resource management

- (a) take measures to ensure that the requirements on post-training continuous service for management development programmes and professional development programmes are complied with;**
- (b) require post-training continuous service for staff members who have received financial sponsorship of \$10,000 or above per programme for individual staff development activities;**
- (c) take measures to ensure that the sponsorship approved for each staff member is within the annual per capita training budget for individual staff development activities and provide justifications in approving financial sponsorship above the per capita training budget;**
- (d) take measures to ensure that the commencement dates of the activities of the sponsorship applications for individual staff development activities are properly recorded for performance monitoring;**
- (e) take measures to ensure that sponsorship applications for individual staff development activities are submitted within the specified timeframe and justifications for granting retrospective approvals are documented;**
- (f) take measures to ensure that original receipts and documentary proofs for satisfactory completion of the activities are provided for reimbursement of individual staff development activities;**
- (g) take measures to ensure that reports on the outcome and benefits of the activities are submitted by staff members undertaking the sponsored external development activities; and**
- (h) ascertain the reasons why the actual expenses were less than the budgeted expenses for staff training, and take appropriate follow-up actions with a view to enhancing staff development.**

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

3.64 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that HKCAAVQ will:

- (a) review the post-training continuous service requirements and ensure that the post-training continuous service requirements and other requirements are fully complied with;
- (b) monitor the sponsorship for each staff in accordance with the annual per capita budget and document justifications for exceeding the budget, if any;
- (c) ensure that the commencement dates of the activities of the sponsorship applications are properly recorded for performance monitoring;
- (d) monitor the handling of sponsorship applications, including the timing of submission of applications and granting of approvals, to ensure that the specific deadline is met and justifications are documented when granting respective approvals;
- (e) ensure that documentary proofs for satisfactory completion of the activities are properly provided and checked for reimbursement;
- (f) design a template for reporting the outcomes and benefits of sponsored staff development activities for consistent arrangement and monitoring; and
- (g) enhance communication with staff through staff development survey and individual staff discussion to encourage them to undertake staff development activities, and review the current staff training and development arrangement including the differences between the relevant budgeted and actual expenses, the outcomes of which will form the basis of HKCAAVQ's formulation of future staff development plan.

PART 4: OTHER ISSUES

4.1 This PART examines other issues related to HKCAAVQ, focusing on the following areas:

- (a) safeguarding national security (paras. 4.2 to 4.7);
- (b) procurement of services (paras. 4.8 to 4.14); and
- (c) other administrative issues (paras. 4.15 to 4.38).

Safeguarding national security

Need to strengthen guidance and regulation over matters concerning the safeguarding of national security

4.2 The Law of the People's Republic of China on Safeguarding National Security in the HKSAR was implemented on 30 June 2020. The Law stipulates that it is the constitutional duty of the HKSAR to safeguard national security. Besides, the Safeguarding National Security Ordinance took effect on 23 March 2024. It is stated in the Preamble of the Ordinance that any institution, organization and individual in the HKSAR must abide by the law of the HKSAR applicable for safeguarding national security, must not engage in acts and activities endangering national security, and must provide assistance in accordance with the law in response to a request made by the authorities when conducting the work on safeguarding national security in accordance with the law. Besides, section 8(3) of the Ordinance stipulates that if the law of the HKSAR confers any function on a person, the function is to be read as including a duty to safeguard national security, and accordingly, any person, in making any decision in the performance of the function, must regard national security as the most important factor, and give appropriate consideration to it accordingly.

4.3 Audit examined the agreements/contracts entered into between HKCAAVQ and external parties (e.g. operators, service providers, specialists and individual consultants). Audit noted that, as at 31 December 2024, except for a contract relating to the provision of building management and security services signed with a service

provider in June 2024, there were no specific clauses concerning the safeguarding of national security in other agreements/contracts with external parties.

4.4 In response to Audit's enquiry, HKCAAVQ informed Audit in February 2025 that:

- (a) HKCAAVQ had provided staff development and training on national security alertness and implementations; and
- (b) HKCAAVQ had strictly implemented laws regarding safeguarding national security.

4.5 Audit considers that HKCAAVQ needs to take measures to strengthen guidance and regulation over matters concerning the safeguarding of national security (e.g. incorporating clauses in agreements/contracts to strengthen regulation over matters concerning the safeguarding of national security).

Audit recommendation

4.6 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should take measures to strengthen guidance and regulation over matters concerning the safeguarding of national security (e.g. incorporating clauses in agreements/contracts to strengthen regulation over matters concerning the safeguarding of national security).

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

4.7 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendation. He has said that HKCAAVQ will strengthen guidance and regulation over matters concerning the safeguarding of national security (including incorporating relevant clauses in all agreements/contracts/documents).

Procurement of services

Need to enhance competition of tender exercises

4.8 HKCAAVQ has issued financial and accounting guidelines and practices setting out, among others, the tendering procedures and approval authorities for procurements. Services with value exceeding \$0.7 million may only be procured by tenders (Note 8).

4.9 Audit reviewed all the 23 tender exercises for procurement of services conducted in the period from 2019-20 to 2023-24, involving awards of contracts with a total contract value of \$20.5 million. All of the 23 tender exercises were conducted through restricted tendering. In each of the 23 exercises, 5 to 30 contractors (averaging 10 contractors) were invited to submit tenders. Audit noted that in each of 11 (48%) of the 23 exercises, 4 to 9 tenders were received. In the remaining 12 (52%) exercises, the competition was limited and the responses from contractors were lukewarm:

- (a) in each of 11 (48%) exercises, only 1 tender was received; and
- (b) in 1 (4%) exercise, only 2 tenders were received (see Table 13).

Note 8: *According to HKCAAVQ's guidelines, open tendering or restricted/single tendering may be used. The guidelines stipulate that: (a) single tenders should be avoided as far as possible unless there are circumstances which do not permit the conduct of open tenders; and (b) for restricted tendering, the list of tenderers must be approved by the Executive Director before the tender exercise is conducted.*

Table 13

**Number of tenders received in tender exercises
(2019-20 to 2023-24)**

Number of tenders received	Number of tender exercises
1	11 (48%)
2	1 (4%)
3	0 (0%)
4	4 (17%)
5 to 9	7 (31%)
Total	23 (100%)

Source: Audit analysis of HKCAAVQ records

4.10 Audit further examined the 11 tender exercises, each with only 1 tender received. Audit noted that 5 tender exercises were for the procurement of annual application maintenance services for the information technology systems for QR. Of the 5 tender exercises (conducted once each year in the period from 2019-20 to 2023-24):

- (a) in each exercise, 6 or 7 contractors were invited to submit tenders. The only tender received was from the incumbent contractor; and
- (b) in the tender exercise conducted in 2021-22, a list of 7 contractors (including the incumbent contractor) were invited to submit tenders. Notwithstanding that no response was received from the invited contractors other than the incumbent contractor, HKCAAVQ continued to invite the same list of 7 contractors in the tender exercises conducted in 2022-23 and 2023-24. No documentary evidence was available to show that HKCAAVQ had followed up with the invited contractors with no response to ascertain the reasons why they did not submit any tender.

Other issues

4.11 In response to Audit's enquiry, HKCAAVQ informed Audit in February 2025 that while the time allowed for each tender exercise followed industry practice, and that the responsible unit promptly addressed contractors' requests for information during the submission period, the proprietary nature reduced the likelihood of other contractors, other than the original application developers, submitting bids for the information technology and system maintenance related tenders.

4.12 Audit considers that HKCAAVQ needs to:

- (a) ascertain the reasons why the responses from contractors were lukewarm in some tender exercises and take appropriate follow-up actions; and
- (b) take measures to enhance competition of tender exercises.

Audit recommendations

4.13 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:

- (a) ascertain the reasons why the responses from contractors were lukewarm in some tender exercises and take appropriate follow-up actions; and
- (b) take measures to enhance competition of tender exercises.

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

4.14 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that HKCAAVQ will:

- (a) take measures to enhance competition of tender exercises and follow up with invited contractors with no response to ascertain the reasons and explore potential enhancement; and

- (b) better plan procurement exercises with enhanced specifications that encourage competition from contractors.

Other administrative issues

Room for improvement in fixed asset management

4.15 HKCAAVQ maintains a fixed asset register to record its fixed assets. According to HKCAAVQ's financial and accounting guidelines and practices, capital expenditure, including individual items of a capital nature with cost amounts of more than \$10,000 or capital projects (e.g. QR system), is capitalised as fixed assets upon acquisition or project completion. According to HKCAAVQ's asset disposal procedures, the physical existence of fixed assets should be controlled and safeguarded. All disposal and retirement of assets must be recorded accurately and in a timely manner in the accounting system. As at 31 March 2024, HKCAAVQ had fixed assets with a total cost of \$27.2 million and a total net book value of \$3.2 million (see Table 14).

Table 14

**Analysis of fixed assets of HKCAAVQ by category
(31 March 2024)**

Category	Total cost (\$ million)	Total net book value (\$ million)
Furniture and equipment	7.4	0.6
Computer equipment	19.8	2.6
Total	27.2	3.2

Source: Audit analysis of HKCAAVQ records

4.16 Audit reviewed the records of the stocktaking exercises conducted in the period from 2019-20 to 2024-25 (up to 31 December 2024) and noted that:

Other issues

- (a) up to 31 December 2024, HKCAAVQ did not have any guidelines or procedures governing the frequency and the coverage of stocktaking exercises. According to HKCAAVQ, stocktaking exercises were conducted only for computer equipment;
- (b) during the period, only a stocktaking exercise for computer equipment was conducted in June 2024. Computer equipment with a total cost of \$1.4 million was counted, representing 7% of the total cost of computer equipment of \$19.8 million (Note 9) as at 31 March 2024; and
- (c) except for the stocktaking exercise conducted in June 2024, no other stocktaking exercises had been conducted in the period.

4.17 In response to Audit's enquiry, HKCAAVQ informed Audit in February 2025 that:

- (a) asset control procedures governing stocktaking exercises for fixed assets were issued by HKCAAVQ in January 2025 (Note 10);
- (b) in January 2025, HKCAAVQ found that fixed asset items with a total cost of \$3.5 million (which had zero net book value since 2017-18) had been disposed of but no record of the disposal was available; and
- (c) as at 31 January 2025, after adjusting for the disposed fixed asset items (see (b) above) and assets purchased in 2024-25 with a total cost of \$0.2 million, HKCAAVQ had fixed assets with a total cost of \$23.9 million. HKCAAVQ would make necessary adjustments in the 2024-25 financial statements to properly account for the disposed fixed asset items.

Note 9: *According to HKCAAVQ, the total cost of computer equipment of \$19.8 million included \$17.1 million for information technology systems and QR system.*

Note 10: *HKCAAVQ's asset control procedures stipulate that: (a) stocktaking exercises are conducted semi-annually; and (b) reports on stocktaking exercises will be reported to management for approval by Deputy Executive Director or above.*

4.18 On 5 February 2025, Audit examined 40 fixed asset items recorded in the fixed asset register of HKCAAVQ (with a total purchase cost of \$4.4 million), and 5 fixed asset items found in HKCAAVQ's office. Audit noted room for improvement in the control and recording of fixed assets:

- (a) ***Identification not recorded for some items in fixed asset register.*** For 7 (18%) of the 40 items in the fixed asset register, no identification was recorded. As a result, Audit could not ascertain whether the physical items examined represented the items recorded in the fixed asset register; and
- (b) ***Some items not recorded in fixed asset register.*** For 2 (40%) of the 5 fixed asset items found in HKCAAVQ's office, they were not recorded in the fixed asset register.

4.19 Audit considers that HKCAAVQ needs to:

- (a) take measures to ensure that stocktaking exercises are conducted in accordance with its asset control procedures;
- (b) take measures to ensure that the records on disposal of fixed asset items are properly kept;
- (c) properly account for the disposed fixed asset items and the fixed asset items with no records in the fixed asset register, and make necessary adjustments in the financial statements; and
- (d) take measures to improve the control and recording of fixed assets.

Need to expedite the review on Code of Conduct for Council Members

4.20 In 2022, HKCAAVQ engaged a consultant to review the internal control systems and processes in accounting and finance of HKCAAVQ. In March 2023, the consultant submitted the final report, including recommendations relating to the handling of declaration of interests for investment decisions. In response to the consultant's recommendations, HKCAAVQ saw room for refinement to the Code of Conduct for Council Members.

Other issues

4.21 In September 2023, it was agreed in a Council meeting that HKCAAVQ would review the Code of Conduct for Council Members and propose amendments at a later stage. Audit noted that as at 31 December 2024, revisions to the Code of Conduct for Council Members were still under consideration.

4.22 In response to Audit's enquiry, HKCAAVQ informed Audit in February 2025 that:

- (a) HKCAAVQ had sought legal advice on revising the Code of Conduct for Council Members; and
- (b) the set of documents would be revised in due course.

4.23 Audit considers that HKCAAVQ needs to expedite the review on the Code of Conduct for Council Members.

Need to improve arrangements of air passage and hotel accommodation for non-local specialists

4.24 Non-local specialists participating in HKCAAVQ's accreditation exercises in Hong Kong are provided with air passage and hotel accommodation. According to HKCAAVQ's guidelines on the arrangements of air passage and hotel accommodation for non-local specialists:

- (a) non-local specialists will each be provided with a direct return business class air ticket to Hong Kong. They are expected to arrive in Hong Kong two days before the site visits and leave one day after the site visits. Upon non-local specialists' requests and subject to HKCAAVQ's prior approval, the air passage arrangements for non-local specialists to arrive in Hong Kong earlier or stay behind may be accommodated, provided that non-local specialists bear the extra costs, if any; and
- (b) hotel accommodation will be provided and arranged by HKCAAVQ. The duration of accommodation will cover from a maximum of two nights preceding the first day of the site visits to the night of the end day of the site visits. Upon non-local specialists' requests and subject to

HKCAAVQ's prior approval, extra nights of hotel accommodation can be arranged provided that non-local specialists bear the extra costs incurred.

4.25 Audit examined the records of 10 site visits for accreditation exercises involving non-local specialists conducted in 2023-24. Requests for modification of arrangements of air passage and hotel accommodation to arrive in Hong Kong earlier or stay behind were made by non-local specialists in 2 of the 10 site visits, involving a total of 5 non-local specialists. Audit examined the arrangements of air passage and hotel accommodation for the 5 non-local specialists and found that:

- (a) *Need to ensure that extra costs incurred for non-local specialists' requests for modification of hotel accommodation arrangements are borne by non-local specialists.* For 2 (40%) of the 5 non-local specialists, extra nights of hotel accommodation were arranged in light of the non-local specialists' requests. For 1 (50%) of the 2 non-local specialists, while the non-local specialist agreed to bear the extra cost of \$1,569 incurred for one additional night of hotel accommodation in November 2023, HKCAAVQ did not take action to recover the extra cost from the non-local specialist. As at 31 December 2024, the extra cost had not been recovered. In response to Audit's enquiry, HKCAAVQ informed Audit in March 2025 that HKCAAVQ had recovered the extra cost in March 2025; and
- (b) *Need to ensure that comparison of air passage costs between the itineraries requested by non-local specialists and the planned itineraries is conducted and documented.* For 3 (60%) of the 5 non-local specialists, no documentary evidence was available to show that comparison of air passage costs between the itinerary requested by each non-local specialist and the planned itinerary was conducted.

4.26 Audit considers that HKCAAVQ needs to:

- (a) take measures to ensure that extra costs incurred for non-local specialists' requests for modification of hotel accommodation arrangements are borne by non-local specialists; and
- (b) take measures to ensure that comparison of air passage costs between the itineraries requested by non-local specialists and the planned itineraries is conducted and documented.

Delays in submission of post-duty activity reports for official duty activities

4.27 According to HKCAAVQ's guidelines on official duty activities involving external organisations, on completion of an official duty activity outside Hong Kong, the staff members concerned are required to submit a written report (post-duty activity report) on the duty activity within one month from the staff members' return to Hong Kong from the duty activity (Note 11).

4.28 In the period from 2019-20 to 2024-25 (up to 31 December 2024), there were 21 official duty activities involving external organisations. Audit reviewed the records of the 21 official duty activities and noted that the post-duty activity reports for 5 (24%) activities were submitted more than one month from the staff members' return to Hong Kong from the duty activities, ranging from 45 to 66 days (averaging 54 days) after the staff members' return.

4.29 Audit considers that HKCAAVQ needs to take measures to ensure that post-duty activity reports for official duty activities are submitted by staff members within the specified timeframe.

Long time taken to resolve complaint cases

4.30 A complaint about any aspect of HKCAAVQ may be lodged in person at HKCAAVQ's office, over the telephone, or in writing by post, by fax, by email or via the online complaint form on HKCAAVQ's website.

4.31 While HKCAAVQ has issued principles and procedures for the handling of complaint cases, it has not set any timeframe for resolving a complaint case. In the period from 1 January 2020 to 31 December 2024, 111 complaint cases were recorded

Note 11: *A post-duty activity report includes an introduction (e.g. background of the official duty activity), the schedule of the activity, and findings or observations by the staff members (e.g. knowledge and experience gained, benefits to HKCAAVQ). When an official duty activity is participated by more than one staff member, one post-duty activity report will be jointly submitted by all the staff members involved.*

in the complaint register. Audit examined the complaint register and noted that the time taken to resolve some complaint cases was long. As at 31 December 2024:

- (a) 103 of the 111 complaint cases were resolved. Of the 103 resolved complaint cases, while the dates of resolving the cases were not available in 4 (4%) cases, the time taken to resolve the complaint cases ranged from 1 to 685 working days (averaging 55 working days) in the remaining 99 (96%) cases; and
- (b) 8 complaint cases were still under processing. The longest time elapsed from the dates of receipt of the complaint cases to 31 December 2024 was 392 working days.

4.32 In response to Audit's enquiry, HKCAAVQ informed Audit in February 2025 that:

- (a) some complaint cases relating to institutions and programme quality might involve prolonged turnaround and investigation time; and
- (b) amid the above, HKCAAVQ would set timeframe and would try its best to resolve complaint cases as soon as practicable.

4.33 Audit considers that HKCAAVQ needs to:

- (a) set a timeframe for resolving a complaint case; and
- (b) take measures to expedite the processing of complaint cases and resolve the complaint cases within the specified timeframe.

Long time taken to acknowledge complaint cases

4.34 According to HKCAAVQ's principles and procedures for handling complaints, all complaints should be acknowledged expeditiously by email or letter. HKCAAVQ has not set any timeframe for the acknowledgement of receipt of a complaint case.

Other issues

4.35 In the period from 1 January 2020 to 31 December 2024, 111 complaint cases were recorded in the complaint register. Audit examined 50 complaint cases in the complaint register and noted that:

- (a) in 13 (26%) cases, acknowledgements of receipt were not issued; and
- (b) in the remaining 37 (74%) cases, the time taken to acknowledge the complaint cases ranged from 1 to 13 working days, averaging 5 working days.

4.36 Audit considers that HKCAAVQ needs to:

- (a) consider setting a timeframe for the acknowledgement of receipt of a complaint case; and
- (b) take measures to acknowledge complaint cases within the specified timeframe.

Audit recommendations

4.37 Audit has *recommended* that the Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications should:

- (a) **take measures to ensure that stocktaking exercises are conducted in accordance with HKCAAVQ's asset control procedures;**
- (b) **take measures to ensure that the records on disposal of fixed asset items are properly kept;**
- (c) **properly account for the disposed fixed asset items and the fixed asset items with no records in the fixed asset register, and make necessary adjustments in the financial statements;**
- (d) **take measures to improve the control and recording of fixed assets;**
- (e) **expedite the review on the Code of Conduct for Council Members;**

- (f) take measures to ensure that extra costs incurred for non-local specialists' requests for modification of hotel accommodation arrangements are borne by non-local specialists;
- (g) take measures to ensure that comparison of air passage costs between the itineraries requested by non-local specialists and the planned itineraries is conducted and documented;
- (h) take measures to ensure that post-duty activity reports for official duty activities are submitted by staff members within the specified timeframe;
- (i) set a timeframe for resolving a complaint case;
- (j) take measures to expedite the processing of complaint cases and resolve the complaint cases within the specified timeframe;
- (k) consider setting a timeframe for the acknowledgement of receipt of a complaint case; and
- (l) take measures to acknowledge complaint cases within the specified timeframe.

Response from Hong Kong Council for Accreditation of Academic and Vocational Qualifications

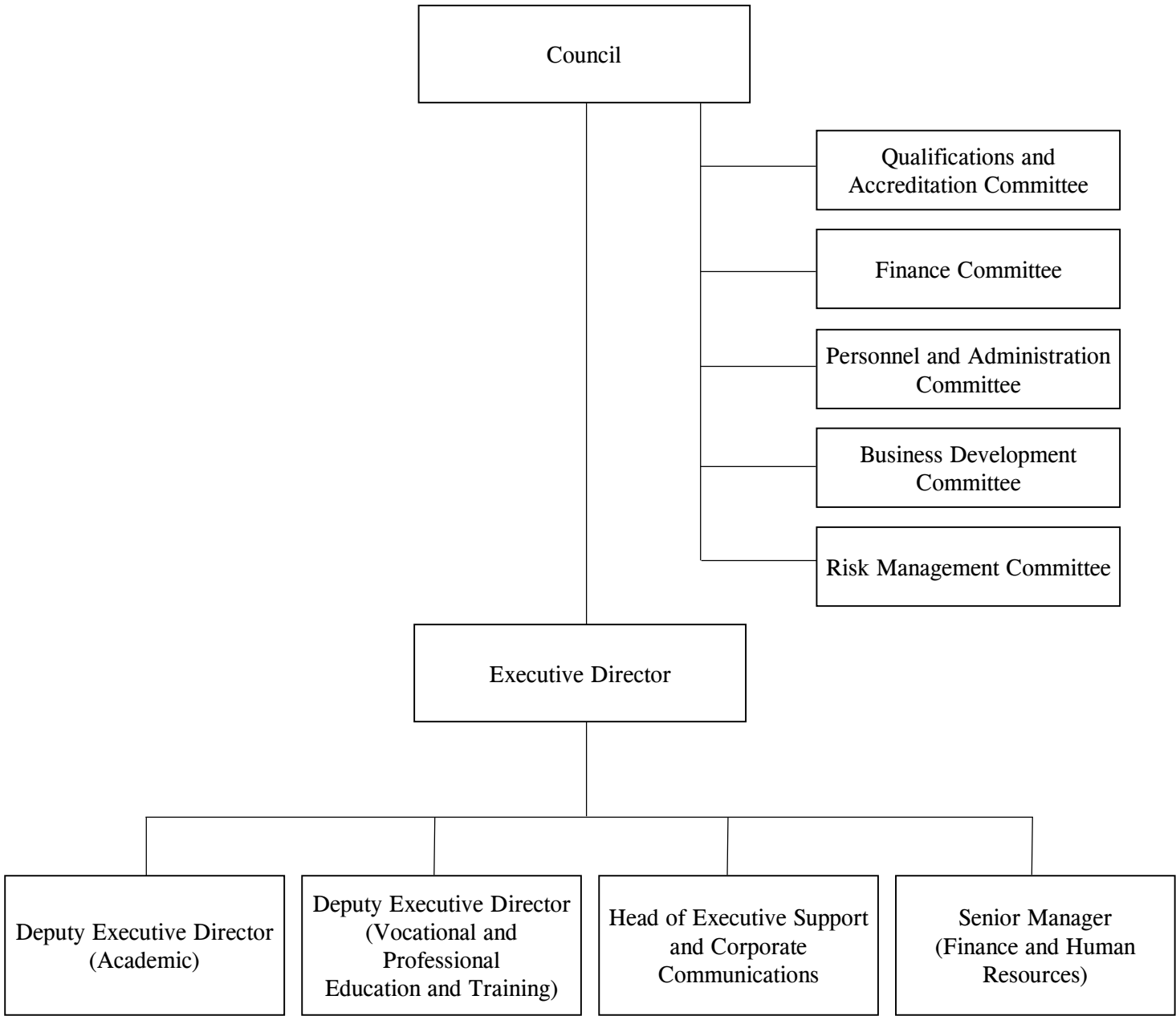
4.38 The Executive Director, Hong Kong Council for Accreditation of Academic and Vocational Qualifications agrees with the audit recommendations. He has said that HKCAAVQ will:

- (a) fully implement the asset control procedures in ensuring that:
 - (i) stocktaking exercises are properly conducted;
 - (ii) records on disposal of fixed asset items are properly kept; and
 - (iii) improvements are made on control and recording of fixed assets;

Other issues

- (b) adjust the financial statements to account for disposed fixed asset and fixed asset items with no records in the fixed asset register;
- (c) complete the review on the Code of Conduct for Council Members by September 2025;
- (d) ensure that extra costs by non-local specialists are borne by themselves and that good control is exercised on itinerary management of non-local specialists;
- (e) ensure that price comparison regarding the itineraries of non-local specialists is properly conducted and documented;
- (f) ensure that post-duty activity reports for official duty activities are submitted within specified timeframe with proper monitoring; and
- (g) step up monitoring on complaint case management in providing better services on:
 - (i) acknowledgement of cases;
 - (ii) setting timeframe for acknowledgement of cases;
 - (iii) processing of complaint and the timeline; and
 - (iv) expediting the complaint processing.

Hong Kong Council for Accreditation of
Academic and Vocational Qualifications:
Organisation chart (extract)
(31 December 2024)



Source: HKCAAVQ records

Acronyms and abbreviations

AAVQO	Accreditation of Academic and Vocational Qualifications Ordinance
Audit	Audit Commission
BDC	Business Development Committee
EDB	Education Bureau
FC	Finance Committee
GBA	Guangdong-Hong Kong-Macao Greater Bay Area
HKCAAVQ	Hong Kong Council for Accreditation of Academic and Vocational Qualifications
HKCAAVQO	Hong Kong Council for Accreditation of Academic and Vocational Qualifications Ordinance
HKSAR	Hong Kong Special Administrative Region
IE	Initial Evaluation
LPA	Learning Programme Accreditation
NLHPERO	Non-local Higher and Professional Education (Regulation) Ordinance
PAA	Programme Area Accreditation
PAC	Personnel and Administration Committee
PIR	Periodic Institutional Review
QAC	Qualifications and Accreditation Committee
QF	Qualifications Framework
QR	Qualifications Register
Re-LPA	Learning Programme Re-accreditation
RMC	Risk Management Committee
VPET	Vocational and professional education and training

CHAPTER 3

**Development Bureau
Civil Engineering and Development Department**

Lantau Conservation Fund

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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LANTAU CONSERVATION FUND

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LANTAU CONSERVATION FUND

Executive Summary

1. To promote and implement conservation of rural Lantau, and to pursue livelihood improvement works in remote villages and communities, the Chief Executive of the Hong Kong Special Administrative Region announced in the Chief Executive's 2018 Policy Address that a \$1 billion Lantau Conservation Fund (LCF) would be set up. LCF was set up in October 2020. It consists of two parts, as follows:

- (a) ***Conservation and related projects.*** In May 2020, the Legislative Council approved a funding of \$500 million for the conservation and related projects under LCF. This part of LCF is dedicated to providing financial support to non-profit-making organisations to carry out three streams of conservation and related projects in Lantau (i.e. Conservation Management Agreement Projects (MA projects), Research Projects (RE projects) and Education and Engagement Projects (EE projects)). From December 2020 to October 2024, there were 4 rounds of application for conservation and related projects and 207 applications had been received, of which 48 applications had been approved. As at 31 October 2024, of the total approved grants of \$141.8 million, \$70.1 million (49%) had been disbursed to the grantees; and
- (b) ***Minor local improvement works (MLIW).*** Another \$500 million is earmarked as a cap to carry out MLIW by the Government on government land in Lantau for conservation initiatives and improvements to the environment. MLIW projects are generally small in scale with a ceiling of \$50 million for each project. As at 31 October 2024, there were 11 approved MLIW projects (7 substantially completed and 4 under construction) with a total approved project estimate of \$75.3 million and an actual project expenditure of \$39.4 million.

2. The Development Bureau is responsible for overseeing the implementation of LCF and the Sustainable Lantau Office (SLO) of the Civil Engineering and Development Department is responsible for the day-to-day administration of LCF and

Executive Summary

secretariat support. The Lantau Conservation Fund Advisory Committee (LCFAC) was established to advise on the overall administration and operation related to LCF, vet applications under LCF, monitor the progress of funded projects and advise on the priority of MLIW project proposals. The Audit Commission (Audit) has recently conducted a review of SLO's work in the administration of LCF.

Conservation and related projects

3. *Scope for improvement in the assessment of applications.* Two Subcommittees were formed to assist LCFAC in assessing the applications for RE and EE projects under LCF. Audit examined the 4 rounds of application from December 2020 to October 2024 and noted that (paras. 1.9 and 2.13):

- (a) *SLO guidelines not timely updated.* According to SLO guidelines, LCFAC should rate the application according to the assessment criteria and weightings, and work out a total mark. According to SLO, in practice, applications not assessed by the Subcommittees were not rated with marks, i.e. RE and EE projects with budgets less than \$500,000 (where SLO would make recommendations on approval/rejection to LCFAC for endorsement) and all MA projects (where they were considered by LCFAC directly). While the assessment procedures had been agreed by LCFAC and adopted since the first round of application (i.e. 2020-2021), SLO had not updated its guidelines to reflect the practice (paras. 2.12 and 2.13(a)); and
- (b) *No documented justifications of not recommending some applications with higher marks for approval.* For RE and EE projects with budgets equal to or greater than \$500,000, each application was assigned to two members of the Subcommittees for giving marks and an average mark was compiled by SLO. Audit noted that some applications for RE and EE projects with higher marks (i.e. the average marks compiled by SLO) were not recommended by the Subcommittees for approval. According to SLO, at the meetings of the Subcommittees, members would holistically review the preliminary assessments of the two Subcommittee members before coming up with final recommendations on the applications. However, Audit noted that there was no documentation showing the justifications of not recommending the applications with higher marks for approval (paras. 2.13 and 2.14).

Executive Summary

4. ***Need to ensure timely submission of project deliverables by grantees.***

From December 2020 to October 2024, there were 164 project deliverables due for submission by the grantees. Audit noted that: (a) there were delays in some of the submissions. For example, of the 107 progress reports due for submission, 27 (25%) were submitted 1 to 106 days (averaging 18 days) after the due dates; (b) some reminders were not issued in accordance with SLO guidelines. For example, as at 31 October 2024, for the 164 project deliverables, first reminders were not issued to the grantees for submission of 49 (30%) project deliverables; and (c) of the 40 grantees with project deliverables due for submission from December 2020 to October 2024, 9 (23%) had delays in submission for three times or more and SLO did not report any of the 9 cases to LCFAC, contrary to SLO guidelines (paras. 2.27 to 2.30).

5. ***Scope for strengthening the role of LCFAC in monitoring the project variations and progress.***

According to SLO guidelines, major variations (e.g. change of project leader) should be approved by LCFAC or the delegated authority, and regular reporting items (e.g. variation requests) should be provided to LCFAC. Audit noted that, from December 2020 to October 2024: (a) there were seven requests for major variations from the grantees to change project leaders and all were approved by SLO instead of LCFAC. There was no documentation showing that SLO had been delegated the authority to approve the major variations; and (b) there was also no documentation showing that regular reporting items (including the seven requests for major variations) had been provided to LCFAC (paras. 2.38 and 2.39).

6. ***Need to expedite the processing of project deliverables for releasing interim and final disbursements.***

According to the “Guide to Application”, the grantees are required to submit necessary project deliverables to SLO for interim and final disbursements. Audit noted that SLO did not set any time target for completing the processing of project deliverables and long time was taken by SLO in some cases (paras. 2.47 and 2.50), as follows:

- (a) ***Interim disbursements.*** From December 2020 to October 2024, the grantees of 40 projects submitted 103 progress reports for releasing interim disbursements. As at 31 October 2024: (i) the processing of 89 (86%) progress reports was completed 6 to 438 days (averaging 68 days) after the submission by the grantees; and (ii) 14 (14%) progress reports, which were submitted by the grantees 8 to 486 days (averaging 135 days) ago, were under checking by SLO (para. 2.50(a)); and

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- (b) ***Final disbursements.*** For 4 completed projects with final accounts accepted by SLO as at 31 October 2024, final disbursements would be released upon acceptance of the completion reports and project summaries by SLO. While the grantees of 3 of the 4 projects had already submitted the completion reports and project summaries for 45 to 132 days (averaging 101 days) and with completion reports accepted by SLO, all the project summaries were still under checking by SLO and hence no final disbursements were released (para. 2.50(b)).

7. ***Scope for improvement in handling unspent grants.*** According to the project agreements and SLO guidelines, upon completion of projects, any unspent grants paid to the grantees should be returned to the Government. Audit noted that SLO did not set any time target to request the grantees for returning the unspent grants upon completion of projects. As at 31 October 2024, 3 completed projects had unspent grants ranging from about \$86,000 to about \$390,000 (totalling about \$570,000). While the final accounts of the 3 completed projects had been accepted by SLO 2 to 10 months (averaging 7 months) ago as at 31 October 2024, the demand notes for the return of unspent grants were only issued in December 2024 and settled by the grantees in January 2025 (paras. 2.52 and 2.53).

Minor local improvement works projects

8. ***Scope for enhancing the scope of MLIW projects.*** The Minor Works Steering Committee (MWSC) was established to vet and prioritise MLIW project proposals, monitor and oversee fund performance related to MLIW and report to LCFAC on the latest fund performance. Since the establishment of LCF in October 2020 and up to October 2024, SLO received 15 MLIW project proposals. As at 31 October 2024, of the 15 project proposals, 11 had been approved, 3 had been withdrawn and 1 was pending approval (paras. 1.10 and 3.4). Audit noted the following issues:

- (a) ***Participation of government departments and utilisation of funds on the low side.*** From October 2020 to October 2024, only 5 (50%) of the 10 relevant government departments identified to have potential MLIW projects had submitted MLIW project proposals to SLO. As at 31 October 2024, the 11 approved MLIW projects had a total approved project estimate of \$75.3 million (i.e. 15% of the \$500 million earmarked funding) (para. 3.5(a)); and

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- (b) ***Number of MLIW projects and amount of funds approved on a decreasing trend.*** Of the 11 approved MLIW projects, 8 were approved between 2020 and 2021, and only 3 were approved between 2022 and 2023. Besides, the yearly approved project estimate decreased significantly by 89% from \$55.4 million in 2020 to \$6 million in 2023 (para. 3.5(b)).
9. ***Need to ensure that sufficient information is provided in MLIW project proposals.*** Audit examined the 15 MLIW project proposals received from October 2020 to October 2024 and noted that:
- (a) ***Some necessary information not provided in MLIW project proposals.*** Some necessary information was not provided in project proposals, as follows: (i) 1 (7%) project proposal did not contain clear objectives and targets, nor sufficient information for justifying the project costs and was subsequently withdrawn; (ii) all the 15 project proposals did not contain any preliminary cash flow information, contrary to SLO guidelines; and (iii) 6 (40%) project proposals did not contain any views from relevant statutory and advisory bodies and 2 of these proposals were subsequently withdrawn due to the concerns and diverse views received from local stakeholders (paras. 3.7 and 3.8(a)); and
- (b) ***Performance targets for MLIW project proposals not required.*** SLO did not specify the requirements to set and include performance targets in MLIW project proposals. Of the 15 project proposals, only 2 (13%) contained the post-completion effectiveness monitoring measures (para. 3.8(b)).
10. ***Need to ensure that returns on progress and expenditure of MLIW projects are received.*** According to SLO guidelines, the responsible government departments should provide quarterly returns on the progress and expenditure of MLIW projects to SLO for monitoring purpose. According to SLO, in practice, it will issue requests to the responsible government departments calling for the returns. Audit found that, from December 2020 to October 2024: (a) requests for return were not issued for the periods from December 2020 to April 2022 and from May to October 2024. In the event, no return was provided by the responsible government departments during these periods; (b) from May 2022 to April 2024, the time lapse between each request for return issued ranged from 63 to 184 days (averaging 119 days) (i.e. not issuing on a quarterly basis); and (c) of the 41 returns submitted

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by the responsible government departments, 10 (24%) were submitted 1 to 42 days (averaging 9 days) after the respective deadlines set by SLO and 7 (17%) could not be located by SLO (paras. 3.12 and 3.13).

11. ***Scope for enhancing the monitoring of the progress and expenditure of MLIW projects.*** Audit noted the following issues:

- (a) ***Progress of MLIW projects.*** As at 31 October 2024: (i) 4 (57%) of the 7 completed projects had delays in substantial completion of works by 1 to 18 months (averaging 9 months); and (ii) 2 (50%) of the 4 projects under construction had deferred their target completion dates by 20 and 30 months respectively (para. 3.16);
- (b) ***Expenditure of MLIW projects.*** As at 31 October 2024: (i) the total actual project expenditure incurred for the 7 completed projects was \$30.9 million, which was \$21.2 million (41%) less than the approved project estimate of \$52.1 million. SLO had not taken follow-up actions with all the responsible government departments concerned in ascertaining the reasons for the variances; and (ii) while the 7 projects had been substantially completed between January 2022 and September 2024 (i.e. a lapse of 1 to 33 months), SLO had no information on whether the project accounts of the 7 completed projects had been finalised (para. 3.17); and
- (c) ***Reporting to LCFAC.*** From October 2020 to October 2024, SLO did not report the reasons for the delays in completion of works and variances between the actual project expenditure and the approved project estimate of individual MLIW projects at LCFAC meetings (para. 3.18).

Governance and other issues

12. ***Scope for improving the attendance of LCFAC meetings.*** LCFAC comprises both official and non-official members from relevant fields appointed by the Secretary for Development for a term of two years. Audit noted that: (a) the average attendance rate of LCFAC meetings decreased from 84% in Term 1 (from 1 October 2020 to 30 September 2022) to 74% in Term 2 (from 1 October 2022 to 30 September 2024); and (b) from October 2020 to October 2024, there were some non-official members of LCFAC with low attendance (i.e. less than or equal to 50%) at LCFAC meetings but some of them were re-appointed (paras. 4.2 and 4.4).

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13. ***Scope for improvement in preparing and issuing meeting materials for committee meetings.*** According to SLO guidelines, SLO should prepare and issue the project digests for the eligible applications for the conservation and related projects to members of LCFAC and/or its Subcommittees at least five working days before the meetings of LCFAC and/or its Subcommittees. However, no similar time target had been set by SLO for preparing and issuing other meeting materials (such as meeting agenda and meeting minutes) to members for the meetings of LCFAC, LCFAC Subcommittees and MWSC. Audit noted that in some cases the meeting agendas were sent to the members shortly before the meetings or the meeting minutes were sent to the members long after the meetings (para. 4.6(a)).

14. ***Scope for improvement in making declaration of interests.*** LCFAC and its Subcommittees adopt a two-tier reporting system for managing conflict of interests by their members. Regarding the vetting exercise for the conservation and related projects, all members of LCFAC (including its Subcommittees) should declare their interests with the applications received prior to the issuance of relevant project digests by SLO to them (para. 4.8). Audit noted that:

- (a) ***Need to maintain proper records of declaration of interests.*** SLO did not properly maintain some of the records of the declarations of interests made by the members of LCFAC (including its Subcommittees). For example:
 - (i) 9 (50%) of the 18 annual declarations in 2021 made by the members of LCFAC were not found; and
 - (ii) from October 2020 to October 2024, there were no records showing whether the second-tier declarations had been made by any members at LCFAC Subcommittee meetings held during the period (para. 4.9(a));
- (b) ***Delay in making declaration of interests.*** The initial and annual declarations were not made by some members of LCFAC (including its Subcommittees) before the stipulated deadlines in SLO guidelines. For example, of the 14 annual declarations in 2022 with records maintained, 4 (29%) were made by the members 3 to 113 days (averaging 33 days) after the stipulated deadline (para. 4.9(b)); and
- (c) ***Declarations of interests with applications not received from members prior to the issuance of project digests.*** In the vetting exercise for EE projects in the 2020-2021 round of application, notwithstanding that declarations had not been received from 2 members of an LCFAC Subcommittee, the project digests of the relevant applications were issued

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to the members of the LCFAC Subcommittee concerned (i.e. including the 2 members) (para. 4.9(c)).

15. ***Scope for enhancing performance measures of LCF.*** Audit noted that, as at 31 October 2024, SLO did not provide any performance measures in respect of LCF on its website. According to SLO, it did not set any performance measures for monitoring the performance of LCF (para. 4.21).

16. ***Need to conduct review on LCF.*** Audit noted that since the establishment of LCF in October 2020, SLO had not conducted any formal review on the operation of LCF and SLO only conducted two rounds of surveys on the applicant organisations of the conservation and related projects in 2021 and 2022 to collect feedback related to its application process. In Audit's view, it is an opportune time for the Civil Engineering and Development Department to conduct a review on the implementation of LCF (para. 4.24).

Audit recommendations

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

Conservation and related projects

- (a) **update SLO guidelines to ensure that they properly reflect the assessment procedures for applications for conservation and related projects (para. 2.23(c));**
- (b) **ensure that justifications of not recommending the applications for RE and EE projects with higher marks for approval are properly documented (para. 2.23(d));**
- (c) **strengthen measures to ensure that:**
 - (i) **the grantees of conservation and related projects submit project deliverables in a timely manner (para. 2.45(a)(i)); and**

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- (ii) **follow-up actions are taken on repeated late submissions of project deliverables by the grantees of conservation and related projects and these cases are reported to LCFAC in accordance with SLO guidelines (para. 2.45(a)(ii));**
- (d) **ensure that variations of conservation and related projects are approved in accordance with the framework of delegated authorities and maintain proper documentation on the regular reporting items provided to LCFAC (para. 2.45(c));**
- (e) **consider setting a time target for completing the processing of project deliverables submitted by the grantees of conservation and related projects and complete the processing in a timely manner (para. 2.56(b));**
- (f) **set a time target to request the grantees of conservation and related projects for returning the unspent grants upon completion of projects and ensure timely issuance of requests (para. 2.56(c));**

MLIW projects

- (g) **ascertain the reasons for the decrease in the number of MLIW projects and amount of funds approved and take measures to address the matter (para. 3.10(a));**
- (h) **remind the responsible government departments to provide sufficient information in their MLIW project proposals and consider requiring them to include performance targets as far as practicable in their MLIW project proposals (para. 3.10(c) and (d));**
- (i) **ensure that the returns on MLIW projects are submitted by the responsible government departments in a timely manner and the submitted returns are properly maintained (para. 3.20(b));**
- (j) **keep under review the progress of MLIW projects, and enhance the monitoring of expenditure of MLIW projects, including ascertaining the reasons for the variance between the actual project expenditure and the approved project estimate for each project and ascertaining**

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whether the project accounts of the 7 completed MLIW projects had been finalised (para. 3.20(c) and (d));

- (k) ensure that all required information related to the update on the progress and expenditure of MLIW projects is reported at LCFAC meetings (para. 3.20(e));

Governance and other issues

- (l) improve the attendance of the non-official members of LCFAC (para. 4.11(a));
- (m) properly document the justifications for recommending non-official members of LCFAC with low attendance records to the approving authority for re-appointments (para. 4.11(b));
- (n) consider setting a time target for preparing and issuing meeting materials to the relevant members for the meetings of LCFAC, LCFAC Subcommittees and MWSC (para. 4.11(c));
- (o) ensure that the declarations of interests:
 - (i) made by the members of LCFAC are properly maintained and submitted in a timely manner (para. 4.11(e) and (f)); and
 - (ii) with applications are received from the members of LCFAC prior to the issuance of project digests (para. 4.11(g));
- (p) consider setting performance measures in relation to LCF and providing them on LCF website (para. 4.25(c)); and
- (q) conduct a review on the implementation of LCF (para. 4.25(d)).

Response from the Government

18. The Director of Civil Engineering and Development 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 Being the largest island of Hong Kong, Lantau is endowed with splendid mountains and natural shoreline, and is rich in natural and cultural assets. To promote and implement conservation of rural Lantau, and to pursue livelihood improvement works in remote villages and communities, the Chief Executive of the Hong Kong Special Administrative Region announced in the Chief Executive's 2018 Policy Address that a \$1 billion Lantau Conservation Fund (LCF) would be set up. LCF would be used to support projects that would contribute to the overall conservation of rural Lantau, raise community awareness on the conservation of rural Lantau, and mobilise the community to put conservation into practice, with a view to fostering a quality living environment for the current generation and beyond.

1.3 LCF was set up in October 2020. It consists of two parts, as follows:

- (a) ***Conservation and related projects.*** In May 2020, the Legislative Council approved a funding of \$500 million in the context of the Appropriation Bill 2020 for the conservation and related projects under LCF. This part of LCF is dedicated to providing financial support to non-profit-making organisations (NPOs), which comprise local tax-exempt charities, local registered and non-profit-making companies and local post-secondary education institutions, to collaborate with local communities and landowners and carry out three streams of conservation and related projects in Lantau. The conservation efforts covered by the conservation and related projects include natural environment, ecology, culture, history, rural character, landscape, geomorphology and other relevant elements; and

Introduction

- (b) *Minor local improvement works (MLIW).* Another \$500 million is earmarked as a cap to carry out MLIW by the Government under LCF. This part of LCF is dedicated to supporting MLIW to be carried out by the Government on government land in Lantau for conservation initiatives and improvements to the environment in Lantau.

1.4 The Development Bureau oversees the implementation of LCF. The Sustainable Lantau Office (SLO) of the Civil Engineering and Development Department (CEDD) is responsible for the day-to-day administration of LCF and secretariat support (Note 1). As at 31 October 2024, 8 staff were dedicated to the work of the LCF Secretariat, and 22 staff, among other duties, were involved in the assessment of applications and monitoring of projects on a need basis. According to SLO, it could not provide a breakdown of staff expenditure incurred by SLO solely for the administration of LCF. An extract of CEDD's organisation chart as at 31 October 2024 is at Appendix A.

Conservation and related projects

1.5 *Project streams.* Proposed conservation and related projects must be non-profit-making in nature, and their benefits must accrue to the community as a whole and not just to individuals, a single private organisation or a consortium of private companies. There are three streams of conservation and related projects, as follows:

Note 1: *On 25 March 2025, CEDD proposed to the Panel on Development of the Legislative Council that SLO would be merged with the South Development Office of CEDD to form the South Development and Sustainable Lantau Office, and the duties and responsibilities of the directorate posts of the two original offices would be revised and redistributed. According to SLO, the proposal is subject to the approval of the Establishment Subcommittee and the Finance Committee of the Legislative Council.*

- (a) ***Conservation Management Agreement Projects (hereinafter referred to as MA projects).*** MA projects are conservation projects (i.e. nature conservation, cultural conservation and/or village revitalisation) and they involve management and conservation of privately-owned land and/or buildings of conservation value by engaging land/building owners to contribute, enhance and revitalise the ecological, nature, cultural or historical significance of the site. Proposed projects involving government land, adjacent waters and/or islands of Lantau would also be considered if they would bring benefits for the conservation of Lantau as a whole (see Photograph 1 for an example of an activity under an MA project);

Photograph 1

**MA project:
Rice harvesting at rehabilitated agricultural land**



Source: SLO records

- (b) ***Research Projects (hereinafter referred to as RE projects).*** RE projects are conservation-related scientific research or culture and local history research (see Photograph 2 for an example of an activity under an RE project); and

Photograph 2

**RE project:
Collection of water samples for laboratory tests**



Source: SLO records

- (c) ***Education and Engagement Projects (hereinafter referred to as EE projects).*** EE projects are initiatives or activities for community involvement, public education and promotion in relation to conservation and related purposes (see Photograph 3 for an example of an activity under an EE project).

Photograph 3

**EE project:
Traditional Hakka food preparation workshop**



Source: SLO records

1.6 ***Approval of applications and disbursement of approved grants.*** According to SLO, in general, conservation and related projects are open for applications in December each year. Each of the three streams of conservation and related projects has its funding and duration limits. From December 2020 to October 2024, there were 4 rounds of application (i.e. 2020-2021, 2021-2022, 2022-2023 and 2023-2024) for conservation and related projects under LCF and 207 applications had been received, of which 48 applications had been approved with total approved grants of \$141.8 million (see Table 1). As at 31 October 2024, of the total approved grants of \$141.8 million, \$70.1 million (49%) had been disbursed to the grantees (i.e. the successful applicants).

Table 1

**Conservation and related projects under LCF
(December 2020 to October 2024)**

Project stream	Funding limit per project (Note) (\$ million)	Duration limit per project	Number of approved projects	Amount of approved grants (\$ million)
MA project	13.0	3 years	5 (10%)	63.0 (44%)
RE project	2.5	3 years	26 (54%)	49.6 (35%)
EE project	2.0	2 years	17 (36%)	29.2 (21%)
Total			48 (100%)	141.8 (100%)

Source: SLO records

Note: According to SLO, a lower threshold limit of \$250,000 is set for each project in order to be more effective and reach more beneficiaries.

1.7 ***Monitoring of approved projects.*** According to SLO, the grantees are obliged to adhere to a high standard of integrity and spend the funds in an open, fair and accountable manner. For monitoring of approved projects, the following mechanism is adopted:

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- (a) upon approval for funding support of the proposed projects and subject to any conditions imposed by the Government, the successful applicants should sign legally binding agreements with the Government;
- (b) the agreements set out the terms and conditions to be observed by the grantees during project implementation, including submission of progress reports, completion reports, final accounts and project summaries. The grantees should obtain written approval from the Government for major changes to the approved projects and/or budgets;
- (c) the agreements also set out the qualitative and quantitative performance indicators (as provided by the grantees during application) to gauge the effectiveness of the approved projects;
- (d) scheduled or surprise inspections are carried out by SLO to examine the progress and achievements of the approved projects; and
- (e) disbursements of approved grants are subject to the completion of key milestones of the approved projects and submission of the necessary deliverables. The final disbursements will normally be released to the grantees only after the completion of the approved projects, subject to submission of the necessary deliverables (e.g. completion reports together with the final accounts) to the satisfaction of SLO.

MLIW

1.8 MLIW projects aim to enhance the accessibility of remote villages in Lantau or improve the livelihood of the local residents whilst conserving or enhancing the rural environment in Lantau, and are generally small in scale with a ceiling of \$50 million for each project. SLO would liaise with various government departments to identify suitable MLIW projects to be taken forward under LCF. Funding for the approved MLIW projects would be sought according to the established government procedures for block allocations under the Capital Works Reserve Fund. According to SLO, as at 31 October 2024, there were 11 approved MLIW projects (7 substantially completed and 4 under construction) with a total approved project estimate of \$75.3 million and an actual project expenditure of \$39.4 million (i.e. 52% of the approved project estimate).

Committees and Subcommittees

1.9 ***Lantau Conservation Fund Advisory Committee (LCFAC) and Subcommittees.*** LCFAC was established to advise on the overall administration and operation related to LCF, vet applications under LCF, monitor the progress of funded projects and advise on the priority of MLIW project proposals. LCFAC has been set up to include both official and non-official members from relevant fields (e.g. nature conservation and environmental education) appointed by the Secretary for Development for a term of two years. The current term is from 1 October 2024 to 30 September 2026. As at 31 October 2024, LCFAC comprised 21 non-official members (including the chairperson) and 4 official members. Two Subcommittees were formed to assist LCFAC in assessing the applications for RE and EE projects under LCF. Each Subcommittee comprises non-official members of LCFAC with the same term of service as LCFAC. As at 31 October 2024, the two Subcommittees comprised 10 and 11 non-official members respectively (including the chairperson).

1.10 ***Minor Works Steering Committee (MWSC).*** MWSC was established to vet and prioritise MLIW project proposals, monitor and oversee fund performance related to MLIW and report to LCFAC on the latest fund performance. As at 31 October 2024, MWSC comprised a chairperson (i.e. Head of SLO) and 6 members from 5 government departments.

Audit review

1.11 In November 2024, the Audit Commission (Audit) commenced a review of SLO's work in the administration of LCF. The audit review has focused on the following areas:

- (a) conservation and related projects (PART 2);
- (b) MLIW projects (PART 3); and
- (c) governance and other 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

1.12 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that CEDD welcomes the review on LCF conducted by Audit and will take appropriate follow-up actions and improvement measures according to the audit recommendations.

Acknowledgement

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

PART 2: CONSERVATION AND RELATED PROJECTS

2.1 This PART examines SLO's work in the administration of conservation and related projects under LCF, focusing on:

- (a) processing of applications (paras. 2.2 to 2.24);
- (b) monitoring of approved projects (paras. 2.25 to 2.46); and
- (c) disbursement of approved grants (paras. 2.47 to 2.57).

Processing of applications

2.2 The "Guide to Application" published by SLO sets out the application and vetting procedures for conservation and related projects. For the administration of conservation and related projects, SLO follows its internal guidelines (Note 2).

2.3 According to SLO guidelines, the general procedures for processing applications for conservation and related projects are as follows:

- (a) upon receipt of applications, SLO will issue acknowledgement letters to the applicants, and conduct initial checking to ascertain whether the applications are eligible and the applicants have submitted the necessary supporting documents;
- (b) for each eligible application, SLO will prepare a project digest comprising information extracted from the application, comments received from relevant government bureaux/departments and issues that need to be highlighted to LCFAC and/or its Subcommittees;

Note 2: *According to SLO, the internal guidelines have stated that since it is not possible to set out all the circumstances in the document, there is a need for all officers involved in processing LCF applications to exercise flexibility with a reasonable, open and fair operation of LCF.*

Conservation and related projects

- (c) eligible applications will be assessed by LCFAC with reference to the project digests prepared by SLO, recommendations of the Subcommittees and SLO (for applications for RE and EE projects) and the established assessment criteria;
- (d) applications recommended by LCFAC will be submitted to the Director of Civil Engineering and Development (i.e. the vote controller) for endorsement; and
- (e) SLO will inform the applicants of their application results (i.e. approved or rejected). For each approved project, the successful applicant has to sign a legally binding agreement with the Government.

2.4 Since the first round of application launched in December 2020 and up to October 2024, SLO had received a total of 207 applications for conservation and related projects under 4 rounds of application (see Table 2). As at 31 October 2024, of the 207 applications received:

- (a) 48 (23%) were approved;
- (b) 136 (66%) were rejected;
- (c) 1 (1%) was withdrawn by the applicant (prior to the assessment of LCFAC); and
- (d) 22 (10%) were being processed.

Table 2

**Number of applications for conservation and related projects
(December 2020 to October 2024)**

Project stream	Number of applications				
	2020-2021	2021-2022	2022-2023	2023-2024	Overall
MA project	4 (6%)	4 (10%)	6 (13%)	9 (17%)	23 (11%)
RE project	40 (57%)	23 (58%)	21 (48%)	28 (53%)	112 (54%)
EE project	26 (37%)	13 (32%)	17 (39%)	16 (30%)	72 (35%)
Total	70 (100%)	40 (100%)	44 (100%)	53 (100%)	207 (100%)

Source: SLO records

Remarks: According to SLO, the 2024-2025 round of application was open in December 2024 and the closing dates were in March 2025 for RE projects and April 2025 for MA and EE projects.

Timeframe for notifying applicants of application results not met

2.5 According to the “Guide to Application”, applicants will normally receive notifications from SLO about the application results in 4 to 6 months after the closing dates of application period. In November 2023, SLO revised the “Guide to Application” such that the applicants will normally receive notifications in 4 to 7 months instead of 4 to 6 months (i.e. effective from the 2023-2024 round of application).

2.6 Audit examined the 4 rounds of application from December 2020 to October 2024 and noted that the timeframe for notifying applicants of the application results was not met in 3 rounds of application, as follows:

- (a) ***2020-2021 round of application.*** The closing dates were in February 2021 for RE and EE projects and March 2021 for MA projects. While the applicants of MA projects were notified of the application results within 6 months after the closing date of application period, the applicants of RE and EE projects were notified of the application results in September 2021 (i.e. 7 months after the closing dates of application period);

Conservation and related projects

- (b) **2022-2023 round of application.** The closing dates were in February 2023 for RE and EE projects and March 2023 for MA projects. While the applicants of RE projects were notified of the application results within 6 months after the closing date of application period, the applicants of EE and MA projects were notified of the application results in November 2023 (i.e. 8 and 7 months after the closing dates of application period respectively); and
- (c) **2023-2024 round of application.** While the closing dates were in February 2024 for RE and EE projects and March 2024 for MA projects, the applicants of RE projects were notified of the application results in October 2024 and the results for MA and EE projects were not yet announced as at 31 January 2025 (i.e. more than 7 months after the closing dates of application period).

2.7 According to SLO, the delays were mainly due to special circumstances (Note 3) encountered in the assessment and approval processes. In Audit's view, CEDD needs to take measures to ensure that the applicants of conservation and related projects are notified of the application results in accordance with the stipulated timeframe.

Scope for better facilitating applicants in making successful applications

2.8 From December 2020 to October 2024, 136 applications for conservation and related projects were rejected, representing 74% of the 184 applications processed (i.e. 48 approved and 136 rejected applications) by SLO. Audit noted that the rejection rates of applications under the three project streams (i.e. MA, RE and EE projects) with processing completed in each round of application varied from 50% to 96%.

Note 3: *According to SLO, examples of special circumstances included coronavirus disease (COVID-19) epidemic and other special administrative considerations, such as the intention to achieve a better promotional effect by announcing the results of the first round of application (i.e. 2020-2021) that covered the three project streams in one go.*

2.9 According to SLO guidelines, SLO will prepare notification letters to the applicants of rejected applications stating the reasons for rejection. Audit examined the 136 rejected applications in the 4 rounds of application from December 2020 to October 2024 and noted that:

- (a) in the first 3 rounds of application (i.e. 2020-2021, 2021-2022 and 2022-2023) involving 107 rejected applications, the reasons for rejection were stated in all the notification letters; and
- (b) in the 2023-2024 round of application involving 29 rejected applications, while the reasons for rejection were stated in the notification letters to the applicants of 24 rejected applications, the reasons were not stated to the applicants of the remaining 5 (4% of 136) rejected applications.

2.10 According to SLO:

- (a) there is no quota for number of projects that should be approved and only quality applications are considered for approval;
- (b) in addition to including the reasons for rejection based on the assessment criteria in the notification letters, in case the applicants made further enquiries, SLO would assist to explain to the applicants by making reference to the gist of discussions of the meetings of LCFAC. In the 2023-2024 round of application, the applicants of rejected applications had also been informed of the comments of LCFAC upon enquiries; and
- (c) SLO had a reaching-out team to assist the potential applicants in understanding the objectives of LCF and application requirements during their preparation of application submissions. With more experiences gained from the previous rounds of application, SLO had included in the briefing sessions to potential applicants since 2023 the major considerations of LCFAC and its Subcommittees in assessing applications. The presentation files of the briefing sessions had been uploaded onto LCF website for public reference.

Conservation and related projects

2.11 In Audit's view, CEDD needs to take measures to ensure that the reasons for rejection are stated in the notification letters to the unsuccessful applicants of conservation and related projects as stipulated in SLO guidelines. Moreover, there is merit for CEDD to consider providing more assistance to the applicants to furnish their applications with a view to better facilitating applicants in making successful applications in the future.

Scope for improvement in the assessment of applications

2.12 According to SLO guidelines:

- (a) for each eligible application, SLO would provide comments in accordance with the assessment criteria (i.e. overall benefits to achieve conservation purpose, quality of proposal, applicant organisation/project team's capability and quality of budget) and an overall rating in the project digest. The applications are then assessed by LCFAC as follows:
 - (i) all MA projects would be considered by LCFAC without deliberation in the Subcommittees;
 - (ii) for RE and EE projects with budgets equal to or greater than \$500,000, the Subcommittees would make recommendations on approval/rejection to LCFAC for endorsement; and
 - (iii) for RE and EE projects with budgets less than \$500,000, SLO would make recommendations on approval/rejection to LCFAC for endorsement; and
- (b) if an application is considered suitable to be funded by LCF, LCFAC should rate the application according to the assessment criteria and weightings, and work out a total mark.

2.13 Audit examined the 4 rounds of application from December 2020 to October 2024 and noted that there was scope for improvement in the assessment of applications, as follows:

- (a) ***SLO guidelines not timely updated.*** According to SLO, after discussion with LCFAC, with a view to balancing members' workload and efficiency of the vetting process, in practice, not all the applications were rated with marks, as follows:
- (i) for RE and EE projects with budgets equal to or greater than \$500,000, each application was assigned to two members of the Subcommittees for giving marks and an average mark was compiled by SLO in order to facilitate the discussion and consideration of applications at the Subcommittee meetings. The Subcommittees then made recommendations on approval/rejection to LCFAC for endorsement;
 - (ii) for RE and EE projects with budgets less than \$500,000, upon consultations with relevant government bureaux/departments, SLO made recommendations on approval/rejection to LCFAC for endorsement in order to streamline the assessment process. SLO was not required to give marks to rate the applications; and
 - (iii) in view of the amounts of funding sought and complexity of MA projects, all applicants of MA projects were required to make presentations of their applications at LCFAC meetings and answer members' enquiries. Members were not required to give marks to rate the applications.

While the above assessment procedures had been agreed by LCFAC and adopted since the first round of application (i.e. 2020-2021), SLO had not updated its guidelines to reflect the practice; and

- (b) ***No documented justifications of not recommending some applications with higher marks for approval.*** Audit noted that some applications for RE and EE projects with higher marks (i.e. the average marks compiled by SLO based on the marks given by two Subcommittee members — see (a)(i) above) were not recommended by the Subcommittees for approval, as follows:

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- (i) ***RE projects in the 2020-2021 round of application.*** Of the 40 applications assessed by the Subcommittees, 11 (27%) were approved and 29 (73%) were rejected. While the marks of 6 rejected applications were higher than that of an approved application, the 6 applications were not recommended by the Subcommittees for approval;
- (ii) ***RE projects in the 2021-2022 round of application.*** Of the 19 applications assessed by the Subcommittees, 8 (42%) were approved and 11 (58%) were rejected. While the marks of 7 rejected applications were higher than that of an approved application, the 7 applications were not recommended by the Subcommittees for approval; and
- (iii) ***EE projects in the 2021-2022 round of application.*** Of the 12 applications assessed by the Subcommittees, 3 (25%) were approved and 9 (75%) were rejected. While the mark of a rejected application was higher than that of an approved application, the application with a higher mark was not recommended by the Subcommittee for approval.

As a result, some applications for RE and EE projects with lower marks in the assessment were approved.

2.14 In February 2025, SLO informed Audit that:

- (a) the average marks compiled by SLO were preliminary assessments of the applications by the two assigned Subcommittee members. At the meetings of the Subcommittees, members would holistically review the preliminary assessments, having regard to views provided by the members from different angles, and comments from SLO and other relevant government bureaux/departments. After thorough deliberation and moderation by the members, the Subcommittee meetings then came up with final recommendations on the applications; and
- (b) a gist of discussions recording the comments and decisions of the Subcommittees on each application was prepared after the meetings.

However, Audit noted that there was no documentation showing the justifications of not recommending the applications with higher marks for approval.

2.15 In Audit's view, CEDD needs to:

- (a) update SLO guidelines in a timely manner to ensure that they properly reflect the assessment procedures for applications for conservation and related projects as agreed by LCFAC; and
- (b) take measures to ensure that justifications of not recommending the applications for RE and EE projects with higher marks for approval are properly documented.

Need to take into account income or sponsorships from other sources when assessing applications

2.16 According to the "Guide to Application":

- (a) applicants are encouraged to generate income and/or seek sponsorships from other sources to fund part of the projects. The amounts of income and sponsorships stated in the budgets would be deducted from the estimated expenditures of the projects before calculating the amounts of approved grants; and
- (b) the applicants' commitment to generate income and secure sponsorships will be taken into account in the assessment.

2.17 Audit noted that, of the 207 applications received from December 2020 to October 2024, only 27 (13%) included income or sponsorships in the budgets (ranging from 0.1% to 34% (averaging 7%) of the respective estimated expenditures of the projects). In addition, the applicants' commitment to generate income and secure sponsorships was not stated in the assessment criteria for the applications.

Conservation and related projects

2.18 In March 2025, SLO informed Audit that the amounts of income and sponsorships, if any, were included in the budgets of the applications for members' assessment although the applicants' commitment was not explicitly stated in the assessment criteria. In Audit's view, CEDD needs to:

- (a) step up efforts in encouraging applicants to submit applications for conservation and related projects with income and/or sponsorships from other sources to fund part of the projects; and
- (b) state in the assessment criteria that the applicants' commitment to generate income from the conservation and related projects and secure sponsorships would be taken into account when assessing applications.

Scope for improvement in checking the budgets of applications

2.19 According to the "Guide to Application":

- (a) applications should be accompanied by detailed budgets of each income and expenditure item. In particular, the fees for auditors to prepare the accounts as required will be considered during the assessment of applications; and
- (b) post-secondary education institutions are exempted from submitting accounts audited by certified public accountants (practising) during the project periods, provided that the accounts are certified by their respective finance offices.

2.20 Of the 48 applications approved from December 2020 to October 2024, 7 (15%) were submitted by post-secondary education institutions with audit fees included in the budgets. Audit noted that, while the audit fees in 4 (57%) of the 7 applications were excluded from the approved budgets by SLO because the applicants were exempted from submitting accounts audited by certified public accountants (practising), the audit fees in the remaining 3 (43%) applications (ranging from \$27,000 to \$32,000 (averaging \$29,000)) were included in the approved budgets. There was no documentation showing the justifications for approving the budgets for audit fees in these 3 applications.

2.21 According to SLO, regarding the 3 applications with audit fees included in the approved budgets:

- (a) it had informed the applicants of 2 applications in November 2021 (before project commencement) that they were exempted from submitting accounts audited by certified public accountants (practising). In the event, the issues were rectified by SLO in a timely manner and the 2 projects did not incur any audit fees. The cases happened at the early stage of LCF and there was no re-occurrence of similar cases after 2021; and
- (b) for the remaining application, the applicant was a newly established self-financing post-secondary education institution and it was considered prudent to require the accounts to be audited by certified public accountants (practising). The applicant had submitted audited accounts as required during the project period.

2.22 In Audit's view, CEDD needs to strengthen measures to ensure that applications for conservation and related projects are approved with budgets only including necessary expenditure in accordance with the related guidelines and justifications are properly documented when expenditure for exemptible items is considered necessary.

Audit recommendations

2.23 Audit has *recommended* that, in processing applications for conservation and related projects, the Director of Civil Engineering and Development should:

- (a) take measures to ensure that the applicants are notified of the application results in accordance with the stipulated timeframe;
- (b) take measures to ensure that the reasons for rejection are stated in the notification letters to the unsuccessful applicants as stipulated in SLO guidelines and consider providing more assistance to the applicants to furnish their applications;

Conservation and related projects

- (c) **update SLO guidelines in a timely manner to ensure that they properly reflect the assessment procedures for applications as agreed by LCFAC;**
- (d) **take measures to ensure that justifications of not recommending the applications for RE and EE projects with higher marks for approval are properly documented;**
- (e) **step up efforts in encouraging applicants to submit applications with income and/or sponsorships from other sources to fund part of the projects, and state in the assessment criteria that such commitment would be taken into account when assessing applications; and**
- (f) **strengthen measures to ensure that applications are approved with budgets only including necessary expenditure in accordance with the related guidelines and justifications are properly documented when expenditure for exemptible items is considered necessary.**

Response from the Government

2.24 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that the guidelines on conservation and related projects are being updated to reflect the practice in place, and CEDD will further amend the guidelines having regard to the audit recommendations.

Monitoring of approved projects

2.25 From December 2020 to October 2024, a total of 48 applications for conservation and related projects were approved. As at 31 October 2024, of the 48 approved projects:

- (a) 34 (71 %) were in progress;
- (b) 10 (21 %) had been completed;
- (c) 2 (4 %) had not yet commenced; and

- (d) 2 (4%) had been discontinued by the grantees.

Need to ensure timely submission of project deliverables by grantees

2.26 According to the “Guide to Application” and project agreements, the grantees are required to submit the following deliverables to SLO by the scheduled deadlines:

- (a) ***During implementation of projects.*** Within two months from the date of completion of each milestone as set out in the agreement, the grantee should submit a progress report to SLO. The grantee should also submit a set of annual accounts (i.e. accounts audited by certified public accountants (practising) or accounts certified by the finance offices of the post-secondary education institutions) within two months from the anniversary date of the commencement of the project; and
- (b) ***Upon completion of projects.*** Within four months from the completion of project, the grantee should submit a completion report (together with a set of final accounts) and a project summary (showing the findings, outcome and achievement of the project) to SLO.

2.27 ***Delays in submission of project deliverables by grantees.*** From December 2020 to October 2024, there were 164 project deliverables due for submission by the grantees, comprising 107 progress reports, 39 annual accounts, 9 completion reports (together with final accounts) and 9 project summaries. Audit noted that there were delays in some of the submissions. As at 31 October 2024:

- (a) ***Progress reports.*** Of the 107 progress reports due for submission, 27 (25%) were submitted 1 to 106 days (averaging 18 days) after the due dates;
- (b) ***Annual accounts.*** Of the 39 annual accounts due for submission, 14 (36%) were submitted 1 to 109 days (averaging 40 days) after the due dates;
- (c) ***Completion reports (together with final accounts).*** Of the 9 completion reports (together with final accounts) due for submission:

Conservation and related projects

- (i) 1 (11%) had not been submitted, which had been overdue for 184 days; and
 - (ii) 5 (56%) were submitted 4 to 50 days (averaging 34 days) after the due dates; and
- (d) ***Project summaries.*** Of the 9 project summaries due for submission:
- (i) 4 (44%) had not been submitted, which had been overdue for 61 to 184 days (averaging 123 days); and
 - (ii) 5 (56%) were submitted 142 to 321 days (averaging 275 days) after the due dates (Note 4).

2.28 ***Scope for improvement in issuing reminders.*** To ensure timely submission of project deliverables by the grantees, SLO guidelines have set out the procedures of issuing reminders to the grantees, as follows:

- (a) SLO checks on a weekly basis for approved projects for which deliverables would be due in three weeks and issues first reminders to the grantees; and
- (b) if the deliverables are not submitted two weeks after the due dates without acceptable reasons, SLO will issue second reminders and/or request for an explanation for the delay.

2.29 Audit noted that some reminders were not issued in accordance with SLO guidelines, as follows:

Note 4: *According to SLO: (a) for the longest overdue case in submitting the completion report and project summary, which had been overdue for 184 days (see para. 2.27(c)(i) and (d)(i)), it was due to the health issue of the project leader; and (b) the delay in submission of project summaries was longer than the other types of project deliverables because the project summaries would only be prepared by the grantees after the completion reports and final accounts were accepted by SLO.*

- (a) ***First reminders.*** As at 31 October 2024, for the 164 project deliverables due for submission by the grantees from December 2020 to October 2024:
 - (i) there were delays in issuing the first reminders to the grantees for submission of 15 (9%) project deliverables (ranging from 3 to 19 days (averaging 12 days)); and
 - (ii) first reminders were not issued to the grantees for submission of 49 (30%) project deliverables; and
- (b) ***Second reminders.*** As at 31 October 2024, of the 164 project deliverables due for submission by the grantees from December 2020 to October 2024, 31 (19%) had not been submitted to SLO within two weeks after the due dates. For the 31 project deliverables:
 - (i) there were delays in issuing the second reminders to the grantees for submission of 12 (39%) project deliverables (ranging from 1 to 286 days (averaging 70 days)); and
 - (ii) second reminders were not issued to the grantees for submission of 17 (55%) project deliverables. There was also no documentation showing that SLO had requested for explanations for the delays. As at 31 October 2024, 3 (10% of 31) project deliverables still had not been submitted, which had been overdue for 61 to 153 days (averaging 102 days).

In February 2025, SLO informed Audit that its staff had repeatedly made phone calls to remind the grantees for submission of project deliverables and request explanations for the delays from the grantees, but the phone call reminders were not recorded.

2.30 ***Scope for improvement in following up repeated late submissions of project deliverables.*** According to SLO guidelines, if a grantee has delays in submission of project deliverables for three times, SLO will report the case to LCFAC and take follow-up actions against the grantee as appropriate (e.g. issuing warning letters and interviewing the grantees). Audit noted that, of the 40 grantees with project deliverables due for submission from December 2020 to October 2024, 9 (23%) had delays in submission for three times or more and SLO did not report any of the 9 cases to LCFAC.

Conservation and related projects

2.31 In Audit's view, CEDD needs to strengthen measures to ensure that:

- (a) the grantees of conservation and related projects submit project deliverables in a timely manner;
- (b) reminders for submission of project deliverables are timely issued to the grantees of conservation and related projects; and
- (c) follow-up actions are taken on repeated late submissions of project deliverables by the grantees of conservation and related projects as appropriate and these cases are reported to LCFAC in accordance with SLO guidelines.

Scope for improvement in conducting inspections

2.32 According to SLO guidelines:

- (a) for monitoring purposes, at least one inspection should be conducted in the course of each approved project every year; and
- (b) an inspection report should be prepared by the inspecting officer within one week after the inspection.

2.33 As at 31 October 2024, of the 44 (i.e. 34 + 10) approved projects that were either in progress or completed, 8 had commenced for less than one year. For the remaining 36 (i.e. 44 less 8) approved projects, a total of 69 inspections would be required from December 2020 to October 2024 in accordance with SLO guidelines. Audit noted that:

- (a) ***Inspections not meeting required interval for some approved projects.*** While SLO had conducted 81 inspections on the approved projects during the period, it conducted inspections on some approved projects more frequent than required and did not conduct at least one inspection for 13 (36%) of the 36 approved projects in some years (i.e. 17 (25% of 69) required inspections were not conducted). In particular, as at 31 October 2024, 2 (6%) approved projects were commenced in December 2021 and January 2022 respectively but SLO had not conducted

any inspections on them. In February 2025, SLO informed Audit that some projects, mainly RE projects of which their work in the first year focused on desktop research and study, might warrant inspections conducted at the later stages according to their progress, and the inspections on the 2 projects had been conducted before the end of 2024; and

- (b) ***Delays in preparation of some inspection reports.*** The inspection reports for 47 (58%) of the 81 inspections were not prepared within one week after the inspections, with delays ranging from 1 day to about 8 months (averaging 1 month).

2.34 In Audit's view, CEDD needs to strengthen measures to ensure that:

- (a) the required interval of inspections on approved conservation and related projects is met and justifications are properly documented if the inspections are not conducted according to the required interval; and
- (b) inspection reports for approved conservation and related projects are timely prepared in accordance with SLO guidelines.

Need to determine the treatment of project assets after project completion as soon as practicable

2.35 According to the project agreements, all project assets (i.e. items procured by the grantees using the grants for the purpose of the projects) are the property of the Government. After completion of projects, the grantees should dispose of the project assets in such manner as the Government may require.

2.36 Audit noted that, as at 31 October 2024:

- (a) there were project assets in 7 (70%) of the 10 completed projects. The 7 projects had been completed for 7 to 18 months (averaging 14 months) and there were project assets (e.g. computers and cameras) with a total cost of about \$272,000; and
- (b) SLO had not yet determined the treatment of these project assets.

Conservation and related projects

2.37 In Audit's view, CEDD needs to determine the treatment of project assets in completed conservation and related projects and require the grantees to dispose of them accordingly (including the project assets of the 7 completed projects identified by Audit in paragraph 2.36) as soon as practicable.

Scope for strengthening the role of LCFAC in monitoring the project variations and progress

2.38 One of the terms of reference of LCFAC is to monitor the progress of funded projects. According to SLO guidelines:

- (a) during the project period, the grantee may request for project variations. Major variations (e.g. change of project leader) should be approved by LCFAC or the delegated authority; and
- (b) regular reporting items should be provided to LCFAC, including the status of on-going projects, monitoring work carried out by SLO, variation requests submitted for LCFAC's approval and variations approved by SLO.

2.39 Audit noted that, from December 2020 to October 2024:

- (a) there were seven requests for major variations from the grantees to change project leaders and all were approved by SLO instead of LCFAC. There was no documentation showing that SLO had been delegated the authority to approve the major variations; and
- (b) there was also no documentation showing that regular reporting items (see para. 2.38(b)) (including the seven requests for major variations mentioned in (a) above) had been provided to LCFAC.

2.40 In February 2025, SLO informed Audit that:

- (a) in December 2024, the documentation on the framework of delegated authorities for approving different types of project variations had been made for proper record; and

- (b) SLO had reported the regular reporting items (e.g. status of on-going projects and monitoring work) to LCFAC verbally at the meetings of LCFAC.

2.41 In Audit's view, CEDD needs to take measures to ensure that variations of conservation and related projects are approved in accordance with the framework of delegated authorities and maintain proper documentation on the regular reporting items provided to LCFAC, with a view to strengthening the role of LCFAC in monitoring the project variations and progress.

Scope for improvement in evaluating the effectiveness of completed projects

2.42 According to SLO guidelines, upon completion of projects, SLO will prepare a summary showing the overall effectiveness of the completed projects and performance of the grantees (with reference to the completion reports, previous inspection records, the original proposals, etc.) for circulation to members of LCFAC and/or deliberation at meetings of LCFAC. According to SLO, the summary will be prepared by its staff after the completion reports and final accounts submitted by the grantees are accepted by SLO.

2.43 As at 31 October 2024, the grantees of 6 projects had both the completion reports and final accounts accepted by SLO. Audit noted that:

- (a) SLO did not set any time target for the preparation of summaries by its staff for completed projects; and
- (b) of the 6 projects, the summaries showing the overall effectiveness of the projects and the performance of the grantees of 5 projects were circulated to the members of LCFAC 35 to 128 days (averaging 70 days) after the completion reports and final accounts had been accepted by SLO. For the remaining project, the completion report and final accounts were accepted by SLO on 31 October 2024.

Conservation and related projects

2.44 In Audit's view, CEDD needs to:

- (a) set a time target for the preparation of summaries for completed conservation and related projects by SLO staff; and
- (b) take measures to ensure that the summaries for completed conservation and related projects are timely circulated for deliberation by LCFAC with a view to better evaluating the overall effectiveness of completed projects and performance of grantees.

Audit recommendations

2.45 **Audit has *recommended* that, in monitoring of approved conservation and related projects, the Director of Civil Engineering and Development should:**

- (a) **strengthen measures to ensure that:**
 - (i) **the grantees submit project deliverables in a timely manner and reminders are timely issued to the grantees;**
 - (ii) **follow-up actions are taken on repeated late submissions of project deliverables by the grantees as appropriate and these cases are reported to LCFAC in accordance with SLO guidelines; and**
 - (iii) **the required interval of inspections on approved projects is met and justifications are properly documented if the inspections are not conducted according to the required interval, and inspection reports are timely prepared in accordance with SLO guidelines;**
- (b) **determine the treatment of project assets in completed projects and require the grantees to dispose of them accordingly as soon as practicable;**

- (c) take measures to ensure that project variations are approved in accordance with the framework of delegated authorities and maintain proper documentation on the regular reporting items provided to LCFAC; and
- (d) set a time target for the preparation of summaries for completed projects by SLO staff and take measures to ensure that the summaries are timely circulated for deliberation by LCFAC.

Response from the Government

2.46 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) SLO has been arranging the grantees of completed projects to return their project assets to the Government for reuse in other LCF projects as far as practicable or disposal in accordance with relevant government rules and regulations. Some grantees already returned the project assets to the Government and the final disbursements are underway; and
- (b) there has been an understanding with LCFAC that the LCF Secretariat would exercise flexibility with a reasonable, open and fair operation of LCF in processing the grantees' requests for variations.

Disbursement of approved grants

2.47 According to the "Guide to Application", the approved grants to grantees are in general disbursed as follows:

- (a) ***First disbursement.*** Upon signing of the agreement with the Government and, where applicable, meeting any conditions as imposed by LCFAC, an initial payment which is between 20% and 25% of the approved grant will be effected to the grantee as the first disbursement;

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- (b) ***Interim disbursements.*** Interim disbursements (i.e. disbursements other than the first and final disbursements) will be released in accordance with the disbursement schedule in the agreement (Note 5). For each interim disbursement, the grantee should submit a progress report and a statement of income and expenditure to the satisfaction of SLO. The total amount of the first and interim disbursements will be 90% of the approved grant; and
- (c) ***Final disbursement.*** After completion of the project and subject to the submission of necessary deliverables (e.g. the completion report together with the final accounts and project summary) to the satisfaction of SLO, the remaining 10% of the approved grant will be released to the grantee.

As at 31 October 2024, the total approved grants for the 48 approved projects were \$141.8 million and \$70.1 million (49%) of grants were disbursed (see Table 3).

Note 5: *According to SLO, the applicant should state the expected date of milestones (e.g. completion of specific key activities or achievement of specific key stages) for each proposed instalment of disbursement. A disbursement schedule will be included in the agreement to be signed with the Government upon approval of application.*

Table 3

**Disbursement of approved grants for conservation and related projects
(31 October 2024)**

Status	Approved project		Grant amount	
	Total (No.)	With disbursement (No.)	Approved (\$ million)	Disbursed (\$ million)
In progress	34	34 (100%)	108.1	56.0 (52%)
Completed	10	10 (100%)	15.6	14.1 (90%)
Not yet commenced	2 (Note)	0 (0%)	15.3	0 (0%)
Discontinued	2	0 (0%)	2.8	0 (0%)
Overall	48	44 (92%)	141.8	70.1 (49%)

Source: SLO records

Note: According to SLO, the two projects were approved in November 2023 and September 2024 respectively. Regarding the project approved in November 2023, after several rounds of communication, the grantee had yet to submit a satisfactory implementation schedule, which was an approval condition of the project. In the event, the grantee decided to discontinue the project in November 2024 and no grant was released to the grantee.

Scope for improvement in releasing first disbursements

2.48 First disbursements will be made upon signing of agreements between the grantees and the Government. As at 31 October 2024, first disbursements were released to the grantees of 44 projects (i.e. 34 projects in progress and 10 completed projects). Audit noted that long time was taken in the process of signing agreements and releasing first disbursements for these 44 projects, as follows:

- (a) the agreements were signed 20 to 238 days (averaging 68 days) after the notification of results to applicants that their projects had been approved; and
- (b) the first disbursements were released to the grantees 19 to 179 days (averaging 71 days) after the signing of agreements.

Conservation and related projects

2.49 According to SLO, the grantees took time to prepare for commencement of the projects (e.g. opening of designated bank accounts as required and fulfilling of approval conditions (if any)) before getting ready to sign the agreements. In Audit's view, there is merit for CEDD to consider providing more assistance to the grantees of conservation and related projects in preparing for project commencement with a view to enabling release of first disbursements as soon as practicable.

Need to expedite the processing of project deliverables for releasing interim and final disbursements

2.50 The grantees are required to submit necessary project deliverables to SLO for interim and final disbursements (see para. 2.47(b) and (c)). Upon receiving the project deliverables, SLO will conduct checking and prepare payments. Audit noted that SLO did not set any time target for completing the processing of project deliverables and long time was taken by SLO in some cases, as follows:

- (a) ***Interim disbursements.*** As at 31 October 2024, of the 44 (i.e. 34 + 10) approved projects that were either in progress or completed, 4 did not have progress reports due for submission. From December 2020 to October 2024, the grantees of the remaining 40 projects submitted 103 progress reports for releasing interim disbursements. As at 31 October 2024:
 - (i) the processing of 89 (86%) progress reports was completed 6 to 438 days (averaging 68 days) after the submission by the grantees (Note 6). Interim disbursements related to 86 progress reports were released 2 to 14 days (averaging 7 days) after the processing of progress reports was completed; and

Note 6: *According to SLO, for the progress report which took 438 days to complete the processing, the submissions made by the grantee were incomplete and inconsistent. There were also significant delays by the grantee in clarifying unresolved issues and responding to various comments, which resulted in rounds of amendments.*

- (ii) 14 (14%) progress reports were under checking by SLO. The progress reports were submitted by the grantees 8 to 486 days (averaging 135 days) ago (Note 7); and
- (b) ***Final disbursements.*** Of the 8 completed projects with final accounts submitted as at 31 October 2024, the final accounts of 7 projects had been accepted by SLO, of which final disbursements would be released to 4 projects upon acceptance of the completion reports and project summaries by SLO (Note 8). While the grantees of 3 of the 4 projects had already submitted the completion reports and project summaries for 45 to 132 days (averaging 101 days) and with completion reports accepted by SLO, all the project summaries were still under checking by SLO and hence no final disbursements were released.

2.51 In Audit's view, CEDD needs to consider setting a time target for completing the processing of project deliverables submitted by the grantees of conservation and related projects and take measures to complete the processing in a timely manner.

Scope for improvement in handling unspent grants

2.52 According to the project agreements and SLO guidelines:

- (a) upon completion of projects, any unspent grants paid to the grantees should be returned to the Government; and

Note 7: *According to SLO, for the progress report which was under checking for 486 days, the extended processing time was due to rounds of clarifications with the grantee on the Conservation Management Plan and consultancy services for refurbishing an aged building under the project. The processing of the progress report had been completed in January 2025 and the interim disbursement had been released in February 2025.*

Note 8: *Release of final disbursements was not required for the remaining 3 projects as they had unspent grants.*

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- (b) before releasing an interim disbursement, SLO will check whether the disbursement should be adjusted to an appropriate amount according to the actual progress of the project (having taken into account any substantial underspending observed).

2.53 Audit noted that SLO did not set any time target to request the grantees for returning the unspent grants upon completion of projects. Of the 7 completed projects with final accounts submitted to and accepted by SLO as at 31 October 2024 (see para. 2.50(b)), 3 had unspent grants ranging from about \$86,000 to about \$390,000 (totalling about \$570,000). As at 31 October 2024, the final accounts of the 3 completed projects had been accepted by SLO 2 to 10 months (averaging 7 months) ago. According to SLO, the demand notes for the return of unspent grants were issued in December 2024 and settled by the grantees in January 2025.

2.54 Audit examined the 3 completed projects with unspent grants and revealed that an interim disbursement was released to the grantee of 1 project while the project still had disbursed grant not yet spent. The salient points are as follows:

- (a) in December 2022, NPO A submitted a progress report to SLO and requested SLO to release an interim disbursement of about \$300,000 in accordance with the disbursement schedule in the agreement;
- (b) according to the statement of income and expenditure submitted by NPO A, as at 30 October 2022, \$1.5 million of \$2 million approved grant had been released to NPO A and \$0.7 million (i.e. 47% of \$1.5 million) was not yet spent. In March 2023, the interim disbursement of about \$300,000 was released to NPO A; and
- (c) in the event, the project was completed in April 2023 with unspent grant of about \$390,000 (i.e. more than the last interim disbursement released in March 2023).

According to SLO, the unspent grant after project completion had been returned by NPO A to the Government in January 2025.

2.55 In Audit's view, CEDD needs to:

- (a) set a time target to request the grantees of conservation and related projects for returning the unspent grants upon completion of projects and ensure timely issuance of requests; and
- (b) take into account the amount of unspent grants held by the grantees of conservation and related projects before releasing interim disbursements in accordance with SLO guidelines.

Audit recommendations

2.56 **Audit has *recommended* that, in disbursements of grants to approved conservation and related projects, the Director of Civil Engineering and Development should:**

- (a) **consider providing more assistance to the grantees in preparing for project commencement with a view to enabling release of first disbursements as soon as practicable;**
- (b) **consider setting a time target for completing the processing of project deliverables submitted by the grantees and take measures to complete the processing in a timely manner;**
- (c) **set a time target to request the grantees for returning the unspent grants upon completion of projects and ensure timely issuance of requests; and**
- (d) **take into account the amount of unspent grants held by the grantees before releasing interim disbursements in accordance with SLO guidelines.**

Response from the Government

2.57 The Director of Civil Engineering and Development agrees with the audit recommendations.

PART 3: MINOR LOCAL IMPROVEMENT WORKS PROJECTS

3.1 This PART examines SLO's work in the administration of MLIW projects under LCF, focusing on:

- (a) identification of MLIW projects (paras. 3.2 to 3.11);
- (b) monitoring of MLIW projects (paras. 3.12 to 3.21); and
- (c) performance evaluation of MLIW projects and other issues (paras. 3.22 to 3.28).

Identification of minor local improvement works projects

Scope for enhancing the scope of MLIW projects

3.2 According to SLO, apart from the \$500 million funding approved for the conservation and related projects under LCF, another \$500 million is earmarked as a cap to carry out MLIW for conservation, eco-recreation and improvements in villages and environment in Lantau by the Government under LCF. MLIW projects should fall into the scope of LCF, as follows:

- (a) improvement works in villages to enhance the environment, livelihood and accessibility of villagers;
- (b) improvement works to eco-recreation facilities;
- (c) improvement works to promote eco-recreation and public education on environmental protection;
- (d) reinstatement works on government land affected by environmentally damaging activities (e.g. planting works and removal of illegal structures); and

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- (e) enhancement, rehabilitation and other projects for the natural environment/habitat and buildings on government land.

3.3 According to SLO and its guidelines, SLO should:

- (a) call for returns of potential MLIW projects from 10 relevant government departments identified to have potential MLIW projects (e.g. the Drainage Services Department and the Home Affairs Department) every year to identify eligible projects that fall into the scope of LCF;
- (b) identify potential MLIW projects that could have potential interplay with the approved conservation and related projects with a view to creating synergy effect between MLIW projects and the conservation and related projects under LCF; and
- (c) assess eligible projects and propose a project priority list for the consideration of MWSC and advice of LCFAC. The endorsed project priority list would then be submitted to the Director of Civil Engineering and Development for approval for funding support by LCF.

3.4 According to SLO, since the establishment of LCF in October 2020 and up to October 2024, SLO received 15 MLIW project proposals from 5 government departments, comprising 7 from CEDD and 8 from 4 other government departments (namely the Drainage Services Department, the Home Affairs Department, the Leisure and Cultural Services Department, and the Water Supplies Department). As at 31 October 2024, of the 15 MLIW project proposals, 11 had been approved, 3 had been withdrawn and 1 was pending approval (see Table 4).

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Table 4

MLIW project proposals (31 October 2024)

Year	Number of project proposals			Approved project estimate (\$ million)
	Approved	Withdrawn	Pending approval	
2020	3	0	0	55.4
2021	5	1	0	13.4
2022	1	2	0	0.5
2023	2	0	0	6.0
2024 (up to October)	0	0	1 (Note 1)	0
Total	11	3	1	75.3 (Note 2)

Source: SLO records

Note 1: According to SLO, the project proposal and the project priority list were endorsed by MWSC and LCFAC respectively in June 2024 and approved by the Director of Civil Engineering and Development in December 2024.

Note 2: As at 31 October 2024, of the total approved project estimate of \$75.3 million, \$39.4 million was incurred.

3.5 Audit noted that there was scope for enhancing the scope of MLIW projects, as follows:

- (a) **Participation of government departments and utilisation of funds on the low side.** Audit noted that:
 - (i) from October 2020 to October 2024, of the 10 relevant government departments identified to have potential MLIW projects, only 5 (50%) had submitted MLIW project proposals to SLO; and
 - (ii) as at 31 October 2024, 11 MLIW project proposals had been approved with a total approved project estimate of \$75.3 million, representing 15% of the \$500 million earmarked funding;

- (b) ***Number of MLIW projects and amount of funds approved on a decreasing trend.*** Audit noted that the number of MLIW projects and amount of funds approved had been on a decreasing trend from 2020 to 2024 (see Table 4 in para. 3.4), as follows:
 - (i) of the 11 approved MLIW projects, 3 and 5 projects were approved in 2020 and 2021 respectively. However, only 1 and 2 projects were approved in 2022 and 2023 respectively; and
 - (ii) the yearly approved project estimate decreased significantly by 89% from \$55.4 million in 2020 to \$6 million in 2023; and
- (c) ***No interplay with conservation and related projects.*** Audit noted that there was no interplay between the 11 approved MLIW projects with the approved conservation and related projects under LCF. In February 2025, SLO informed Audit that:
 - (i) in January each year, it called for returns of potential and eligible MLIW projects from relevant government departments. Efforts had been made to identify MLIW projects that would have potential interplay with the approved conservation and related projects;
 - (ii) up to February 2025, no MLIW projects with potential interplay with the approved conservation and related projects had been identified yet; and
 - (iii) it was reviewing its guidelines regarding the scope of MLIW projects.

3.6 In Audit's view, CEDD needs to:

- (a) ascertain the reasons for the decrease in the number of MLIW projects and amount of funds approved and take measures to address the matter; and
- (b) expedite the review of SLO guidelines regarding the scope of MLIW projects.

Need to ensure that sufficient information is provided in MLIW project proposals

3.7 According to SLO guidelines, SLO should request the responsible government departments to provide information (e.g. project title and details, justifications for eligibility for funding under LCF, estimated project costs with preliminary cash flow, preliminary project implementation programme and views from relevant statutory and advisory bodies) in MLIW project proposals for the consideration of MWSC. Based on the project proposals, MWSC will discuss the project priority and the project priority list will then be submitted to LCFAC for advice. According to SLO, in practice, MLIW project proposals will also be presented at LCFAC meetings for members' reference.

3.8 Audit examined the 15 MLIW project proposals received from the responsible government departments from October 2020 to October 2024 and noted that there was scope for improvement in the provision of information in MLIW project proposals, as follows:

- (a) ***Some necessary information not provided in MLIW project proposals.*** Of the 15 project proposals, some necessary information was not provided in project proposals, as follows:
 - (i) 1 (7%) project proposal did not contain clear objectives and targets, nor sufficient information for justifying the project costs. In the event, the project priority of the proposal had not been endorsed by LCFAC as the members of LCFAC had reservation on the cost-effectiveness of the project and the proposal was subsequently withdrawn;
 - (ii) all the 15 project proposals did not contain any preliminary cash flow information; and
 - (iii) 6 (40%) project proposals did not contain any views from relevant statutory and advisory bodies. According to SLO, consultations with relevant statutory and advisory bodies were conducted after the project proposals had been submitted to MWSC for consideration. In the event, after consultations with the relevant rural committees and local communities, 2 of these 6 proposals were subsequently

withdrawn due to the concerns and diverse views received from local stakeholders; and

- (b) ***Performance targets for MLIW project proposals not required.*** SLO did not specify the requirements to set and include performance targets in MLIW project proposals. Of the 15 project proposals, only 2 (13%) contained the post-completion effectiveness monitoring measures.

3.9 In Audit's view, CEDD needs to:

- (a) remind the responsible government departments to provide sufficient information in their MLIW project proposals, in particular:
 - (i) all necessary project information such as the project objectives and targets, and justifications of the project costs; and
 - (ii) views on the project proposals from relevant statutory and advisory bodies as far as practicable; and
- (b) consider requiring the responsible government departments to include performance targets as far as practicable in their MLIW project proposals.

Audit recommendations

3.10 **Audit has *recommended* that the Director of Civil Engineering and Development should:**

- (a) **ascertain the reasons for the decrease in the number of MLIW projects and amount of funds approved and take measures to address the matter;**
- (b) **expedite the review of SLO guidelines regarding the scope of MLIW projects;**
- (c) **remind the responsible government departments to provide sufficient information in their MLIW project proposals, in particular all**

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necessary project information (e.g. project objectives and targets) and views on the project proposals from relevant statutory and advisory bodies as far as practicable; and

- (d) consider requiring the responsible government departments to include performance targets as far as practicable in their MLIW project proposals.**

Response from the Government

3.11 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) CEDD will continue to actively discuss with government departments and project proponents of conservation and related projects to identify suitable MLIW project proposals;
- (b) CEDD will discuss with the responsible government departments at the project proposal formulation stage about the best time to consult relevant statutory and advisory bodies; and
- (c) the responsible government departments have included performance targets in their MLIW project proposals where applicable. In practice, the effectiveness of the projects is being monitored by the respective government departments and CEDD, although it was not stated in the project proposals. CEDD will discuss with the responsible government departments regarding the monitoring of the effectiveness of the projects and will remind them to include the performance targets as far as practicable in their MLIW project proposals.

Monitoring of minor local improvement works projects

Need to ensure that returns on progress and expenditure of MLIW projects are received

3.12 According to SLO guidelines, the responsible government departments should provide quarterly returns on the progress and expenditure of MLIW projects to SLO for monitoring purpose. According to SLO, in practice, it will issue requests to the responsible government departments calling for the returns.

3.13 From December 2020 (i.e. when the three MLIW project proposals in the first year were approved by the Director of Civil Engineering and Development) to October 2024 (i.e. involving 15 quarters), SLO issued 7 requests to the responsible government departments of the approved MLIW projects calling for relevant returns (involving a total of 41 returns). Audit examined the 7 requests and found that:

- (a) requests for return were not issued for the periods from December 2020 to April 2022 and from May to October 2024. In the event, no return was provided by the responsible government departments during these periods;
- (b) from May 2022 to April 2024, the time lapse between each request for return issued ranged from 63 to 184 days (averaging 119 days) (i.e. not issuing on a quarterly basis); and
- (c) of the 41 returns submitted by the responsible government departments:
 - (i) 10 (24%) returns were submitted 1 to 42 days (averaging 9 days) after the respective deadlines set by SLO; and
 - (ii) 7 (17%) returns could not be located by SLO.

3.14 In Audit's view, CEDD needs to:

- (a) issue requests for return on the progress and expenditure of MLIW projects to the responsible government departments in accordance with the frequency as stipulated in relevant guidelines (i.e. quarterly); and

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- (b) take measures to ensure that the returns on the progress and expenditure of MLIW projects are submitted by the responsible government departments in a timely manner and the submitted returns are properly maintained.

Scope for enhancing the monitoring of the progress and expenditure of MLIW projects

3.15 According to SLO and its guidelines:

- (a) the responsible government departments should:
 - (i) make endeavour to achieve the project programme of individual MLIW projects as planned, in particular for financial control and expenditure monitoring;
 - (ii) inform SLO if there are changes of cash flow and delays of project programme so that spending positions can be reviewed and measures to be implemented on time throughout the project cycle of MLIW projects; and
 - (iii) notify SLO on the completion of MLIW projects and the amount of final project expenditure;
- (b) SLO should:
 - (i) carry out overall project progress and financial monitoring under LCF and oversee the overall fund performance including progress and spending position of the approved MLIW projects. For the completed MLIW projects, upon finalisation of the relevant project accounts, any unspent balance of their approved project estimate should be returned to the earmarked funding for MLIW projects under LCF; and
 - (ii) report the overall financial position of the earmarked funding for MLIW projects under LCF and the latest status (e.g. the latest progress of projects, update on project expenditure and forecast, and major variations of projects (if any)) of individual MLIW

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projects at LCFAC meetings and completion of MLIW projects at MWSC meetings; and

- (c) MWSC should monitor and oversee the progress and expenditure of the approved MLIW projects.

3.16 ***Progress of MLIW projects.*** As at 31 October 2024, of the 11 approved MLIW projects, 7 (64%) had been substantially completed and 4 (36%) were under construction. Audit examined the progress of the 11 approved MLIW projects and noted that, as at 31 October 2024:

- (a) of the 7 completed projects, 4 (57%) had delays in substantial completion of works by 1 to 18 months (averaging 9 months) (Note 9); and
- (b) of the 4 projects under construction, 2 (50%) had deferred their target completion dates by 20 and 30 months respectively.

3.17 ***Expenditure of MLIW projects.*** Audit examined the project expenditure of the 7 completed MLIW projects and noted that:

- (a) ***Actual project expenditure significantly less than the approved project estimate.*** As at 31 October 2024, the total actual project expenditure incurred for these projects was \$30.9 million, which was \$21.2 million less than the approved project estimate of \$52.1 million (i.e. 41% — ranging from \$40,000 to \$17 million, averaging \$3 million by individual projects). SLO had not taken follow-up actions with all the responsible government departments concerned in ascertaining the reasons for the variances between the actual project expenditure and the approved project estimate (i.e. the actual project expenditure lower than the approved project estimate). In particular, for the project with the largest variance of \$17 million (i.e. 58%) between the approved project estimate of \$29.4 million and the actual project expenditure of \$12.4 million upon its substantial completion, there was no evidence indicating that SLO had taken

Note 9: *According to SLO, the delays in substantial completion were mainly due to inclement weather, COVID-19 epidemic and prolonged liaison with the green groups.*

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follow-up actions with the responsible government department concerned in ascertaining the reasons for the variance. According to SLO, the works of the project concerned were substantially completed in September 2024. The outstanding payments were pending upon certification of interim payments and finalisation of project accounts and it was expected that the variance would be smaller after the payments were settled; and

- (b) ***SLO not timely notified of final project expenditure.*** While the responsible government departments are required to notify SLO on the completion of MLIW projects and their respective amount of final project expenditure, SLO did not set any time target for notification of such information by the responsible government departments. As at 31 October 2024, while the 7 projects had been substantially completed between January 2022 and September 2024 (i.e. a lapse of 1 to 33 months), none of the responsible government departments made relevant notifications to SLO and SLO had no information on whether the project accounts of these projects had been finalised. As a result, the unspent balance of the approved project estimate of these projects cannot be returned to the earmarked funding for MLIW projects under LCF.

3.18 ***Reporting to LCFAC.*** Audit noted that, from October 2020 to October 2024, while SLO had reported the overall financial position of the earmarked funding for MLIW projects under LCF and the latest project progress, updated project expenditure and forecast of individual MLIW projects at LCFAC meetings, the reasons for the delays in completion of works (see para. 3.16) and variances between the actual project expenditure and the approved project estimate of individual MLIW projects (i.e. the actual project expenditure lower than the approved project estimate — see para. 3.17(a)) were not reported.

3.19 In Audit's view, CEDD needs to:

- (a) keep under review the progress of MLIW projects, in particular those projects with delays in target completion of works, with a view to implementing measures on time throughout the project cycle of MLIW projects;
- (b) take measures to enhance the monitoring of expenditure of MLIW projects, including:

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- (i) ascertaining with the responsible government departments the reasons for the variance between the actual project expenditure and the approved project estimate for each project;
 - (ii) setting a time target for the responsible government departments to notify SLO on the completion of MLIW projects, finalisation of project accounts and expenditure; and
 - (iii) ascertaining whether the project accounts of the 7 completed MLIW projects had been finalised with a view to returning the unspent balance of their approved project estimates to the earmarked funding for MLIW projects under LCF as soon as practicable; and
- (c) take measures to ensure that all required information related to the update on the progress and expenditure of MLIW projects (including the reasons for the delays in completion of works and variances between the actual project expenditure and the approved project estimate) is reported at LCFAC meetings.

Audit recommendations

3.20 Audit has *recommended* that the Director of Civil Engineering and Development should:

- (a) **issue requests for return on the progress and expenditure of MLIW projects to the responsible government departments in accordance with the frequency as stipulated in relevant guidelines (i.e. quarterly);**
- (b) **take measures to ensure that the returns on the progress and expenditure of MLIW projects are submitted by the responsible government departments in a timely manner and the submitted returns are properly maintained;**
- (c) **keep under review the progress of MLIW projects, in particular those projects with delays in target completion of works, with a view to implementing measures on time throughout the project cycle of MLIW projects;**

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- (d) **take measures to enhance the monitoring of expenditure of MLIW projects, including:**
 - (i) **ascertaining with the responsible government departments the reasons for the variance between the actual project expenditure and the approved project estimate for each project;**
 - (ii) **setting a time target for the responsible government departments to notify SLO on the completion of MLIW projects, finalisation of project accounts and expenditure; and**
 - (iii) **ascertaining whether the project accounts of the 7 completed MLIW projects had been finalised with a view to returning the unspent balance of their approved project estimates to the earmarked funding for MLIW projects under LCF as soon as practicable; and**
- (e) **take measures to ensure that all required information related to the update on the progress and expenditure of MLIW projects (including the reasons for the delays in completion of works and variances between the actual project expenditure and the approved project estimate) is reported at LCFAC meetings.**

Response from the Government

3.21 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) CEDD has already revised the proforma for reporting of project updates by requiring the responsible government departments to state the reasons for delay in commencement/completion and cost variance, target date for finalisation of project accounts and final project expenditure;
- (b) for the project with the largest variance of \$17 million between the approved project estimate and the actual project expenditure as at 31 October 2024 mentioned in paragraph 3.17(a), according to the responsible government department concerned, as at 17 March 2025, the difference between the approved project estimate (i.e. \$29.4 million) and

the actual project expenditure (i.e. \$23.3 million) was \$6.1 million (i.e. 20.7%); and

- (c) as at 17 March 2025, the total actual project expenditure incurred for the 7 completed MLIW projects was \$41.9 million, which was \$10.2 million less than the approved project estimate of \$52.1 million (i.e. 19.6% — ranging from \$40,000 to \$6.1 million, averaging \$1.5 million by individual projects).

Performance evaluation of minor local improvement works projects and other issues

Scope for enhancing the performance evaluation of MLIW projects

3.22 ***Briefing notes for completed MLIW projects.*** According to SLO guidelines, SLO should prepare briefing notes for the completed MLIW projects and upload them onto LCF website. According to SLO, as it was considered more appropriate to brief the public regarding the aim and information of MLIW projects at an earlier stage instead of upon the completion of the projects, in practice, the brief information (including the aim of the project) of each MLIW project had been prepared and uploaded onto LCF website upon the approval of the project priority list by the Director of Civil Engineering and Development. However, Audit noted that, as at 31 October 2024, up-to-date project information (e.g. progress and expenditure of MLIW projects) of the 7 completed MLIW projects was not provided in their respective brief information.

3.23 ***Performance evaluation of MLIW projects.*** According to SLO guidelines, SLO should request the responsible government departments to provide information (e.g. justifications for eligibility for funding under LCF) in MLIW project proposals. Audit noted that, as at 31 October 2024, SLO did not require the responsible government departments of completed MLIW projects to provide any self-evaluation of the effectiveness of individual MLIW projects with a view to ascertaining whether the objectives of MLIW projects had been achieved.

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3.24 In Audit's view, CEDD needs to:

- (a) take measures to ensure that up-to-date project information for completed MLIW projects is provided in the brief information; and
- (b) consider requiring the responsible government departments of completed MLIW projects to provide self-evaluation of the effectiveness of individual MLIW projects.

Need to ensure that the guidelines are regularly updated

3.25 In March 2021, SLO issued the procedural guidelines for management of MLIW projects (i.e. Procedural Guidelines for Management of MLIW). Audit noted that, as at 31 January 2025, SLO had not updated the Procedural Guidelines for Management of MLIW since its issuance in March 2021 and some of its content was found not up-to-date, as follows:

- (a) SLO's practice in preparing brief information of MLIW projects was not reflected in the procedural guidelines (see para. 3.22);
- (b) conservation values of MLIW project proposals had been considered by LCFAC in the assessment process. However, such criterion was not included as one of the assessment criteria in the procedural guidelines (Note 10); and
- (c) while the in-year bid mechanism for submission of MLIW project proposals to MWSC for consideration during the period between the yearly MWSC meetings (i.e. adopting the similar mechanism for the in-year bid for block vote projects that bureaux are allowed to submit funding bids in-year between the annual resource allocation cycle for urgent projects) was

Note 10: *According to the Procedural Guidelines for Management of MLIW, the assessment criteria include: (a) urgency of the proposed project to provide intended improvements; (b) earliest commencement of the project; (c) potential interplay with conservation and related projects funded by the other part of LCF; (d) potential interfacing with on-going projects and future projects under planning in close proximity with each other; (e) views from relevant statutory and advisory bodies; and (f) capacity of in-house resources.*

agreed by the members of MWSC and LCFAC at the MWSC meeting in June 2022 and the LCFAC meeting in July 2022 respectively, the detailed mechanism and relevant procedures were not included in the procedural guidelines.

3.26 In Audit's view, CEDD needs to take measures to ensure that the Procedural Guidelines for Management of MLIW is timely updated to incorporate the latest procedures.

Audit recommendations

3.27 Audit has *recommended* that the Director of Civil Engineering and Development should:

- (a) take measures to ensure that up-to-date project information for completed MLIW projects is provided in the brief information;
- (b) consider requiring the responsible government departments of completed MLIW projects to provide self-evaluation of the effectiveness of individual MLIW projects; and
- (c) take measures to ensure that the Procedural Guidelines for Management of MLIW is timely updated to incorporate the latest procedures.

Response from the Government

3.28 The Director of Civil Engineering and Development agrees with the audit recommendations.

PART 4: GOVERNANCE AND OTHER ISSUES

4.1 This PART examines governance and other issues related to LCF, focusing on:

- (a) governance issues (paras. 4.2 to 4.12);
- (b) publicity and promotion programmes (paras. 4.13 to 4.16); and
- (c) other administrative issues (paras. 4.17 to 4.26).

Governance issues

4.2 LCFAC comprises both official and non-official members from relevant fields appointed by the Secretary for Development for a term of two years. Two Subcommittees were formed to assist LCFAC and each Subcommittee comprises non-official members of LCFAC with the same term of service as LCFAC. As at 31 October 2024, LCFAC comprised 21 non-official members (including the chairperson) and 4 official members (Note 11) whereas its two Subcommittees comprised 10 and 11 non-official members respectively (including the chairperson).

4.3 MWSC comprises official members only. As at 31 October 2024, MWSC comprised a chairperson (i.e. Head of SLO) and 6 members from 5 government departments (Note 12).

Note 11: *The 4 official members were the Permanent Secretary for Environment and Ecology (Environment), the Director of Agriculture, Fisheries and Conservation, the Director of Civil Engineering and Development and the Commissioner for Heritage of the Development Bureau (or their representatives).*

Note 12: *The 6 members comprised 2 officers from SLO of CEDD (i.e. the Deputy Head (Planning and Conservation) and a Chief Engineer) and 1 representative each from the Agriculture, Fisheries and Conservation Department, the Drainage Services Department, the Home Affairs Department and the Water Supplies Department.*

Scope for improving the attendance of LCFAC meetings

4.4 Since the establishment of LCFAC in October 2020 and up to October 2024, there were 7 and 4 LCFAC meetings held in Terms 1 (from 1 October 2020 to 30 September 2022) and 2 (from 1 October 2022 to 30 September 2024) respectively and no LCFAC meeting had been held in Term 3 (from 1 October 2024 to 30 September 2026). Audit examined the attendance records of the members of LCFAC at these meetings during the period, and noted that:

- (a) ***Decrease in attendance at meetings.*** The average attendance rate of LCFAC meetings decreased from 84% (ranging from 78% to 89% at each meeting) in Term 1 to 74% (ranging from 65% to 80% at each meeting) in Term 2. In particular, at an LCFAC meeting for vetting MA and EE projects in September 2023, only 9 (56%) of the 16 non-official members attended the meeting; and
- (b) ***Low attendance of some non-official members.*** There were some non-official members of LCFAC with low attendance (i.e. less than or equal to 50%) at LCFAC meetings, as follows:
 - (i) 2 non-official members had low attendance rate (43%) at LCFAC meetings in Term 1 but were re-appointed in Term 2. However, both members did not attend any of the 4 LCFAC meetings in Term 2 (i.e. attendance rate of 0%). Of these 2 members, 1 was re-appointed again in Term 3; and
 - (ii) 3 non-official members had low attendance rate (ranging from 25% to 50%) at LCFAC meetings in Term 2. However, all of them were re-appointed in Term 3.

As far as could be ascertained, there was no documentation showing that SLO had taken any follow-up actions with the members concerned to improve their attendance and had provided justifications for recommending their re-appointments in Terms 2 and 3 for the consideration of the Development Bureau despite their low attendance.

Governance and other issues

4.5 In February 2025, SLO informed Audit that the reasons for some non-official members not being able to attend the meetings were due to temporary personal and health issues. The attendance records of members were only for internal reference. In fact, members had been invited to assess and provide comments on the applications particularly for MA projects before the meetings, which would be presented at the meetings to facilitate consideration by other members. In this regard, although they were unable to attend the LCFAC meetings, they had actively participated in vetting and assessing the applications on RE and EE projects assigned to them at the LCFAC Subcommittee meetings. This factor together with members' expertise, experience, reputation and knowledge in Lantau were holistically considered before a decision was made on their appointments. In Audit's view, CEDD needs to:

- (a) monitor the attendance at LCFAC meetings and take measures to improve the attendance of the non-official members of LCFAC (e.g. ascertaining the reasons for low attendance and issuing reminders to members with low attendance to draw their attention to the importance of attending meetings); and
- (b) properly document the justifications for recommending non-official members of LCFAC with low attendance records to the approving authority for re-appointments.

Scope for improvement in preparing and issuing meeting materials for committee meetings

4.6 Audit examined the meeting materials prepared and issued for the meetings of LCFAC, LCFAC Subcommittees and MWSC from October 2020 to October 2024, and noted that there was scope for improvement in preparing and issuing meeting materials, as follows:

- (a) according to SLO guidelines, SLO should prepare and issue the project digests (see para. 2.3(b)) for the eligible applications for the conservation and related projects to members of LCFAC and/or its Subcommittees at least five working days before the meetings of LCFAC and/or its Subcommittees. However, no similar time target had been set by SLO for preparing and issuing other meeting materials (such as meeting agenda and meeting minutes) to members for the meetings of LCFAC, LCFAC Subcommittees and MWSC. Audit noted that in some cases the meeting

agendas were sent to the members shortly before the meetings or the meeting minutes were sent to the members long after the meetings. For example:

- (i) for an LCFAC meeting in September 2023, the meeting agenda was only sent to its members two working days before the meeting;
 - (ii) for an LCFAC meeting in November 2020, the meeting minutes was only sent to its members 130 working days after the meeting; and
 - (iii) for an MWSC meeting in April 2021, the meeting minutes was only sent to its members 263 working days after the meeting; and
- (b) for LCFAC Subcommittee meetings, SLO informed Audit in February 2025 that, in practice, instead of meeting minutes, SLO prepared the gist of discussions summarising the main points and assessments discussed at the meetings. However, Audit noted that unlike the meeting minutes of LCFAC meetings, the said documents did not record the declarations of interests made by the members during the meetings nor the conclusion of deliberation of RE and EE applications discussed at the meetings.

4.7 In Audit's view, CEDD needs to:

- (a) consider setting a time target for preparing and issuing meeting materials (such as meeting agenda and meeting minutes) to the relevant members for the meetings of LCFAC, LCFAC Subcommittees and MWSC; and
- (b) document the declarations of interests made by the members of LCFAC Subcommittees during the meetings and the conclusion of deliberation of RE and EE applications discussed at the meetings in the gist of discussions prepared for LCFAC Subcommittee meetings.

Scope for improvement in making declaration of interests

4.8 The applications for conservation and related projects are vetted by LCFAC (and its Subcommittees as necessary — see para. 2.12(a)(ii)) and the project priority lists for MLIW projects are vetted by MWSC and endorsed by LCFAC. According to SLO:

- (a) ***Two-tier reporting system.*** LCFAC and its Subcommittees adopt a two-tier reporting system for managing conflict of interests by the members of LCFAC (including its Subcommittees), as follows:
 - (i) ***First-tier reporting.*** All members should register in writing with SLO of their personal interests, direct or indirect, pecuniary or otherwise, within one month upon commencement of a new term of appointment and annually thereafter (i.e. by October annually); and
 - (ii) ***Second-tier reporting.*** All members should declare their interests in any matters to be transacted by the committees before or at the relevant meetings. SLO should ensure that the declarations of interests made by the members are properly recorded in the relevant meeting minutes; and
- (b) ***Declaration of interests with applications received.*** Regarding the vetting exercise for the conservation and related projects, all members of LCFAC (including its Subcommittees) should declare their interests with the applications received prior to the issuance of relevant project digests by SLO to them.

4.9 Audit noted that there was scope for improvement in making declaration of interests, as follows:

- (a) ***Need to maintain proper records of declaration of interests.*** SLO did not properly maintain some of the records of the declarations of interests made by the members of LCFAC (including its Subcommittees). From October 2020 to October 2024:
 - (i) of the 31 initial declarations made upon the first appointment as the members of LCFAC, 4 (13%) declarations were not found;

- (ii) of the 18 annual declarations in 2021 and 17 annual declarations in 2022 made by the members of LCFAC, 9 (50% of 18) and 3 (18% of 17) declarations were not found respectively;
 - (iii) of the 11 LCFAC meetings held in Terms 1 and 2, the second-tier declarations made by all members at 1 (9%) LCFAC meeting in November 2020 were not documented in the meeting minutes;
 - (iv) there were no records showing whether the second-tier declarations had been made by any members at LCFAC Subcommittee meetings held during the period (see para. 4.6(b)); and
 - (v) SLO conducted 7 vetting exercises for the conservation and related projects. Audit selected 4 vetting exercises for examination and found that in 1 vetting exercise for MA projects in the 2021-2022 round of application, the declarations of interests with the applications received made by 9 (50%) of the 18 members of LCFAC prior to the vetting exercise were not found (Note 13);
- (b) ***Delay in making declaration of interests.*** The initial and annual declarations were not made by some members of LCFAC (including its Subcommittees) before the stipulated deadlines in SLO guidelines (i.e. within one month upon commencement of a new term of appointment for initial declarations or by 31 October in each year for annual declarations). From October 2020 to October 2024:
- (i) of the 27 (i.e. 31 less 4) initial declarations with records maintained, 16 (59%) were made by the members of LCFAC 4 to 40 days (averaging 14 days) after the stipulated deadlines;
 - (ii) of the 9 (i.e. 18 less 9) annual declarations in 2021 and 14 (i.e. 17 less 3) annual declarations in 2022 with records maintained, 2 (22% of 9) and 4 (29% of 14) declarations were made by the members of LCFAC 10 to 12 days (averaging 11 days) and

Note 13: *According to SLO, at every LCFAC meeting, the chairperson did verbally ask all members to declare interests before discussion of each agenda item.*

3 to 113 days (averaging 33 days) after the stipulated deadlines respectively; and

- (iii) the annual declarations for 2023 and 2024 were made by the members of LCFAC 1 to 120 days (averaging 23 days) and 20 to 34 days (averaging 27 days) after the stipulated deadlines respectively. According to SLO, in 2023 and 2024, SLO only requested the members of LCFAC to make their annual declarations after the stipulated deadline of 31 October (i.e. on 1 November 2023 and 20 November 2024 respectively); and

- (c) ***Declarations of interests with applications not received from members prior to the issuance of project digests.*** Of the 4 vetting exercises for the conservation and related projects examined by Audit, Audit noted that in the vetting exercise for EE projects in the 2020-2021 round of application:

- (i) SLO issued the requests for declaration of interests with the applications received to all the 7 members of an LCFAC Subcommittee on 3 March 2021 with the stipulated deadline to reply by 16 March 2021;
- (ii) SLO received the declarations of interests from 4 and 1 of the 7 members before 16 March 2021 and on 17 March 2021 respectively. For the remaining 2 members, SLO only received the declaration of 1 member (without conflict of interests) on 3 May 2021 and another member had never submitted any declaration related to this vetting exercise (Note 14); and
- (iii) notwithstanding that declarations had not been received from the 2 members, the project digests of the relevant applications were issued to the members of the LCFAC Subcommittee concerned (i.e. including the 2 members) on 13 April 2021.

Note 14: *According to SLO, on 23 April 2021, the member concerned informed SLO that she would not be able to attend the LCFAC Subcommittee meeting (to be held on 5 May 2021). On 11 May 2021, she subsequently applied for temporary relief from the committee work due to health issue.*

According to SLO, both members were eventually clear from any conflict of interests.

4.10 In Audit's view, CEDD needs to:

- (a) take measures to ensure that the declarations of interests made by the members of LCFAC (including its Subcommittees) are properly maintained;
- (b) make timely requests to the members of LCFAC (including its Subcommittees) for making declaration of interests and take measures to ensure that the declarations are submitted by the members in a timely manner; and
- (c) take measures to ensure that the declarations of interests with applications are received from the members of LCFAC (including its Subcommittees) prior to the issuance of project digests.

Audit recommendations

4.11 **Audit has *recommended* that the Director of Civil Engineering and Development should:**

- (a) **monitor the attendance at LCFAC meetings and take measures to improve the attendance of the non-official members of LCFAC (e.g. ascertaining the reasons for low attendance and issuing reminders to members with low attendance to draw their attention to the importance of attending meetings);**
- (b) **properly document the justifications for recommending non-official members of LCFAC with low attendance records to the approving authority for re-appointments;**
- (c) **consider setting a time target for preparing and issuing meeting materials (such as meeting agenda and meeting minutes) to the relevant members for the meetings of LCFAC, LCFAC Subcommittees and MWSC;**

- (d) **document the declarations of interests made by the members of LCFAC Subcommittees during the meetings and the conclusion of deliberation of RE and EE applications discussed at the meetings in the gist of discussions prepared for LCFAC Subcommittee meetings;**
- (e) **take measures to ensure that the declarations of interests made by the members of LCFAC (including its Subcommittees) are properly maintained;**
- (f) **make timely requests to the members of LCFAC (including its Subcommittees) for making declaration of interests and take measures to ensure that the declarations are submitted by the members in a timely manner; and**
- (g) **take measures to ensure that the declarations of interests with applications are received from the members of LCFAC (including its Subcommittees) prior to the issuance of project digests.**

Response from the Government

4.12 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) the records of annual declarations and declarations of interests with applications made by members have been properly maintained from 2023 onwards; and
- (b) regarding the issuance of project digests before receipt of declarations of interests from members, the two cases happened at the early stage of LCF in 2021 and there was no re-occurrence of similar cases.

Publicity and promotion programmes

4.13 According to SLO, it is responsible for organising and conducting regular publicity and promotion programmes aiming to encourage potential applicants to apply for LCF, to build up the image and branding of LCF to the general public and to

increase the public awareness of Lantau conservation. From October 2020 to October 2024:

- (a) SLO organised 12 publicity activities, including 4 briefing sessions for potential applicants of LCF and 8 roving exhibitions to showcase the approved projects under LCF; and
- (b) SLO publicised LCF and disseminated information to the public through newspaper, magazines and social media platforms. Since October 2020, SLO had uploaded 3 publicity videos related to LCF onto the CEDD channel of a video sharing platform.

Scope for improvement in promoting LCF

4.14 According to SLO, to promote LCF, a public relations plan is prepared annually indicating the project milestones and planned public relations initiatives (e.g. briefing sessions and roving exhibitions) during the period. From 2021-22 to 2023-24, a total of \$3.4 million had been incurred by SLO in promoting LCF. Audit noted that there was scope for improvement in promoting LCF, as follows:

- (a) ***Need to conduct evaluation of publicity and promotion programmes.*** SLO did not conduct any evaluation (e.g. participant satisfaction surveys) to ascertain whether the publicity and promotion programmes had achieved their intended objectives; and
- (b) ***Need to set a timetable for implementing the public relations strategy.*** According to SLO, with a view to creating a brand image, establishing a unique position in the society that specialises in the conservation of Lantau and attracting more potential applicants to apply for LCF, in October 2023, SLO engaged an external service provider at a cost of \$0.4 million to formulate a comprehensive public relations strategy for LCF. The public relations strategy and the associated measures proposed by the service provider were accepted by SLO in September 2024. As at 31 January 2025, SLO had not yet set a timetable for implementing the proposed public relations strategy and the associated measures for LCF (e.g. creating an online platform as a resources database for successful applicants, distributing quarterly newsletter to target audience, and enhancing LCF website).

Audit recommendations

4.15 Audit has *recommended* that the Director of Civil Engineering and Development should:

- (a) conduct evaluation (e.g. participant satisfaction surveys) to ascertain whether the publicity and promotion programmes have achieved their intended objectives; and**
- (b) set a timetable for implementing the proposed public relations strategy and the associated measures for LCF with a view to encouraging applications under LCF, promoting the overall branding of LCF and raising the public awareness of the conservation of Lantau.**

Response from the Government

4.16 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that CEDD will:

- (a) conduct evaluation after completion of publicity and promotion programmes; and**
- (b) set a timetable to implement suitable measures recommended under the public relations strategy in a phased manner.**

Other administrative issues

Scope for enhancing the dissemination of information on LCF website

4.17 According to SLO guidelines:

- (a) upon the completion of approved conservation and related projects, SLO is required to upload the brief notes of the completed conservation and related projects onto LCF website; and**

- (b) throughout the entire cycle of MLIW project, with the relevant input from the responsible government departments, SLO will update the project information and report the completion of projects onto LCF website.

According to SLO, it conducts quarterly review of LCF website to ensure that the information provided on the website is up-to-date.

4.18 Audit examined the information disseminated on LCF website and noted that, as at 31 January 2025:

- (a) some information provided on LCF website was not accurate. For example:
 - (i) the total amount of grant approved for MLIW projects in 2021 as shown on LCF website (i.e. \$12.9 million) was different from the records of SLO (i.e. \$13.4 million); and
 - (ii) the procurement cost that warrants the issuance of an open tender by the grantee of the conservation and related projects as shown in the “Point to note for LCF approved projects” uploaded onto LCF website (i.e. one of the good practice guidance documents that facilitates grantees’ understanding of the proper use of LCF) was not yet updated in accordance with the updated Stores and Procurement Regulations of the Government;
- (b) the brief notes of all 10 completed conservation and related projects as at 31 October 2024 had not been uploaded onto LCF website as required; and
- (c) SLO did not specify the type of information of MLIW projects that should be uploaded onto LCF website. While SLO uploaded the general information of each MLIW project (see para. 3.22) and the total yearly grant approved for MLIW projects onto LCF website, some project information provided by the responsible government departments in their project proposals or returns submitted to SLO (e.g. approved project estimate and project status of individual MLIW projects) was not uploaded onto LCF website.

4.19 In Audit's view, CEDD needs to:

- (a) strengthen measures to ensure that the information provided on LCF website is comprehensive, accurate and up-to-date; and
- (b) consider specifying in SLO guidelines the type of information of MLIW projects to be uploaded onto LCF website.

Scope for enhancing performance measures of LCF

4.20 According to Financial Circular No. 2/2017 "Guides for Controlling Officers (a) Management of funding schemes and (b) Management of non-works projects funded by the Government", as a good practice, the Controlling Officer should consider developing and reporting on appropriate performance measures for the fund, preferably focusing on outcome-based targets.

4.21 Audit noted that, as at 31 October 2024, SLO did not provide any performance measures in respect of LCF on its website. According to SLO, it did not set any performance measures (e.g. key performance indicators) for monitoring the performance of LCF.

4.22 In Audit's view, CEDD needs to consider setting performance measures (e.g. key performance indicators) in relation to LCF and providing them on LCF website.

Need to conduct review on LCF

4.23 According to SLO, LCF was set up to support projects that would contribute to the overall conservation of rural Lantau, raise community awareness on the conservation of rural Lantau, and mobilise the community to put conservation into practice, with a view to fostering a quality living environment for the current generation and beyond.

4.24 Audit noted that:

- (a) the number of approved MLIW projects was on a decreasing trend from 2020 to 2024 and the yearly approved project estimate decreased significantly by 89% from \$55.4 million in 2020 to \$6 million in 2023 (see para. 3.5(b));
- (b) as at 31 October 2024, SLO did not require the responsible government departments of the 7 completed MLIW projects to provide any self-evaluation of the effectiveness of individual projects (see para. 3.23); and
- (c) since the establishment of LCF in October 2020:
 - (i) SLO had not conducted any formal review on the operation of LCF; and
 - (ii) SLO only conducted two rounds of surveys on the applicant organisations of the conservation and related projects in October 2021 and October 2022 to collect feedback related to its application process. However, SLO did not conduct similar surveys in 2023 and 2024. Moreover, SLO had not conducted any similar surveys on the government departments in collecting their feedback regarding the MLIW projects.

In Audit's view, it is an opportune time for CEDD to conduct a review on the implementation of LCF, taking into account the audit observations and recommendations in this Audit Report.

Audit recommendations

4.25 Audit has *recommended* that the Director of Civil Engineering and Development should:

- (a) **strengthen measures to ensure that the information provided on LCF website is comprehensive, accurate and up-to-date;**

Governance and other issues

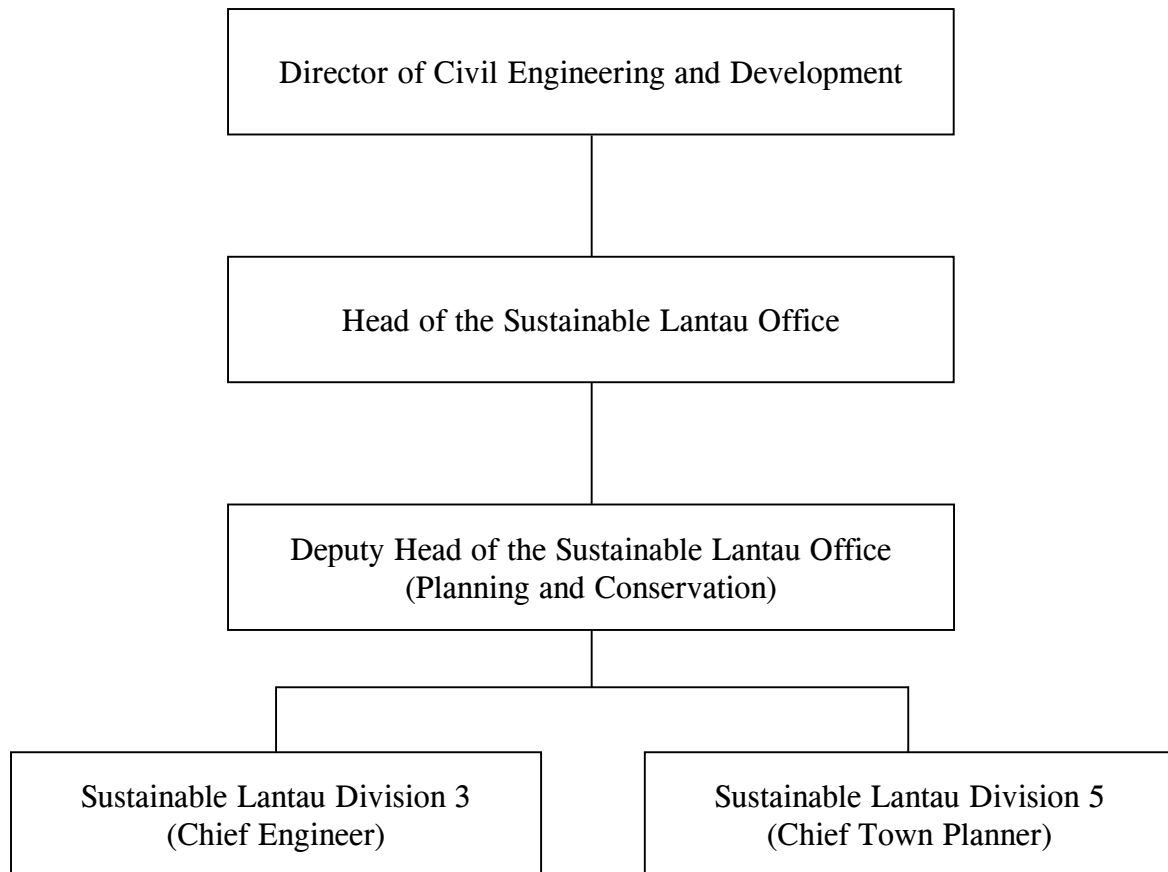
- (b) **consider specifying in SLO guidelines the type of information of MLIW projects to be uploaded onto LCF website;**
- (c) **consider setting performance measures (e.g. key performance indicators) in relation to LCF and providing them on LCF website; and**
- (d) **conduct a review on the implementation of LCF, taking into account the audit observations and recommendations in this Audit Report.**

Response from the Government

4.26 The Director of Civil Engineering and Development agrees with the audit recommendations. He has said that:

- (a) the information provided on LCF website has already been updated and CEDD will continue to update the information on a regular basis; and
- (b) key performance indicators have been included at project level in each of the conservation and related projects, whereas for MLIW projects, CEDD will discuss with the responsible government departments to consider setting performance measures for the projects.

**Civil Engineering and Development Department:
Organisation chart (extract)
(31 October 2024)**



Source: SLO records

Acronyms and abbreviations

Audit	Audit Commission
CEDD	Civil Engineering and Development Department
LCF	Lantau Conservation Fund
LCFAC	Lantau Conservation Fund Advisory Committee
MLIW	Minor local improvement works
MWSC	Minor Works Steering Committee
NPOs	Non-profit-making organisations
SLO	Sustainable Lantau Office

CHAPTER 4

**Development Bureau
Buildings Department**

**Management of
Mandatory Window Inspection Scheme
by the Buildings Department**

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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MANAGEMENT OF MANDATORY WINDOW INSPECTION SCHEME BY THE BUILDINGS DEPARTMENT

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MANAGEMENT OF MANDATORY WINDOW INSPECTION SCHEME BY THE BUILDINGS DEPARTMENT

Executive Summary

1. Building neglect has been a long-standing problem in Hong Kong. According to the Buildings Department (BD), it recorded 445 fallen window incidents from January 2017 to December 2024. Upholding the concept of “prevention is better than cure”, BD has fully implemented the Mandatory Window Inspection Scheme (MWIS) since 30 June 2012 to require owners to regularly inspect the windows in their buildings with a view to identifying problems at an early stage, and carry out timely remedial works to prevent them from falling into disrepair thus causing danger to the public. Under MWIS, BD is empowered under the Buildings Ordinance (Cap. 123) to issue statutory notices to owners of private buildings aged 10 years or above (except domestic buildings not exceeding three storeys), requiring them to appoint a Qualified Person (QP) to carry out the prescribed inspection and, if necessary, a Registered Contractor to carry out the prescribed repair under the supervision of a QP for the windows in their buildings. As at 31 December 2024, there were a total of 27,168 buildings covered by MWIS. Since the commencement of MWIS in June 2012 and up to December 2024, a total of 13,461 target buildings had been selected under MWIS for issuance of statutory notices, and a total of 723,219 notices had been issued. BD is responsible for the implementation of MWIS and ensuring proper regulation of QPs. The Audit Commission (Audit) has recently conducted a review to examine BD’s work in management of MWIS.

Selection of target buildings for issuance of statutory notices

2. To enhance the transparency and promote community participation, a Selection Panel has been established to tender advice to BD on the selection criteria and the selection of target buildings for the purpose of issuance of statutory notices under the Mandatory Building Inspection Scheme (MBIS) and MWIS. Since the implementation of MBIS and MWIS in June 2012, BD has developed a Building Score System and priority will be given to buildings with higher scores (i.e. relatively higher potential risk) in the annual target building selection exercise for issuance of statutory notices under MBIS-cum-MWIS (Selection Mechanism A). Under Selection

Executive Summary

Mechanism A, only private buildings aged 30 years or above are subject to selection because MBIS only covers these buildings. To cover all buildings subject to MWIS (i.e. including private buildings aged 10 years or above and below 30 years), since December 2016, BD has adopted a risk-based selection mechanism in selecting other target buildings for issuance of statutory notices under MWIS (Selection Mechanism B). Under Selection Mechanism B, buildings with records of fallen window incident in the previous year and buildings with windows in a generally defective or dilapidated state will be selected as target buildings. According to BD guidelines, buildings with statutory notices served under MWIS and MBIS will not be selected as target buildings again within 5 and 10 years respectively after the issue dates of the preceding notices. After the target number of buildings for issuance of statutory notices under MWIS is determined, BD will compile two nomination lists of buildings (Nomination Lists A and B under Selection Mechanisms A and B respectively) for the Selection Panel's endorsement (paras. 2.2, 2.3 and 2.5 to 2.7).

3. ***Scope for improving Selection Mechanism B.*** Audit examined the 2017 to 2024 annual target building selection exercises under Selection Mechanism B and found that, 11 and 20 buildings with records of fallen window incidents in the previous year were not selected as target buildings in 2023 and 2024 respectively. For these 31 buildings, MWIS statutory notices were served more than 5 years ago and therefore these buildings should not be excluded from the selection in accordance with BD guidelines. In March 2025, BD informed Audit that, under BD's current practice, for buildings with records of fallen window incidents where MWIS statutory notices had been served in the past, BD would consider certain additional factors (e.g. compliance status of the MWIS statutory notices previously served and causes of the fallen window incidents) prior to their inclusion in Nomination List B. However, Audit noted that BD did not incorporate the additional factors to be considered for selecting buildings under Selection Mechanism B in its guidelines, and had not informed the Selection Panel about these additional factors (paras. 2.8 to 2.10).

4. ***Some buildings with higher scores under Selection Mechanism A not selected.*** Audit examined the 2024 annual target building selection exercise under Selection Mechanism A and noted that 372 buildings with statutory notices previously served under MWIS and MBIS more than 5 and 10 years ago respectively were excluded from the selection and they had higher scores (ranging from 30 to 75 points) than some of the 483 buildings in Nomination List A (scores ranging from 25 to 65 points). According to BD, under its current practice, apart from selecting buildings on a risk-based approach in accordance with Selection Mechanism A,

Executive Summary

priority was also given to buildings that had never been inspected/repaired under the scope of MWIS/MBIS. However, Audit noted that BD's current practice in compiling Nomination List A for the Selection Panel's endorsement for issuance of statutory notices under MWIS (i.e. giving priority to buildings that had never been inspected/repaired under the scope of MWIS/MBIS) had not been incorporated in BD guidelines, and BD had not informed the Selection Panel that some buildings not selected in fact had higher scores than some buildings in Nomination List A (paras. 2.11 to 2.13).

5. ***Need to analyse information useful in identifying buildings with higher risk of falling windows.*** From January 2017 to December 2024, BD recorded 445 fallen window incidents, of which 6 incidents resulted in a total of 1 death and 7 injuries. Audit noted that, of these 445 fallen window incidents, 295 (66%) cases occurred at buildings that had not been selected by BD's building selection mechanisms when the incidents occurred. In Audit's view, the statistics on the fallen window incidents may be useful to BD in identifying buildings with higher risk of falling windows. Audit considers that BD needs to conduct analyses on the statistics on the fallen window incidents with a view to making further improvement to its building selection mechanisms for issuance of statutory notices under MWIS (paras. 2.14 and 2.15).

6. ***Scope for improvement in monitoring consultants' work for issuance of statutory notices.*** For enhancing cost effectiveness, BD has outsourced certain administrative work for issuance of statutory notices under MWIS to consultants, such as submitting desk study reports, preparing and serving statutory notices, and updating the Building Condition Information System (BCIS). Audit noted that the performance of 3 of the 4 consultants engaged for issuance of statutory notices for buildings selected in 2022 to 2024 were unsatisfactory. For example, for 2 consultants, there had been slippage of submission of draft statutory notices and inadequate staffing. For the remaining consultant, there had been delays in submission of notice posting records and updating BCIS records. In Audit's view, BD needs to strengthen the monitoring of the performance of consultants engaged for issuance of statutory notices under MWIS and take measures to ensure the timely completion of assignments (paras. 2.16 to 2.19).

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Follow-up actions on statutory notices

7. ***Long-outstanding statutory notices.*** As at 31 December 2024, excluding those statutory notices under MWIS that had been withdrawn/superseded or were not yet due (i.e. with compliance due date after 31 December 2024), 657,670 notices had been complied with and 26,647 notices had not. Audit noted that:

- (a) for the 26,647 statutory notices under MWIS not complied with as at 31 December 2024: (i) the non-compliance rate for windows in common parts of the buildings (27%) was much higher than that for windows in individual premises owned by individual owners (4%); and (ii) 11,410 (43%) statutory notices had remained outstanding for more than 3 years and up to 11.6 years (averaging 6.5 years) from compliance due dates of statutory notices; and
- (b) of the 445 fallen window incidents recorded by BD from January 2017 to December 2024, 131 (29%) cases had been served with statutory notices under MWIS before the incidents occurred, of which 25 (19% of 131) notices had not been complied with when the incidents occurred. As at 31 December 2024, 5 of these 25 statutory notices under MWIS were still outstanding.

In Audit's view, BD needs to closely monitor the compliance of statutory notices under MWIS and take appropriate follow-up actions on non-compliant cases (in particular for the cases with fallen window incidents occurred), and explore measures to facilitate the owners' corporations or owners of the buildings concerned to carry out the prescribed inspection and/or the prescribed repair (paras. 3.4 to 3.7).

8. ***Scope for improvement in issuance of warning letters and fixed penalty notices (FPNs).*** Of the 26,647 statutory notices under MWIS not complied with as at 31 December 2024, warning letters were not yet due for issuance for 2,410 statutory notices. Audit noted that: (a) warning letters were due for issuance for 2,565 statutory notices but had not been issued, and while warning letters had been issued for 21,672 statutory notices, 19,313 warning letters were issued more than 1 month from the compliance due date of the statutory notice, thus not meeting the time target of issuing warning letter (i.e. within 1 month) as stipulated in BD guidelines; (b) no FPNs had been issued to the owners for 18,352 statutory notices, of which the time lapsed from the compliance due date of the statutory notice to 31 December 2024 for 15,913 notices was more than 1 year; and (c) of 4,208 FPNs issued, 2,045 were not

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yet paid as at 31 December 2024 and BD had not yet referred these unpaid FPNs to the Court for settlement (paras. 3.8 and 3.9).

9. ***Need to step up referral of non-compliant statutory notices for instigating prosecution actions.*** BD had set up the Fast Track Prosecution Teams (FPT) to expedite prosecution actions on non-compliant statutory notices under MWIS since January 2019. However, Audit noted that, as at 31 December 2024: (a) of the 3,320 cases (i.e. non-compliant statutory notices under MWIS with FPNs served), 2,792 (84%) cases had not yet been referred to FPT for instigating prosecution actions; and (b) while BD referred 528 (16%) cases to FPT for instigating prosecution actions, 299 (56% of 528) cases took more than 1 year and up to 9.4 years (averaging 2.4 years) for BD to do so (para. 3.14).

10. ***Need to instigate further prosecution actions for warranted continuous non-compliant statutory notices.*** According to BD guidelines, after the Court has convicted an owner for non-compliance with a statutory notice under MWIS, a warning letter should be issued to the owner for taking action to comply with the statutory notice without further delay. Once continuous non-compliance without reasonable excuse is ascertained, immediate referral to FPT for instigating second prosecution actions should be made. Of the 528 cases referred to FPT and remained non-compliant as at 31 December 2024, 126 defendants for 107 non-compliant statutory notices had been convicted. However, Audit noted that no referral for instigating second prosecution actions had been made for 85 statutory notices as at 31 December 2024, of which their convictions were made 12 to 1,496 days (averaging 570 days) ago. In Audit's view, BD needs to closely monitor the compliance status of statutory notices for convicted non-compliant cases and instigate further prosecution actions for warranted continuous non-compliant statutory notices under MWIS (paras. 3.16 to 3.18).

Monitoring of Qualified Persons and other issues

11. ***Some MWIS submissions not timely submitted.*** According to the Building (Inspection and Repair) Regulation (Cap. 123P), a QP should submit relevant MWIS submissions to BD within the specified timeframe after the completion of the prescribed inspection and/or the prescribed repair under MWIS. Audit noted that: (a) of 21,759 certificates of prescribed inspection of windows submitted by QPs (for cases where prescribed repairs were not required) under MWIS in 2024, 1,977 (10%)

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certificates were received by BD more than 14 days and up to 5 years (averaging 53 days) after the completion of the prescribed inspections of windows, not meeting the 14-day statutory requirement; and (b) of 16,741 certificates of prescribed repair of windows submitted by QPs under MWIS in 2024, 1,204 (8%) certificates were received by BD more than 14 days and up to 4.6 years (averaging 54 days) after the completion of the prescribed repairs of windows, not meeting the 14-day statutory requirement (para. 4.7).

12. ***Long time taken to complete audit checks on some MWIS submissions.***

According to BD, to ensure that the inspection and repair of windows have been carried out in accordance with the Buildings Ordinance, it conducts sample checking on MWIS submissions from QPs. After preliminary checks on the submissions (e.g. verification of the registration status of QPs), BD will select some of the submissions for audit checks. Audit examined the time taken by BD to complete audit checks on 2,070 submissions which were completed in 2024, and found that BD's audit checks on 233 (11%) submissions were completed more than 6 months and up to 2.2 years (averaging 282 days) after the receipt of QPs' submissions by BD (paras. 4.4 and 4.12).

13. ***Need to take timely follow-up actions on irregularities identified during audit checks.***

According to BD guidelines, for irregularities identified during its audit checks of MWIS submissions from QPs, BD will issue a reminder letter within two weeks to the QP concerned requesting clarification and/or rectification. In case there is no positive response from the QP within one month or the time limit set out in the reminder letter, BD should issue a warning letter to the QP concerned within the next two weeks. Audit examined the subject files of audit checks on 10 MWIS submissions and noted that: (a) for 4 MWIS submissions, BD issued reminder letters to the QPs concerned regarding the irregularities identified during its audit checks more than two weeks (ranging from 27 to 146 days, averaging 71 days) after the completion of audit checks, not meeting the two-week requirement under BD guidelines; and (b) for 1 of the 4 MWIS submissions mentioned in (a) above, while the QP concerned had failed to provide a response within the time limit set out in the reminder letter (i.e. 18 June 2024), BD had not issued a warning letter to the QP as at 31 December 2024, not meeting the requirement under BD guidelines (paras. 4.5 and 4.14).

14. ***Scope for improvement in taking follow-up actions on fallen window cases with complied MWIS statutory notices.***

According to BD, fallen window incidents

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which occurred after the completion of the prescribed inspection/repair under MWIS may indicate possible malpractice of the QPs who carried out the prescribed inspection and/or the supervision of the prescribed repair for the fallen windows. Of the 445 fallen window incidents from January 2017 to December 2024 recorded by BD, 131 cases had been served with MWIS statutory notices before the incidents occurred. Of these 131 cases with MWIS statutory notices served, the MWIS statutory notices of 25 cases had remained not complied with when the incidents occurred. Audit examined BD's follow-up actions on the remaining 106 fallen window cases, and found that: (a) for 14 fallen window cases, while BD could ascertain that the owners of the buildings concerned were served with statutory notices, the exact premises in which the fallen window incidents took place could not be located. Hence, BD could not ascertain whether the owners of the premises concerned had complied with the statutory notices when the incidents occurred; and (b) according to BD, 4 of the remaining 92 fallen window cases had been warranted for full investigations. While BD maintained records of full investigations on the 4 cases, it had not maintained records of follow-up actions and justifications of not conducting full investigations on the QPs concerned for the remaining 88 cases (paras. 4.16 and 4.17).

15. ***Need to enhance BCIS and compile management information to facilitate BD's work in implementing MWIS.*** The implementation of MWIS involves a significant amount of work. Audit noted scope for enhancing BCIS and compiling management information to facilitate BD's work in implementing MWIS. For example: (a) BCIS could not automatically prompt BD subject officers for issuing warning letters and FPNs in a timely manner; (b) BD had not regularly compiled management information on the late MWIS submissions to enhance the monitoring of QPs; and (c) BD had not regularly compiled management information on fallen window cases with complied MWIS statutory notices (e.g. the follow-up actions taken to investigate possible malpractice of QPs). In Audit's view, BD needs to consider enhancing BCIS and compiling management information to facilitate its work in implementing MWIS (para. 4.27).

16. ***Need to formulate a long-term strategy for MWIS.*** Audit noted that, out of 27,168 private buildings covered by MWIS as at 31 December 2024, 14,676 (54%) buildings had not been selected for issuance of MWIS statutory notices. Based on BD's 2024 target of selecting 600 buildings each year, it will take about 24 years to cover these 14,676 buildings, let alone the buildings which will reach the building age of 10 years and subject to MWIS after 2024. In Audit's view, with a view to achieving MWIS's objective of enhancing public safety, having regard to all relevant factors and difficulties encountered in implementing MWIS, BD needs to keep under review

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the target number of buildings to be selected for issuance of statutory notices under MWIS and formulate a long-term strategy for MWIS (e.g. further developing and leveraging on “new quality productive forces”, such as adoption of artificial intelligence, in implementing MWIS) (paras. 4.29 and 4.30).

Audit recommendations

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

Selection of target buildings for issuance of statutory notices

- (a) **incorporate all selection factors of target buildings under Selection Mechanism B for issuance of MWIS statutory notices in BD guidelines (para. 2.20(a));**
- (b) **inform the Selection Panel all the selection factors (including the additional factors) considered by BD under Selection Mechanism B (para. 2.20(b));**
- (c) **incorporate the current practice in compiling Nomination List A under Selection Mechanism A (i.e. giving priority to buildings that had never been inspected/repaired under the scope of MWIS/MBIS) in BD guidelines (para. 2.20(d));**
- (d) **document the justifications and inform the Selection Panel for its consideration and endorsement for buildings with higher scores not selected under Selection Mechanism A (para. 2.20(e));**
- (e) **conduct analyses on the statistics on the fallen window incidents with a view to making further improvement to BD’s building selection mechanisms (para. 2.20(f));**
- (f) **strengthen the monitoring of the performance of consultants engaged for issuance of statutory notices under MWIS and take measures to ensure the timely completion of assignments (para. 2.20(g));**

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Follow-up actions on statutory notices

- (g) **closely monitor the compliance of statutory notices under MWIS and take appropriate follow-up actions on non-compliant cases (in particular for the cases with fallen window incidents occurred) (para. 3.11(a));**
- (h) **explore measures to facilitate the owners' corporations or owners of the buildings concerned to carry out the prescribed inspection and/or the prescribed repair (para. 3.11(b));**
- (i) **issue warning letters and FPNs for non-compliant MWIS statutory notices in a timely manner in accordance with the time targets as stipulated in BD guidelines (para. 3.11(c));**
- (j) **refer warranted unpaid FPNs to the Court in accordance with BD guidelines where appropriate (para. 3.11(d));**
- (k) **step up referral of non-compliant statutory notices under MWIS to FPT for instigating prosecution actions (para. 3.19(a));**
- (l) **closely monitor the compliance status of statutory notices for convicted non-compliant cases and instigate further prosecution actions for warranted continuous non-compliant statutory notices under MWIS (para. 3.19(b));**

Monitoring of QPs and other issues

- (m) **strengthen monitoring of QPs' MWIS submissions and take measures to ensure that QPs comply with the statutory submission time limit (para. 4.20(b));**
- (n) **complete BD's audit checks on MWIS submissions in a timely manner in accordance with BD guidelines (para. 4.20(e));**
- (o) **take timely follow-up actions on irregularities identified during BD's audit checks on MWIS submissions (including issuing reminder letters**

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and warning letters to the QPs concerned) in accordance with BD guidelines (para. 4.20(f));

- (p) endeavour to ascertain the details of fallen window incidents (e.g. the exact premises involved in the fallen window incidents and the compliance status of the statutory notices under MWIS) as far as practicable with a view to enabling necessary follow-up actions (para. 4.20(g));
- (q) maintain full records of follow-up actions on QPs for fallen window cases with complied MWIS statutory notices (including the justifications if full investigations are not conducted on the QPs concerned) (para. 4.20(h));
- (r) consider enhancing BCIS and compiling management information to facilitate BD's work in implementing MWIS (para. 4.36(c)); and
- (s) keep under review the target number of buildings to be selected for issuance of statutory notices under MWIS and formulate a long-term strategy for MWIS (para. 4.36(d)).

Response from the Government

18. The Director of Buildings 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 Building neglect has been a long-standing problem in Hong Kong. The presence of ageing buildings, which lack proper care and maintenance, poses potential threats to residents and the public at large. According to the Buildings Department (BD), it recorded 445 fallen window incidents from January 2017 to December 2024 (Note 1). Upholding the concept of “prevention is better than cure”, BD has fully implemented the Mandatory Window Inspection Scheme (MWIS) since 30 June 2012 to require owners to regularly inspect the windows in their buildings with a view to identifying problems at an early stage, and carry out timely remedial works to prevent them from falling into disrepair thus causing danger to the public (Note 2).

1.3 Under MWIS, BD is empowered under the Buildings Ordinance (Cap. 123) to issue statutory notices to owners of private buildings aged 10 years or above (except domestic buildings not exceeding three storeys), requiring them to appoint a Qualified Person (QP) to carry out the prescribed inspection and, if necessary, a Registered Contractor (RC) to carry out the prescribed repair under the supervision of a QP for the windows in their buildings.

Note 1: *According to BD, it did not maintain statistics on fallen window incidents prior to January 2017.*

Note 2: *Together with MWIS, the Mandatory Building Inspection Scheme was also introduced in June 2012 to require owners to carry out regular inspection and timely repair for their properties so as to tackle the problem of building neglect at source. Under the Mandatory Building Inspection Scheme, BD may issue statutory notices to owners of private buildings aged 30 years or above (except domestic buildings not exceeding three storeys) requiring them to carry out the prescribed inspection and the prescribed repair found necessary for their buildings. In 2020, the Audit Commission completed a review on the Mandatory Building Inspection Scheme and the results were reported in Chapter 9 of the Director of Audit’s Report No. 75 of October 2020.*

Selection of target buildings for issuance of statutory notices

1.4 As at 31 December 2024, there were a total of 29,311 private buildings (except domestic buildings not exceeding three storeys), of which 27,168 buildings were aged 10 years or above (i.e. buildings covered by MWIS). For target buildings selected under MWIS, BD issues statutory notices to the owners of selected target buildings, as follows:

- (a) for windows in common parts of the building, the notices will be served on the owners' corporation if such corporation has been formed, otherwise on all owners of the building; and
- (b) for windows in individual premises owned by individual owners, the notices will be served on the owners concerned.

Since the commencement of MWIS in June 2012 and up to December 2024, a total of 13,461 target buildings had been selected under MWIS for issuance of statutory notices, and a total of 723,219 notices had been issued (Note 3).

Follow-up actions on statutory notices

1.5 The owners served with statutory notices under MWIS are required to take the following major steps:

- (a) ***Appointment of QP.*** Upon receipt of an MWIS statutory notice, an owner is required to appoint a QP to complete the prescribed inspection and/or supervise the completion of the prescribed repair (if found necessary after the prescribed inspection) within 6 months for windows in individual

Note 3: *The actual total number of MWIS statutory notices issued from June 2012 to December 2024 was 723,219 notices, which was more than the total number of 709,578 notices as reported in BD's Controlling Officer's Reports. According to BD: (a) the difference was mainly due to the fact that the figures in the Controlling Officer's Reports reflected the information available at the cut-off time for reporting in the Controlling Officer's Reports; and (b) the numbers of MWIS statutory notices issued were subject to changes arising from the latest information available subsequently (e.g. data input after the cut-off time for reporting in the Controlling Officer's Reports).*

premises and 9 months for windows in common parts of the building from the date of the statutory notice;

- (b) ***Prescribed inspection.*** The appointed QP must carry out the prescribed inspection personally, and shall ascertain whether the windows have been rendered dangerous or are liable to become dangerous. The inspection shall cover all windows and glass louvers in individual premises and common parts of the building including window walls. Upon completion of the window inspection, the QP should submit a certificate in specified form to BD certifying completion of the inspection. If the certificate of inspection indicates that a prescribed repair is not required for the premises, BD will issue a compliance letter to the owner certifying compliance with the MWIS statutory notice; and
- (c) ***Prescribed repair.*** If the appointed QP considers that a prescribed repair is required, the owners concerned must employ an RC to carry out the prescribed repair under the supervision of a QP. After the completion of the prescribed repair of windows, the QP should submit a certificate in specified form to BD certifying completion of the repair. After receipt of the certificate, BD will issue a compliance letter to the owner certifying compliance with the MWIS statutory notice.

1.6 ***Non-compliance with MWIS statutory notices.*** MWIS statutory notice is considered not complied with if the certificates of prescribed inspection and/or repair (if necessary) of windows are not received by BD 14 days from the compliance due date (Note 4) of the MWIS statutory notice, or if irregularities are found on the certificates. For non-compliance with statutory notices under MWIS, a warning letter should be issued to the owner within 1 month from the compliance due date of the MWIS statutory notice. In case the non-compliance continues without reasonable excuse after the issuance of the warning letter, BD should initiate action to serve a

Note 4: *Compliance due date refers to the date specified in an MWIS statutory notice for completion of the prescribed inspection and the prescribed repair (if necessary), or the date with extension of time granted by BD, whichever is later.*

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fixed penalty notice (FPN — Note 5). Of the 723,219 statutory notices issued under MWIS since the commencement of MWIS in June 2012 and up to December 2024, 26,647 notices had not been complied with as at 31 December 2024. Of these 26,647 non-compliant statutory notices, BD issued warning letters to the owners for 21,672 notices and served FPNs to the owners for 3,320 notices during the period.

1.7 ***Prosecution actions.*** In general, prosecution actions should be instigated if the non-compliance continues without reasonable excuse after serving FPN (Note 6). According to BD, the serving of FPN is considered an effective sanction against non-compliance with MWIS statutory notices. Since the commencement of MWIS in June 2012 and up to December 2024, BD had instigated prosecution actions against the owners for 717 non-compliant statutory notices under MWIS, of which the owners of 478 notices had been convicted with fines ranging from \$600 to \$151,500, and the remaining 239 notices were pending for court hearing.

Monitoring of QPs' submissions under MWIS

1.8 Under MWIS, QPs are responsible for carrying out the prescribed inspections and/or supervision of the prescribed repairs. As at 31 December 2024, there were 18,941 QPs. BD is responsible for ensuring proper regulation of QPs. According to BD, to ensure that the inspections and repairs are carried out in accordance with the Buildings Ordinance, it issues detailed guidelines through relevant Code of Practice and Practice Notes, and conducts sample checking on MWIS submissions (through document and site audits).

Note 5: *Under the Buildings Ordinance, a person who, without reasonable excuse, fails to comply with a statutory notice under MWIS may be required to pay: (a) a fixed penalty of \$1,500; and (b) a further fixed penalty of \$1,500 plus \$300 by way of costs if the person continues to fail to comply with the notice without reasonable excuse.*

Note 6: *Under the Buildings Ordinance, a person who, without reasonable excuse, fails to comply with a statutory notice under MWIS may be prosecuted and is liable on conviction to a fine of up to \$25,000 and imprisonment for up to three months, and a fine of \$2,000 for each day during which it is proved to the satisfaction of the Court that the offence has continued.*

Responsible division of BD

1.9 The two Mandatory Building Inspection (MBI) Sections under BD's MBI Division (see Appendix A for an extract of BD's organisation chart as at 31 December 2024) are responsible for the implementation of MWIS. As at 31 December 2024, the two MBI Sections had 270 staff (comprising 217 professional and technical staff, 37 supporting staff and 16 non-civil service contract staff) (Note 7). The total recurrent expenditure of the two MBI Sections for 2023-24 was about \$231 million. According to BD, it could not provide a breakdown of the expenditure incurred solely for MWIS.

Audit review

1.10 In November 2024, the Audit Commission (Audit) commenced a review to examine BD's work in management of MWIS. The audit review has focused on the following areas:

- (a) selection of target buildings for issuance of statutory notices (PART 2);
- (b) follow-up actions on statutory notices (PART 3); and
- (c) monitoring of QPs and other issues (PART 4).

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

Acknowledgement

1.11 Audit would like to acknowledge with gratitude the full cooperation of the staff of BD during the course of the audit review.

Note 7: *Apart from MWIS, the two MBI Sections are also responsible for implementing the Mandatory Building Inspection Scheme (see Note 2 to para. 1.2).*

PART 2: SELECTION OF TARGET BUILDINGS FOR ISSUANCE OF STATUTORY NOTICES

2.1 This PART examines BD's actions in selecting target buildings for issuance of statutory notices under MWIS (paras. 2.2 to 2.21) and promotion of voluntary window inspection (paras. 2.22 to 2.26).

Selecting target buildings for issuance of statutory notices under Mandatory Window Inspection Scheme

2.2 MWIS covers private buildings aged 10 years or above (except domestic buildings not exceeding three storeys). To enhance the transparency and promote community participation, a Selection Panel has been established to tender advice to BD on the selection criteria and the selection of target buildings for the purpose of issuance of statutory notices under MWIS (Note 8). Each year, a certain number of target buildings will be selected by BD based on two selection mechanisms (hereinafter referred to as Selection Mechanism A (see paras. 2.3 and 2.4) and Selection Mechanism B (see para. 2.5)) from the buildings covered by MWIS for endorsement by the Selection Panel and issuance of statutory notices.

Selection mechanisms

2.3 ***Selection Mechanism A.*** According to BD, to minimise disturbance and financial burden to owners, the implementation of the Mandatory Building Inspection Scheme (MBIS — see Note 2 to para. 1.2) and MWIS should be synchronised as far as possible. Since the implementation of MBIS and MWIS in June 2012, BD has developed a Building Score System, under which a score will be given to every eligible building annually based on the selection criteria. Priority will be given to buildings with higher scores (i.e. relatively higher potential risk) in the annual target

Note 8: *The Selection Panel is chaired by an Assistant Director of BD with members from professional institutions (i.e. the Hong Kong Institute of Architects, the Hong Kong Institution of Engineers, the Hong Kong Institute of Surveyors and the Hong Kong Association of Property Management Companies), the Hong Kong Housing Society and 18 District Councils (6 members on a rotational basis to participate in each meeting). Apart from MWIS, the Selection Panel is also responsible for tendering advice to BD on the selection criteria and the selection of target buildings for the purpose of issuance of statutory notices under the Mandatory Building Inspection Scheme.*

Selection of target buildings for issuance of statutory notices

building selection exercise for issuance of statutory notices under MBIS-cum-MWIS (i.e. Selection Mechanism A). The current Building Score System (revised in February 2024) accords varying weights to the following selection criteria:

- (a) ***Building age.*** Buildings with higher building age should be given priority;
- (b) ***Building condition.*** Buildings with a report on general or slight building defects, a report on dilapidated condition, an emergency report, or an outstanding repair and investigation orders issued under the Buildings Ordinance should be given priority;
- (c) ***Building management.*** Three-nil buildings (i.e. buildings which do not have owners' corporations or any form of residents' organisations, nor property management companies engaged in managing their buildings) should be given priority;
- (d) ***Critical building elements.*** Buildings with cantilevered slab balcony or cantilevered slab canopy should be given priority; and
- (e) ***Building cluster.*** For a number of buildings situated on the same land lot with owners being jointly responsible for maintenance and repair of the common parts of the buildings, the buildings concerned will form a building cluster. If a building forming part of a building cluster is selected, all buildings in the building cluster will also be selected regardless of their scores.

2.4 ***Overriding selection criterion under Selection Mechanism A.*** In the 2017 annual target building selection exercise, in view of an incident involving partial collapse of a balcony of a private building, the Selection Panel endorsed BD's suggestion in October 2017 to impose an overriding selection criterion to Selection Mechanism A such that only private residential or composite buildings aged 50 years or above would be selected for issuance of statutory notices under MBIS-cum-MWIS. The age of the buildings under the overriding selection criterion was revised twice in the 2020 and the 2023 selection exercises (to 40 years or above and to 30 years or above respectively). The overriding selection criterion was revoked in the 2024 selection exercise (i.e. private buildings of all types aged 30 years or above would be subject to Selection Mechanism A since then).

Selection of target buildings for issuance of statutory notices

2.5 ***Selection Mechanism B.*** Under Selection Mechanism A, only private buildings aged 30 years or above (except domestic buildings not exceeding three storeys) are subject to selection because MBIS only covers these buildings. To cover all buildings subject to MWIS (i.e. including private buildings aged 10 years or above and below 30 years), since December 2016, BD has adopted a risk-based selection mechanism in selecting other target buildings for issuance of statutory notices under MWIS (i.e. Selection Mechanism B). Under Selection Mechanism B, buildings satisfying the following criteria will be selected as target buildings:

- (a) ***Record of fallen window incident.*** There was a record of fallen window incident in the building in the previous year;
- (b) ***Condition of windows.*** Higher priority may be given to buildings with windows in a generally defective or dilapidated state, and therefore posing relatively higher potential risk to the public; and
- (c) ***Building cluster.*** If a building forming part of a building cluster is selected, all buildings in the building cluster will also be selected.

2.6 ***Buildings not to be selected.*** According to BD guidelines, buildings fulfilling the following conditions will not be selected for issuance of statutory notices under MWIS:

- (a) buildings with statutory notices served under MWIS and MBIS will not be selected as target buildings again within 5 and 10 years respectively after the issue dates of the preceding notices;
- (b) buildings accredited with a satisfactory building safety rating under the Hong Kong Housing Society's Voluntary Building Assessment Scheme (VBAS — Note 9) and with inspection/repair carried out within 10 years will not be selected under Selection Mechanism A;

Note 9: *To encourage owners to properly manage and maintain their buildings on their own initiatives, the Hong Kong Housing Society commenced VBAS in July 2012. All private domestic buildings and composite buildings with building management are eligible to join VBAS, and VBAS accredited buildings will be recognised by BD for having fulfilled the requirements under MBIS within 10 years. Windows in common parts of VBAS accredited buildings will be recognised by BD for having fulfilled the requirements under MWIS within 5 years.*

Selection of target buildings for issuance of statutory notices

- (c) for buildings with inspection/repair carried out in accordance with those prescribed under the Buildings Ordinance on a voluntary basis without joining VBAS within 10 years, if BD is satisfied that the same requirements as those under MBIS are complied with, the buildings concerned will not be selected under Selection Mechanism A; and
- (d) however, buildings mentioned in (b) and (c) above may still be selected as target buildings under Selection Mechanism B for serving statutory notices under MWIS for all the individual premises if the selection criteria are satisfied (e.g. there was a record of fallen window incident in the building in the previous year).

2.7 ***Nomination lists of buildings.*** According to BD, after the target number of buildings for issuance of statutory notices under MWIS is determined, it will compile two nomination lists of buildings for the Selection Panel's endorsement by:

- (a) first compiling a nomination list of all buildings satisfying the criteria under Selection Mechanism B (hereinafter referred to as Nomination List B); and
- (b) selecting the remaining buildings from the nomination list compiled under Selection Mechanism A (hereinafter referred to as Nomination List A) to achieve the target number of buildings for issuance of statutory notices under MWIS.

Scope for improving Selection Mechanism B

2.8 Under Selection Mechanism B, buildings with records of fallen window incidents in the previous year will be selected as target buildings for issuance of statutory notices under MWIS. Audit examined the 2017 (since the adoption of Selection Mechanism B) to 2024 annual target building selection exercises for MWIS under Selection Mechanism B and found that, for the 2023 and 2024 target building selection exercises, 11 and 20 buildings with records of fallen window incidents in the previous year were not selected as target buildings respectively. Audit noted that for these 31 buildings, MWIS statutory notices were served more than 5 years ago and therefore these buildings should not be excluded from the selection in accordance with BD guidelines (see para. 2.6(a)).

Selection of target buildings for issuance of statutory notices

2.9 In March 2025, BD informed Audit that:

- (a) under BD's current practice, for buildings with records of fallen window incidents where MWIS statutory notices had been served in the past, BD would consider certain additional factors prior to their inclusion in Nomination List B, including:
 - (i) compliance status of the MWIS statutory notices previously served (i.e. whether majority of the notices previously served for the building concerned had been complied with);
 - (ii) progress of enforcement actions taken (if any);
 - (iii) causes of the fallen window incidents (e.g. improper use of windows by owners/occupants); and
 - (iv) repeated fallen window incidents in the same building; and
- (b) after considering the factors mentioned in (a) above, the 31 buildings with records of fallen window incidents were not selected as target buildings for issuance of fresh MWIS statutory notices.

2.10 Audit noted that most of the related MWIS statutory notices of these 31 buildings had been complied with (Note 10). Furthermore, BD did not incorporate the additional factors to be considered for selecting buildings under Selection Mechanism B in its guidelines, and BD had not informed the Selection Panel (which was established to tender advice to BD on the selection criteria under MWIS) about these additional factors. In Audit's view, BD needs to:

- (a) incorporate all selection factors of target buildings under Selection Mechanism B for issuance of MWIS statutory notices in its guidelines;

Note 10: *Out of the 3,499 MWIS statutory notices previously served for these 31 buildings, 3,429 (98%) notices had been complied with as at 31 December 2024.*

Selection of target buildings for issuance of statutory notices

- (b) inform the Selection Panel all the selection factors (including the additional factors) considered by BD under Selection Mechanism B when seeking endorsement of Nomination List B for issuance of statutory notices under MWIS; and
- (c) document the justifications and inform the Selection Panel for its consideration and endorsement for buildings with records of fallen window incidents not selected under Selection Mechanism B for issuance of statutory notices under MWIS because MWIS statutory notices had been served in the past.

Some buildings with higher scores under Selection Mechanism A not selected

2.11 In the 2024 annual target building selection exercise under Selection Mechanism A (when the overriding selection criterion was revoked), BD gave scores to all the 19,754 buildings covered by both MWIS and MBIS (i.e. private buildings aged 30 years or above) in accordance with the Building Score System and compiled a scored building list. According to BD:

- (a) of the 19,754 buildings, 8,195 buildings were excluded for reasons such as selected in the past or carried out inspection/repair under VBAS within 10 years. The remaining 11,559 buildings were eligible for selection under Selection Mechanism A;
- (b) with a target to select 600 buildings for issuance of statutory notices under MWIS and MBIS, BD compiled Nomination List B of 89 buildings and Nomination List A of 700 buildings under Selection Mechanisms B and A respectively for the Selection Panel's endorsement, as follows:
 - (i) ***Nomination List B.*** 89 buildings selected under Selection Mechanism B for issuance of statutory notices under MWIS; and
 - (ii) ***Nomination List A.*** Of the 700 buildings selected under Selection Mechanism A:
 - 511 buildings were selected for issuance of statutory notices under both MWIS and MBIS;

Selection of target buildings for issuance of statutory notices

- 89 buildings were selected for issuance of statutory notices under MBIS only (as another 89 buildings were already selected under Selection Mechanism B for issuance of statutory notices under MWIS — see (i) above); and
 - 100 buildings were further selected under Selection Mechanism A as buffer buildings in case some buildings in the list could not be selected due to various reasons (e.g. with repair works in progress, demolished or to be demolished soon); and
- (c) the 700 buildings in Nomination List A under Selection Mechanism A comprised 483 buildings with the top scores (ranging from 25 to 65 points) among the 11,559 eligible buildings, together with 217 buildings which formed building clusters with the 483 buildings.

In the event, the Selection Panel endorsed the selection of buildings in both Nomination Lists A and B.

2.12 Audit examined the scores of the 8,195 buildings that were excluded from the selection and noted that 372 buildings with statutory notices previously served under MWIS and MBIS more than 5 and 10 years ago respectively were excluded from the selection and they had higher scores (ranging from 30 to 75 points) than some of the 483 buildings in Nomination List A (scores ranging from 25 to 65 points). According to BD:

- (a) the objective of MWIS/MBIS is to uphold the concept of “prevention is better than cure”. Under BD’s current practice, apart from selecting buildings on a risk-based approach in accordance with Selection Mechanism A, priority was also given to buildings that had never been inspected/repared under the scope of MWIS/MBIS; and
- (b) in case where dilapidated or defective buildings pose public safety hazards, the Existing Buildings Division of BD will proactively intervene through law enforcement or default works.

2.13 Audit noted that BD’s current practice in compiling Nomination List A for the Selection Panel’s endorsement for issuance of statutory notices under MWIS

Selection of target buildings for issuance of statutory notices

(i.e. giving priority to buildings that had never been inspected/repaired under the scope of MWIS/MBIS) had not been incorporated in BD guidelines, and BD had not informed the Selection Panel that some buildings not selected (because statutory notices had been served in the past) in fact had higher scores than some buildings in Nomination List A. In Audit's view, BD needs to:

- (a) incorporate the current practice in compiling Nomination List A under Selection Mechanism A for the Selection Panel's endorsement for issuance of statutory notices under MWIS (i.e. giving priority to buildings that had never been inspected/repaired under the scope of MWIS/MBIS) in its guidelines; and
- (b) document the justifications and inform the Selection Panel for its consideration and endorsement for buildings with higher scores not selected under Selection Mechanism A for issuance of statutory notices under MWIS.

Need to analyse information useful in identifying buildings with higher risk of falling windows

2.14 According to BD, to implement MWIS more effectively and efficiently, it reviews and revises the building selection mechanisms for issuance of statutory notices under MWIS from time to time. For example, in December 2016, BD introduced a risk-based building selection mechanism (i.e. Selection Mechanism B). From January 2017 to December 2024, BD recorded 445 fallen window incidents, of which 6 incidents resulted in a total of 1 death and 7 injuries. Audit noted that, of these 445 fallen window incidents:

- (a) 140 (32%) cases occurred at buildings that were selected by BD's building selection mechanisms, of which 131 cases had been served with statutory notices under MWIS before the incidents occurred (see also para. 3.6 for Audit's findings), and the other 9 cases were selected but had not been served with statutory notices when the incidents occurred;
- (b) 10 (2%) cases occurred at buildings not covered by MWIS (e.g. buildings aged below 10 years, domestic buildings not exceeding three storeys); and
- (c) 295 (66%) cases occurred at buildings that had not been selected by BD's building selection mechanisms when the incidents occurred.

Selection of target buildings for issuance of statutory notices

2.15 In Audit's view, the statistics on the fallen window incidents may be useful to BD in identifying buildings with higher risk of falling windows. Audit considers that BD needs to conduct analyses on the statistics on the fallen window incidents with a view to making further improvement to its building selection mechanisms for issuance of statutory notices under MWIS.

Scope for improvement in monitoring consultants' work for issuance of statutory notices

2.16 For enhancing cost effectiveness, BD has outsourced certain administrative work for issuance of statutory notices under MWIS to consultants. Consultants are required to carry out the following tasks:

- (a) ***Submitting desk study reports.*** Consultants should conduct desk study and site inspections, and compile desk study reports identifying all items that warrant service of statutory notices under MWIS and on whom the notices would be served;
- (b) ***Preparing statutory notices.*** After endorsement of the desk study reports by BD, consultants should prepare statutory notices together with covering letters for signing by BD;
- (c) ***Serving statutory notices.*** After signing of the statutory notices by BD, consultants should serve the notices, including dispatching the notices (including covering letters and pamphlets) to the owners and posting the notices on a conspicuous and prominent position of the premises or buildings; and
- (d) ***Updating the Building Condition Information System (BCIS — Note 11) records.*** Upon issuance of statutory notices, consultants should update the information of statutory notices served in BCIS, scan the notices and upload the scanned notices onto BCIS.

Note 11: *BCIS is a computer system for recording, processing and retrieving details of public reports, planned surveys, statutory orders, works orders and consultancy assignments.*

Selection of target buildings for issuance of statutory notices

2.17 From September 2022 to September 2023, BD awarded:

- (a) 4 consultancy agreements each with a contract period of 12 months (i.e. 18 October 2022 to 17 October 2023) to 3 consultants (1 consultancy agreement each to Consultants A and B, and 2 consultancy agreements to Consultant C) for carrying out the work for the target buildings selected in 2022 (Note 12); and
- (b) another 4 consultancy agreements each with a contract period of 24 months (i.e. 5 October 2023 to 4 October 2025) to 2 consultants (2 consultancy agreements each to Consultants C and D) for carrying out the work for the target buildings selected in 2023 and 2024 (Note 13).

2.18 According to BD guidelines, consultants' performance should be monitored to ensure timely completion of assignments and achievement of objectives of the consultancy through strict adherence to the approved programme and timeframe. For unsatisfactory performance, BD may issue reminders, advisory letters, warning letters and adverse performance reports (Note 14) to the consultants. In this connection, Audit noted that the performance of Consultants A and B (engaged for issuance of statutory notices for buildings selected in 2022) and performance of Consultant D (engaged for issuance of statutory notices for buildings selected in 2023 and 2024) were unsatisfactory. Details are as follows:

Note 12: *The 4 consultancy agreements with a total contract sum of about \$7.9 million were for issuance of statutory notices for buildings selected for MWIS and MBIS.*

Note 13: *The 4 consultancy agreements with a total contract sum of about \$18.1 million were for issuance of statutory notices for buildings selected for MWIS and MBIS.*

Note 14: *During the contract period, BD will issue quarterly performance reports and a final performance report upon completion of an agreement to the consultant. BD may issue an adverse performance report after issuing a warning letter to the consultant. A consultant having received two and three consecutive adverse performance reports under the same consultancy will be suspended from bidding BD's consultancy work of the same category for at least 3 and 12 months respectively.*

Selection of target buildings for issuance of statutory notices

- (a) **Consultant A.** Audit noted that:
- (i) since March 2023, there had been severe slippage of submission of draft statutory notices and inadequate staffing by Consultant A. Despite various actions taken by BD to address the issues (including issuance of an advisory letter on unsatisfactory performance in May 2023 and repeated reminders in monthly progress meetings), the situation had not improved until the fourth quarter of 2023. Besides, the quality of desk study reports and draft notices prepared by Consultant A had been found unsatisfactory; and
 - (ii) in the event, BD had to extend the agreement with Consultant A (without additional costs) to December 2023 (i.e. about 2 months later than the original contract completion date of October 2023) for Consultant A to complete all the work as defined in the consultancy agreement. As a result, “poor” performance ratings had been given in the related aspects in each of Consultant A’s quarterly performance reports from April to December 2023 to reflect the prolonged slippage of the approved programme and the inadequate staffing, and in each of quarterly performance reports from January to December 2023 to reflect its poor performance in preparing desk study reports and/or draft notices;
- (b) **Consultant B.** Audit noted that:
- (i) in May 2023, BD issued an advisory letter to Consultant B on its unsatisfactory performance and expressed concerns about the prolonged slippage of the work programme (including submission of draft statutory notices), the unacceptable quality of desk study reports and notices, and inadequacy of staff as compared to the agreed organisation chart;
 - (ii) in July 2023, BD issued a reminder to Consultant B to register concerns about the slippage of the work programme and in updating BCIS records. In January 2024, Consultant B advised that it had completed the serving of all notices; and
 - (iii) in the event, BD had to extend the agreement with Consultant B (without additional costs) to September 2024 (i.e. about 11 months

Selection of target buildings for issuance of statutory notices

later than the original contract completion date of October 2023) for Consultant B to complete all the work as defined in the consultancy agreement. As a result, “poor” performance ratings had been given in the related aspects in each of Consultant B’s quarterly performance reports from January 2023 to September 2024; and

- (c) **Consultant D.** Audit noted that:
- (i) for one consultancy agreement awarded to Consultant D, the submission of desk study reports and the serving of statutory notices were slightly behind schedule since December 2023 and February 2024 respectively. BD and Consultant D had discussed the progress of work tasks in regular progress meetings. In November 2024, Consultant D advised that all notices for buildings selected in 2023 had been served and uploaded onto BCIS, which was about 2 months later than the target completion date of September 2024 as set out in Consultant D’s original work programme; and
 - (ii) for the other consultancy agreement awarded to Consultant D, there had been delays in submission of notice posting records and updating BCIS records. According to Consultant D’s original work programme, submission of notice posting records and updating BCIS records were targeted for completion in June and July 2024 respectively. However, as at 31 December 2024, Consultant D had not yet completed such work tasks despite BD’s repeated reminders (i.e. with delays of about 6 and 5 months respectively).

2.19 According to BD, notwithstanding the unsatisfactory performance of Consultants A, B and D in some aspects, no adverse performance reports had been issued to them as their overall performance were considered acceptable. In Audit’s view, BD needs to strengthen the monitoring of the performance of consultants engaged for issuance of statutory notices under MWIS and take measures to ensure the timely completion of assignments and achievement of objectives of the consultancy agreements.

Audit recommendations

2.20 **Audit has *recommended* that the Director of Buildings should:**

- (a) incorporate all selection factors of target buildings under Selection Mechanism B for issuance of MWIS statutory notices in BD guidelines;**
- (b) inform the Selection Panel all the selection factors (including the additional factors) considered by BD under Selection Mechanism B when seeking endorsement of Nomination List B for issuance of statutory notices under MWIS;**
- (c) document the justifications and inform the Selection Panel for its consideration and endorsement for buildings with records of fallen window incidents not selected under Selection Mechanism B for issuance of statutory notices under MWIS because MWIS statutory notices had been served in the past;**
- (d) incorporate the current practice in compiling Nomination List A under Selection Mechanism A for the Selection Panel's endorsement for issuance of statutory notices under MWIS (i.e. giving priority to buildings that had never been inspected/repaired under the scope of MWIS/MBIS) in BD guidelines;**
- (e) document the justifications and inform the Selection Panel for its consideration and endorsement for buildings with higher scores not selected under Selection Mechanism A for issuance of statutory notices under MWIS;**
- (f) conduct analyses on the statistics on the fallen window incidents with a view to making further improvement to BD's building selection mechanisms for issuance of statutory notices under MWIS; and**
- (g) strengthen the monitoring of the performance of consultants engaged for issuance of statutory notices under MWIS and take measures to ensure the timely completion of assignments and achievement of objectives of the consultancy agreements.**

Response from the Government

2.21 The Director of Buildings agrees with the audit recommendations. She has said that BD will:

- (a) update the relevant guidelines accordingly;
- (b) conduct reviews on those fallen window incidents with a view to enhancing the building selection mechanisms as far as practicable; and
- (c) explore measures to strengthen the monitoring of consultants.

Promotion of voluntary window inspection

2.22 The owners may initiate inspection and repair for windows in their buildings in accordance with the standards and procedures of MWIS voluntarily before the receipt of statutory notices from BD. According to BD guidelines:

- (a) windows in common parts of a building accredited with a satisfactory building safety rating under VBAS and with inspection/repair carried out within 5 years will not be selected for MWIS; and
- (b) where inspection/repair of windows have been completed in accordance with those prescribed under the Buildings Ordinance on a voluntary basis without joining VBAS, and BD is satisfied that the same requirements as those under MWIS are complied with, the window concerned may not be selected for MWIS within 5 years.

Need to step up efforts in promoting voluntary window inspection

2.23 In November 2024, BD informed Audit that:

- (a) to strengthen compliance with MWIS and to further promote voluntary window inspection, it had stepped up public education and publicity activities in recent years to enhance public awareness of the importance of regular window inspection and maintenance in the community (including

Selection of target buildings for issuance of statutory notices

organising Building Safety Weeks, broadcasting Announcements in the Public Interest on television, radio, public transport and online media, and disseminating short video films, infographics, pamphlets, layman's guides and newsletters to the public); and

- (b) it had conducted/been actively involved in briefings or talks for owners, owners' corporations, the industry and other organisations with a view to further promoting MWIS in the community and introducing the assistance available to them.

2.24 Despite BD's efforts in promoting voluntary window inspection, Audit examination revealed that the participation in voluntary window inspection was on the low side. According to BD, since the commencement of MWIS in June 2012 and up to December 2024, for buildings covered by MWIS:

- (a) 342 buildings were being assessed or were accredited under VBAS (for voluntary inspection of windows in common parts of the buildings); and
- (b) owners of 115,910 individual premises (Note 15) had conducted prescribed window inspections on a voluntary basis (for windows in individual premises).

In Audit's view, BD needs to further promote voluntary window inspection.

Audit recommendation

2.25 **Audit has *recommended* that the Director of Buildings should step up efforts in promoting voluntary window inspection and encouraging owners to carry out timely and necessary window repair on their own initiative.**

Note 15: *According to BD: (a) the majority of the individual premises with voluntary window inspection conducted were residential units; and (b) it does not have the statistics on the number of private individual premises (including all building types) aged 10 years or above and was subject to MWIS as at 31 December 2024.*

Response from the Government

2.26 The Director of Buildings agrees with the audit recommendation. She has said that BD will continue its public education and publicity activities to promote regular maintenance and voluntary window inspection.

PART 3: FOLLOW-UP ACTIONS ON STATUTORY NOTICES

3.1 This PART examines BD's follow-up actions after issuance of statutory notices under MWIS, focusing on:

- (a) administration of statutory notices (paras. 3.2 to 3.12); and
- (b) prosecution actions (paras. 3.13 to 3.20).

Administration of statutory notices

3.2 The owners served with statutory notices under MWIS are required to appoint a QP to complete the prescribed inspection and/or supervise the completion of the prescribed repair (if found necessary) within 6 months and 9 months for windows in individual premises and windows in common parts of the buildings respectively from the date of the statutory notices. A QP should submit various documents to BD within the specified timeframe for the prescribed inspection and the prescribed repair under MWIS.

3.3 BD will issue compliance letters to the owners (and copied to QPs) certifying compliance with the statutory notices under MWIS if the prescribed inspections and the prescribed repairs found necessary have been completed and the required certificates are received from QPs. MWIS statutory notice is considered not complied with if the certificates of prescribed inspection and/or repair (if necessary) of windows are not received by BD 14 days from the compliance due date (see Note 4 to para. 1.6) of the MWIS statutory notice, or if irregularities are found on the certificates.

Long-outstanding statutory notices

3.4 Since the commencement of MWIS in June 2012 and up to December 2024, BD had issued 723,219 statutory notices under MWIS (see Note 3 to para. 1.4). As at 31 December 2024, of the 723,219 statutory notices issued:

Follow-up actions on statutory notices

- (a) 29,781 (4%) statutory notices had been withdrawn (e.g. the building was going to be demolished) or superseded by new notices (e.g. the ownership of the premises had been changed);
- (b) 9,121 (1%) statutory notices were not yet due (i.e. with compliance due date after 31 December 2024) and had not yet been complied with; and
- (c) for the remaining 684,317 (95%) statutory notices, 657,670 (96% of 684,317) notices had been complied with and 26,647 (4% of 684,317) notices had not (see Table 1).

Table 1

Compliance of statutory notices under MWIS (31 December 2024)

Particulars	Number of statutory notices		
	Complied with (a)	Not complied with (Note) (b)	Total (c) = (a) + (b)
Windows in common parts	8,202 (73%)	3,049 (27%)	11,251 (100%)
Windows in individual premises owned by individual owners	649,468 (96%)	23,598 (4%)	673,066 (100%)
Overall	657,670 (96%)	26,647 (4%)	684,317 (100%)

Source: BD records

Note: Statutory notices not complied with refer to those non-compliant statutory notices with compliance due date on or before 31 December 2024.

3.5 For the 26,647 statutory notices under MWIS not complied with as at 31 December 2024, Audit noted that:

Follow-up actions on statutory notices

- (a) the non-compliance rate for windows in common parts of the buildings (27%) was much higher than that for windows in individual premises owned by individual owners (4%); and
- (b) 11,410 (43%) statutory notices had remained outstanding for more than 3 years and up to 11.6 years (averaging 6.5 years) from compliance due dates of statutory notices (see Table 2).

Table 2

Ageing analysis of non-compliant statutory notices under MWIS (31 December 2024)

Time lapsed (Note)	Number of non-compliant statutory notices		
	Windows in common parts (a)	Windows in individual premises owned by individual owners (b)	Overall (c) = (a) + (b)
1 year or less	752 (25%)	6,598 (28%)	7,350 (27%)
More than 1 year to 3 years	1,040 (34%)	6,847 (29%)	7,887 (30%)
More than 3 years to 6 years	686 (22%)	5,090 (22%)	5,776 (22%)
More than 6 years to 11.6 years	571 (19%)	5,063 (21%)	5,634 (21%)
Total	3,049 (100%)	23,598 (100%)	26,647 (100%)

Source: BD records

Note: Time lapsed was counted from the compliance due date of the statutory notice to 31 December 2024.

3.6 In this connection, Audit noted that, of the 445 fallen window incidents recorded by BD from January 2017 to December 2024 (see para. 1.2), 131 (29%) cases had been served with statutory notices under MWIS before the incidents occurred, of which 25 (19% of 131) notices had not been complied with when the incidents occurred (of the 25 notices, 18 notices had remained outstanding for a period ranging from 15 to 2,928 days (averaging 1,188 days) from compliance due dates of statutory notices, and the other 7 notices were not yet due). As at 31 December 2024, 5 of these 25 statutory notices under MWIS were still outstanding (i.e. the prescribed inspection and/or the prescribed repair of other windows of the buildings/premises had yet to be completed) (Note 16).

3.7 In Audit's view, BD needs to:

- (a) closely monitor the compliance of statutory notices under MWIS and take appropriate follow-up actions on non-compliant cases (in particular for the cases with fallen window incidents occurred); and
- (b) in view of the relatively higher non-compliance rate of MWIS statutory notices for windows in common parts of the buildings, explore measures to facilitate the owners' corporations or owners of the buildings concerned to carry out the prescribed inspection and/or the prescribed repair.

Scope for improvement in issuance of warning letters and FPNs

3.8 According to BD guidelines:

- (a) for non-compliance with statutory notices under MWIS, a warning letter should be issued to the owner within 1 month from the compliance due date of the MWIS statutory notice; and

Note 16: *According to BD, for the 5 cases with statutory notices under MWIS remained not complied with as at 31 December 2024, as at 28 February 2025: (a) the statutory notice had been complied with for 1 case; (b) repair works had been initiated for 1 case; (c) prosecution proceeding was in progress for 1 case; and (d) FPNs would be issued for the remaining 2 cases.*

Follow-up actions on statutory notices

- (b) for MWIS statutory notices served, in case their non-compliance continues without reasonable excuse after issuance of warning letter, an FPN should be issued (see Note 5 to para. 1.6).

3.9 Audit noted that there was scope for improvement in issuance of warning letters and FPNs, as follows:

- (a) ***Warning letters not timely issued for some non-compliant statutory notices.***
According to BCIS records, of the 26,647 statutory notices under MWIS not complied with as at 31 December 2024 (see Table 3):
 - (i) no warning letters had been issued to the owners for 4,975 (19%) statutory notices as at 31 December 2024. Audit noted that, of the 4,975 statutory notices, while warning letters were not yet due for issuance for 2,410 (48%) statutory notices, warning letters were due for issuance for the remaining 2,565 (52%) statutory notices (i.e. the time lapsed from the compliance due date of the statutory notice to 31 December 2024 was more than 1 month) but had not been issued, thus not meeting the time target of issuing warning letter as stipulated in BD guidelines; and
 - (ii) warning letters had been issued to the owners for 21,672 (81%) statutory notices as at 31 December 2024. However, 19,313 (89%) of the 21,672 warning letters were issued more than 1 month from the compliance due date of the statutory notice, thus not meeting the time target of issuing warning letter as stipulated in BD guidelines;

Follow-up actions on statutory notices

Table 3

Issuance of warning letters for non-compliant statutory notices (31 December 2024)

Particulars	Number of non-compliant statutory notices	
(A) Without warning letter issued		
(i) not yet due for issuance (Note 1) (a)	2,410 (48%)	
(ii) due for issuance but not yet issued with time lapsed (Note 1)		
- more than 1 month to 1 year	2,309 (46%)	} 2,565 (52%)
- more than 1 year to 3 years	253 (5%)	
- more than 3 years to 5.7 years (Note 2)	3 (1%)	
Sub-total (b)	2,565	
Sub-total (c) = (a) + (b)	4,975 (100%)	
(B) With warning letter issued		
(i) with time lapsed of 1 month or less (Note 3) (d)	2,344 (10%)	
(ii) with time lapsed (Note 3)		
- more than 1 month to 1 year	13,124 (60%)	} 19,313 (89%)
- more than 1 year to 3 years	4,028 (19%)	
- more than 3 years to 6 years	2,066 (9%)	
- more than 6 years to 9.9 years (Note 4)	95 (1%)	
Sub-total (e)	19,313	
(iii) with compliance due date later than warning letter date (Note 5) (f)	15 (1%)	
Sub-total (g) = (d) + (e) + (f)	21,672 (100%)	
Total (h) = (c) + (g)	26,647	

Source: BD records

Note 1: Time lapsed was counted from the compliance due date of the statutory notice to 31 December 2024.

Note 2: According to BD, the longest case (with 5.7 years) has been under appeal and no warning letter was issued.

Table 3 (Cont'd)

Note 3: Time lapsed was counted from the compliance due date of the statutory notice to the warning letter date.

Note 4: According to BD, for the longest case (with 9.9 years), the related statutory notice was wrongly considered as “complied with” due to incorrect premises address in a certificate submitted by a QP. After discovering the mistake in the certificate, a warning letter was issued for the related statutory notice in 2022.

Note 5: According to BD, extension of time was granted after the issuance of warning letter and the original compliance due date was revised accordingly. Hence, the revised compliance due date was later than the warning letter date.

(b) ***FPNs not timely issued for some non-compliant statutory notices.***
According to BCIS records, of the 21,672 non-compliant statutory notices with warning letters issued as at 31 December 2024 (see Table 4):

- (i) no FPNs had been issued to the owners for 18,352 (85%) statutory notices as at 31 December 2024, of which the time lapsed from the compliance due date of the statutory notice to 31 December 2024 for 15,913 (87%) notices was more than 1 year; and
- (ii) 4,208 FPNs had been issued to the owners for 3,320 (15%) statutory notices as at 31 December 2024, of which for 2,899 (87%) statutory notices, the related FPNs were issued more than 1 year from the compliance due date of the statutory notice.

In this connection, Audit noted that, after conducting a review on the issuance of FPN, BD introduced an enhancement measure in July 2024, stipulating that an FPN should be issued within 6 months from the compliance due date of the statutory notice to ensure the effectiveness of FPN; and

Table 4

**Issuance of FPNs for non-compliant statutory notices
with warning letters issued
(31 December 2024)**

Time lapsed	Number of non-compliant statutory notices with warning letters issued	
(A) Without FPN issued (Note 1)		
- 1 year or less	2,439	(13 %)
- more than 1 year to 3 years	6,894	(38 %)
- more than 3 years to 6 years	4,943	(27 %)
- more than 6 years to 11.1 years (Note 2)	4,076	(22 %)
Sub-total (a)	18,352	(100 %)
(B) With FPN issued (Note 3)		
- 1 year or less	421	(13 %)
- more than 1 year to 3 years	924	(28 %)
- more than 3 years to 6 years	1,049	(31 %)
- more than 6 years to 10.9 years (Note 4)	926	(28 %)
Sub-total (b)	3,320	(100 %)
Total (c) = (a) + (b)	21,672	

15,913
(87%)

2,899
(87%)

Source: BD records

Note 1: Time lapsed was counted from the compliance due date of the statutory notice to 31 December 2024.

Note 2: According to BD, for the longest case (with 11.1 years), the repair works for windows in common parts of the building had been initiated and was in progress as at 28 February 2025, and hence, FPN was not issued.

Note 3: Time lapsed was counted from the compliance due date of the statutory notice to the date of FPN.

Note 4: According to BD, for the longest case (with 10.9 years), long time taken to issue an FPN was due to mis-location of the subject file.

Follow-up actions on statutory notices

- (c) ***Some FPNs issued not paid.*** According to BD guidelines, in the event that the fixed penalty of \$1,500 has not been paid within 21 days from the date of FPN and the notification for dispute of liability has not been received, BD may make an application to the magistrate (i.e. application of Court Order) under the Buildings Ordinance ordering the person to pay the fixed penalty of \$1,500 plus \$300 by way of costs. In this connection, Audit noted that 4,208 FPNs were issued for the 3,320 non-compliant statutory notices as at 31 December 2024 (see (b)(ii) above). Of these 4,208 FPNs, 2,045 (49%) were not yet paid as at 31 December 2024 and BD had not yet referred these unpaid FPNs to the Court for settlement.

3.10 In Audit's view, BD needs to:

- (a) issue warning letters and FPNs for non-compliant MWIS statutory notices in a timely manner in accordance with the time targets as stipulated in its guidelines; and
- (b) refer warranted unpaid FPNs to the Court in accordance with its guidelines where appropriate.

Audit recommendations

3.11 **Audit has *recommended* that the Director of Buildings should:**

- (a) **closely monitor the compliance of statutory notices under MWIS and take appropriate follow-up actions on non-compliant cases (in particular for the cases with fallen window incidents occurred);**
- (b) **in view of the relatively higher non-compliance rate of MWIS statutory notices for windows in common parts of the buildings, explore measures to facilitate the owners' corporations or owners of the buildings concerned to carry out the prescribed inspection and/or the prescribed repair;**
- (c) **issue warning letters and FPNs for non-compliant MWIS statutory notices in a timely manner in accordance with the time targets as stipulated in BD guidelines; and**

- (d) **refer warranted unpaid FPNs to the Court in accordance with BD guidelines where appropriate.**

Response from the Government

3.12 The Director of Buildings agrees with the audit recommendations. She has said that BD will explore measures to:

- (a) closely monitor the compliance of MWIS statutory notices, particularly for the cases with fallen window incidents;
- (b) boost the compliance rate of MWIS statutory notices for windows in common parts of the buildings; and
- (c) ensure timely issuance of warning letters and FPNs, and referral of warranted unpaid FPNs to the Court.

Prosecution actions

3.13 According to BD guidelines:

- (a) prior to instigating prosecution actions, an FPN must be served on a person who, without reasonable excuse, fails to comply with an MWIS statutory notice; and
- (b) prosecution actions to be instigated against the offenders must be commenced within 12 months of the commission of the offence or within 12 months of the same being discovered by or coming to the notice of BD.

According to BD, to speed up the prosecution actions, since January 2019, for non-compliant statutory notices after serving the FPNs, they will be referred to the

Follow-up actions on statutory notices

Fast Track Prosecution Teams (FPT — Note 17) to arrange for issuance of summonses on the owners concerned for warranted cases.

Need to step up referral of non-compliant statutory notices for instigating prosecution actions

3.14 Audit noted that, while BD had set up FPT to expedite prosecution actions on non-compliant statutory notices under MWIS since January 2019, a large number of non-compliant notices had not yet been referred to FPT for instigating prosecution actions as at 31 December 2024, and BD took a long time to refer some non-compliant notices for prosecution actions. As at 31 December 2024, of the 3,320 non-compliant statutory notices under MWIS with FPNs served:

- (a) 2,792 (84%) non-compliant notices had not yet been referred to FPT for instigating prosecution actions. In particular, the FPNs for 2,736 (98%) of the 2,792 non-compliant notices were served in or after January 2019 (i.e. when FPT was set up to expedite prosecution actions on non-compliant statutory notices under MWIS); and
- (b) 528 (16%) non-compliant notices had been referred to FPT for instigating prosecution actions. 299 (56% of 528) of these non-compliant notices were referred to FPT more than 1 year and up to 9.4 years (averaging 2.4 years) from the date of FPN (Note 18) (see Table 5).

Note 17: *In January 2019, BD set up FPT under the MBI Sections to expedite prosecution actions on non-compliant statutory notices under MWIS and MBIS. Before January 2019, non-compliant statutory notices were referred to the Legal Services Section of BD for instigating prosecution actions.*

Note 18: *According to BD, reasons for taking a long time to refer non-compliant notices to FPT include: (a) disputes raised by owners; (b) extension of time granted to owners with positive response after receipt of FPNs; and (c) assistance required for cases involving windows in common parts of the buildings. Regarding the longest case (with 9.4 years), BD took time to carry out site visit to outreach the owners/occupants who still could not be reached as at 28 February 2025.*

Table 5

**Referral of non-compliant statutory notices under MWIS
for instigating prosecution actions
(31 December 2024)**

Time lapsed (Note)	Number of non-compliant statutory notices referred to FPT	
1 year or less	229	(44 %)
More than 1 year to 3 years	233	(44 %)
More than 3 years to 5 years	54	(10 %)
More than 5 years to 9.4 years	12	(2 %)
Total	528	(100 %)

Source: BD records

Note: Time lapsed was counted from the date of FPN to the date of referral for instigating prosecution actions.

3.15 In Audit's view, BD needs to step up referral of non-compliant statutory notices under MWIS to FPT for instigating prosecution actions and remind its staff to follow the related guidelines.

Need to instigate further prosecution actions for warranted continuous non-compliant statutory notices

3.16 According to BD guidelines, after the Court has convicted an owner for non-compliance with a statutory notice under MWIS, a warning letter should be issued to the owner for taking action to comply with the statutory notice without further delay. Once continuous non-compliance without reasonable excuse is ascertained, immediate referral to FPT for instigating second prosecution actions should be made.

3.17 Audit noted that, of the 528 MWIS statutory notices which had been referred for instigating prosecution actions and remained non-compliant as at 31 December 2024, 126 defendants for 107 non-compliant statutory notices had been convicted. However, Audit noted that no referral for instigating second prosecution

Follow-up actions on statutory notices

actions had been made for 85 (79% of 107) statutory notices as at 31 December 2024, of which their convictions were made 12 to 1,496 days (averaging 570 days) ago.

3.18 According to BD, for convicted cases, BD may provide further support with a view to facilitating the owners to voluntarily comply with MWIS statutory notices, rather than instigating second prosecution actions. In Audit's view, to serve as a more effective deterrent, BD needs to closely monitor the compliance status of statutory notices for convicted non-compliant cases and instigate further prosecution actions for warranted continuous non-compliant statutory notices under MWIS.

Audit recommendations

3.19 **Audit has *recommended* that the Director of Buildings should:**

- (a) **step up referral of non-compliant statutory notices under MWIS to FPT for instigating prosecution actions and remind BD staff to follow the related guidelines; and**
- (b) **closely monitor the compliance status of statutory notices for convicted non-compliant cases and instigate further prosecution actions for warranted continuous non-compliant statutory notices under MWIS.**

Response from the Government

3.20 The Director of Buildings agrees with the audit recommendations. She has said that BD will:

- (a) continue to explore streamlining measures for instigating prosecutions and provide more briefings to its staff to ensure the related guidelines be followed; and
- (b) explore streamlining measures to instigate further prosecutions for continuous non-compliant MWIS statutory notices.

PART 4: MONITORING OF QUALIFIED PERSONS AND OTHER ISSUES

4.1 This PART examines the monitoring of QPs and other issues related to MWIS, focusing on:

- (a) monitoring of QPs' submissions under MWIS (paras. 4.2 to 4.21); and
- (b) other issues (paras. 4.22 to 4.37).

Monitoring of Qualified Persons' submissions under Mandatory Window Inspection Scheme

4.2 The owners served with statutory notices under MWIS are required to appoint a QP to complete the prescribed inspection and/or supervise the completion of the prescribed repair (if found necessary) within 6 months and 9 months for windows in individual premises and windows in common parts of the buildings respectively from the date of the statutory notices. BD has kept a register of QPs (Note 19) and established a regulatory mechanism under the Buildings Ordinance for monitoring QPs under MWIS. As at 31 December 2024, there were 18,941 QPs.

4.3 ***MWIS submissions.*** According to the Building (Inspection and Repair) Regulation (Cap. 123P), a QP should submit the following documents to BD within the specified timeframe under MWIS:

- (a) a notification of appointment of QP within 7 days after the date of appointment;

Note 19: *A QP appointed to carry out the prescribed inspection or supervision of the prescribed repair for windows under MWIS shall be a person whose name is for the time being on one of the following registers kept by BD: (a) Authorised Person; (b) Registered Structural Engineer; (c) Registered Inspector; (d) Registered General Building Contractors; or (e) Registered Minor Works Contractors registered for the class, type and item of minor works in respect of windows.*

Monitoring of Qualified Persons and other issues

- (b) if no prescribed repair is required, a certificate of prescribed inspection of windows within 14 days after the completion of the prescribed inspection;
- (c) if a prescribed repair is required, and the same QP who carried out the prescribed inspection is appointed to carry out the supervision of the prescribed repair, a certificate of prescribed inspection and repair of windows within 14 days after the completion of the prescribed repair; and
- (d) if a prescribed repair is required, and the QP appointed to carry out the supervision of the prescribed repair is different from the QP who carried out the prescribed inspection:
 - (i) a certificate of prescribed inspection of windows within 7 days after the completion of the prescribed inspection (by the QP appointed for the prescribed inspection); and
 - (ii) a certificate of prescribed repair of windows within 14 days after the completion of the prescribed repair (by the QP appointed for supervision of the prescribed repair).

4.4 ***Procedures for BD's audit checks of MWIS submissions.*** According to BD, to ensure that the inspection and repair of windows are carried out in accordance with the Buildings Ordinance, it conducts sample checking on MWIS submissions from QPs. According to BD guidelines, upon receipt of QPs' MWIS submissions, BD clerical grade staff will conduct preliminary checks on the submissions (e.g. verification of the registration status of QPs against the records as shown in the register of QPs). After the preliminary checks, BD will select some of the submissions for audit checks, as follows:

- (a) ***Document audit.*** For selected submissions, BD will conduct document audits on submissions received to verify compliance with the scopes and requirements under the Buildings Ordinance, the relevant Code of Practice and Practice Notes;
- (b) ***Site audit.*** Apart from document audits, BD will also conduct site audits on the selected submissions to verify the accuracy of the submissions with regard to the actual window condition. BD staff will issue letters to the

owners/occupants notifying that their premises have been selected for site audits and then arrange site inspections as follows:

- (i) if there is response from the owner/occupant, site inspection to the premises should be arranged within two weeks;
 - (ii) if there is no response from the owner/occupant after two weeks, BD staff should visit the premises within the following two weeks, and in case of no entry, leave a contact slip requesting arrangement of access for inspection; and
 - (iii) if there is no response from the owner/occupant two weeks after serving the contact slip or the owner/occupant refuses to provide access, no further action will be taken and the site audit will be dropped; and
- (c) **Record keeping.** The results of the document and site audits will be recorded on a standard manual checklist (with results indicated as satisfactory, unsatisfactory or dropped (for site audit)) and filed in subject files. BD will also record the results of its audit checks in BCIS.

According to BD, an audit check is only considered successful if both the document and site audits have been carried out (i.e. the premises selected for audit check was accessible for site audit).

4.5 Follow-up actions on irregularities identified. According to BD guidelines, BD will take the following actions for irregularities identified during its audit checks of MWIS submissions from QPs:

- (a) for irregularities that are of minor nature without causing danger (e.g. existing window defects omitted in the repair but unlikely to cause injury or damage) or missing or unclear information in the submitted documents, BD will issue a reminder letter within two weeks to the QP concerned requesting clarification and/or rectification. In case there is no positive response from the QP within one month or the time limit set out in the reminder letter, BD should issue a warning letter to the QP concerned within the next two weeks;

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- (b) when the audit check reveals that a QP has failed to discharge the duties or abide by the requirements imposed under the Buildings Ordinance (e.g. not carrying out the prescribed inspection personally), BD will conduct an investigation and collect evidence with a view to instigating prosecution action against the QP concerned under the Buildings Ordinance (Note 20). In case there is insufficient evidence to instigate prosecution action against the QP concerned and with the advice of prosecution teams, a warning letter should be issued to the QP concerned;
- (c) according to the Buildings Ordinance, if a QP has been convicted by any Court of an offence relating to building works or street works, has been negligent or has misconducted himself in building works or street works, or has failed to discharge the duties or abide by the requirements imposed in respect of a prescribed inspection or prescribed repair, BD may refer such case to the disciplinary board for conducting hearing of disciplinary proceedings. If a QP has been convicted by the disciplinary board, the QP may be removed from the register of QPs either permanently or temporarily, or duly considered when processing registration renewal application; and
- (d) BD maintains a watch list of QPs with warning letters issued and QPs convicted by the Court and/or the disciplinary board. BD will select one submission from each of the QPs on the watch list for extra audit checks in addition to normal sampling quarterly. QPs will be removed from the watch list only if the results of audit checks of the QPs concerned are found satisfactory in two consecutive quarters.

From time to time, BD also receives public reports about poor performance of QPs or reports of fallen window incidents after completion of the prescribed inspection/repair under MWIS. Upon receiving such reports, BD will conduct investigations and take follow-up actions on irregularities identified as mentioned above.

Note 20: *Under the Buildings Ordinance, penalties for offences under MWIS include, for example, a QP who fails to carry out the prescribed inspection personally or provide proper supervision of the carrying out of the prescribed repair is liable on conviction to a fine of up to \$250,000, and a QP who fails to ensure that the window is safe or has been rendered safe is liable on conviction to a fine of up to \$1,000,000 and imprisonment for up to three years.*

4.6 According to BD, from 2019 to 2024, there were 30 cases with investigations conducted on the irregularities or malpractice of QPs under MWIS, of which 22 cases were found substantiated for instigating prosecution actions. The QPs concerned of 20 cases were convicted of various offences and fined (ranging from \$2,000 to \$30,000), of which 19 cases were referred to the disciplinary board for conducting hearing of disciplinary proceedings (Note 21). For the remaining 2 (22 less 20) cases, 1 QP was acquitted and the other QP was served with a summons in August 2024 for a hearing scheduled to be held in May 2025.

Some MWIS submissions not timely submitted

4.7 According to the Building (Inspection and Repair) Regulation, a QP should submit relevant MWIS submissions to BD within the specified timeframe after the completion of the prescribed inspection and/or the prescribed repair under MWIS. Audit examined BCIS records for MWIS submissions by QPs in 2024 and noted that:

- (a) ***Notification of appointment of QP.*** Under MWIS, a QP is required to submit the notification of appointment of QP to BD within 7 days after the date of appointment as a statutory requirement. However, BD had not maintained the appointment dates of QPs in BCIS and therefore Audit could not ascertain the extent of compliance of this statutory requirement by QPs. In response to Audit's enquiry, BD informed Audit in March 2025 that:
 - (i) BD conducted a review in 2017 to streamline the form submission process. With the support from the trade, effective from April 2018, the notification of appointment of QP had been combined with the certificate of prescribed inspection/repair of windows. Thereafter, BD no longer required QPs to submit the notification of appointment of QP; and

Note 21: *According to BD: (a) for the 19 cases with hearing of disciplinary proceedings conducted, various disciplinary actions were enforced, including prohibiting the QPs concerned from certifying any prescribed inspection or certifying/supervising any prescribed repair, and not renewing the registration of QPs concerned; and (b) for the remaining case not referred to the disciplinary board, the QP concerned had already been removed from the Register of Minor Works Contractors and hence, no referral to the disciplinary board was required.*

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- (ii) BD would conduct a review on the feasibility to revise the relevant legal requirement to align with the current practice;
- (b) *Submissions after prescribed inspections of windows (where prescribed repairs were not required).* According to BCIS records, BD received 21,759 certificates of prescribed inspection of windows submitted by QPs (for cases where prescribed repairs were not required) under MWIS in 2024. Audit found that 1,977 (10%) certificates were received by BD more than 14 days and up to 5 years (averaging 53 days) after the completion of the prescribed inspections of windows (see Table 6), not meeting the 14-day statutory requirement (see also para. 4.24(b) for Audit's findings on BCIS records);

Table 6

**MWIS submissions after prescribed inspections of windows
(2024)**

Time lapsed (Note 1)	Number of certificates of prescribed inspection of windows	
14 days or less	19,782	(90 %)
More than 14 days to 1 month	867	(3 %)
More than 1 month to 6 months	1,059	(4 %)
More than 6 months to 1 year	27	(1 %)
More than 1 year to 2 years	17	(1 %)
More than 2 years to 5 years (Note 2)	7	(1 %)
Total	21,759	(100 %)

Source: BD records

Note 1: Time lapsed was counted from the completion date of the prescribed inspection to the date of receipt of certificate of prescribed inspection of windows by BD.

Note 2: For the longest case, the certificate of prescribed inspection of windows was received 1,807 days (i.e. about 5 years) after the completion of the prescribed inspection. According to BD, the QP concerned submitted a certificate with incorrect information (i.e. wrong notice number) in 2019, and upon clearance of backlog by BD in 2024, the QP concerned re-submitted the certificate with correct information in 2024.

- (c) ***Submissions after prescribed inspections of windows (where prescribed repairs were required and a different QP was appointed to carry out the supervision work).*** If the prescribed inspection and the supervision of the prescribed repair are responsible by different QPs, a certificate of prescribed inspection of windows should be submitted by the QP appointed for the prescribed inspection within 7 days after the completion of the prescribed inspection. According to BCIS records, BD received 330 such certificates of prescribed inspection of windows submitted by QPs under MWIS in 2024. However, Audit noted that the completion dates of the prescribed inspections were missing in BCIS and Audit could not ascertain the extent of compliance of this statutory requirement by QPs (see also para. 4.24(b) for Audit's findings on BCIS records); and

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- (d) *Submissions after prescribed repairs of windows.* According to BCIS records, BD received 16,741 certificates of prescribed repair of windows submitted by QPs under MWIS in 2024. Audit found that 1,204 (8%) certificates were received by BD more than 14 days and up to 4.6 years (averaging 54 days) after the completion of the prescribed repairs of windows (see Table 7), not meeting the 14-day statutory requirement (see also para. 4.24(b) for Audit's findings on BCIS records).

Table 7

**MWIS submissions after prescribed repairs of windows
(2024)**

Time lapsed (Note 1)	Number of certificates of prescribed repair of windows	
14 days or less	15,537	(92%)
More than 14 days to 1 month	570	(2%)
More than 1 month to 6 months	601	(3%)
More than 6 months to 1 year	15	(1%)
More than 1 year to 2 years	9	(1%)
More than 2 years to 4.6 years (Note 2)	9	(1%)
Total	16,741	(100%)

Source: BD records

Note 1: Time lapsed was counted from the completion date of the prescribed repair to the date of receipt of certificate of prescribed repair of windows by BD.

Note 2: For the longest case, the certificate of prescribed repair of windows was received 1,697 days (i.e. about 4.6 years) after the completion of the prescribed repair. According to BD, the QP concerned submitted a certificate in 2019 which was rejected by BD due to incorrect information, and upon clearance of backlog by BD in 2024, the QP concerned re-submitted the certificate with correct information in 2024.

4.8 In Audit's view, BD needs to:

- (a) timely conduct the review on the feasibility to revise the legal requirement of submitting the notification of appointment of QP to BD within 7 days after the date of appointment with a view to aligning with the current practice agreed with the trade; and
- (b) strengthen monitoring of QPs' MWIS submissions and take measures to ensure that QPs comply with the statutory submission time limit (e.g. issuing reminder letters or warning letters to non-compliant QPs).

Low success rate in conducting audit checks

4.9 BD targets to conduct a minimum of 500 successful audit checks on MWIS submissions each year in order to attain an acceptable quality control of service providers. According to BD:

- (a) in order to achieve such number of successful audit checks in a year, the sample size is adjusted in response to the change in the success rate;
- (b) one major reason for unsuccessful audit check was failing to gain entry into the selected premises due to the unavailability of owner/occupant when BD staff carry out site audit (only during office hours); and
- (c) since September 2020, it has outsourced some of the site audits on MWIS submissions (during office and non-office hours) to consultants in order to increase the success rate of site audits (Note 22).

Note 22: *According to BD, consultants are generally assigned to conduct audit checks for windows in individual premises, and BD staff mainly conduct audit checks for windows in common parts of the buildings and over-spill cases from consultants. There were 2 consultancy agreements prevailing as at 31 December 2024 and they were awarded in 2023 to 2 consultants respectively (with a total contract sum of about \$4.9 million) for carrying out the site audits of windows under MWIS and buildings under MBIS with a contract period of 24 months (from 25 September 2023 to 24 September 2025).*

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4.10 Notwithstanding the outsourcing arrangement of conducting site audits, Audit noted that the success rates in conducting audit checks (i.e. the number of successful audit checks as a percentage to total number of audit checks completed) from 2021 to 2024 were on the low side, ranging from 11% to 29%, and while the success rate increased from 11% in 2021 to 29% in 2023, it dropped to 24% in 2024 (see Table 8). In Audit's view, BD needs to keep under review the success rate in conducting audit checks on MWIS submissions by QPs and explore measures to improve the success rate.

Table 8
Number and results of successful audit checks
(2021 to 2024)

Year of completing audit checks	Number of successful audit checks (Note 1)			Total number of audit checks completed (d)	Success rate (e) = (c) ÷ (d) × 100%
	Satisfactory results (Note 2) (a)	Unsatisfactory results (Note 3) (b)	Total (c) = (a) + (b)		
2021	743 (95%)	43 (5%)	786 (100%)	7,001	11%
2022	597 (92%)	54 (8%)	651 (100%)	2,612	25%
2023	488 (95%)	25 (5%)	513 (100%)	1,785	29%
2024	459 (91%)	46 (9%)	505 (100%)	2,093	24%

Source: BD records

Note 1: BD has been targeting to conduct a minimum of 500 successful audit checks on MWIS submissions each year since May 2021.

Note 2: An audit check was considered satisfactory if the results of both document and site audits were satisfactory.

Note 3: An audit check was considered unsatisfactory if the results of document and/or site audits were unsatisfactory.

Long time taken to complete audit checks on some MWIS submissions

4.11 According to BD guidelines, BD's audit checks should be completed within 14 weeks (i.e. about 3.2 months), counting from the date of issuance of letter to the owner/occupant notifying the conduct of site audit to the completion date of audit check. However, according to BD, in practice, under the current monitoring mechanism of BD, in measuring the time taken to complete an audit check, the date of receipt of QP's submission (i.e. when BD was first aware of the completion of a window inspection/repair) is counted as the start date of the audit check for monitoring the progress.

4.12 Based on the current monitoring mechanism adopted by BD, Audit examined the time taken by BD to complete audit checks on 2,070 (2,093 less 23 (Note 23)) submissions which were completed in 2024, and found that BD's audit checks on 233 (11%) submissions were completed more than 6 months and up to 2.2 years (averaging 282 days) after the receipt of QPs' submissions by BD (see Table 9).

Note 23: *According to BD, out of the 2,093 audit checks completed in 2024, 23 audit checks were extra audit checks in addition to normal sampling for monitoring the performance of QPs on the watch list (see para. 4.5(d)) and occasionally some old submissions from the QPs concerned had to be selected. Therefore, the time target for completion of audit checks was not applicable to these cases.*

Table 9

BD's audit checks on MWIS submissions completed in 2024

Time taken to complete audit check (Note 1)	Number of submissions with audit checks completed
3 months or less	1,294 (63 %)
More than 3 months to 6 months	543 (26 %)
More than 6 months to 1 year	195 (9 %)
More than 1 year to 2.2 years (Note 2)	38 (2 %)
	233 (11 %)
Total	2,070 (100 %)

Source: BD records

Note 1: Time taken was counted from the date of receipt of QP's submission to the completion date of audit check.

Note 2: According to BD, the longest case (which took 792 days or 2.2 years to complete) was due to mis-location of the subject file.

4.13 In Audit's view, BD needs to:

- (a) consider revising the time target for completion of audit checks in order to reflect its current practice in monitoring the completion of audit checks (i.e. taking into account the time taken from the receipt of QPs' submissions to the completion of audit checks); and
- (b) take measures to complete its audit checks on MWIS submissions in a timely manner in accordance with its guidelines.

Need to take timely follow-up actions on irregularities identified during audit checks

4.14 As shown in Table 8 in paragraph 4.10, about 5% to 9% of the successful audit checks completed from 2021 to 2024 had unsatisfactory results (i.e. the results of document and/or site audits were unsatisfactory). According to BCIS records, of the successful audit checks completed by BD in 2024 on 505 MWIS submissions,

46 submissions (9%) had unsatisfactory results. Audit examined the subject files of audit checks on 10 MWIS submissions and noted that:

- (a) ***BD's audit check results inaccurately recorded in BCIS.*** For 2 MWIS submissions, BD's audit check results were inaccurately recorded in BCIS. According to the file records, the site audit for 1 submission was dropped as there was no response from the owner/occupant after serving the contact slip, and the site audit result of another submission was satisfactory. However, the results of these 2 site audits were inaccurately recorded in BCIS as unsatisfactory (see also para. 4.26 for Audit's finding on BCIS records); and
- (b) ***Follow-up actions on irregularities identified not timely taken.*** According to BD guidelines, BD will issue reminder letters and/or warning letters to the QPs concerned for minor irregularities identified in MWIS submissions (see para. 4.5(a)). For the other 8 MWIS submissions with unsatisfactory site audit results recorded in BCIS, BD's follow-up actions on some submissions were not timely taken, as follows:
 - (i) ***Reminder letters not timely issued.*** For 4 MWIS submissions, BD issued reminder letters to the QPs concerned regarding the irregularities identified during its audit checks more than two weeks (ranging from 27 to 146 days, averaging 71 days) after the completion of audit checks, not meeting the two-week requirement under BD guidelines; and
 - (ii) ***Warning letter not issued.*** For 1 of the 4 MWIS submissions mentioned in (i) above, the QP concerned was required to provide a response by 18 June 2024 as set out in the reminder letter. While the QP concerned had failed to provide a response within the time limit set out in the reminder letter, BD had not issued a warning letter to the QP as at 31 December 2024, not meeting the requirement under BD guidelines.

4.15 In Audit's view, BD needs to take timely follow-up actions on irregularities identified during its audit checks on MWIS submissions (including issuing reminder letters and warning letters to the QPs concerned) in accordance with its guidelines.

Scope for improvement in taking follow-up actions on fallen window cases with complied MWIS statutory notices

4.16 According to BD, fallen window incidents which occurred after the completion of the prescribed inspection/repair under MWIS may indicate possible malpractice of the QPs who carried out the prescribed inspection and/or the supervision of the prescribed repair for the fallen windows. For fallen window incidents recorded, BD will take follow-up actions on irregularities identified. The 445 fallen window incidents from January 2017 to December 2024 recorded by BD comprised 387 cases reported to BD and 58 cases identified from the media by BD staff for the purpose of Selection Mechanism B (see para. 2.5). For some of those fallen window incidents identified from the media by BD staff, BD could only identify the buildings concerned but not the exact premises in which the fallen window incidents took place.

4.17 Of the 445 fallen window incidents, 131 cases had been served with MWIS statutory notices before the incidents occurred. Of these 131 cases with MWIS statutory notices served, the MWIS statutory notices of 25 cases had remained not complied with when the incidents occurred (see para. 3.6). Audit examined BD's follow-up actions on the remaining 106 (131 less 25) fallen window cases, and found that:

- (a) ***Compliance status of statutory notices not ascertained for some cases.*** According to BD, no follow-up actions could be taken on 14 of the 106 fallen window cases because the exact premises in which the fallen window incidents took place could not be identified even after attending site by BD staff. While BD could ascertain that the owners of the buildings concerned were served with statutory notices (hence covering all the premises and common parts of the buildings), the exact premises in which the fallen window incidents took place could not be located. Hence, BD could not ascertain whether the owners of the premises concerned had complied with the statutory notices when the incidents occurred; and
- (b) ***Records of follow-up actions on QPs not maintained for some cases.*** For the remaining 92 fallen window cases, BD could locate the exact premises in which the fallen window incidents took place and ascertain that the relevant statutory notices had been certified by QPs as being complied with before the incidents occurred. According to BD:

- (i) follow-up actions (e.g. desk study and/or site inspections to confirm if there was any malpractice of the QPs concerned) had been duly taken on all the 92 cases, of which 4 cases had been warranted for full investigations for the purpose of instigating prosecution or disciplinary actions against the QPs concerned (Note 24); and
- (ii) while BD maintained records of full investigations on the 4 cases mentioned in (i) above, it had not maintained records of follow-up actions and justifications of not conducting full investigations on the QPs concerned for the remaining 88 (92 less 4) cases.

4.18 In Audit's view, BD needs to:

- (a) endeavour to ascertain the details of fallen window incidents (e.g. the exact premises involved in the fallen window incidents and the compliance status of the statutory notices under MWIS) as far as practicable with a view to enabling necessary follow-up actions (e.g. conducting full investigations on the QPs concerned); and
- (b) maintain full records of follow-up actions on QPs for fallen window cases with complied MWIS statutory notices (including the justifications if full investigations are not conducted on the QPs concerned).

Need to further promote MWIS submissions by electronic means

4.19 For QPs' submissions under MWIS, other than submissions in paper form by post or in person, BD has set up a designated e-mail address to receive submissions in electronic format and the Electronic Forms Submission System to facilitate online submission of specified forms via its website. Audit noted that while the percentage of MWIS submissions by electronic means had increased from 2% in 2020 to 8% in

Note 24: *According to BD, of the 4 fallen window cases with full investigations conducted on potential malpractice of the QPs concerned, BD had instigated prosecution actions against 3 cases, as follows: (a) the QP concerned of 1 case was convicted of an offence and fined \$5,000; (b) for another case, the charges were dropped due to insufficient evidence; and (c) for the remaining case, a summons was served to the QP concerned in August 2024 for a hearing scheduled to be held in May 2025.*

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2024, the number of MWIS submissions by electronic means was still on the low side (see Table 10). In Audit's view, BD needs to take measures to further promote MWIS submissions by electronic means.

Table 10

**Number of MWIS submissions received
(2020 to 2024)**

Year	Number of MWIS submissions received		
	In paper form (a)	By electronic means (b)	Total (c) = (a) + (b)
2020	41,730 (98%)	891 (2%)	42,621 (100%)
2021	57,218 (97%)	1,538 (3%)	58,756 (100%)
2022	59,654 (97%)	2,154 (3%)	61,808 (100%)
2023	45,726 (93%)	3,205 (7%)	48,931 (100%)
2024	47,697 (92%)	4,375 (8%)	52,072 (100%)

Source: BD records

Audit recommendations

4.20 **Audit has recommended that the Director of Buildings should:**

- (a) **timely conduct the review on the feasibility to revise the legal requirement of submitting the notification of appointment of QP to BD within 7 days after the date of appointment with a view to aligning with the current practice agreed with the trade;**
- (b) **strengthen monitoring of QPs' MWIS submissions and take measures to ensure that QPs comply with the statutory submission time limit (e.g. issuing reminder letters or warning letters to non-compliant QPs);**
- (c) **keep under review the success rate in conducting audit checks on MWIS submissions by QPs and explore measures to improve the success rate;**

- (d) **consider revising the time target for completion of audit checks in order to reflect BD's current practice in monitoring the completion of audit checks (i.e. taking into account the time taken from the receipt of QPs' submissions to the completion of audit checks);**
- (e) **take measures to complete BD's audit checks on MWIS submissions in a timely manner in accordance with BD guidelines;**
- (f) **take timely follow-up actions on irregularities identified during BD's audit checks on MWIS submissions (including issuing reminder letters and warning letters to the QPs concerned) in accordance with BD guidelines;**
- (g) **endeavour to ascertain the details of fallen window incidents (e.g. the exact premises involved in the fallen window incidents and the compliance status of the statutory notices under MWIS) as far as practicable with a view to enabling necessary follow-up actions (e.g. conducting full investigations on the QPs concerned);**
- (h) **maintain full records of follow-up actions on QPs for fallen window cases with complied MWIS statutory notices (including the justifications if full investigations are not conducted on the QPs concerned); and**
- (i) **take measures to further promote MWIS submissions by electronic means.**

Response from the Government

4.21 The Director of Buildings agrees with the audit recommendations. She has said that BD will:

- (a) **conduct the review to set a feasible timeframe for the necessary legal amendment;**
- (b) **explore measures to strengthen monitoring of timely MWIS submissions by QPs, as well as provide more guidelines and briefings to them;**

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- (c) regarding the audit checks on MWIS submissions by QPs:
 - (i) continue to explore measures to improve the success rate;
 - (ii) update the relevant internal instructions to reflect the actual time target for completion of audit checks;
 - (iii) explore streamlining measures as well as provide more guidelines and briefings to its staff to ensure timely completion of audit checks; and
 - (iv) conduct reviews on the follow-up actions on irregularities identified during audit checks with a view to enhancing effectiveness of issuing reminder letters and warning letters to the QPs concerned;
- (d) explore facilitating measures to ascertain the details of fallen window incidents and provide more guidelines to its staff;
- (e) explore streamlining measures to maintain records and provide a standard template for follow-up fallen window cases; and
- (f) further explore measures to promote the use of electronic submissions.

Other issues

Need to ensure that data relating to MWIS are completely and accurately recorded in BCIS

4.22 Under MWIS, QPs are required to submit to BD various documents during different stages of window inspection and repair and a lot of information are recorded in BCIS (examples include the receipt of certificate of prescribed inspection of windows and certificate of prescribed repair of windows relating to statutory notices, and the results of audit checks on MWIS submissions from QPs). According to BD, the objectives of BCIS include providing:

- (a) an effective means of recording, processing and retrieving details of statutory notices;

- (b) timely and up-to-date information on the status of statutory notices for internal monitoring and handling of enquiries; and
- (c) enquiries and statistical reporting facilities for operational and planning purposes.

4.23 To enhance transparency, information about the issuance and compliance status of statutory notices under MWIS has been uploaded onto BD's website for searching by the public. According to BD guidelines, as the relevant information of statutory notices under MWIS is directly converted from BCIS to BD's website, it is vital that the data maintained in BCIS is complete, accurate and timely.

4.24 During the course of audit, Audit examination found that:

- (a) of the total 657,670 statutory notices issued under MWIS and complied with as at 31 December 2024, for 54,708 (8%) statutory notices, there were no records in BCIS of the dates of receipt of the certificate of prescribed inspection of windows or the certificate of prescribed repair of windows;
- (b) according to BCIS records, BD received 22,089 (21,759 + 330) certificates of prescribed inspection of windows (see para. 4.7(b) and (c)) and 16,741 certificates of prescribed repair of windows (see para. 4.7(d)) from QPs under MWIS in 2024. Audit noted that while the dates of receipt of the certificate were recorded in BCIS for all the 38,830 (22,089 + 16,741) certificates, the completion dates of the prescribed inspection/repair were missing or inaccurately recorded in BCIS for 371 MWIS submissions as at 31 December 2024;
- (c) 4 target buildings were deleted from nomination lists for issuance of statutory notices under MWIS as they had data quality problem in BCIS (e.g. the same building having two different addresses and identification numbers in BCIS); and
- (d) for 76 of the 21,672 MWIS statutory notices with warning letters issued and remained non-compliant as at 31 December 2024, the warning letter dates were before the compliance due dates in BCIS due to data entry problem.

4.25 In Audit's view, BD needs to strengthen the record keeping for data relating to MWIS in BCIS with a view to ensuring that the records are accurate, complete and up-to-date.

Need to ensure that BD's audit check results on MWIS submissions are accurately recorded in BCIS

4.26 According to BD, audit check on MWIS submission is an important means to ensure that the inspection and repair of windows are carried out in accordance with the Buildings Ordinance. However, Audit noted that the results of BD's audit checks on 2 MWIS submissions were inaccurately recorded in BCIS (see para. 4.14(a)). In Audit's view, BD needs to take measures to ensure that its audit check results on MWIS submissions are accurately recorded in BCIS.

Need to enhance BCIS and compile management information to facilitate BD's work in implementing MWIS

4.27 According to BD, the implementation of MWIS involves a significant amount of work. Since the commencement of MWIS in June 2012 and up to December 2024, BD issued 723,219 statutory notices under MWIS (see Note 3 to para. 1.4). BD also needs to ensure that all the statutory notices are complied with and take follow-up actions where necessary. Audit noted the following scope for enhancing BCIS and compiling management information to facilitate BD's work in implementing MWIS:

- (a) as mentioned in paragraph 2.18, the performance of Consultants A and B (engaged for issuance of statutory notices for buildings selected in 2022) were unsatisfactory. According to BD, since 2024, enhancement of BCIS was made to facilitate the consultants' work such as drafting statutory notices in BCIS for BD's vetting, and generating notices direct from BCIS to eliminate data quality problem during data transfer. However, Audit noted that the performance of Consultant D (engaged for issuance of statutory notices for buildings selected in 2023 and 2024) was also unsatisfactory, namely in the submission of desk study reports, serving of notices, submission of notice posting records, and updating BCIS records (see para. 2.18(c)). There is scope for BD to explore the feasibility to further enhance BCIS to facilitate the related consultants' work;

- (b) while warning letters and FPNs were not timely issued for some non-compliant statutory notices (see para. 3.9(a) and (b)), BD had not regularly compiled management information on the long outstanding cases to monitor the timeliness of issuing warning letters and FPNs. Furthermore, BCIS could not automatically prompt BD subject officers for issuing warning letters and FPNs in a timely manner;
- (c) while 1,977 (10%) of 21,759 certificates of prescribed inspection of windows and 1,204 (8%) of 16,741 certificates of prescribed repair of windows submitted by QPs under MWIS to BD in 2024 did not meet the 14-day statutory requirement (see para. 4.7(b) and (d)), BD had not regularly compiled management information on the late MWIS submissions to enhance the monitoring of QPs (e.g. to identify QPs with repeated late submissions); and
- (d) BD had not regularly compiled management information on fallen window cases with complied MWIS statutory notices (e.g. the follow-up actions taken to investigate possible malpractice of QPs) (see para. 4.17(b) for Audit's findings on fallen window cases with complied MWIS statutory notices).

In Audit's view, BD needs to consider enhancing BCIS and compiling management information as mentioned above to facilitate its work in implementing MWIS.

Need to formulate a long-term strategy for MWIS

4.28 BD sets out in its Controlling Officer's Report (COR) a key performance measure of "buildings targeted for prescribed window inspection and, if necessary, prescribed window repair under MWIS" and reports the target and actual numbers for this performance measure every year. Audit noted that:

- (a) as reported in BD's CORs from 2012 (MWIS was fully implemented in June 2012) to 2024 (see Table 11):
 - (i) the annual target number of buildings to be selected for consideration of issuance of statutory notices from 2012 to 2014 was 5,800. However, there was a significant shortfall in the actual number of buildings selected ranging from 1,857 to 4,782 buildings (or 32% to 82%); and

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- (ii) the target number of buildings to be selected was significantly revised downward since 2015;

Table 11

**Selection of target buildings for consideration of issuance of statutory notices
under MWIS as reported in BD's CORs
(2012 to 2024)**

Year	Target number of buildings to be selected for consideration of issuance of statutory notices (Note 1)	Actual number of buildings selected for consideration of issuance of statutory notices (Notes 1 and 2)	
2012 (Note 3)	5,800 (Planned: 4,350 — Note 4)	2,823	12,861
2013	5,800	3,943	
2014	5,800 (Planned: 1,000 — Note 4)	1,018	
2015	650	663	
2016	500	500	
2017	400	464	
2018	400	435	
2019	400	486	
2020	600 (Note 5)	689	
2021	600	603	
2022	600	637	
2023	600	600	
2024	600	600	
Total	22,750	13,461	

Source: BD records

Note 1: According to BD, the numbers represented target buildings selected based on both Selection Mechanisms A and B.

Table 11 (Cont'd)

Note 2: According to BD, the actual total number of buildings selected from 2012 to 2023 and issued with statutory notices as at 31 December 2024 was 12,885 buildings, which was more than the total number of 12,861 buildings as reported in BD's CORs. This was mainly due to the fact that some buffer buildings (further selected as replacement of some target buildings after endorsement of nomination lists by the Selection Panel (see para. 2.11(b)(ii))) involved more clustered buildings (see para. 2.3(e)) than the replaced target buildings.

Note 3: MWIS was fully implemented on 30 June 2012.

Note 4: In its CORs, BD set out both the target and planned numbers of buildings to be selected for consideration of issuance of statutory notices under MWIS. Except for 2012 and 2014, both numbers were the same for other years (i.e. 2013 and from 2015 to 2024). According to CORs, the planned numbers were less than the target numbers due to the following reasons: (a) for 2012 (4,350 (planned) versus 5,800 (target)), full implementation of MWIS was expected to commence only in the second quarter of 2012; and (b) for 2014 (1,000 (planned) versus 5,800 (target)), major difficulties were encountered in implementing MWIS (see para. 4.28(c)(i) below).

Note 5: According to BD, the target was revised from 400 to 600 buildings from 2020 to step up implementation of MWIS.

(b) in May 2008, in providing information about the proposed MWIS, the Development Bureau informed the Panel on Development of the Legislative Council that:

(i) 5,800 private buildings would be selected each year to undergo window inspection under MWIS (which was subsequently fully implemented in June 2012); and

(ii) the first inspection cycle was expected to be completed within 5 years; and

(c) in November 2013, after a full-year implementation of MWIS, the Development Bureau informed the Panel on Development that BD:

(i) had encountered major difficulties in meeting the planned progress in issuing statutory notices under MWIS (e.g. an under-estimation of workload associated with the implementation of MWIS), and considered it necessary to adjust downwards the annual number of target buildings under MWIS; and

Monitoring of Qualified Persons and other issues

- (ii) would formulate a revised target for MWIS taking into account operational experience gained.

4.29 Audit noted that, out of 27,168 private buildings (except domestic buildings not exceeding three storeys) aged 10 years or above (i.e. eligible buildings covered by MWIS) as at 31 December 2024, 14,676 (54%) buildings had not been selected for issuance of MWIS statutory notices (see Table 12). Based on BD's 2024 target of selecting 600 buildings each year, it will take about 24 years to cover these 14,676 buildings, let alone the buildings which will reach the building age of 10 years and subject to MWIS after 2024. For example, 220, 212 and 263 buildings will reach the building age of 10 years (except domestic buildings not exceeding three storeys) in 2025, 2026 and 2027 respectively and they will be subject to MWIS.

Monitoring of Qualified Persons and other issues

Table 12

**Number of private buildings
(31 December 2024)**

Building age (Year)	Number of private buildings (Note 1) (a)	Number of buildings already selected and issued with MWIS statutory notices (b)	Number of buildings not yet selected for issuance of MWIS statutory notices (c) = (a) – (b)	
Below 10	2,143	–	2,143	(100%)
10 to below 20	2,176	37	2,139	(98%)
20 to below 30	4,679	1,388	3,291	(70%)
30 to below 40	5,519	2,743	2,776	(50%)
40 to below 50	5,194	2,390	2,804	(54%)
50 to below 60	5,067	2,695	2,372	(47%)
60 to below 70	3,563	2,654	909	(26%)
70 or above	970	585	385	(40%)
Total	29,311	12,492 (Note 2)	16,819	(57%)

14,676
(54%)

Source: BD records

Note 1: The figures do not include domestic buildings not exceeding three storeys, as they are not subject to MWIS.

Note 2: According to BD, the total number of buildings already selected and issued with MWIS statutory notices as shown above (i.e. 12,492 buildings) was less than the actual total number of buildings selected from 2012 to 2023 and issued with statutory notices as at 31 December 2024 (i.e. 12,885 buildings) because some of the buildings were demolished during the period and they no longer existed as at 31 December 2024.

4.30 MWIS aims to require owners to regularly inspect the windows in their buildings with a view to identifying problems at an early stage, and carry out timely remedial works to prevent them from falling into disrepair thus causing danger to the public (see para. 1.2). In this connection, Audit noted that:

Monitoring of Qualified Persons and other issues

- (a) the Central Government had highlighted the need to accelerate the development of “new quality productive forces”;
- (b) as stated in the Chief Executive’s 2024 Policy Address, regarding system reforms:
 - (i) any serious shortcomings must be rectified;
 - (ii) any bottlenecks, weaknesses or hurdles must be overcome; and
 - (iii) any areas in need of consolidation must be reinforced and improved; and
- (c) BD had been developing “new quality productive forces”. For example, it had adopted innovative technologies, such as using drones to assist in inspection of dilapidated external walls of buildings to facilitate the implementation of MBIS.

In Audit’s view, with a view to achieving MWIS’s objective of enhancing public safety, having regard to all relevant factors (e.g. manpower required, operational experience gained and compliance by the owners) and difficulties encountered in implementing MWIS, BD needs to keep under review the target number of buildings to be selected for issuance of statutory notices under MWIS and formulate a long-term strategy for MWIS (e.g. further developing and leveraging on “new quality productive forces”, such as adoption of artificial intelligence, in implementing MWIS).

Scope for improvement in provision of online tools to assist public under MWIS

4.31 BD developed online tools to provide assistance to the public to comply with the requirements under MWIS. As at 31 December 2024, a mobile application (i.e. WIN SAFE) and a chatbot on BD’s website (i.e. Ah Build) were in use (see Table 13).

Table 13

**Online tools developed by BD
(31 December 2024)**

Online tool	Launch date	Development cost (\$)	Annual recurring cost in 2023-24 (\$)	Cumulative number of downloads	Cumulative usage
WIN SAFE (mobile application)	8 August 2022	2,618,000	444,981	13,043	3,933 users registered
Ah Build (chatbot)	25 November 2021	452,350	143,325	Not applicable	About 36,140 messages created

Source: BD records

4.32 **WIN SAFE.** The main purpose of the WIN SAFE mobile application is to enable owners to search for and appoint QPs for early compliance of MWIS statutory notices so as to ensure building safety. Its main functions include enabling owners to search for QPs according to individual needs, providing a chatroom for owners and QPs to discuss window inspection and/or repair services, and facilitating the public to make enquiries to BD in relation to MWIS statutory notices. According to BD:

- (a) various promotional and publicity work had been conducted by BD since the launch of WIN SAFE, including issuing letters to all QPs notifying them the launch of WIN SAFE, and promotion of WIN SAFE via its website, district briefings, road tours and Announcements in the Public Interest; and
- (b) since January 2024, WIN SAFE had a significant increase in the number of downloads, registered users, invitations and QP response rate. The increase was attributed to a number of enhancement work done by BD (e.g. launch of a new Announcement in the Public Interest promoting MWIS and WIN SAFE, release of a new version of WIN SAFE with more selection criteria and job reference data of QPs).

Monitoring of Qualified Persons and other issues

4.33 Despite BD's efforts in promoting WIN SAFE, Audit noted that since the launch date of WIN SAFE (i.e. 8 August 2022) and up to December 2024:

- (a) there were a total of 3,933 registered users, of which, 3,298 were owners and 635 were QPs, representing only 3% of the total 18,941 QPs as at 31 December 2024; and
- (b) only 1,026 invitations by owners for quotations from QPs had been successfully awarded through WIN SAFE.

4.34 **Ah Build.** According to BD, the objectives of the chatbot on BD's website (i.e. Ah Build) are to provide round-the-clock service to answer general enquiries on MWIS and MBIS from the public in a natural dialog manner via an easy-to-use interface, and to guide and direct users to locate relevant materials at BD's website. However, Audit noted that, the average user satisfaction rating for the period from November 2021 (i.e. launch date of Ah Build) to November 2024 was only 3.16 on a 5-point scale, and while 43% of the users gave a rating of 5 (i.e. the most satisfactory rating), 37% of the users gave a rating of 1 (i.e. the least satisfactory rating).

4.35 In Audit's view, BD needs to:

- (a) step up promotional and publicity activities to encourage more users to download and use the WIN SAFE mobile application (e.g. proactively collect QPs' and owners' views on the user friendliness of WIN SAFE or the reasons of not using WIN SAFE); and
- (b) keep under review the user feedback received from the WIN SAFE mobile application and the chatbot on BD's website (i.e. Ah Build) with a view to enhancing the online tools to better meet user needs.

Audit recommendations

4.36 Audit has *recommended* that the Director of Buildings should:

- (a) **strengthen the record keeping for data relating to MWIS in BCIS with a view to ensuring that the records are accurate, complete and up-to-date;**

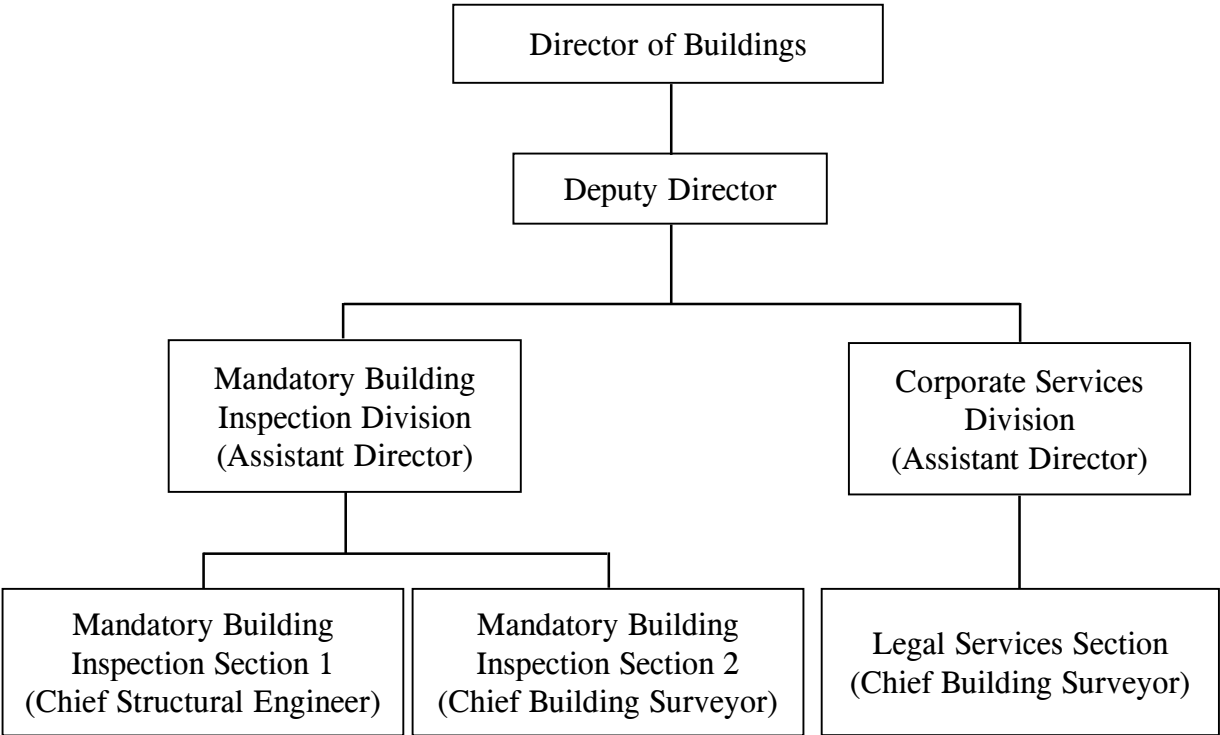
- (b) **take measures to ensure that BD’s audit check results on MWIS submissions are accurately recorded in BCIS;**
- (c) **consider enhancing BCIS and compiling management information as mentioned in paragraph 4.27 to facilitate BD’s work in implementing MWIS;**
- (d) **keep under review the target number of buildings to be selected for issuance of statutory notices under MWIS and formulate a long-term strategy for MWIS (e.g. further developing and leveraging on “new quality productive forces”, such as adoption of artificial intelligence, in implementing MWIS);**
- (e) **step up promotional and publicity activities to encourage more users to download and use the WIN SAFE mobile application; and**
- (f) **keep under review the user feedback received from the WIN SAFE mobile application and the chatbot on BD’s website (i.e. Ah Build) with a view to enhancing the online tools to better meet user needs.**

Response from the Government

4.37 The Director of Buildings agrees with the audit recommendations. She has said that BD will continue to:

- (a) review BCIS with a view to enhancing work efficiency and information management;
- (b) keep under review the annual target number of buildings to be selected under MWIS;
- (c) launch different promotional and publicity activities for the WIN SAFE mobile application; and
- (d) keep regular review on users’ feedback received from the WIN SAFE mobile application and the chatbot on BD’s website (i.e. Ah Build).

**Buildings Department:
Organisation chart (extract)
(31 December 2024)**



Source: BD records

Acronyms and abbreviations

Audit	Audit Commission
BCIS	Building Condition Information System
BD	Buildings Department
COR	Controlling Officer's Report
FPN	Fixed penalty notice
FPT	Fast Track Prosecution Teams
MBI	Mandatory Building Inspection
MBIS	Mandatory Building Inspection Scheme
MWIS	Mandatory Window Inspection Scheme
QP	Qualified Person
RC	Registered Contractor
VBAS	Voluntary Building Assessment Scheme

CHAPTER 5

**Transport and Logistics Bureau
Marine Department**

Maritime and Aviation Training Fund

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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MARITIME AND AVIATION TRAINING FUND

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MARITIME AND AVIATION TRAINING FUND

Executive Summary

1. It is the Government's strategic objective to enhance Hong Kong's position as an international maritime and aviation centre. The Maritime and Aviation Training Fund (MATF) was established in April 2014. It sustains and enhances the Government's support for the manpower development and promotion of the maritime, aviation and logistics industries. Since its establishment, MATF has been providing funding support for training incentives, subsidy schemes and scholarship schemes for students and in-service practitioners of relevant disciplines and industries. The Transport and Logistics Bureau (TLB) provides secretariat support to MATF. The Manpower Development Committee under the Hong Kong Maritime and Port Board, the Tripartite Taskforce on Manpower Training (Aviation) (TTA) and the Hong Kong Logistics Development Council are responsible for advising on the administration of and monitoring the implementation progress of the schemes for the maritime, aviation and logistics sectors respectively. As at 31 December 2024, the total commitment of MATF was \$500 million and its accumulated expenditure was about \$234 million. The Audit Commission (Audit) has recently conducted a review to examine the administration of MATF.

Training schemes administered by Transport and Logistics Bureau and Marine Department

2. TLB is mainly responsible for administering the Professional Training and Examination Refund Scheme (ProTERS) and the Maritime and Aviation Internship Scheme (MAIS) while the Marine Department (MD) is responsible for administering the three seafaring training schemes, namely the Sea-going Training Incentive Scheme (SGTIS), the Local Vessel Trade Training Incentive Scheme (LVTITIS) and the Local Vessel Competency Enhancement Scheme (LVCES) (para. 2.2).

3. *Administration of ProTERS.* Under ProTERS, in-service practitioners in the maritime and aviation sectors will be refunded 80% of the fees after satisfactory completion of a pre-approved course or passing a pre-approved examination if they

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have not been granted any other forms of subsidy or financial assistance for the relevant course/examination. Course providers/examination authorities are required to apply for inclusion of their courses/examinations in the pre-approved list under ProTERS (paras. 2.3 and 2.7). Audit examination revealed the following room for improvement:

- (a) ***Need to enhance the processing of applications.*** According to TLB's processing guidelines, if all required information is available, it will inform the applicant of the application result in around eight weeks from the receipt of an application. Of the 9,142 applications (5,528 for the maritime sector and 3,614 for the aviation sector) received and processed in the period from 2019-20 to 2024-25 (up to December 2024), 905 (16%) and 601 (17%) applications of the maritime sector and the aviation sector respectively, in which no supplementary information had been requested from the applicants, had been processed for more than eight weeks (paras. 2.4 and 2.5);
- (b) ***Need to take enhancement measures to prevent double subsidies.*** In a case of the maritime sector, while the applicant was refunded the full examination fee of \$4,550 under SGTIS Phase 1 in October 2021, he also submitted an application under ProTERS for the same examination in December 2022 and was refunded \$3,640 in October 2023. For the aviation sector, as endorsed by TTA in June 2022, TLB planned to seek assistance from the Office of the Continuing Education Fund to cross-check the applications for courses/examinations that are covered by both the Continuing Education Fund and ProTERS (Aviation). However, as of December 2024, no checking with the Office of the Continuing Education Fund had been performed by TLB (para. 2.6); and
- (c) ***Need to implement review mechanism and enhanced control measures.*** Audit noted that:
 - (i) ***Maritime sector.*** The Chairman of the Steering Group on Maritime Services Manpower suggested at the meeting held in November 2021 that a benchmark on the number of attendees should be considered to determine if the pre-approved courses should be retained in the list. However, it was not until December 2024 that TLB suggested that the course providers/examination authorities would be required to review the contents of all their courses/examinations, and remove those obsolete

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or inactive course(s)/examination(s) from the pre-approved courses/examinations list at regular intervals (i.e. three years); and

- (ii) **Aviation sector.** Every approved course/examination will have a validity period of three years with effect from June 2022. For courses/examinations approved before June 2022, TLB planned to conduct the renewal reviews in five batches, with the first batch and the last batch of reviews scheduled to be completed by July 2024 and July 2025 respectively. However, as at 31 December 2024, the first batch renewal review had not been completed. Moreover, most of the enhanced control measures endorsed by TTA with effect from June 2022, for example on-site inspections and surprise visits, had not been performed up to 31 December 2024 (paras. 2.9 and 2.11).

4. **Administration of MAIS.** Under MAIS, companies in the maritime and aviation sectors are invited to offer internship places for students to provide them with early exposure to the wide spectrum of career opportunities in the sectors (para. 2.15). Audit examination revealed the following room for improvement:

- (a) **Need to enhance the participation of secondary six school leavers.** The eligibility criteria of MAIS were extended to cover secondary six school leavers for the aviation sector and the maritime sector in 2017 and 2023 respectively. However, for the maritime sector, only 7 (2%) of the 289 interns with approved reimbursement applications in 2023 and 2024 were secondary six school leavers. As regards the aviation sector, only 8 (1%) of the 893 interns with approved reimbursement applications from 2020 to 2023 were secondary six school leavers (paras. 2.19 and 2.20); and
- (b) **Need to tighten monitoring of recruiting interns.** Interns repeatedly working in the same companies may depart from the primary objective of MAIS. However, 8 (1%) of the 785 students recruited as interns in the period from 2020 to 2024 for the maritime sector and 3 (0.3%) of the 870 students recruited as interns in the period from 2020 to 2023 for the aviation sector had been employed by the same participating companies for more than once (para. 2.21).

5. **Administration of seafaring training schemes.** MD provides subsidy/financial incentive under three seafaring training schemes, namely SGTIS,

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LVTIS and LVCEs (para. 2.25). Audit examination revealed the following room for improvement:

- (a) ***Room for improvement in processing applications.*** For the approved applications from 2019-20 to 2024-25 (up to December 2024), there were late applications approved under all the three schemes. For example, for SGTIS Phase 1, 136 (77%) of the 177 approved applications were submitted late with delays ranging from 1 to 855 working days and averaging 66 working days. Audit selected 53 approved late applications for examination and noted that:
 - (i) while MD's processing flowcharts did not stipulate the circumstances/procedures for exercising discretion in approving late applications, in 31 applications, MD exercised discretion in approving the late applications; and
 - (ii) there were input errors in the databases in 8 applications and there was no supervisory check in MD's data input process (paras. 2.26 and 2.27); and
- (b) ***Need to enhance participation in further phases of SGTIS.*** SGTIS comprised four phases to assist young people to sit for the first professional qualifications and progress further under the career ladder. As of February 2025, of the 158 approved applicants claiming monthly subsidy under SGTIS Phase 1 from 2019-20 to 2023-24, 80 (50%) applicants had not enrolled in the examination of Certificate of Competency (Deck Officer/Marine Engineer Officer) Class 3 (paras. 2.25 and 2.28).

Training schemes administered by non-governmental administrators

6. ***Need to consider entering into contractual agreements with non-governmental administrators.*** According to Financial Circular No. 2/2017, for all funding schemes/funds created with public money and involving payouts to non-governmental parties, a Controlling Officer or his/her delegate should enter into contractual agreements with parties involved to lay down the exact terms and conditions of all disbursements. As at 31 December 2024, of the 11 training schemes

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administered by non-governmental administrators, TLB had not entered into contractual agreements with the administrators of 6 schemes (paras. 3.3, 3.5 and 3.6).

7. ***Need to consider implementing additional measures in safeguarding national security.*** The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (HKSAR) was implemented on 30 June 2020. The Law stipulates that it is the constitutional duty of the HKSAR to safeguard national security. Besides, the Safeguarding National Security Ordinance took effect on 23 March 2024. It is stated in the Preamble of the Ordinance that any institution, organization and individual in the HKSAR must abide by the law of HKSAR applicable for safeguarding national security. However, for the 5 training schemes with contractual agreements entered into between TLB and pertinent administrators, Audit noted that there were no specific clauses concerning the safeguarding of national security in the contractual agreements for 4 of them (paras. 3.11 and 3.12).

8. ***Need to enhance participation in some training schemes.*** Audit examined the participation in four schemes administered by non-governmental administrators, namely the Ship Repair Training Incentive Scheme (SRTIS), the Partial Tuition Refund Scheme for the Specialised Aircraft Maintenance Programme (PTRS), the Overseas Exchange Sponsorship Scheme (OESS) and the Aviation Operations Training Incentive Scheme (AOTIS), and found that:

- (a) a significant portion of graduates/beneficiaries dropped out of SRTIS, PTRS and AOTIS; and
- (b) the anticipated number of beneficiaries was not met for OESS for the academic years 2019-20 to 2023-24 (para. 3.16).

9. ***Need to enhance monitoring on the employment requirements of scholarship recipients.*** Scholarship recipients under MATF have to undertake to work full-time in the maritime-related or aviation-related field in Hong Kong for a period of not less than 12 or 18 months after graduation. Audit examination of the employment details provided by the administrators for the scholarship recipients from 2019-20 to 2023-24 revealed that:

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- (a) ***Maritime sector.*** Of the 80 recipients, the employment records of 22 (28%) recipients could not show that the employment requirements of the scholarships had been fulfilled. For 17 (21%) recipients, there were no employment records provided by the relevant administrators. However, there was no documentary evidence showing that TLB had taken follow-up actions; and
- (b) ***Aviation sector.*** Of the 121 recipients, the relevant undertakings from 56 (46%) recipients were collected by TLB only after TLB's approval of disbursements to the administrators. Moreover, except for the 10 (8%) recipients who had withdrawn from the scheme or had failed to fulfil the scholarship requirements, no employment details were provided by the administrators concerning the remaining recipients (paras. 3.17 to 3.19).

Promotion initiatives under Maritime and Aviation Training Fund

10. ***Implementation of Maritime Promotion Project Funding.*** The Maritime Promotion Project Funding was introduced in 2014. TLB is responsible for vetting applications (paras. 4.2 and 4.3). Audit examination revealed the following room for improvement:

- (a) ***Need to consider setting target processing time for vetting applications.*** While TLB did not stipulate target processing time for vetting applications, the processing time in 18 (43%) of the 42 applications processed from 2019 to 2024 was more than 2 months, ranging from 61 to 1,526 days (para. 4.4);
- (b) ***Need to ensure timely submission of evaluation reports by project organisers.*** An organiser was required to submit an evaluation report (together with the copies of all relevant quotations/receipts/invoices for the sponsored expenditure items) within three months after the completion of project activities. Of the 34 projects completed from 2019 to 2024, there were delays in 12 (35%) projects in submitting the evaluation reports. The delays ranged from 5 to 447 days, averaging 59 days (paras. 4.5 and 4.7);

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- (c) ***Need to enhance vetting of project expenditure.*** Audit selected 10 (29%) of the 34 projects completed from 2019 to 2024 to examine TLB's work in vetting expenditure incurred and found scope for improvement in 6 projects, for instance:
 - (i) ***Insufficient number of quotations for procurement.*** In 4 (40%) projects, there were occasions that the quotation requirements had not been complied with; and
 - (ii) ***Receipts of sponsored items not submitted.*** In one project with a final approved sponsorship of \$220,000, only quotation records were submitted by the organiser. There was no documentary evidence showing that the organiser had submitted any receipts or TLB had requested for the receipts (para. 4.8); and
- (d) ***Room for improvement in assessing effectiveness of promotion projects.*** Regarding the evaluation reports submitted for the 34 projects completed from 2019 to 2024:
 - (i) no evaluation reports were submitted for 2 (6%) projects;
 - (ii) in 21 (62%) projects, the organisers had not fully reported the essential elements (i.e. general responses/feedback received from the participants for the activities) in the evaluation reports; and
 - (iii) the actual number of participants in 21 (62%) projects did not meet the expected number of participants, and the reasons for the shortfall were not provided in the evaluation reports in 15 (71%) of the 21 projects (para. 4.9).

Way forward

11. ***Need to consider including performance indicators in the Controlling Officer's Report.*** According to Financial Circular No. 2/2017, as a good practice, the Controlling Officer should consider developing and reporting on appropriate performance measures for a fund. When consulting the Legislative Council on the two rounds of increase in commitment (\$200 million in 2019 and another \$200 million in 2023), TLB only provided projected cash flows in the papers submitted to the Panel

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on Economic Development without an estimation of number of beneficiaries. Audit evaluated the outcome of the 12 schemes under the initial approved commitment of funding in 2014 and noted that in 7 (58%) schemes, the total number of beneficiaries up to 31 December 2024 was lower than the number of beneficiaries estimated in 2014 for the ensuing five years. There is a need for TLB to consider including in the Controlling Officer's Report performance indicators (paras. 5.3 to 5.6).

12. *Need to regularly review the usage of MATF.* In 2024, TLB conducted a comprehensive review to evaluate the impact and effectiveness of MATF. The consultant found that some of the schemes of MATF could be further enhanced to improve or sustain their efficiency and effectiveness and a number of enhancement measures were proposed. Audit considers that TLB needs to regularly review the usage of MATF and fine-tune the implementation details (paras. 5.15 and 5.16).

Audit recommendations

13. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has *recommended* that the Secretary for Transport and Logistics should:**

Training schemes administered by TLB and MD

- (a) **expedite the processing of applications of ProTERS (para. 2.13(a));**
- (b) **investigate the case mentioned in paragraph 3(b) and take enhancement measures accordingly, and take prompt follow-up actions to check with the Office of the Continuing Education Fund for courses/examinations covered by both the Continuing Education Fund and ProTERS (Aviation) (para. 2.13(b) and (c));**
- (c) **expedite the implementation of the review mechanism under ProTERS, and formulate an implementation plan for the enhanced control measures and incorporate them into the processing guidelines of ProTERS (Aviation) (para. 2.13(e) and (f));**
- (d) **enhance the participation of secondary six school leavers in MAIS (para. 2.23(b));**

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- (e) **closely monitor the implementation of the new employment arrangement that each intern will only be sponsored once under MAIS for working in the same participating company, and evaluate its effectiveness (para. 2.23(c));**
- (f) **in collaboration with the Director of Marine:**
 - (i) **set out circumstances and related procedures that MD staff can exercise discretion in approving late applications of the seafaring training schemes (para. 2.30(a));**
 - (ii) **consider imposing supervisory check in the data input process with a view to ensuring data accuracy of the seafaring training schemes (para. 2.30(b)); and**
 - (iii) **take measures to improve the participation in further phases of SGTIS (para. 2.30(d));**

Training schemes administered by non-governmental administrators

- (g) **formalise the existing administrative arrangements and consider entering into contractual agreements with the pertinent administrators of the six training schemes (para. 3.9);**
- (h) **consider incorporating/updating clauses concerning safeguarding of national security in contractual agreements or memoranda of understanding with pertinent administrators (para. 3.14);**
- (i) **take measures to enhance the participation in SRTIS, PTRS, OESS and AOTIS (para. 3.21(a));**
- (j) **for maritime scholarship schemes, enhance TLB's monitoring of the employment details of the scholarship recipients and follow up with the administrators on the proposed remedial measures for checking employment requirements (para. 3.21(b));**
- (k) **for the aviation scholarship scheme, ensure that undertakings from scholarship recipients are collected before approval of disbursement to**

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the administrators, and require the administrators to provide employment details of all recipients (para. 3.21(c));

Promotion initiatives under MATF

- (l) consider setting a target processing time for vetting applications for the Maritime Promotion Project Funding (para. 4.12(a));
- (m) take measures to ensure timely submission of evaluation reports by the organisers for completed projects (para. 4.12(c));
- (n) tighten the financial control and vetting of expenditure incurred in promotion projects (para. 4.12(d));
- (o) ensure that all essential elements are reported by organisers in the evaluation reports, and reasons have been provided should the actual number of participants fall short of the expected number of participants (para. 4.12(e));

Way forward

- (p) consider including in the Controlling Officer's Report performance indicators (e.g. number of beneficiaries) quantifying the benefits brought to the manpower development for the maritime, aviation and logistics industries (para. 5.7); and
- (q) regularly review the usage of MATF and fine-tune the implementation details (para. 5.17).

Response from the Government

14. The Secretary for Transport and Logistics generally agrees with the audit recommendations.

PART 1: INTRODUCTION

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

Background

1.2 According to the 2024 Policy Address, Hong Kong is one of the world's busiest and most efficient ports, and ranks fourth in the International Shipping Centre Development Index. Hong Kong is also an international aviation hub, and has topped the global ranking for air cargo throughput for more than a decade. The Central Government has, in the "Outline of the 14th Five-Year Plan for the National Economic and Social Development of the People's Republic of China and the Long-Range Objectives Through the Year 2035" and the "Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area", indicated support to Hong Kong in consolidating its status as an international aviation hub and international shipping centre.

1.3 According to the Transport and Logistics Bureau (TLB), the Marine Department (MD) and the Civil Aviation Department:

- (a) with the unique position as an international aviation hub and maritime centre, Hong Kong is an important logistics hub in Asia. Combined with a comprehensive sea, land and air transport network, Hong Kong plays a pivotal role in promoting the flow of goods in the region;
- (b) Hong Kong has a sheltered natural harbour, which provides good access and a safe haven for vessels calling at the port from around the world. The port has always been a key factor in the development and prosperity of Hong Kong; and
- (c) the Hong Kong International Airport's strategic position in Asia has made it an important regional trans-shipment centre, passenger hub and gateway to other Chinese cities. The aviation industry is an important pillar of Hong Kong's economy.

Maritime and Aviation Training Fund

1.4 It is the Government's strategic objective to enhance Hong Kong's position as an international maritime and aviation centre. While the maritime and aviation sectors offer plenty of quality job opportunities with promising prospects, the industries have difficulties in recruiting sufficient new and competitive talents. In the 2013-14 Budget, the Financial Secretary announced the establishment of a training fund for maritime and aviation transport to sustain and expand various schemes and scholarships (Note 1), and to implement other new initiatives. With a commitment of \$100 million for utilisation over a period of five years from 2014-15 to 2018-19, the Maritime and Aviation Training Fund (MATF) was established in April 2014 with a view to:

- (a) attracting more new blood to expand the pool of talent and address the issue of aging workforce;
- (b) diversifying expertise of the workforce to meet manpower demands of the sectors, especially in providing high value-added services; and
- (c) enhancing the overall competency and professionalism of the sectors and in turn our global competitiveness as international maritime and aviation centres.

In 2019, the approved commitment of MATF was increased by \$200 million (i.e. from \$100 million to \$300 million) to sustain the operation of existing schemes and initiatives, as well as to implement enhancement measures and new training incentive schemes for a further period of six years until 2024-25.

1.5 In the 2023-24 Budget, the Financial Secretary announced to further increase the commitment of MATF by \$200 million (i.e. from \$300 million to \$500 million) to support the manpower training of the logistics industry, promote the development of high-end, high value-added and smart logistics, and encourage the

Note 1: *Prior to the establishment of the Maritime and Aviation Training Fund in April 2014, the Government and the then Hong Kong Maritime Industry Council ran five maritime training incentive and scholarship schemes in collaboration with local education institutions and universities. The then Hong Kong Maritime Industry Council has been reorganised into the Hong Kong Maritime and Port Board since 2016.*

industry to collaborate with tertiary institutions and professional organisations in attracting more young people to join the industry. The further increase in commitment would sustain the existing and enhanced schemes as well as to implement new initiatives until 2027-28.

1.6 TLB provides secretariat support to MATF. According to TLB, MATF aims to build up in due course a vibrant, diversified and competitive pool of professionals and technical personnel to support Hong Kong's future development in the maritime, aviation and logistics sectors. It sustains and enhances the Government's support for the manpower development and promotion of the maritime, aviation and logistics industries. As at 31 December 2024, the total commitment of MATF was \$500 million and the accumulated expenditure of MATF was about \$234 million (Note 2).

Control and review mechanism

1.7 The implementation details of individual schemes are worked out by the Secretariat of MATF through a Government-industry-academia collaboration. The following parties are responsible for advising on the administration of respective schemes and monitoring their implementation progress:

Note 2: *According to TLB, of the \$234 million, \$223 million was disbursed to beneficiaries, while \$11 million was allocated to the non-governmental administrator of the Professional Training on Smart and Green Logistics Scheme and the Logistics Promotion Funding Scheme as advance payment which will be distributed by the administrator in due course.*

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- (a) **Maritime sector.** The Manpower Development Committee (MDC — Note 3) under the Hong Kong Maritime and Port Board (HKMPB — Note 4) is responsible for the maritime-related schemes. Under MDC:
 - (i) a Steering Group on Maritime Services Manpower (the Steering Group) was formed to monitor and advise on the implementation of scholarship and incentive schemes for post-secondary students relating to maritime services under MATF; and
 - (ii) two working groups were set up to oversee the implementation of an incentive scheme for professional organisations to offer placements for selected professions;

Note 3: *According to its terms of reference, MDC is established under the Hong Kong Maritime and Port Board (HKMPB) to:*

- (a) monitor the supply and demand of maritime and port manpower and formulate manpower strategies, initiatives and programmes to support Hong Kong's maritime and port development;*
- (b) steer and undertake studies and surveys related to maritime manpower development;*
- (c) advise on and oversee the implementation of the schemes under MATF; and*
- (d) carry out tasks relating to (a), (b) or (c) above and agreed by HKMPB.*

Chaired by a non-official individual member, MDC's members comprise representatives from MD and Invest Hong Kong, 6 other non-official individual members, 6 institutional members, and 3 co-opted members which are appointed by the HKMPB Chairman as and when necessary to draw in additional expertise on areas not adequately covered by the current HKMPB membership and to widen the network so as to better engage the industry.

Note 4: *In April 2016, HKMPB was established by merging the Hong Kong Maritime Industry Council and the Hong Kong Port Development Council. It is a high-level platform to provide strategic steer on the vision, direction and policy matters pertaining to the development of Hong Kong's maritime industry and Hong Kong Port. It is chaired by the Secretary for Transport and Logistics. Its members comprise the Permanent Secretary for Transport and Logistics, the Director of Marine, the Director-General of Investment Promotion, 14 non-official individual members and 8 institutional members.*

- (b) **Aviation sector.** The Tripartite Taskforce on Manpower Training (Aviation) (TTA — Note 5) is responsible for aviation-related schemes; and
- (c) **Logistics sector.** The Hong Kong Logistics Development Council (LOGSCOUNCIL — Note 6) is responsible for logistics-related schemes.

1.8 Each scheme has its own objectives, procedural guidelines, criteria for approving applications, reporting and auditing requirements as well as prescribed arrangements for disbursement of grants. Members of MDC and TTA are also invited to join the selection panels organised in collaboration with the tertiary institutions concerned to interview the candidates under respective scholarship schemes.

1.9 According to TLB, it will review the usage of MATF regularly and fine-tune the implementation details in the light of practical experience and feedback from applicants, course providers and industry players. Refinements to the existing schemes and new initiatives and programmes may be introduced where appropriate.

Administration of training schemes

1.10 Since its establishment, MATF has been providing funding support for training incentives, subsidy schemes and scholarship schemes for students and

Note 5: *Comprising representatives from the Government, industry stakeholders and education institutions, TTA is a dedicated committee formed in 2014 to monitor and review the implementation of the initiatives concerning the aviation sector. A Deputy Secretary for Transport and Logistics and the Director-General of Civil Aviation act as ex-officio members of TTA.*

Note 6: *In December 2001, LOGSCOUNCIL was established as a forum for the Government and the industry stakeholders to advise on initiatives to promote the development of the logistics industry in Hong Kong. It is chaired by the Secretary for Transport and Logistics. Its members comprise the Permanent Secretary for Transport and Logistics, representatives from the Development Bureau, the Education Bureau, the Commerce and Economic Development Bureau, the Constitutional and Mainland Affairs Bureau, the Labour and Welfare Bureau, the Environment and Ecology Bureau, the Innovation, Technology and Industry Bureau and the Customs and Excise Department, as well as 13 non-official individual members and 12 institutional members.*

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in-service practitioners of relevant disciplines and industries. As at 31 December 2024, 20 schemes (Note 7) had been operated under MATF, as follows:

- (a) ***Incentive schemes.*** These include the Sea-going Training Incentive Scheme (SGTIS), the Ship Repair Training Incentive Scheme (SRTIS), the Local Vessel Trade Training Incentive Scheme (LVTTIS), the Local Vessel Competency Enhancement Scheme (LVCES) and the Aviation Operations Training Incentive Scheme (AOTIS). Scope of the incentive schemes are summarised at Appendix A;
- (b) ***Scholarship schemes.*** These include the Hong Kong Maritime and Logistics Scholarship Scheme, the University of Hong Kong (HKU) — Dalian Maritime University (DMU) Academic Collaboration Scheme, the Hong Kong Maritime Law Scholarship Scheme, the Hong Kong Aviation Scholarship Scheme (HKASS), HKU — Shanghai Maritime University (SMU) Academic Collaboration Scheme, the Maritime Law Scholarship Scheme and the Hong Kong Nautical and Maritime Scholarship Scheme. Scope of the scholarship schemes are summarised at Appendix B;
- (c) ***Course/examination fee refund schemes.*** These include the Professional Training and Examination Refund Scheme (ProTERS), the Partial Tuition Refund Scheme for the Specialised Aircraft Maintenance Programme (PTRS) and the Professional Training on Smart and Green Logistics Scheme (PTSGLS). Scope of the course/examination fee refund schemes are summarised at Appendix C; and
- (d) ***Other training and internship schemes.*** These include the Maritime and Aviation Internship Scheme (MAIS), the Overseas Exchange Sponsorship Scheme (OESS), the Maritime Training Support Scheme (MTSS), the Maritime Services Traineeship Scheme — Legal (MSTS — Legal) and the Internship Scheme on Modern Logistics (Note 8). Scope of the other training and internship schemes are summarised at Appendix D.

Note 7: *The 20 schemes included 2 schemes, namely the Hong Kong Maritime Law Scholarship Scheme and the Maritime Law Scholarship Scheme, that had been suspended since 2020.*

Note 8: *The scheme, formerly named as the Summer Internship Scheme on Supply Chain Management launched by LOGSCOUNCIL, has been funded under MATF since 2023.*

1.11 While 4 schemes were administered by TLB, and 3 schemes were administered by MD, the remaining 13 schemes were administered by 13 non-governmental administrators. Appendix E shows the implementation progress of training schemes from 1 April 2014 to 31 December 2024.

Promotion initiatives under MATF

1.12 According to TLB, in order to raise industry awareness, which is crucial to the development of the maritime, aviation and logistics sectors, part of MATF would be used for sustaining the industries' effort to reach out to the younger generations and the community at large. In this connection, the following were launched:

- (a) ***Maritime Promotion Project Funding.*** In 2014, TLB launched the Maritime Promotion Project Funding to support maritime-related organisations or professional bodies to organise promotional and outreach programmes to the younger generations and the community at large; and
- (b) ***Promotional initiatives for aviation and logistics sectors.*** In January 2024, TLB launched two promotional initiatives for the aviation and logistics sectors, namely:
 - (i) ***Aviation Promotion Project Funding Scheme.*** The scheme aims to fund local aviation-related organisations and academic institutions for organising activities to promote the aviation industry, raise public awareness and interest, and attract talent to join the industry; and
 - (ii) ***Logistics Promotion Funding Scheme.*** The scheme supports and encourages local organisations and professional bodies to promote the logistics industry with the focus on modern and smart logistics through organisation of promotional projects.

1.13 TLB, in collaboration with MD, has participated in some education and career expos to promote career prospects, job opportunities and career pathway of the maritime industry, including the sea-going sector and the local vessel trade. The Airport Authority Hong Kong has also been organising career expos annually to

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promote career opportunities in the aviation industry and supporting its manpower development.

Recent developments

1.14 ***Action Plan on Modern Logistics Development.*** In October 2023, TLB promulgated the “Action Plan on Modern Logistics Development” to formulate strategies and action measures to meet the short, medium and long-term development needs of the logistics sector, with a view to promoting the sustainable and high-quality development of Hong Kong’s logistics industry. Recommendations of the Action Plan included making use of MATF to support industry associations/training institutions in providing practitioners with training on modern and smart logistics, as well as green and sustainable logistics.

1.15 ***Action Plan on Maritime and Port Development Strategy.*** In December 2023, TLB promulgated the “Action Plan on Maritime and Port Development Strategy” to formulate strategies and action measures to support the sustainable development needs of the maritime and port industry in Hong Kong, with a view to enhancing the long-term competitiveness of the industry. The Action Plan recommended, amongst others, to complete a comprehensive review in 2024 to evaluate the impact and effectiveness of MATF in attracting talents and promoting manpower development in the industry. The 2024-25 Budget Speech announced that TLB would conduct a comprehensive review of MATF in 2024 for the maritime and aviation sectors. The review report prepared by the consultant was endorsed by MDC and TTA in December 2024 and January 2025 respectively.

Responsible offices in TLB

1.16 A number of sections and units in TLB are responsible for the secretariat work of MATF:

- (a) ***Port Development Section and Manpower Unit.*** As at 31 December 2024, there were 8 staff (including 6 civil servants and 2 contract staff) and 2 contract staff in the Port Development Section and Manpower Unit under Division 5 responsible for administering the maritime-related schemes and aviation-related schemes respectively;

- (b) ***Air Services and Airport Development Section.*** As at 31 December 2024, there were 6 staff (including 2 civil servants and 4 contract staff — Note 9) in the Air Services and Airport Development Section under Division 4 responsible for administering the aviation-related schemes; and
- (c) ***Special Team on Logistics Industry Support.*** As at 31 December 2024, there were 5 contract staff in the Special Team on Logistics Industry Support under Division 5 responsible for administering the logistics-related schemes.

An extract of the organisation chart of TLB as at 31 December 2024 is at Appendix F. According to TLB, the administrative costs for providing support for MATF are absorbed under the overall provision for TLB, hence there is no separate breakdown of the expenditures involved.

Audit review

1.17 In November 2024, the Audit Commission (Audit) commenced a review to examine the administration of MATF. The audit review has focused on the following areas:

- (a) training schemes administered by TLB and MD (PART 2);
- (b) training schemes administered by non-governmental administrators (PART 3);
- (c) promotion initiatives under MATF (PART 4); and
- (d) way forward (PART 5).

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

Note 9: *According to TLB, of the 6 staff, 2 civil servants and 1 contract staff oversee the schemes under MATF on a part-time basis.*

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General response from the Government

1.18 The Secretary for Transport and Logistics generally agrees with audit recommendations on improvement. She has said that TLB will make every effort to work closely with all relevant government and non-governmental administrators to implement the recommendations.

Acknowledgement

1.19 Audit would like to acknowledge with gratitude the full cooperation of the staff of TLB and MD during the course of the audit review.

PART 2: TRAINING SCHEMES ADMINISTERED BY TRANSPORT AND LOGISTICS BUREAU AND MARINE DEPARTMENT

2.1 This PART examines the administration of training schemes by TLB and MD, focusing on:

- (a) administration of ProTERS (paras. 2.3 to 2.14);
- (b) administration of MAIS (paras. 2.15 to 2.24); and
- (c) administration of seafaring training schemes (paras. 2.25 to 2.31).

2.2 TLB is responsible for administering ProTERS, MAIS, MSTs — Legal and the Internship Scheme on Modern Logistics, their actual expenditure up to 31 December 2024 were about \$38 million, \$52 million, \$0.8 million and \$2 million respectively. MD is responsible for administering the three seafaring training schemes, namely SGTIS, LVTIS and LVCES, their actual expenditure up to 31 December 2024 were about \$31 million, \$6 million and \$7 million respectively (see Appendix E). In view of the small amount involved in MSTs — Legal and the Internship Scheme on Modern Logistics, Audit examination will focus on the administration of the remaining five schemes.

Administration of Professional Training and Examination Refund Scheme

2.3 ProTERS was launched in 2014 to encourage in-service practitioners in the maritime and aviation sectors to pursue continuous career development and take professional examinations to raise their professional qualifications and skills. An applicant will be refunded 80% of the fees after satisfactory completion of a pre-approved course or passing a pre-approved examination if he/she has not been granted any other forms of subsidy or financial assistance for the relevant course/examination. Each individual may apply for fee refund for more than one course/examination subject to an accumulative ceiling of \$18,000. Deadline for submitting application is within four months after completing the course or passing the examination. Over the years, there were two key refinements of ProTERS, as follows:

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- (a) raising the refund ceiling from \$18,000 to \$30,000 per applicant with effect from 1 April 2021 for the aviation sector and from 1 September 2021 for the maritime sector; and
- (b) extending the scheme to cover practitioners-to-be, i.e. applicants must be employed in the sectors at the time of submitting applications with effect from 1 September 2020 for the aviation sector and from 1 September 2021 for the maritime sector.

Table 1 shows the actual expenditure of ProTERS in the period from 2019-20 to 2024-25 (up to December 2024).

Table 1

**Actual expenditure of ProTERS
(2019-20 to 2024-25 (up to December 2024))**

Sector	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to December 2024)	Total
	(\$'000)						
Maritime	1,986	2,843	2,854	2,358	3,172	1,772	14,985
Aviation	637	2,424	1,997	2,802	2,578	2,063	12,501
Total	2,623	5,267	4,851	5,160	5,750	3,835	27,486

Source: TLB records

Need to enhance the processing of applications

2.4 According to TLB's processing guidelines for handling applications under ProTERS, vetting officers should:

- (a) issue an acknowledgement of receipt letter to an applicant within 14 calendar days from receipt of an application. As stated in the letter, TLB will inform

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the applicant of the application result in around 6 weeks if all required information is available (i.e. 8 weeks from the receipt of an application);

- (b) request for the missing supporting documents and/or necessary additional information within 14 calendar days from the issuance of the acknowledgement of receipt letter. A notification letter will be issued stating that an application will not be processed further if no response is received after request for supplementary information with two reminders sent (i.e. 7 weeks after the email request for missing supporting documents); and
- (c) complete the vetting process within 28 calendar days from the issuance of acknowledgement of receipt letter or 14 calendar days from the last correspondence, whichever is applicable.

2.5 Audit analysed the 9,142 applications (5,528 for the maritime sector and 3,614 for the aviation sector) received and processed in the period from 2019-20 to 2024-25 (up to December 2024) and noted that (see Table 2):

- (a) for the maritime sector, 905 (16% of 5,528) applications, in which no supplementary information had been requested from the applicants, had been processed for more than 8 weeks (with the longest applications up to 201 days (Note 10)). For the aviation sector, 601 (17% of 3,614) applications, in which no supplementary information had been requested from the applicants, had been processed for more than 8 weeks (with the longest application up to 273 days). According to TLB, due to the lengthy Work From Home arrangement during the coronavirus disease (COVID-19) epidemic between 2020 and 2022, the processing time of cases was longer than the normal time span during the period. Nevertheless, 118 (2.1% of 5,528) applications (or 13% of the 905 applications) of the maritime sector and 3 (0.08% of 3,614) applications (or 0.5% of the 601 applications) of the aviation sector were received in 2023 and 2024; and
- (b) 239 (4% of 5,528) and 211 (6% of 3,614) applications for the maritime sector and the aviation sector were rejected respectively. The main reasons included submission of applications exceeding the 4-month period after

Note 10: *Unless otherwise stated, all days refer to calendar days in this report.*

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completing the course or passing the examination, and the course/examination under application was not on the pre-approved list.

Audit considers that TLB needs to expedite the processing of applications, and step up its promotion work of ProTERS with a view to enhancing the awareness of the applicants of the scheme requirements.

Table 2

**Number of applications received and processed under ProTERS
(2019-20 to 2024-25 (up to December 2024))**

Status	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to December 2024)	Overall
<i>Maritime sector</i>							
Approved	1,056 (96%)	662 (94%)	1,131 (96%)	830 (97%)	891 (94%)	719 (97%)	5,289 (96%)
Rejected	44 (4%)	42 (6%)	53 (4%)	27 (3%)	52 (6%)	21 (3%)	239 (4%)
Total	1,100	704	1,184	857	943	740	5,528
<i>Aviation sector</i>							
Approved	576 (97%)	671 (95%)	640 (97%)	695 (95%)	475 (95%)	346 (83%)	3,403 (94%)
Rejected	20 (3%)	35 (5%)	23 (3%)	39 (5%)	24 (5%)	70 (17%) (Note)	211 (6%)
Total	596	706	663	734	499	416	3,614

Source: Audit analysis of TLB records

Note: 57 of the 70 applications were submitted by 12 applicants applying for refund of course fees for the same course (of different modules), of which all were submitted after the required 4-month period and were rejected.

Need to take enhancement measures to prevent double subsidies

2.6 An applicant has to declare in the application form that he/she has not been granted any other form of subsidy or financial assistance for the relevant course/examination, and undertake to refund to the Government any overpayment made upon demand. Audit examination revealed that:

- (a) **Maritime sector.** The “Examination for Certificate of Competency as Deck Officer Class 3” had been included in the pre-approved list under ProTERS since April 2014. Such examination was also covered by SGTIS Phase 1 (see item 1 in Appendix A). Audit analysed the databases of ProTERS and SGTIS for the period from 2019-20 to 2024-25 (up to December 2024) and found a case that might warrant further investigation. In this case, while the applicant passed the examination and was refunded the full examination fee of \$4,550 under SGTIS Phase 1 in October 2021, he also submitted an application under ProTERS for the same examination in December 2022 (Note 11) and was refunded \$3,640 (i.e. 80% of the examination fee) in October 2023; and
- (b) **Aviation sector.** Course providers/examination authorities need to declare whether the relevant courses/examinations are included in other publicly funded financial assistance schemes (e.g. the Continuing Education Fund (CEF)). According to TLB, as endorsed by TTA in June 2022, it planned to seek assistance from the Office of CEF to cross-check the applications for courses/examinations that are covered by both CEF and ProTERS (Aviation). Audit examination found that as of December 2024, there were 9 courses covered by both CEF and ProTERS (Aviation) (Note 12). For these

Note 11: *According to TLB, although the application was submitted 16 months after the applicant’s passing of the examination in August 2021, the application was approved due to the support measures for COVID-19 epidemic of ProTERS (i.e. applications from those who have left jobs from the industries during COVID-19 epidemic period on or after 1 March 2020 but subsequently re-joined the industries by 31 March 2023 would be accepted). The applicant re-joined the industry in December 2022.*

Note 12: *According to TLB, for the maritime sector, it had conducted regular exercises in the past three years to identify whether there were common courses covered by both ProTERS (Maritime) and CEF, and no courses/examinations were covered by both ProTERS (Maritime) and CEF. From August 2023 onwards, as an additional safeguard, the course providers were requested to state whether their courses were also funded by other schemes when applying for inclusion of their courses in the pre-approved list under ProTERS.*

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9 courses, 58 applications (involving 7 courses) were approved in the period from June 2022 to December 2024, with refund to applicants totalling \$470,080. However, as of December 2024, no checking with the Office of CEF had been performed by TLB since the endorsement by TTA in June 2022.

Audit considers that TLB needs to investigate the case in (a) and take enhancement measures accordingly, and take prompt follow-up actions to check with the Office of CEF for courses/examinations covered by both CEF and ProTERS (Aviation).

Need to ascertain reasons for low number of applications received for some pre-approved courses/examinations

2.7 Course providers/examination authorities are required to apply for inclusion of their courses/examinations in the pre-approved list under ProTERS. While new applications of the maritime sector are assessed by MD and the Steering Group (see para. 1.7(a)(i)) based on a set of assessment criteria, those of the aviation sector are assessed by the Civil Aviation Department and the Airport Authority Hong Kong based on another set of assessment criteria. As at 31 December 2024, there were 469 pre-approved courses/examinations, comprising 175 and 294 pre-approved courses/examinations for the maritime sector and the aviation sector respectively.

2.8 Audit analysed the list of the 469 pre-approved courses/examinations as at 31 December 2024 and records of applications received in the period from 2019-20 to 2024-25 (up to December 2024) (see Table 3), and found that the number of applications received for the pre-approved courses/examinations varied, as follows:

- (a) there were no applications received in relation to 226 (48%) pre-approved courses/examinations; and
- (b) there were only 10 or less applications received in relation to 122 (26%) pre-approved courses/examinations.

In Audit's view, all the pre-approved courses/examinations under ProTERS were considered as relevant and appropriate for the practitioners in the industries to take when they were included in the list, TLB needs to ascertain the reasons for the low number of applications received for some pre-approved courses/examinations.

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Table 3

**Number of applications received for pre-approved
courses/examinations under ProTERS
(2019-20 to 2024-25 (up to December 2024))**

Number of applications received	Number of pre-approved courses/examinations				
	Maritime sector		Aviation sector		Total
	Course	Examination	Course	Examination	
Nil	51	2	169	4	226
1 to 10	41	7	73	1	122
11 to 50	38	3	27	0	68
51 to 100	10	5	8	0	23
101 to 150	7	1	5	0	13
151 to 200	1	0	2	0	3
201 to 300	4	1	3	0	8
301 to 400	1	0	0	1	2
Over 400	2	1	0	1	4
Total	155	20	287	7	469

Source: Audit analysis of TLB records

Need to implement review mechanism and enhanced control measures

2.9 ***Review mechanism.*** As stipulated in the application form for course providers/examination authorities, an approved course/examination is subject to a periodic review mechanism. TLB may take actions as deemed necessary if any irregularity of the approved course/examination is found in the course of the review. Audit examination of TLB records revealed that:

- (a) ***Maritime sector.*** At the meeting of the Steering Group held in November 2021, the Chairman suggested that a benchmark on the number of attendees should be considered to determine if the pre-approved courses should be retained in the list, and that the proposal would be discussed at a later time. In July 2024, TLB expressed to the Steering Group that they were

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exploring the possibility of removing courses with zero attendance in three years' period from the pre-approved list. In December 2024, TLB suggested that the course providers/examination authorities would be required to review the contents of all their courses/examinations, and remove those obsolete or inactive course(s)/examination(s) from the pre-approved courses/examinations list at regular intervals (i.e. three years); and

- (b) **Aviation sector.** Following the endorsement of some enhanced control measures (see para. 2.11) by TTA, with effect from June 2022, every approved course/examination will have a validity period of three years and be subject to a renewal review before the expiry of validity period to keep track on their quality. For courses/examinations approved before June 2022, TLB planned to conduct the renewal reviews in five batches (around 50 courses/examinations per batch), with the first batch and the last batch of reviews scheduled to be completed by July 2024 and July 2025 respectively. However, as at 31 December 2024, the first batch renewal review had not been completed due to operational constraints. Audit also noted that for the first batch of 18 courses/examinations approved after the imposition of 3-year validity period in June 2022, their validity periods would expire soon in June 2025.

2.10 On the other hand, substantial amounts have been approved for some pre-approved courses/examinations under ProTERS. Audit analysed the approved amounts for the applications received in the period from 2019-20 to 2024-25 (up to December 2024) and found that the approved amounts of the top five pre-approved courses/examinations constituted 49% and 36% of the total approved amounts during the period for the maritime sector and the aviation sector respectively (see Table 4). Such courses/examinations may be accorded higher priority for conducting periodic review to ensure that the contents of them are up-to-date and relevant to meet the development of the industries. Taking into consideration the approved amounts for individual courses/examinations, Audit considers that TLB needs to expedite the implementation of the review mechanism with a view to keeping track of the quality of the pre-approved courses/examinations under ProTERS, focusing on the aviation courses/examinations approved since June 2022 the validity periods of which will soon expire.

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Table 4

**Approved amounts of pre-approved courses/examinations under ProTERS
(2019-20 to 2024-25 (up to December 2024))**

Pre-approved course/ examination for respective sector	Maritime sector		Aviation sector	
	Approved amount (\$'000)	Percentage of total approved amount	Approved amount (\$'000)	Percentage of total approved amount
A	2,032	14%	1,264	10%
B	1,498	10%	1,225	10%
C	1,364	10%	811	7%
D	1,128	8%	583	5%
E	1,007	7%	551	4%
Sub-total	7,029	49%	4,434	36%
Others	7,321	51%	8,027	64%
Total	14,350	100%	12,461	100%

Source: Audit analysis of TLB records

2.11 *Enhanced control measures.* For the aviation sector, in addition to the review mechanism, Audit noted that a series of enhanced control measures had also been endorsed by TTA with effect from June 2022, comprising:

- (a) quarterly cross-checking with course providers/examination authorities;
- (b) on-site inspections and surprise visits; and
- (c) annual updating of course/examination information and materials.

However, Audit noted that most of the above enhanced control measures had not been performed up to 31 December 2024.

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2.12 Upon enquiry, TLB informed Audit in March 2025 that while the enhanced control measures mentioned in paragraph 2.11 had yet to be reflected in form of guidelines, there were already safeguards and control measures to prevent abuse under ProTERS:

- (a) case officers would cross-check the authenticity of the application forms, receipts of payment and certification documents issued by course providers/examination authorities to identify irregularities;
- (b) the implementation of the e-submission platform (see para. 5.9) would also allow case officers to monitor trends and identify exceptions to safeguard the robustness of the system; and
- (c) applicants were required to declare that, amongst other things, they had not been granted any other forms of subsidy or financial assistance for the relevant pre-approved course/examination. It should be noted that the making of false declaration was a criminal offence.

Audit considers that TLB needs to formulate an implementation plan for the enhanced control measures and incorporate them into the processing guidelines of ProTERS (Aviation).

Audit recommendations

2.13 **Audit has *recommended* that the Secretary for Transport and Logistics should:**

- (a) **expedite the processing of applications, and step up TLB's promotion work of ProTERS with a view to enhancing the awareness of the applicants of the scheme requirements;**
- (b) **investigate the case mentioned in paragraph 2.6(a) and take enhancement measures accordingly;**
- (c) **take prompt follow-up actions to check with the Office of CEF for courses/examinations covered by both CEF and ProTERS (Aviation);**

- (d) **ascertain the reasons for the low number of applications received for some pre-approved courses/examinations under ProTERS;**
- (e) **expedite the implementation of the review mechanism with a view to keeping track of the quality of the pre-approved courses/examinations under ProTERS, focusing on the aviation courses/examinations approved since June 2022 the validity periods of which will soon expire; and**
- (f) **formulate an implementation plan for the enhanced control measures and incorporate them into the processing guidelines of ProTERS (Aviation).**

Response from the Government

2.14 The Secretary for Transport and Logistics generally agrees with the audit recommendations. She has said that:

- (a) with the launching of an electronic application system (see para. 5.9) on 20 March 2025, the efficiency and the accuracy of processing applications can be improved and the application form for reimbursement for ProTERS would be enhanced such that applicants will be fully aware of the scheme requirements;
- (b) the Secretariat of MATF has completed the investigation of the case mentioned in paragraph 2.6(a) and will update the processing guidelines in handling ProTERS applications and step-up cross-checking among different schemes of MATF to prevent double subsidies;
- (c) the Secretariat of MATF has obtained the confirmation from the Office of CEF that for courses/examinations covered by both CEF and ProTERS (Aviation) in March 2025, no cases of double subsidies was identified. Going forward, TLB will perform checking with the Office of CEF for all relevant applications before the disbursement of funds;
- (d) while the popularity of a course/examination should not be a determinant factor in assessing whether such course/examination should be included under ProTERS, the newly introduced review mechanism of ProTERS will

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help the Secretariat of MATF ascertain with the course providers/examination authorities the reasons for the low number of applications for particular courses/examinations and ensure that the courses/examinations under ProTERS are still relevant to the professional development in the maritime and aviation sectors; and

- (e) the Secretariat of MATF will refine the review mechanism and enhanced control measures for ProTERS (Aviation) in consultation with TTA, formulate an implementation plan and include such into the internal processing guidelines as appropriate.

Administration of Maritime and Aviation Internship Scheme

2.15 MAIS was introduced in 2014 to provide students early exposure to the wide spectrum of career opportunities in the maritime and aviation sectors to encourage them to pursue a career in these sectors after graduation. Under MAIS, companies in the maritime and aviation sectors are invited to offer internship places for Hong Kong residents who are lawfully employable in Hong Kong, and are currently:

- (a) full-time local students (including students who are in the final year of their study) undertaking undergraduate or sub-degree programmes in any local institutions; or
- (b) full-time students (including students who are in the final year of their study) undertaking undergraduate or sub-degree programmes in overseas or Mainland China institutions; or
- (c) secondary six school leavers.

An internship should last for a minimum of four weeks (i.e. 28 days) and provide a fruitful and rewarding experience to the intern. Out of the monthly honorarium that a student received, MATF contributed 75% or \$7,000 (whichever is the lower) for an internship period up to three months. Table 5 shows the actual expenditure of MAIS in the period from 2019-20 to 2024-25 (up to December 2024).

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Table 5

**Actual expenditure of MAIS
(2019-20 to 2024-25 (up to December 2024))**

Sector	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to December 2024)	Total
	(\$'000)						
Maritime	2,477	1,776	2,915	3,295	2,041	2,211	14,715
Aviation	4,500	2,103	1,923	3,547	3,176	390 (Note)	15,639
Total	6,977	3,879	4,838	6,842	5,217	2,601	30,354

Source: TLB records

Note: According to TLB, as the frontline staff responsible for data entry and vetting applications of MAIS (Aviation) resigned, the processing time for relevant reimbursement applications was longer than previous years, resulting in certain outstanding reimbursement applications as at 31 December 2024. All backlog has been cleared by mid-March 2025 and about \$4,820,000 has been reimbursed to participating companies.

Remarks: The Secretariat of MATF organises regular promotional activities for MAIS. The actual expenditure excluded miscellaneous expenditure, such as cocktail reception, coach hiring and printing. The miscellaneous expenditure in the period was about \$460,000.

2.16 Prospective companies are usually invited in February of each year to take part in MAIS. They are required to register with TLB the number of internship places they wish to offer and provide information on the job duties, monthly honorarium and specific requirements for interns to be recruited. TLB will upload the information of successfully registered internship places onto its MAIS webpage and provide such information to local institutions, local universities in particular. Students have to apply to the participating companies directly. Participating companies will conduct the recruitment on their own to select eligible and suitable interns for employment. While TLB encourages the companies to utilise their registered internship places, the actual number of interns to be recruited is determined by the companies. On completion of

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internship, participating companies have to submit application forms for reimbursements of honorarium to TLB within 60 days.

2.17 Table 6 shows the number of participating companies of MAIS from 2019 to 2024. The take-up rate of internship ranged from 45% to 70% from 2019 to 2024 (see Table 7). According to TLB, the reasons for companies not being able to recruit interns mainly included lack of applications, and suitable candidates could not be identified during selection.

Table 6

Number of participating companies of MAIS (2019 to 2024)

Year	Maritime sector			Aviation sector		
	With internship places offered	With interns recruited	With applications for reimbursement approved	With internship places offered	With interns recruited	With applications for reimbursement approved
2019	52	38	37	25	24	23
2020	41	34	33	23	20	19
2021	55	47	46	24	19	19
2022	55	50	47	22	19	19
2023	49	37	36	30	24	23
2024	45	38	37	28	23	22

Source: Audit analysis of TLB records

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Table 7

**Number of interns under MAIS
(2019 to 2024)**

Year	Maritime sector			Aviation sector		
	Offered	Recruited	Applications for reimbursement approved (take-up rate)	Offered	Recruited	Applications for reimbursement approved (take-up rate)
2019	296	176	174 (59%)	589	366	354 (60%)
2020	195	120	115 (59%)	284	200	191 (67%)
2021	281	201	196 (70%)	293	171	168 (57%)
2022	340	214	206 (61%)	452	298	270 (60%)
2023	320	150	146 (46%)	591	326	264 (45%)
2024	274	157	143 (52%)	598	387	351 (59%)

Source: Audit analysis of TLB records

Need to improve the promulgation of internship information

2.18 While participating companies need to report information of interns recruited to TLB before the commencement of internships, they are not required to specify the position and job duties for each intern. Audit reviewed the lists of internship places posted on MAIS webpage of TLB website as of December 2024 and noted that while application for all the internship places were specified as “open until filled” for the maritime sector, of the 598 internship places for the aviation sector, the application deadline for 412 (69%) had been lapsed. According to TLB, it was its intention to show a full list of internship places on the website for information. In Audit’s view, TLB needs to consider refining the presentation of the list of internship places so as to indicate the available internship positions with a view to facilitating students in applying for internship under MAIS.

Need to enhance the participation of secondary six school leavers

2.19 The eligibility criteria of MAIS were extended to cover secondary six school leavers for the aviation sector and the maritime sector in 2017 and 2023 respectively. According to TLB:

- (a) for the maritime sector, the expansion of MAIS could facilitate the Government in working with employers and industry associations to further strengthen the life planning education for secondary students. Moreover, this can support manpower development for the maritime industry (e.g. jobs that are manual in nature in local vessel trade or ship repair industry, or backend clerical support service in the maritime-related companies); and
- (b) for the aviation sector, in 2017, about 22% of workforce at the Hong Kong International Airport were engaging in manual and/or low-skilled employments. These positions/services are the backbone supporting the operations of the airport but facing recruiting difficulties. Extending the eligibility criteria of MAIS to cover secondary six school leavers can tap into this pool of potential labour.

2.20 Audit analysis of TLB records of approved applications for reimbursement revealed that:

- (a) for the maritime sector, only 7 (2%) of the 289 interns with approved reimbursement applications in 2023 and 2024 were secondary six school leavers; and
- (b) for the aviation sector, only 8 (1%) of the 893 interns with approved reimbursement applications from 2020 to 2023 were secondary six school leavers.

Audit considers that TLB needs to enhance the participation of secondary six school leavers in MAIS with a view to giving them early exposure to the maritime and the aviation sectors.

Need to tighten monitoring of recruiting interns

2.21 ***Interns repeatedly working in the same companies.*** Audit analysed TLB's records of approved reimbursement applications and found that:

- (a) ***Maritime sector.*** Of the 785 students (involving 806 internship places) recruited as interns in the period from 2020 to 2024, 8 (1%) students had been employed by the same participating companies for more than once, of which:
 - (i) 6 students had been employed by the same participating companies for internships for two years consecutively;
 - (ii) 1 student had been employed by the same participating company twice in the same year (i.e. July to August 2023 and December 2023 to January 2024); and
 - (iii) 1 student had been employed by the same participating company for three times within two years (i.e. June to August 2023, November 2023 to January 2024, and September to October 2024); and
- (b) ***Aviation sector.*** Of the 870 students (involving 893 internship places) recruited as interns in the period from 2020 to 2023, 3 (0.3%) students had been employed by the same participating companies for more than once, of which 2 had been employed by the same participating companies for internships for two years consecutively and 1 had been employed by the same participating company in 2020 and 2022.

Interns repeatedly working in the same companies may depart from the primary objective of MAIS to provide students early exposure to the wide spectrum of career opportunities in the maritime and aviation industries. Moreover, an intern employed by the same participating company for more than once in the same year may be a loophole for the requirement of maximum sponsorship period of three months for each internship. Upon enquiry, in March 2025, TLB informed Audit that prior to 2024, there were two rounds of applications from the maritime-related companies in a year for registration of internship places, with the application deadlines falling in around May and December respectively. In 2024, TLB opened up the application for registration for the whole year round. The cases mentioned in paragraph 2.21(a) were

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in order under the previous arrangement. TLB had reviewed the arrangement and imposed a new employment arrangement for MAIS in 2025, i.e. the same student would only be sponsored once by MATF for working in the same participating company. Audit considers that TLB needs to closely monitor the implementation of the new employment arrangement and evaluate its effectiveness.

Need to tighten monitoring of job experience provided by participating companies to interns

2.22 While participating companies are required to specify the job duties when registering internship places (see para. 2.16), they are not required to specify the position/job duties for each intern recruited (see para. 2.18). In this connection, interns are invited to complete evaluation forms and offer their feedback upon completion of the internship programme. Audit examination found that:

- (a) notwithstanding the evaluation forms printed that the forms should be sent by the interns direct to TLB by email or fax, when submitting reimbursement applications, participating companies were required to submit the evaluation forms from all interns (and were required to consolidate the evaluation forms from individual interns into one spreadsheet); and
- (b) based on the summaries of evaluation forms from 2019 to 2024 for the maritime sector and from 2019 to 2023 for the aviation sector, there were some adverse comments from the interns, for example:
 - (i) on the statement “the internship experience I had under the Scheme was meaningful and fulfilling”, there were 1% feedback opted “strongly disagree” or “disagree” in both the maritime and the aviation sectors; and
 - (ii) on the statement “my company provided me with sufficient coaching and guidance during the internship period”, there were 1% feedback opted “strongly disagree” or “disagree” in both the maritime and the aviation sectors.

Audit considers that TLB needs to ensure that the results of evaluation forms are collected objectively, keep in view the number and percentage of adverse comments

from the interns under MAIS, investigate the reasons for the adverse comments and take follow-up actions where necessary.

Audit recommendations

2.23 Audit has *recommended* that the Secretary for Transport and Logistics should:

- (a) consider refining the presentation of the list of internship places so as to indicate the available internship positions with a view to facilitating students in applying for internship under MAIS;**
- (b) enhance the participation of secondary six school leavers in MAIS with a view to giving them early exposure to the maritime and the aviation sectors;**
- (c) closely monitor the implementation of the new employment arrangement that each intern will only be sponsored once under MAIS for working in the same participating company, and evaluate its effectiveness; and**
- (d) ensure that the results of evaluation forms are collected objectively, keep in view the number and percentage of adverse comments from the interns under MAIS, investigate the reasons for the adverse comments and take follow-up actions where necessary.**

Response from the Government

2.24 The Secretary for Transport and Logistics generally agrees with the audit recommendations. She has said that the Secretariat of MATF will:

- (a) explore ways to present the information on the internship places in a more user-friendly way to facilitate interested students to get hold of the latest information related to the available internship places;**
- (b) step up the promotion of MAIS to the secondary six school leavers to facilitate them to gain an early exposure to the maritime and aviation sectors**

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while acknowledging that the employers have their discretion in employing secondary six school leavers;

- (c) closely monitor and evaluate the effectiveness of new employment arrangement to ensure that each intern will only be sponsored once under MATF for working in the same participating company; and
- (d) explore possible ways to collect evaluations in a more objective manner, and closely monitor the number and percentage of adverse comments from the interns in a more holistic manner and take follow-up actions where warranted.

Administration of seafaring training schemes

2.25 As of December 2024, there were three seafaring training schemes under MATF which were administered by MD. The salient points of the schemes are as follows:

- (a) **SGTIS.** There is a general lack of interest amongst young people to work on board ocean-going vessels, partly because new entrants are required to undergo a relatively low-paid cadet training period by serving on board ocean-going vessels before they could sit for the first professional qualifications and progress further under the career ladder. Such qualifications ultimately open up the cadets' career path to a wide range of both marine-based and shore-based senior positions such as ocean-going vessel master/chief engineer, harbour pilot, ship manager, ship surveyor, and qualified for entry to the main professional grades of MD. SGTIS comprises four phases, as follows:
 - (i) **Phase 1.** Phase 1 was launched in 2004 to provide a subsidy to entice the young generations to join the maritime sector and gain sea-going experience. Applicants may also apply for the reimbursement of examination fee after passing the Certificate of Competency (CoC) (Deck Officer/Marine Engineer Officer) Class 3 examination;
 - (ii) **Phase 2.** It came into effect on 1 April 2018 to provide subsidy for applicants, who had enrolled in CoC (Deck Officer/Marine Engineer Officer) Class 3 examination, to prepare for the examination onshore;

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- (iii) **Phase 3.** It came into effect on 1 April 2018 to provide subsidy for applicants working on board as cadet after obtaining CoC (Deck Officer/Marine Engineer Officer) Class 3; and
- (iv) **Phase 4.** It came into effect on 1 December 2023 to provide financial incentive for applicants working on board after obtaining CoC (Deck Officer/Marine Engineer Officer) Class 2 or Class 1;
- (b) **LVTIS.** The local vessel trade faces great difficulties in recruiting coxswains, engine operators and deck/engine ratings to serve on board. While there is no entry requirement for becoming deck/engine ratings on local vessels, they are required to accumulate minimum 9 months service in local vessels experience before becoming eligible to sit for their first professional examinations as coxswains or engine operators. LVTIS was launched in 2014 to provide financial incentive to attract new blood to join the local vessel trade; and
- (c) **LVCES.** LVCES was introduced in 2019 to encourage more local vessel trade practitioners to take examinations and obtain higher professional qualifications (e.g. Local Coxswain/Engine Operator Grade 2 Certificate) through the provision of a one-off financial incentive, thereby creating a pool of skilled staff who can operate various types of local vessels to meet the manpower demand of the trade.

Table 8 shows the actual expenditure and number of beneficiaries of the three seafaring training schemes from 2019-20 to 2024-25 (up to December 2024).

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Table 8

**Actual expenditure and number of beneficiaries
of seafaring training schemes
(2019-20 to 2024-25 (up to December 2024))**

No.	Scheme	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to December 2024)	Total
Actual expenditure (\$'000)								
1	SGTIS	4,047	3,711	2,704	4,003	4,054	3,197	21,716
2	LVTTIS	860	494	660	692	328	113	3,147
3	LVCES	600	1,260	804	1,008	1,254	1,923	6,849
Number of beneficiaries								
1	SGTIS							
	Phase 1	36	36	20	40	28	17	177
	Phases 2 and 3	23	33	18	21	21	9	N.A. (Note 2)
	Phase 4 (Note 1)	N.A.	N.A.	N.A.	N.A.	6	19	N.A. (Note 2)
	Total	59	69	38	61	55	45	177
2	LVTTIS	17	16	33	21	4	5	96
3	LVCES	50	105	67	84	100	179	585

Source: TLB records

Note 1: SGTIS Phase 4 came into effect on 1 December 2023.

Note 2: According to TLB, as the four-phase SGTIS spans over several years and only recipients of Phase 1 subsidy are eligible to apply for subsidy in Phases 2 to 4, only the total number of Phase 1 (i.e. entry phase) is provided.

Room for improvement in processing applications

2.26 MD promulgates flowcharts for processing applications and payments for the three schemes. Accordingly, MD staff will vet the application forms and supporting documents and input relevant data into databases. Audit analysed MD's databases of approved applications from 2019-20 to 2024-25 (up to December 2024) for the three schemes and noted that:

- (a) there were late applications approved, as follows:
 - (i) ***SGTIS***. Applicants were required to submit applications at least 10 working days in advance before commencing sea-going training for Phase 1. Of the 177 applications, 136 (77%) were submitted late. The delay ranged from 1 to 855 working days, averaging 66 working days, of which 4 applications were with delays of over 600 working days (Note 13);
 - (ii) ***LVTTIS***. Applicants were required to submit applications within 4 months after being employed by local shipping companies and completion of approved training courses, whichever is later. Of the 96 applications, 11 (11%) were submitted late. The delay ranged from 16 to 353 days, averaging 106 days; and
 - (iii) ***LVCES***. Applicants were required to submit applications within 4 months after passing the examinations and successfully obtaining the related certificates. Of the 585 applications, 2 (0.3%) were submitted late. The delay ranged from 10 to 17 days, averaging 14 days; and
- (b) for LVTTIS, as promulgated in the application form and MD's website, if the employment contract of an applicant is terminated, the applicant will no longer be eligible for the monthly subsidy even he/she is employed in the local vessel industry again. Audit noted that in two cases, the applicants received monthly subsidies totalling \$12,500 after change of employment.

Note 13: *According to MD, the main reason for the late submission of the 4 applications for more than 600 working days was that the applicants were studying maritime programmes overseas. As such, MD could only process the applications after the applicants had completed their study and submitted all the necessary documents.*

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Upon enquiry, in March 2025, MD informed Audit that prior to 2016, no job-hopping was allowed under LVTIS. As endorsed by MDC in 2016, the restrictions on job-hopping was lifted and MD allowed participants to change company during the subsidy period.

2.27 Audit selected 40 approved late applications for SGTIS and all the approved late applications for LVTIS (i.e. 11) and LVCES (i.e. 2) from 2019-20 to 2024-25 (up to December 2024) for examination. Upon enquiry, from January to March 2025, MD informed Audit that of the 53 approved late applications selected:

- (a) in 31 applications, MD exercised discretion in approving the late applications. The grounds for exercising discretion mainly included applicants being outside Hong Kong due to engagement of urgent seafaring jobs, misunderstanding of the application procedures, employers of applicants being unable to provide required documents/information, and due to personal grounds;
- (b) in 8 applications, there were input errors in the databases;
- (c) in 9 applications, MD took additional time to rectify the errors in the supporting documents before entering the dates of application into the databases; and
- (d) in the remaining 5 applications, due to closure of counters during the outbreak of COVID-19 epidemic between 2020 and 2022, MD implemented flexible measures to extend the deadline of applications as appropriate.

Audit noted that MD's processing flowcharts did not stipulate the circumstances/procedures for exercising discretion in approving late applications and that there was no supervisory check in MD's data input process. Audit considers that TLB needs to, in collaboration with MD, set out circumstances and related procedures that MD staff can exercise discretion in approving late applications of the seafaring training schemes, consider imposing supervisory check in the data input process with a view to ensuring data accuracy of the seafaring training schemes, and update the application form and MD's website regarding the lifting of the job-hopping restrictions under LVTIS.

Need to enhance participation in further phases of SGTIS

2.28 Audit noted that the participation of beneficiaries in SGTIS Phase 1 in Phase 2 were low from 2019-20 to 2023-24. According to MD, as of February 2025, of the 158 approved applicants (Note 14) claiming monthly subsidy under SGTIS Phase 1 (see para. 2.25(a)(i)) in the period:

- (a) 61 (39%) applicants had enrolled in the examination of CoC (Deck Officer/Marine Engineer Officer) Class 3, and proceeded to SGTIS Phase 2;
- (b) 17 (11%) applicants had enrolled in the examination/obtained certificates of CoC (Deck Officer/Marine Engineer Officer) Class 3 but did not apply for SGTIS Phase 2; and
- (c) 80 (50%) applicants had received monthly subsidy under SGTIS Phase 1, but had not enrolled in the examination of CoC (Deck Officer/Marine Engineer Officer) Class 3.

Audit noted that the 80 applicants in (c) were not eligible for proceeding to the remaining phases of SGTIS (see para. 2.25 (a)(ii) to (iv)), at variance with the objective of SGTIS to assist young people to move up the career ladder to senior positions in the industry. Audit considers that TLB needs to, in collaboration with MD, take measures to improve the participation in further phases of SGTIS.

Need to enhance participation in LVTIS

2.29 Audit noted that the number of beneficiaries for LVTIS decreased by 12 (71%) from 17 in 2019-20 to 5 in 2024-25 (up to December 2024). Audit considers that TLB needs to, in collaboration with MD, take measures to improve the participation in LVTIS.

Note 14: *Of the 160 approved applicants from 2019-20 to 2023-24, 2 approved applicants did not claim monthly subsidy under SGTIS Phase 1.*

Audit recommendations

2.30 **Audit has *recommended* that the Secretary for Transport and Logistics, in collaboration with the Director of Marine, should:**

- (a) set out circumstances and related procedures that MD staff can exercise discretion in approving late applications of the seafaring training schemes;**
- (b) consider imposing supervisory check in the data input process with a view to ensuring data accuracy of the seafaring training schemes;**
- (c) update the application form and MD's website regarding the lifting of the job-hopping restrictions under LVTTIS; and**
- (d) take measures to improve the participation in further phases of SGTIS and LVTTIS.**

Response from the Government

2.31 **The Secretary for Transport and Logistics generally agrees with the audit recommendations. She has said that MD has already put in place measures to:**

- (a) introduce guidelines and procedures in handling cases that require special attention or exercise of discretion;**
- (b) impose supervisory check in data input process to ensure the data accuracy of seafaring training schemes;**
- (c) update the information on MD's website and application form about the lifting of job-hopping restrictions under LVTTIS; and**
- (d) explore possible ways in promoting further phases of SGTIS and LVTTIS to improve the participation rates.**

PART 3: TRAINING SCHEMES ADMINISTERED BY NON-GOVERNMENTAL ADMINISTRATORS

3.1 This PART examines the monitoring of training schemes administered by non-governmental administrators, focusing on:

- (a) contractual arrangement with non-governmental administrators (paras. 3.3 to 3.10);
- (b) safeguarding national security (paras. 3.11 to 3.15); and
- (c) monitoring the implementation of training schemes (paras. 3.16 to 3.22).

3.2 According to TLB, support from the industries and the training institutions are crucial to the successful implementation of measures for expanding and upgrading our pool of talent, in particular for proposed sector-wide initiatives. TLB therefore places emphasis on collaboration among Government-industry-academia. While for the launch of new initiatives/schemes (as well as change of eligibility criteria for/enhancement to existing funding schemes), the endorsement from MDC/TTA/LOGSCOUNCIL is required for the respective sectors, the implementation details of individual schemes are worked out through Government-industry-academia collaboration. In this connection, for the 18 training schemes as at 31 December 2024, besides the 4 schemes administered by TLB and the 3 schemes administered by MD, 13 partner institutions/organisations have been engaged by TLB as the administrators (i.e. non-governmental administrators) for the remaining 11 training schemes.

Contractual arrangement with non-governmental administrators

3.3 *Fund administration.* According to the “Guide on management of funding schemes” promulgated in Financial Circular No. 2/2017 on management of funding schemes and non-works projects funded by the Government which is administrative in nature, irrespective of form (i.e. whether being named as a “Fund”), all funding schemes/funds created with public money and involving payouts to non-governmental

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parties should be bound by the principles in the Guide (Note 15). Accordingly, to ensure the proper and prudent use of public funds, a Controlling Officer or his/her delegate should enter into contractual agreements with parties involved to lay down the exact terms and conditions of all disbursements, be these grants for individuals or payments with expected deliverables. Salient points of contractual agreements may include:

Financial control measures

- (a) decide whether the grants should be staggered, paid upon achievement of milestones, or paid on a reimbursement basis;
- (b) require grantees to keep designated bank accounts;
- (c) specify requirements on interest income, donations and sponsorships;
- (d) require, on a need basis, grantees to submit financial statements and auditors' reports;

Operational control measures

- (e) requirements on avoiding and declaring conflicts of interest;

Note 15: *A few overriding principles which should be observed in all circumstances are the needs to:*

- (a) strive to achieve maximum value for money;*
- (b) exercise prudence in the disbursement of government funds;*
- (c) preserve a level playing field in government procurement and in partnering arrangements involving non-government entities, by adhering as far as possible to a fair, open and/or competitive selection process;*
- (d) serve the public with integrity and in a transparent and publicly accountable manner; and*
- (e) observe due diligence and avoid conflicts of interest even in the most pressing circumstances.*

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- (f) conditions specifying to each project as appropriate and specify the consequences of failure to comply with the control measures;
- (g) when necessary, the Controlling Officer and the governing body may conduct random on-site checks, apart from reviewing the progress/completion reports and invoice/receipts requested to be submitted; and
- (h) project records maintained should preferably be retained for at least seven years after the end of the financial year for the project completion.

3.4 ***Performance management.*** For individual projects, the Controlling Officer should specify measurable deliverables and spell out in the contractual agreements with grantees the potential sanctions including financial sanctions for failing to achieve them. The Controlling Officer should consider putting in place a robust but reasonable mechanism and issue guidelines for operational staff to validate whether the deliverables of the projects have been achieved as reported by grantees.

Need to consider entering into contractual agreements with non-governmental administrators

3.5 As at 31 December 2024, of the 11 training schemes administered by non-governmental administrators, Audit noted that TLB has entered into contractual agreements with the respective administrators for 5 training schemes (see Table 9). The terms normally included in the contractual agreements are:

- (a) the administrator shall use the funds for the sole purpose of implementation of the scheme under MATF;
- (b) provision of income and expenditure account by the administrator within specific timeframe in respect of the scheme to TLB;
- (c) the Government may at any time at its sole discretion terminate the scheme by giving written notice of such termination not less than a specific timeframe; and

Training schemes administered by non-governmental administrators

- (d) any unspent funds in the scheme as at the date of termination of the scheme shall be refunded to the Government within a specific timeframe.

Table 9

Training schemes administered by non-governmental administrators (31 December 2024)

No.	Training scheme	Contractual agreement with administrator(s)
1	SRTIS	No
2	Hong Kong Maritime and Logistics Scholarship Scheme	Yes
3	HKU — DMU Academic Collaboration Scheme	Yes
4	PTRS	No
5	OESS	No
6	HKASS	No
7	HKU — SMU Academic Collaboration Scheme	Yes
8	Hong Kong Nautical and Maritime Scholarship Scheme	Yes
9	AOTIS	No
10	MTSS	No
11	PTSGLS	Yes

Source: Audit analysis of TLB records

3.6 For the remaining 6 training schemes, TLB had not entered into contractual agreements (including memoranda of understanding) with the administrators concerned. According to TLB, the following administrative arrangements are operating effectively and the measures are regarded as effective in safeguarding that the allocated funding is spent prudently within the budget and scope approved:

- (a) **SRTIS.** TLB had no records that a memorandum had been signed with the administrator concerned since SRTIS was transferred to MATF by the then Economic Development and Labour Bureau in 2014 nor the then Economic

Training schemes administered by non-governmental administrators

Development and Labour Bureau did such in 2006 when SRTIS was launched. The administrator had been required to submit a progress report at a half-year interval to the then Economic Development and Labour Bureau on the operation of SRTIS since 2006 and the requirement still prevailed when SRTIS was transferred to MATF;

- (b) **PTRS.** A work practice had been established that the administrator collected and checked evidence for the study and employment status of beneficiaries before it submitted application for disbursement and supporting schedules to TLB each year. TLB would check the funding request against the supporting documents and clarify with the administrator for any discrepancies identified before disbursement of funding;
- (c) **OESS.** Each administrator had submitted a proposal to the Working Group on Overseas Exposure for Students (Note 16) for evaluation and approval. Thereafter, the administrators had been entrusted with the responsibility of selecting nominees for the scheme and submitting transcripts to TLB for disbursement of funding;
- (d) **HKASS.** The administrators were responsible for receiving applications and processing nominations of candidates for consideration by the selection panel, as well as disbursing the scholarship payments to the recipients and monitoring their academic performance. Every year, TLB enlisted assistance from the administrators in collecting the relevant proof of employment from their respective scholarship recipients;
- (e) **AOTIS.** In the first quarter of each year, the administrator had to submit application for disbursement to TLB together with supporting schedules showing the latest status of relevant applicants. TLB would review the application and supporting schedules before approving disbursement to the administrator; and
- (f) **MTSS.** A proposal for the scheme had been submitted by the administrator and endorsed by MDC. TLB had entrusted the administrator to monitor

Note 16: *In 2014, the Working Group on Overseas Exposure for Students had been formed to help the Tripartite Taskforce on Manpower Training of the then Hong Kong Maritime Industry Council to design, monitor and review the implementation of the initiatives on the overseas learning and exposure for students. Since June 2016, the implementation of OESS has been overseen by the Steering Group under MDC.*

Training schemes administered by non-governmental administrators

the usage of fund under MTSS. The administrator would provide TLB with a year-end report, together with the annual financial statements concerned audited by an external party, at the conclusion of each school year. The administrator was also required to conduct a mid-term review to evaluate the implementation progress.

3.7 Audit examination on the administrative arrangements on disbursement of funding from TLB for the six training schemes without contractual agreements revealed that there was scope for improvement, as follows:

- (a) for PTRS, HKASS and AOTIS, while returned funding from ineligible applicants were collected by the administrators and the amount would be offset with the disbursement of funding from TLB in the following year, there were no written agreements governing the above arrangements;
- (b) for HKASS, while the administrators were responsible for disbursing the scholarship payments to their respective scholarship recipients, there were no specified timeframe or number of instalments for disbursing the payments;
- (c) for AOTIS, TLB provided \$24,000 (Note 17) to the administrator for each approved application around one year before actual disbursement to eligible applicants. However, there was no written agreements governing the arrangement for such advance payment. Moreover, Audit examination of the records of 15 applications found that in 1 (7%) case, while study allowance of \$24,000 had been provided to the administrator, there was no documentary evidence showing that the student concerned had submitted the relevant application form; and
- (d) the interest income from relevant bank deposits for funding under MATF of the five schemes was not accounted for except for SRTIS.

Note 17: *AOTIS provides eligible applicants a study allowance of \$24,000, of which \$12,000 will be released after completion of a 13-month Diploma in Aviation Operations programme and the remaining \$12,000 after six months' continuous employment in the aviation industry upon graduation.*

3.8 According to Financial Circular No. 2/2017, as a good practice, a Controlling Officer should be mindful of the third party obligations which should be imposed in arrangements involving a third party. In this connection, appropriate contractual terms must be imposed on administrator so as to ensure that the third party obligations will be performed and monitored. For the six training schemes without contractual agreements, Audit notes that some key terms and conditions have not been specified or established, for example, conditions for terminating funding arrangements, measurable deliverables for the schemes and potential sanctions including financial sanctions for failing to achieve them. In order to better protect government's interest, Audit considers that TLB needs to formalise the existing administrative arrangements and consider entering into contractual agreements with the pertinent administrators of the six training schemes, taking into account the findings mentioned in paragraph 3.7.

Audit recommendation

3.9 **Audit has *recommended* that the Secretary for Transport and Logistics should formalise the existing administrative arrangements and consider entering into contractual agreements with the pertinent administrators of the six training schemes, taking into account the findings mentioned in paragraph 3.7.**

Response from the Government

3.10 The Secretary of Transport and Logistics generally agrees with the audit recommendation. She has said that TLB will formalise the existing administrative arrangements and enter into contractual agreements or memoranda of understanding with the pertinent administrators of the six training schemes for improving scheme administration.

Safeguarding national security

Need to consider implementing additional measures in safeguarding national security

3.11 The Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (HKSAR) was implemented on 30 June 2020. The Law stipulates that it is the constitutional duty of the HKSAR

Training schemes administered by non-governmental administrators

to safeguard national security. Besides, the Safeguarding National Security Ordinance took effect on 23 March 2024. It is stated in the Preamble of the Ordinance that any institution, organization and individual in the HKSAR must abide by the law of HKSAR applicable for safeguarding national security, must not engage in acts and activities endangering national security, and must provide assistance in accordance with the law in response to a request made by the authorities when conducting the work on safeguarding national security in accordance with the law. Besides, section 8(3) of the Ordinance stipulates that if the law of the HKSAR confers any function on a person, the function is to be read as including a duty to safeguard national security, and accordingly, any person, in making any decision in the performance of the function, must regard national security as the most important factor, and give appropriate consideration to it accordingly.

3.12 Besides the 6 training schemes without contractual agreements with pertinent administrators, Audit examined the contractual agreements entered into between TLB and the respective non-governmental administrators for the 5 training schemes (see para. 3.5) and noted that except for PTSGLS, there were no specific clauses concerning the safeguarding of national security in the contractual agreements with the administrators. Despite this, concerning safeguarding national security relating to application for the schemes, TLB informed Audit in March 2025 that it had taken follow-up actions in February and March 2024, as follows:

- (a) requiring all non-governmental administrators to implement measures in safeguarding national security, such as incorporating safeguarding national security clauses in the application forms and providing guidance to all sponsorship recipients to comply with the national security law when undertaking the relevant courses; and
- (b) informing all non-governmental administrators that the Government reserved the right to withdraw or cancel a sponsorship or a scheme on the grounds that the respective recipient or course had engaged, was engaging, or was reasonably believed to have engaged or be engaging in acts or activities that were likely to cause or constitute the occurrence of offences endangering national security or otherwise the exclusion was necessary in the interest of national security, or was necessary to protect the public interest of Hong Kong, public morals, public order or public safety.

All these administrators replied in the affirmative.

3.13 Audit noted the follow-up actions taken by TLB as mentioned in paragraph 3.12. With a view to implementing additional measures in safeguarding national security, Audit considers that TLB needs to consider incorporating/updating clauses concerning safeguarding of national security in contractual agreements or memoranda of understanding with pertinent administrators.

Audit recommendation

3.14 **Audit has *recommended* that the Secretary for Transport and Logistics should consider incorporating/updating clauses concerning safeguarding of national security in contractual agreements or memoranda of understanding with pertinent administrators.**

Response from the Government

3.15 The Secretary of Transport and Logistics generally agrees with the audit recommendation. She has said that TLB will incorporate/update clauses concerning safeguarding of national security in the memoranda of understanding or contractual agreements with pertinent administrators.

Monitoring the implementation of training schemes

Need to enhance participation in some training schemes

3.16 Table 10 shows the number of beneficiaries for four training schemes administered by non-governmental administrators from 2019-20 to 2024-25 (up to December 2024). Audit examination of the participation in the four schemes found that:

- (a) ***SRTIS***. As of September 2024, out of the 218 graduates who had joined SRTIS (including 155 joined SRTIS before MATF's establishment), 77 (35%) had dropped out of the scheme;
- (b) ***PTRS***. There was a significant decrease in the number of beneficiaries by 26 (72%) from 36 in 2019-20 to 10 in 2023-24. As of December 2024, of

Training schemes administered by non-governmental administrators

the 146 beneficiaries in the period from 2019-20 to 2023-24, 36 (25%) dropped out of the scheme subsequently;

- (c) **OESS.** According to TLB, based on the proposals put forth by the administrators, it was anticipated that approximately 20 students would receive sponsorship every academic year. However, for the academic years 2019-20 to 2023-24, the anticipated number of beneficiaries was not met; and
- (d) **AOTIS.** Of the 168 beneficiaries in the period from 2019-20 to 2022-23, 57 (34%) dropped out of the scheme, in which 30 (53% of the 57 beneficiaries) of them had received the first instalment of allowance totalling \$360,000. While according to a paper submitted to TTA in 2019 for introducing AOTIS, graduates should undertake that he/she will continue to work in the aviation industry for six consecutive months, there was no dedicated undertaking forms signed by the beneficiaries. In the event, the allowance paid to these 30 beneficiaries had yet to be recovered. TLB informed Audit in March 2025 that:
 - (i) while there was not a separate undertaking form, the employment requirement (i.e. working in the industry for six consecutive months upon completion of the programme) was made clear to the beneficiaries in the “Notes for Applicants” of the application form, and the beneficiaries had to declare in the application form that he/she accepted and agreed to abide by the terms and conditions as set out in the “Notes for Applicants”; and
 - (ii) the administrator had been reminded to recover the allowance from the beneficiaries as soon as possible if the employment requirement was not met by the beneficiaries.

Audit considers that TLB needs to, in consultation with the relevant administrators, take measures to enhance the participation for SRTIS, PTRS, OESS and AOTIS and ensure that the beneficiaries meet the employment requirement in AOTIS.

Training schemes administered by non-governmental administrators

Table 10

**Number of beneficiaries
(2019-20 to 2024-25 (up to December 2024))**

Scheme	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to December 2024)	Total
1. SRTIS	5	6	10	2	1	0	24
2. PTRS	36	44	43	13	10	N.A. (Note)	146
3. OESS	9	3	0	4	11	7	34
4. AOTIS	60	51	21	36	53	N.A. (Note)	221

Source: TLB records

Note: According to TLB, the schemes will only disburse funding once in the first quarter of 2025 for 2024-25.

Need to enhance monitoring on the employment requirements of scholarship recipients

3.17 Scholarship recipients under MATF have to undertake to work full-time in the maritime-related or aviation-related field in Hong Kong for a period of not less than 12 months after graduation (for the “Seafaring Scholarship” recipients of the Hong Kong Nautical and Maritime Scholarship Scheme, they have to work on board ocean-going vessels for 12 or 18 months upon graduation). They are required to sign undertakings with the Government (Note 18) and refund the scholarship payments received in full in case they fail to fulfil any one of the conditions in the undertakings. Table 11 shows the number of scholarship recipients of the scholarship schemes in the period from 2019-20 to 2024-25 (up to December 2024).

Note 18: *It is a legally binding written undertaking with the conditions, among others, stating that a scholarship recipient shall:*

- (a) complete the programme concerned;*
- (b) work full time on board/in the maritime/aviation industry for a period of not less than 12 or 18 months; and*
- (c) provide genuine contact details to enable the institutions concerned to get in touch with the recipient at least three years following graduation. He/she is required to provide his/her employment status for ascertaining his/her compliance with the requirements of the scholarship scheme and for reviewing the effectiveness of the scholarship scheme.*

Training schemes administered by non-governmental administrators

Table 11

**Number of scholarship recipients of scholarship schemes
(2019-20 to 2024-25 (up to December 2024))**

Scheme	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to December 2024)	Total
<i>Maritime sector</i>							
Hong Kong Maritime and Logistics Scholarship Scheme	10	5	5	9	8	10	47
HKU — DMU Academic Collaboration Scheme	4	2	3	2	2	2	15
Hong Kong Maritime Law Scholarship Scheme	2	N.A. (Note 1)	N.A.	N.A.	N.A.	N.A.	2
HKU — SMU Academic Collaboration Scheme	4	1	1	2	1	0	9
Maritime Law Scholarship Scheme	0	N.A. (Note 2)	N.A.	N.A.	N.A.	N.A.	0
Hong Kong Nautical and Maritime Scholarship Scheme	7	5	2	3	2	2	21
<i>Aviation sector</i>							
HKASS	23	25	23	28	22	N.A. (Note 3)	121

Source: TLB records

Note 1: The scheme had been suspended since 2020 due to low student demand and the challenges in recruiting suitable staff in the area of maritime law.

Note 2: The scheme had been suspended since 2020 due to low student demand.

Note 3: The selection interviews of the scheme would be held in the first quarter of 2025.

Training schemes administered by non-governmental administrators

3.18 *Maritime sector.* According to TLB's processing guidelines for the maritime scholarship schemes, the administrators are responsible for providing employment details of their respective scholarship recipients to TLB in December every year. TLB will circulate the employment details of the scholarship recipients to the Steering Group for information and seek clarification from the administrators should there be any issues raised by the Steering Group. Audit examination of the employment details provided by the administrators for the 80 scholarship recipients from 2019-20 to 2023-24 revealed that as of December 2024:

- (a) 18 (22%) recipients were in the process of fulfilling their undertaking of employment in the maritime sector;
- (b) 8 (10%) recipients had already fulfilled the employment requirements for the scholarships;
- (c) 7 (9%) recipients had withdrawn from the scholarships and had returned the scholarship payments totalling \$642,130 to the Government;
- (d) 8 (10%) recipients had not fulfilled the employment requirements for the scholarships but there was no documentary evidence showing that they had returned the scholarship payments;
- (e) for 22 (28%) recipients, their employment records could not show that the employment requirements of the scholarships had been fulfilled; and
- (f) for 17 (21%) recipients, there were no employment records provided by the relevant administrators.

However, there was no documentary evidence showing that TLB had taken follow-up actions for (d) to (f). Upon enquiry, TLB informed Audit in January 2025 that the administrators concerned had been requested to incorporate an assessment concerning the above audit observations and propose remedial measures. Audit considers that TLB needs to enhance its monitoring of the employment details of the scholarship recipients and follow up with the administrators in this regard.

3.19 *Aviation sector.* Unlike the maritime sector, there were no internal processing guidelines nor contractual agreements with the relevant administrators under HKASS. Audit noted that on an annual basis, TLB:

Training schemes administered by non-governmental administrators

- (a) obtained undertakings signed by the scholarship recipients on the basis of the results of the selection panel. However, Audit analysis of the relevant records for 2019-20 to 2023-24 revealed that the relevant undertakings from 56 (46%) of the 121 recipients were collected by TLB after TLB's approval of disbursements to the administrators; and
- (b) issued emails to the administrators requesting for information on any scholarship recipients who had failed to meet the requirements of the scholarships. Audit examination of the replies from the administrators found that of the 121 recipients for 2019-20 to 2023-24, 10 (8%) had withdrawn from the scheme or had failed to fulfil the scholarship requirements and had returned totalling \$942,100 to the Government. However, no employment details were provided by the administrators concerning the remaining recipients.

Audit considers that TLB needs to ensure that undertakings from scholarship recipients are collected before approval of disbursement to the administrators, and require the administrators to provide employment details of all recipients to ensure that the requirements of the scholarships have been fulfilled.

Need to ensure timely submission of information on income and expenditure by the administrators

3.20 For the 5 training schemes with contractual agreements entered into with the respective administrators (i.e. 4 maritime scholarship schemes and PTSGLS — see para. 3.5), the administrators are required to provide information on income and expenditure to TLB annually. Audit examination of the relevant submission records for 2023-24 found that:

- (a) ***4 maritime scholarship schemes.*** According to the contractual agreements, income and expenditure account shall be submitted within 30 to 60 days from the end of each academic year. However, there was no documentary evidence showing that the relevant income and expenditure accounts were submitted to TLB by the relevant administrators. Upon enquiry, TLB informed Audit in March 2025 that the income and expenditure requirement was not applicable as the scholarships were operated on a reimbursement basis. TLB disbursed subsidy to the administrators based on their actual expenditure. Audit considers that TLB needs to review the requirement for

Training schemes administered by non-governmental administrators

income and expenditure account in the pertinent contractual agreements;
and

- (b) ***PTSGLS.*** According to the contractual agreement (Note 19), an annual report and audited financial statements shall be submitted within 3 months after the end of each financial year. For 2023-24, the relevant annual report and audited financial statements were submitted on 5 August 2024 (i.e. delay of 1.2 months). Audit considers that TLB needs to ensure timely submission of information on income and expenditure by the respective administrator in accordance with the relevant contract provisions.

Audit recommendations

3.21 **Audit has *recommended* that the Secretary for Transport and Logistics should:**

- (a) **in consultation with the relevant administrators, take measures to enhance the participation in SRTIS, PTRS, OESS and AOTIS and ensure that the beneficiaries meet the employment requirement in AOTIS;**
- (b) **for maritime scholarship schemes, enhance TLB's monitoring of the employment details of the scholarship recipients and follow up with the administrators on the proposed remedial measures for checking employment requirements;**
- (c) **for the aviation scholarship scheme, ensure that undertakings from scholarship recipients are collected before approval of disbursement to the administrators, and require the administrators to provide employment details of all recipients to ensure that the requirements of the scholarships have been fulfilled;**
- (d) **review the requirement for income and expenditure account in the pertinent contractual agreements of the four maritime scholarship schemes; and**

Note 19: *The contractual agreement includes terms and requirements for both PTSGLS and the Logistics Promotion Funding Scheme.*

- (e) **ensure timely submission of information on income and expenditure by the respective administrator of PTSGLS in accordance with the relevant contract provisions.**

Response from the Government

3.22 The Secretary for Transport and Logistics generally agrees with the audit recommendations. She has said that the Secretariat of MATF:

- (a) together with TTA and MD have been monitoring the number of beneficiaries and participants of all schemes. They will continue to keep in view the participation and consult relevant administrators on measures to enhance the participation rate when necessary and to ensure that the beneficiaries meet the employment requirement;
- (b) will work with respective administrators to monitor and follow up on the employment situations of the scholarship recipients;
- (c) will ensure that undertakings from scholarship recipients are collected before approval of disbursement to the administrators, and has asked the administrators to provide employment details of all recipients to ensure that the requirements of the scholarships have been fulfilled;
- (d) will review the requirement for income and expenditure account in future contractual agreements or memoranda of understanding with the respective administrators of individual schemes under MATF; and
- (e) will remind and monitor the respective administrator of PTSGLS to ensure its timely submission of information on income and expenditure in accordance with the relevant contract provisions.

PART 4: PROMOTION INITIATIVES UNDER MARITIME AND AVIATION TRAINING FUND

4.1 This PART examines the promotion initiatives under MATF, focusing on the implementation of the Maritime Promotion Project Funding.

4.2 As at 31 December 2024, there were three promotion initiatives under MATF in supporting the maritime, aviation and logistics industries. As mentioned in paragraph 1.12, the Maritime Promotion Project Funding was introduced in 2014 while the Aviation Promotion Project Funding Scheme and the Logistics Promotion Funding Scheme were introduced in January 2024. Up to 31 December 2024, the actual expenditure for the Maritime Promotion Project Funding, the Aviation Promotion Project Funding Scheme and the Logistics Promotion Funding Scheme were \$12 million, \$0.4 million and \$2 million respectively. In view of the small amount involved in the Aviation Promotion Project Funding Scheme and the Logistics Promotion Funding Scheme, this PART will focus on the implementation of the Maritime Promotion Project Funding.

Implementation of Maritime Promotion Project Funding

4.3 ***Funding Application.*** The objective of the Maritime Promotion Project Funding is to promote various aspects of the maritime industry and attract more talents to join the industry through different promotion activities organised by the maritime-related organisations or professional bodies. TLB is responsible for vetting applications while MDC is responsible for endorsing applications after considering the recommendations from TLB. To apply for the funding under MATF for a proposed promotion project, a registered organisation in Hong Kong may submit application form with project proposal (if any) in writing three months before the commencement of the project. The following, among others, are required in the application form:

- (a) details of all activities under the project. For each activity:
 - (i) target participants and expected number of participants; and

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- (ii) total amount of funding applied with estimated budget for each expenditure item; and
- (b) declaration that the organisation concerned has not been granted any other forms of government subsidy or financial assistance for the activities listed out in the application form/proposal.

Need to consider setting target processing time for vetting applications

4.4 According to TLB, there is no documented guidelines for vetting the applications received for the Maritime Promotion Project Funding. Under the established work practice, the responsible staff will check the information provided in the application forms and project proposals (if any), and submit the applications to senior officers for approval according to an approval protocol. Audit analysed the processing time of the 42 applications processed from 2019 to 2024 and found that in 18 (43 %) applications, the processing time was more than 2 months, ranging from 61 to 1,526 (Note 20) days. Audit noted that TLB did not stipulate target processing time for vetting applications for the Maritime Promotion Project Funding, while for the Aviation Promotion Project Funding Scheme, its notes for application stipulated that the vetting process will normally be completed within 2 months after receiving the application form and all necessary documents. To facilitate planning of proposed projects by the applicants, TLB needs to consider setting a target processing time for vetting applications for the Maritime Promotion Project Funding.

Need to enhance dissemination of funding requirements

4.5 After the application is endorsed by MDC, TLB will issue an approval letter to the organiser stating the sponsorship amount and the payment schedule. According to the funding requirements which are normally stipulated in an approval letter, an organiser is required to:

Note 20: *For the application with the longest processing time of 1,526 days, approval-in-principle was given by TLB in November 2019, 85 days after receiving the application. However, the applicant deferred the event due to black-clad violence and COVID-19 epidemic, and finally fixed the date of event in November 2023. In the event, TLB issued the approval letter in October 2023.*

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- (a) submit an evaluation report (together with the copies of all relevant quotations/receipts/invoices for the sponsored expenditure items) within three months after the completion of project activities;
- (b) ensure that expenses for each item must not exceed the individual expenditure ceiling as budgeted;
- (c) return surplus fund, if any, to the Government, and may have to return all or partial sponsorship for individual activity in case it falls short of the expected performance and participation from the maritime sector and the general public; and
- (d) acknowledge the funding support of MATF by adding the logo of MATF (see Figure 1) on all publicity materials and on-site items for the sponsored activities.

Figure 1

Logo of MATF



Source: TLB records

4.6 Audit found that some funding requirements were not stipulated in the application forms or approval letters, but only disseminated to the organisers through emails or upon enquiry by organisers, as follows:

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- (a) regarding the number of quotations required for procurement of goods and services, at least 2 quotations are required for items of \$1,000 or above while at least 3 quotations are required for items of \$50,000 or above; and
- (b) regarding the information to be included in an evaluation report, the following essential elements are required:
 - (i) summary of the whole project and/or brief summary of each activity held;
 - (ii) number of participants and photographs taken for the respective activities;
 - (iii) general responses/feedback received from the participants; and
 - (iv) evaluation on the benefits or achievements of the project.

Moreover, upon enquiry, TLB informed Audit in December 2024 that if a project proposal involved any fees or income (such as income from selling entrance tickets), the amount of income would be deducted from the final amount to be disbursed to the organiser. With a view to enhancing the organisers' awareness and compliance of the funding requirements, TLB needs to consider promulgating guidelines for the organisers listing all the common funding requirements.

Need to ensure timely submission of evaluation reports by project organisers

4.7 After receiving evaluation reports for completed projects, TLB will check the receipts to determine whether to pay the balance of sponsorship to the organiser or demand surplus of funding from the organiser. From 2019 to 2024, there were 34 completed projects with total sponsorship provided amounted to \$6.5 million. Audit examination of the pertinent TLB records for submission of evaluation reports found that there were delays in 12 (35%) projects in submitting the evaluation reports. The delays ranged from 5 to 447 days, averaging 59 days. According to TLB, with effect from mid-2024, it would send reminders to organisers if they fail to submit the reimbursement application one week after the deadline as stipulated on the approval letters. As timely submission of evaluation reports facilitates TLB's prompt action in finalising the project expenditure, and the issuing of demand note to project organisers

Promotion initiatives under Maritime and Aviation Training Fund

for refund of surplus, if any, Audit considers that TLB needs to take measures to ensure timely submission of evaluation reports by the organisers for completed projects.

Need to enhance vetting of project expenditure

4.8 Of the 34 projects completed from 2019 to 2024, Audit selected 10 (29%) projects to examine TLB's work in vetting expenditure incurred and found scope for improvement in 6 projects (Project A to Project F), as follows:

- (a) regarding the requirements common for all the 10 completed projects:
 - (i) ***Insufficient number of quotations for procurement.*** In 4 (40%) projects (namely Projects A, B, C and D), there were occasions that the quotation requirements (see para. 4.6(a)) had not been complied with. For example, for Project A, fewer number of quotations than that required had been obtained for printing services amounting to \$89,000;
 - (ii) ***Receipts of sponsored items not submitted.*** Under Project B with a final approved sponsorship of \$220,000, only quotation records were submitted by the organiser. There was no documentary evidence showing that the organiser had submitted any receipts or TLB had requested for the receipts. Upon enquiry, TLB informed Audit in March 2025 that the organiser had provided a service contract signed with the successful bidder and TLB considered it a form of invoice; and
 - (iii) ***Expenditure items exceeding individual ceiling.*** Under Project A with a final approved sponsorship of \$570,000, there was a sub-item (i.e. printing of materials) amounting to \$199,000, which had exceeded its individual expenditure ceiling of \$183,000 by \$16,000 (9%); and
- (b) regarding the requirements for some project-specific items:
 - (i) ***Sponsorship from other government department.*** Under Project C with an approved funding of \$387,000, while the evaluation report

showed that MD was an honorable sponsor, there was no other information in TLB's records concerning such sponsorship income. Upon enquiry, TLB informed Audit in January 2025 that MD had sponsored the project in 5 sub-items of activities. In 2 of the 5 sub-items, MATF was also a sponsor (involving \$8,600). This was contrary to the requirement that the sponsored activities must not be granted any other form of government subsidy or financial assistance (see para. 4.3(b));

- (ii) ***Income received not deducted from sponsorship provided.*** Under Project E, the organiser had received ticket income of about \$16,000. According to the evaluation report, all the income would be donated to a charity. However, there was no documentary evidence showing that such income was donated or TLB had requested for the proof. In the event, the amount of income was not deducted from the sponsorship provided for the project (see para. 4.6); and
- (iii) ***Approval of an ineligible expenditure item.*** An event under Project F was held in 2022 and incurred a rental expense amounting to \$1,500 for a meeting venue located at the organiser's own facility, which was approved by TLB. Further examination by Audit revealed that the rental expense for similar events held in 2021 and 2023 by the same organiser was approved in 2021 but disapproved in 2023. In the latter occasion, TLB informed the organiser that the expense was disapproved because the venue was the organiser's own facility.

Audit considers that TLB needs to tighten the financial control and vetting of expenditure incurred in promotion projects.

Room for improvement in assessing effectiveness of promotion projects

4.9 Audit examined the evaluation reports submitted for the 34 projects completed from 2019 to 2024 and found that:

- (a) ***Non-submission of evaluation reports.*** No evaluation reports were submitted for 2 (6%) projects:

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- (i) in 1 project, the organiser was requested to submit a progress report to replace the evaluation report. However, no evaluation on the benefits or achievements of the project was included in the progress report; and
 - (ii) in the other project, only the relevant receipts, invoices and record of quotations had been submitted by the organiser;
- (b) ***Essential elements (see para. 4.6(b)) not fully reported in evaluation reports.*** In 21 (62%) projects, the organisers had not reported the general responses/feedback received from the participants for the activities, of which 5 projects were similar projects held by the same organiser in 5 consecutive years. Moreover, in 1 project, the expected number of participants of an activity (i.e. an online platform) stated in the proposal was 10,000. However, the actual achievement was not reported in the evaluation report; and
- (c) ***Actual number of participants not meeting expected number of participants.*** The actual number of participants in 21 (62%) projects did not meet the expected number of participants. Audit noted that the reasons for the shortfall in the number of participants were not provided in the evaluation reports in 15 (71%) of the 21 projects (see Table 12). Audit also noted that no organisers of those projects were required to return all or partial sponsorship because of not meeting the expected number of participants.

Audit considers that TLB needs to ensure that all essential elements are reported by organisers in the evaluation reports, and reasons have been provided should the actual number of participants fall short of the expected number of participants.

Table 12

Number of projects with
shortfall in meeting expected number of participants
(2019 to 2024)

Shortfall in meeting expected number of participants	Number of projects	Number of evaluation reports without reasons for the shortfall
1 % to 20 %	5	4
21 % to 40 %	4	3
41 % to 60 %	3	2
More than 60 %	9	6
Total	21	15

Source: Audit analysis of TLB records

4.10 ***MATF logo not displayed on all publicity materials.*** As regards the requirement of adding MATF logo on all publicity materials (see para. 4.5(d)), Audit examination of the 34 projects completed from 2019 to 2024 found that:

- (a) in 11 (32 %) projects, Audit could not find any copies of publicity materials for examination; and
- (b) for the remaining 23 (68 %) projects with publicity materials for examination, 3 (13 % of 23) projects had not added the logo on all publicity materials.

In March 2025, TLB informed Audit that if the publicity materials were too small, it might not be practicable to add MATF logo on them. Also, if the publicity materials were released before MATF funding was secured, those materials would not bear MATF logo. Audit considers that TLB needs to ensure that the logo of MATF is displayed on all publicity materials of all projects as far as practicable.

Promotion initiatives under Maritime and Aviation Training Fund

4.11 *Need to review the scope of promotion activities.* According to TLB, for promotion initiatives, particular focus will be on youngsters in their early secondary years by launching promotion initiatives such as career week and summer tour with maritime elements. It was planned to launch more targeted promotion strategies (e.g. embedding messages in television series/radio programmes, viral marketing techniques through social media networks) with a view to effectively promoting the “brand awareness” for the sector. Audit analysed the 34 projects completed from 2019 to 2024 and found that:

- (a) the activities were mainly confined to visits or competitions:
 - (i) in 8 (24%) projects, activities conducted by the organisers included visits to the same place;
 - (ii) in 12 (35%) projects, activities conducted by the organisers included vessel tours; and
 - (iii) in 6 (18%) projects, the same activity (a colouring competition) was arranged by the same organiser in six consecutive years, of which majority of participants were kindergarten and primary school students; and
- (b) in 1 project with approved funding of \$147,000, the organiser hired professional services for a full-time consultant stationed in a school for three months. The consultant was required to draw up detailed training plans under maritime studies, as well as develop deliverables that were required in the course of training (e.g. an electronic system for student training record book). No direct promotion activities had been organised under the project. The main deliverables were detailed training plans for conducting a training scheme in future.

Audit considers that TLB needs to review the scope and effectiveness of projects when approving applications with a view to reaching out to more youngsters through targeted promotion strategies.

Audit recommendations

4.12 **Audit has *recommended* that the Secretary for Transport and Logistics should:**

- (a) **consider setting a target processing time for vetting applications for the Maritime Promotion Project Funding;**
- (b) **consider promulgating guidelines for the organisers listing all the common funding requirements;**
- (c) **take measures to ensure timely submission of evaluation reports by the organisers for completed projects;**
- (d) **tighten the financial control and vetting of expenditure incurred in promotion projects;**
- (e) **ensure that all essential elements are reported by organisers in the evaluation reports, and reasons have been provided should the actual number of participants fall short of the expected number of participants;**
- (f) **ensure that the logo of MATF is displayed on all publicity materials of all projects as far as practicable; and**
- (g) **review the scope and effectiveness of projects when approving applications with a view to reaching out to more youngsters through targeted promotion strategies.**

Response from the Government

4.13 The Secretary for Transport and Logistics generally agrees with the audit recommendations. She has said that:

- (a) the Secretariat of MATF will prepare more detailed guidelines for handling promotion projects, including the estimated processing time, vetting of individual expenditure items, etc.;

Promotion initiatives under Maritime and Aviation Training Fund

- (b) the Secretariat of MATF will review the application guidelines to cover more details on the funding requirements and the deliverables, including but not limited to the evaluation reports, display of MATF logo on publicity materials, the number of participants and feedback of the participants to facilitate the evaluation of the effectiveness of the activity. To facilitate the applicants to follow and comply with the requirements, a template for recording quotations and reporting evaluations for the projects will be attached to the application form; and
- (c) the review has been completed and the enhancement to the promotion fund will be launched in the third quarter of 2025. The scope of the promotional projects will be extended to seminars, conferences and delegations to attend overseas or mainland seminars or conferences of targeted themes with a view to reaching out to more youngsters for promoting maritime, aviation and logistics industries.

PART 5: WAY FORWARD

5.1 This PART examines the way forward of MATF, focusing on:

- (a) performance reporting (paras. 5.2 to 5.8);
- (b) development of disbursement information system (paras. 5.9 to 5.12); and
- (c) comprehensive review on MATF (paras. 5.13 to 5.18).

Performance reporting

5.2 The Finance Committee of the Legislative Council approved a new commitment of \$100 million in January 2014 for establishing MATF. According to the funding proposal submitted to the Legislative Council, the \$100 million would support various schemes and scholarships from 2014-15 to 2018-19, benefiting 5,640 beneficiaries. Up to 2018-19, the cumulative expenditure was \$72 million, with a commitment balance of \$28 million.

5.3 In 2019, the approved commitment of MATF was increased by \$200 million (i.e. from \$100 million to \$300 million) to sustain the operation of various schemes and initiatives up to 2024-25. Whereas the unspent balance of MATF was about \$127 million by 2022-23, in 2023, the approved commitment of MATF was further increased by \$200 million (i.e. from \$300 million to \$500 million) to sustain and enhance the support of various schemes and initiatives until 2027-28. Up to 31 December 2024, the cumulative expenditure was \$234 million, leaving a balance of \$266 million. In response to Audit's enquiry on whether performance targets or indicators for MATF had been set, in December 2024, TLB said that:

- (a) there were no targets on the number of beneficiaries but a projected number for resource allocation. Every year a budget was prepared by consolidating the draft estimates from offices and administrators overseeing schemes under MATF; and
- (b) the resource estimations for the two rounds of increase in commitment in 2019 and 2023 were derived and referenced from a collective of

Way forward

parameters, including the historical beneficiary figures, the latest expenditure pattern at that periods of time and the estimated expenditure for future enhancement measures.

Need to consider including performance indicators in the Controlling Officer's Report

5.4 Audit noted that when consulting the Legislative Council on the two rounds of increase in commitment (Note 21), TLB only provided projected cash flows in the papers submitted to the Panel on Economic Development without an estimation of number of beneficiaries.

5.5 In the absence of an estimation on the number of beneficiaries under the two rounds of increase in commitment (see Items 15 to 20 in Appendix E), Audit can only evaluate the outcome of the 12 schemes under the initial approved commitment of funding in 2014. Audit noted that, in 7 (58%) of the 12 schemes, the total number of beneficiaries up to 31 December 2024 was lower than the number of beneficiaries estimated in 2014 for the ensuing five years (see Table 13).

Note 21: *The two rounds of increase in commitment of \$200 million each in 2019 and 2023 were approved by the Legislative Council in the context of the Appropriation Bills.*

Table 13

**Schemes with 10-year number of beneficiaries falling short of
the estimated 5-year number of beneficiaries
(31 December 2024)**

Scheme	Estimated number of beneficiaries in 5 years (2014-15 to 2018-19)	Actual number of beneficiaries in 10 years and 9 months (April 2014 to December 2024)
1. SRTIS	75	63
2. Hong Kong Maritime Law Scholarship Scheme	130	118
3. Hong Kong Maritime and Logistics Scholarship Scheme		
4. LVTTIS	250	244
5. PTRS	600	362
6. OESS	100	88
7. HKU — SMU Academic Collaboration Scheme	80	15

Source: Audit analysis of TLB records

5.6 According to Financial Circular No. 2/2017, as a good practice, the Controlling Officer should consider developing and reporting on appropriate performance measures for a fund, preferably focusing on outcome-based targets. As at 31 December 2024, there was a commitment balance of \$266 million under MATF. According to TLB, it planned to spend \$52 million in 2025-26. In order to ensure that public money is prudently used, there is a need for TLB to consider including in the Controlling Officer's Report performance indicators (e.g. number of beneficiaries) quantifying the benefits brought to the manpower development for the maritime, aviation and logistics industries.

Audit recommendation

5.7 **Audit has *recommended* that the Secretary for Transport and Logistics should consider including in the Controlling Officer's Report performance indicators (e.g. number of beneficiaries) quantifying the benefits brought to the manpower development for the maritime, aviation and logistics industries.**

Response from the Government

5.8 The Secretary for Transport and Logistics generally agrees with the audit recommendation. She has said that TLB will consider including performance indicators in the Controlling Officer's Report to quantify the benefits brought to the manpower development for the maritime, aviation and logistics industries.

Development of disbursement information system

5.9 For the training schemes administered by TLB, applicants are required to submit the completed application forms and copies of the required documents via post or emails. MATF staff manually conduct vetting, input data into databases and calculate the amount of disbursements. In October 2023, TLB obtained a funding of \$8 million for developing a disbursement information system. According to TLB, the system is a one-stop portal to support application submission and processing of ProTERS. The portal can potentially be extended to cover other schemes under MATF, such as MAIS, that are administered by TLB and other departments in the future.

Need to expedite implementation of disbursement information system

5.10 Audit notes that the core functionalities of the proposed system include data matching, which can enable automated cross-checking and validation of applicants' information and eligibility of ProTERS with records of other bureaux/departments or schemes. According to the implementation schedule, the system live-run of the core functionalities will be in January 2025. However, up to early March 2025, the core functionalities of the system have not yet been rolled out. With a view to enhancing operational efficiency, Audit considers that TLB needs to expedite the implementation

of the disbursement information system and explore the feasibility of extending the system to cover other schemes under MATF.

Audit recommendation

5.11 **Audit has *recommended* that the Secretary for Transport and Logistics should expedite the implementation of the disbursement information system and explore the feasibility of extending the system to cover other schemes under MATF.**

Response from the Government

5.12 The Secretary of Transport and Logistics generally agrees with the audit recommendation. She has said that the electronic disbursement information system was launched on 20 March 2025, covering ProTERS at the current stage. TLB will review its effectiveness and explore the feasibility of extending the system to cover other schemes of MATF.

Comprehensive review on Maritime and Aviation Training Fund

Need to regularly review the usage of MATF

5.13 The approved commitment of \$100 million in 2014 was to sustain and implement various schemes until 2018-19 (see para. 1.4). To map out the way forward and to assess the implementation and effectiveness of individual schemes for resource planning to sustain the continued operations of MATF, an in-house review was conducted by TLB in 2018. The review results revealed that over 80% of the respondents agreed that the objectives of MATF had been met and nearly all of them supported the continuation of MATF.

5.14 In 2023, some Legislative Council Members expressed concerns about the effectiveness of MATF in training and retaining manpower, for example, the proportion of trainees or practitioners subsidised by MATF who remained in the industries after completion of training. According to TLB, follow-up surveys had been conducted on the employment situation of the subsidised trainees. For the four

Way forward

of the MATF-funded scholarship schemes for the maritime industry, 68% to 75% of the trainees were still engaged in the relevant trades after working in Hong Kong's maritime industry for at least one year in compliance with the requirement of the training programme.

5.15 In 2024, TLB conducted a comprehensive review to evaluate the impact and effectiveness of MATF in attracting talents and promoting manpower development in the maritime and aviation industries to support the sustainable development needs and enhance the long-term competitiveness of the industries. A consultant was engaged in March 2024 at \$1.27 million (Note 22) to gauge feedback and views from relevant stakeholders, including MATF beneficiaries, training providers, participating companies and employer groups, industry associations, and collaborators of respective schemes, and make recommendations to MATF. For the maritime sector, there were 1,788 respondents (involving 1,667 individuals and 121 organisations), while for the aviation sector, there were 1,779 respondents (involving 1,731 individuals and 48 organisations). According to the survey results:

- (a) the respondents of individual scheme beneficiaries and organisational stakeholders were satisfied with the operations and the effectiveness of MATF in general for both sectors. The consultant concluded that MATF was operating effectively in supporting the manpower development in the maritime and the aviation industries; and
- (b) over 25% of the respondents of individual scheme beneficiaries considered that the promotion of MATF was insufficient. Quite a substantial percentage of the respondents of different groups considered that it was difficult for the public to obtain information for applying MATF.

The consultant found that some of the schemes of MATF could be further enhanced to improve or sustain their efficiency and effectiveness and a number of enhancement measures were proposed.

5.16 According to TLB, after considering the recommendations from the consultant and discussing with MDC/TTA, it had proposed some enhancements to the implementation details of MATF. These included, for example, further expanding

Note 22: *The consultant was selected through a quotation exercise.*

the scope of promotion initiatives to cover larger scale events and introducing a new mechanism for adding new courses/examinations into the pre-approved list under ProTERS. Audit considers that TLB needs to regularly review the usage of MATF and fine-tune the implementation details, taking into account the practical experience gained and the audit observations in this Audit Report.

Audit recommendation

5.17 Audit has *recommended* that the Secretary for Transport and Logistics should regularly review the usage of MATF and fine-tune the implementation details, taking into account the practical experience gained and the audit observations in this Audit Report.

Response from the Government

5.18 The Secretary for Transport and Logistics generally agrees with the audit recommendation. She has said that TLB will review MATF regularly, and take into consideration the audit observations as well as practical experience gained when conducting reviews in future.

Scope of incentive schemes (31 December 2024)

Scheme	Scope
1. SGTIS	<i>Phase 1 (Sea-going training).</i> It provides a monthly subsidy of \$10,000 to a deck cadet on ocean-going vessels for a maximum period of 18 months, and to an engineer cadet for a maximum of 12 months, plus reimbursement of examination fee. <i>Phase 2 (Preparation for examination).</i> It provides a monthly subsidy of \$3,000 to a deck or engineer cadet for a maximum period of 9 months who is preparing for MD Certificate of Competency (CoC) (Deck Officer/Marine Engineer Officer) Class 3 Examination ashore after the completion of cadetship. <i>Phase 3 (Working on board as cadet after obtaining CoC Class 3).</i> It provides a monthly subsidy of \$6,000 to a holder of CoC (Deck Officer/Marine Engineer Officer) Class 3 issued by MD who is working in the relevant department on ocean-going vessels as a cadet, for a maximum period of 6 months. <i>Phase 4 (Working on board after obtaining CoC Class 2 or Class 1).</i> It provides a one-off financial incentive of: (a) \$40,000 to applicants who pass the examination and obtain CoC (Deck Officer/Marine Engineer Officer) Class 2 recognised by MD; and (b) \$80,000 to applicants who pass the examination and obtain CoC (Deck Officer/Marine Engineer Officer) Class 1 recognised by MD of which 70% of the incentive will be payable after the applicants have acquired 12 months of post-qualification sea service on ocean-going vessels.
2. SRTIS	It offers a monthly subsidy of \$5,000 to students who have completed a designated course offered by the Vocational Training Council and enrolled for apprenticeship in the ship repair industry for a maximum period of 36 months. It also offers a monthly subsidy of \$4,000 to workers with relevant work experience from other industries who have completed a designated ship repair re-training programme run by the Vocational Training Council and been employed by a local shipyard for a maximum period of 12 months.

Appendix A
(Cont'd)
(paras. 1.10(a) and
2.6(a) refer)

Scheme	Scope
3. LVTTIS	It provides a monthly subsidy of \$2,500 to any new employees on local vessels for a maximum period of 12 months, of which \$12,000 will be released after the employee successfully obtains the Local Coxswain/Engine Operator Grade 3 Certificate.
4. LVCES	It provides a one-off financial incentive of: (a) \$12,000 to applicants (except those successfully joined LVTTIS) who pass the examination and successfully obtain the Local Coxswain/Engine Operator Grade 3 Certificate; and (b) \$15,000 to any holder of the Local Coxswain/Engine Operator Grade 3 Certificate who passes the examination (except local knowledge examination for coxswain certificate) and successfully obtains the Local Coxswain/Engine Operator Grade 2 Certificate.
5. AOTIS	It provides a minimum monthly salary of \$7,000 and monthly incentive allowance of \$2,000 during the placement period for a maximum of 12 months, as well as a study allowance of \$24,000, to the eligible applicants undertaking the Diploma in Aviation Operations offered by the Hong Kong International Aviation Academy, and working in the aviation industry in Hong Kong after graduation for a continuous period of six months.

Source: Audit Commission analysis of TLB records

**Scope of scholarship schemes
(31 December 2024)**

Scheme	Scope
1. Hong Kong Maritime and Logistics Scholarship Scheme	It provides scholarship for selected students of the Master of Science in International Shipping and Transport Logistics of the Hong Kong Polytechnic University.
2. HKU — DMU Academic Collaboration Scheme	It provides scholarship for selected DMU students to undertake the Master of Common Law course at HKU. It also supports selected HKU students and in-service practitioners to undertake summer courses and professional seminars at DMU.
3. Hong Kong Maritime Law Scholarship Scheme	It provides scholarship to selected students of the Master of Laws in Maritime and Transportation Law of the City University of Hong Kong.
4. HKASS	It provides full scholarship, capped at \$100,000 each to selected students to complete aviation-related bachelor degree or master/advanced master degree programmes in local institutions.
5. HKU — SMU Academic Collaboration Scheme	It provides scholarship for selected SMU students to undertake the Master of Common Law course at HKU.
6. Maritime Law Scholarship Scheme	It provides scholarship to selected students of the Bachelor of Laws Programme of HKU who undertake designated maritime law modules.
7. Hong Kong Nautical and Maritime Scholarship Scheme	It provides sponsorship to selected students of the Bachelor of Business Administration in International Shipping and Transport Logistics Programme of the Hong Kong Polytechnic University. It consists of two prongs: (a) “Seafaring scholarship” for students who intend to pursue a seafaring career; and (b) “Maritime scholarship” for students with good results in the Hong Kong Diploma of Secondary Education Examination.

Source: Audit Commission analysis of TLB records

**Scope of course/examination fee refund schemes
(31 December 2024)**

Scheme	Scope
1. ProTERS	It provides support of professional training for in-service practitioners and new joiners of the maritime and the aviation sectors. Eligible applicants are refunded 80% of the fees after satisfactory completion of a pre-approved course or passing a pre-approved professional examination, subject to a funding cap of \$30,000 per applicant.
2. PTRS	Eligible applicants undertaking the Higher Diploma of Aircraft Maintenance Engineering or Diploma in Vocational Education (Aircraft Maintenance) offered by the Vocational Training Council, and joining the aircraft maintenance industry after graduation are refunded 50% of the total tuition fee, subject to a funding cap of \$50,000.
3. PTSGLS	It provides support for in-service practitioners to equip themselves with up-to-date knowledge to support the industry to upgrade and transform itself towards the direction of green and smart logistics. Eligible applicants are refunded up to 80% of the course fees after satisfactory completion of a pre-approved course, subject to a funding cap of \$30,000 per applicant.

Source: Audit Commission analysis of TLB records

**Scope of other training and internship schemes
(31 December 2024)**

Scheme	Scope
1. MAIS	It offers young generation an opportunity to have early exposure to the wide spectrum of career opportunities in the maritime and the aviation sectors by inviting companies in the two sectors to offer internship places. It contributes up to 75% of each intern's monthly honorarium, or \$7,000 (whichever is lower), up to three months to the participating companies for an internship period of at least four weeks (i.e. 28 days).
2. OESS	It sponsors \$30,000 to each selected student of the Chinese University of Hong Kong and the Hong Kong University of Science and Technology to attend maritime-related course overseas.
3. MTSS	It provides funding support to the Hong Kong Sea School for the delivery of a Certificate Course on Local Vessel Operation (Coxswain Grade 3), career guidance and support services to students.
4. MSTS — Legal	It provides a monthly subsidy of \$20,000 to a law firm or barrister with maritime business for a maximum period of 24 months (for a trainee solicitor) or 12 months (for a pupil), subject to a funding cap of two trainees at any one time.
5. Internship Scheme on Modern Logistics	It provides sponsorship for logistics companies to offer internship placements to full-time students. It provides reimbursement to participating companies up to 75% of each intern's monthly honorarium (capped at \$7,500 per intern per month) for a maximum period of three months for an internship period of at least four weeks (i.e. 28 days).

Source: Audit Commission analysis of TLB records

Appendix E
(paras. 1.11, 2.2 and
5.5 refer)

**Implementation progress of training schemes
(1 April 2014 to 31 December 2024)**

No.	Scheme	Launch year	Scheme administrator	Total expenditure (\$'000)	Number of beneficiaries
<i>Approved commitment in 2014</i>					
1	SGTIS	2004	MD	30,738	423
2	SRTIS	2006	Administrator A	3,107	63
3	Hong Kong Maritime and Logistics Scholarship Scheme	2007	Administrator B	19,404	97
4	HKU — DMU Academic Collaboration Scheme	2008	Administrator C	7,029	571
5	Hong Kong Maritime Law Scholarship Scheme (Note)	2010	Administrator D	818	21
6	ProTERS	2014	TLB	37,655	13,115
7	MAIS	2014	TLB	51,614	4,224
8	LVTIS	2014	MD	6,032	244
9	PTRS	2014	Administrator A	7,788	362
10	OESS	2015	Administrators E and F	2,640	88
11	HKASS	2015	8 Administrators including Administrators B, C, E and G	14,343	171
12	HKU — SMU Academic Collaboration Scheme	2017	Administrator C	2,852	15

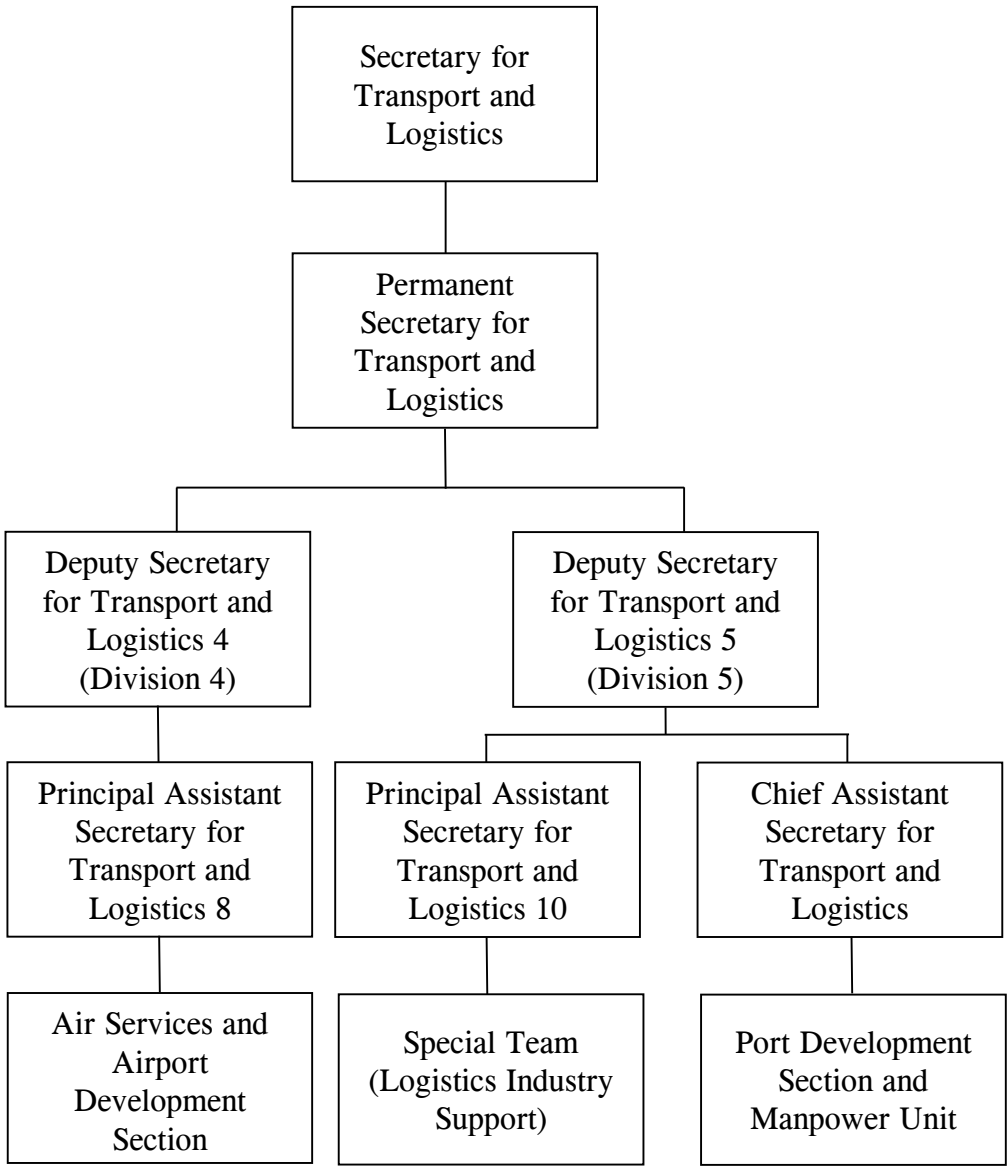
Appendix E
(Cont'd)
(paras. 1.11, 2.2 and
5.5 refer)

No.	Scheme	Launch year	Scheme administrator	Total expenditure (\$'000)	Number of beneficiaries
13	Maritime Law Scholarship Scheme (Note)	2017	Administrator C	0	0
14	Hong Kong Nautical and Maritime Scholarship Scheme	2017	Administrator B	2,906	21
<i>Increase in commitment in 2019</i>					
15	LVCES	2019	MD	6,849	585
16	AOTIS	2019	Administrator G	4,452	221
17	MTSS	2021	Administrator H	7,079	24
<i>Further increase in commitment in 2023</i>					
18	MSTS — Legal	2023	TLB	801	4
19	Internship Scheme on Modern Logistics	2023	TLB	2,023	124
20	PTSGLS	2024	Administrator I	194	14
Total				208,324	20,387

Source: Audit Commission analysis of TLB records

Note: The schemes had been suspended since 2020.

**Transport and Logistics Bureau:
Organisation chart (extract)
(31 December 2024)**



Source: TLB records

Acronyms and abbreviations

Audit	Audit Commission
AOTIS	Aviation Operations Training Incentive Scheme
CEF	Continuing Education Fund
CoC	Certificate of Competency
DMU	Dalian Maritime University
HKASS	Hong Kong Aviation Scholarship Scheme
HKMPB	Hong Kong Maritime and Port Board
HKSAR	Hong Kong Special Administrative Region
HKU	The University of Hong Kong
LOGSCOUNCIL	Hong Kong Logistics Development Council
LVCES	Local Vessel Competency Enhancement Scheme
LVTIS	Local Vessel Trade Training Incentive Scheme
MAIS	Maritime and Aviation Internship Scheme
MATF	Maritime and Aviation Training Fund
MD	Marine Department
MDC	Manpower Development Committee
MSTS — Legal	Maritime Services Traineeship Scheme — Legal
MTSS	Maritime Training Support Scheme
OESS	Overseas Exchange Sponsorship Scheme
ProTERS	Professional Training and Examination Refund Scheme
PTRS	Partial Tuition Refund Scheme for the Specialised Aircraft Maintenance Programme
PTSGLS	Professional Training on Smart and Green Logistics Scheme
SGTIS	Sea-going Training Incentive Scheme
SMU	Shanghai Maritime University
SRTIS	Ship Repair Training Incentive Scheme
TLB	Transport and Logistics Bureau
TTA	Tripartite Taskforce on Manpower Training (Aviation)

CHAPTER 6

**Environment and Ecology Bureau
Food and Environmental Hygiene Department**

Street cleansing services

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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STREET CLEANSING SERVICES

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STREET CLEANSING SERVICES

Executive Summary

1. Street cleanliness is an integral part of environmental hygiene and public health. It can reduce disease transmission and help curb rodent infestation, as well as create a favourable cityscape to enable citizens to enjoy an improved quality of life. The Food and Environmental Hygiene Department (FEHD) is responsible for providing quality environmental hygiene services and facilities and safeguarding public health. The core duties include monitoring of street cleansing service delivery as well as carrying out enforcement actions against illegal disposal of refuse under the relevant Ordinances.

2. According to FEHD, its street cleansing services mainly include street sweeping services, street washing services, gully cleansing services and poster removal services (including the removal of illegal bills and posters). Street cleansing services are delivered by FEHD's staff (i.e. in-house) as well as by contractors (i.e. outsourced). The outsourcing policy aims at greater cost-effectiveness and flexibility in the delivery of services. As at 30 September 2024, the total workforce was about 13,200 (comprising about 3,000 in-house staff and about 10,200 contractors' staff) and about 82% of the street cleansing services were outsourced. In 2023-24, the expenditure for street cleansing and related services amounted to about \$5.1 billion. FEHD did not maintain a separate breakdown of the expenditure on street cleansing services. The Audit Commission (Audit) has recently conducted a review of the work of FEHD on street cleansing services.

Monitoring of service delivery

3. *Need to enhance checking on daily attendance records submitted by contractors.* As at 30 September 2024, FEHD had 42 street cleansing service contracts (each with a duration of three years) with a total contract value of \$7.62 billion. According to the street cleansing service contracts, contractors are required to provide stipulated minimum numbers and types of contractor personnel and ensure their full attendance, and submit daily attendance records to FEHD for checking. For example, for street sweeping services, each workman is allocated with

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a length of road (hereinafter referred to as a beat) within a work shift and each work shift shall be attended by a workman. Audit visited 3 District Environmental Hygiene Offices (DEHOs) (out of 19 DEHOs) and examined their daily attendance records for outsourced street cleansing services in December 2023 and September 2024. Audit found that the attendance requirement of contractors' staff was not fully met in some days for street sweeping, gully cleansing and poster removal services. For example, in December 2023, in 7 of 9,300, 1 of 7,936 and 3 of 8,401 work shifts for street sweeping services, the attendances of contractors' workmen of the three DEHOs were not indicated in the records. Upon enquiry, FEHD informed Audit in March 2025 that, based on the contractors' attendance books which were provided to FEHD upon request, all the work shifts were actually attended by contractors' workmen and provided with the stipulated minimum number of contractor personnel, but the daily attendance records submitted by the contractors concerned to FEHD were inaccurate and these attendances were not reflected. In this connection, Audit noted that Senior Foremen of FEHD had reviewed the daily attendance records submitted by the contractors concerned (paras. 1.9, 1.14, 2.2, 2.4 to 2.7).

4. *Need to enhance compliances with requirements on conducting self-discipline quality inspections for outsourced street cleansing services.* FEHD guidelines stipulate that Health Inspectors shall assign each inspection team of contractor to conduct at least two self-discipline quality inspections per week and cover two tasks for each inspection to monitor the street cleansing services delivered by their workmen. Audit examined the inspection records of contractors' inspection teams for outsourced street cleansing services of the three DEHOs (see para. 3) for September 2024 and found that for one DEHO (involving 9 inspection teams): (a) 4 inspection teams carried out only one task in each self-discipline quality inspection; and (b) the other 5 inspection teams did not conduct any self-discipline quality inspection in one week and only conducted one self-discipline quality inspection each in another two weeks. In this connection, Audit noted that the Health Inspectors concerned had not assigned tasks/the required number of tasks to the contractors' inspection teams for conducting the self-discipline quality inspections for the period (paras. 2.8 and 2.9).

5. *Need to conduct monitoring inspections as well as submit and review monitoring inspection reports for outsourced street cleansing services in accordance with stipulated frequencies, timeframes and coverage.* Apart from contractors' self-discipline quality inspections, FEHD conducts monitoring inspections under a multi-tier monitoring mechanism (comprising daily inspections, formal inspections, assigned risk-based surprise inspections, supervisory checks and systematic

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inspections) to monitor outsourced street cleansing services. According to FEHD guidelines, each district is divided into 12 cleansing sectors by making reference to the existing boundary areas of the supervisory staff of district cleansing sections and the distribution/percentage of the outsourced areas and in-house areas. Audit examined the monitoring inspection records of the three DEHOs (see para. 3) for outsourced street cleansing services and noted that:

- (a) some monitoring inspections were not conducted in accordance with the frequencies and coverage stipulated in FEHD guidelines. For example, in the period from 1 to 14 September 2024: (i) for two DEHOs, 5 (2%) of 210 and 21 (12%) of 182 daily inspections did not cover the required beats (against the requirement of covering at least 10% of the cleansing sector each working day); and (ii) for one DEHO, there was no documentation showing that 6 (2%) of 271 beats were covered in daily inspections (against the requirement of covering the whole cleansing sector (i.e. every beat) once every 10 working days); and
- (b) the monitoring inspection reports were not always submitted and reviewed in accordance with the timeframes stipulated in FEHD guidelines in the period from January 2023 to September 2024. The delays ranged from 1 to 10 working days (paras. 1.9, 2.3, 2.10 to 2.12).

6. ***Room for improvement in handling contractors' non-compliances with contract terms.*** Under the street cleansing service contracts, warnings (verbal/written) and/or default notices will be issued to contractors for breach of contract terms. According to FEHD, in tender assessment exercises of street cleansing service contracts, the evaluation will take into account the number of default notices and demerit points (e.g. a demerit point is given to the contractor for each employment-related default notice issued in respect of wages) issued to the contractors submitting the tenders, which has created a deterrent effect (paras. 2.14 and 2.17). Audit noted the following issues:

- (a) ***Need to issue warning letters and default notices in accordance with stipulated timeframe.*** According to FEHD guidelines, all warning letters/default notices should be delivered to contractors as soon as possible and be completed within 7 working days after the discovery of the breaches. Audit examination of the warning letters and default notices issued by FEHD to contractors of 19 DEHOs in the period from January 2019 to September 2024 found that FEHD did not maintain readily available

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information on the delivery dates of warning letters/default notices. The time lags between the identification of non-compliances and issuance of the warning letters/default notices had exceeded 7 working days for 230 (66%) of 351 warning letters and 2,103 (54%) of 3,870 default notices to the contractors (para. 2.15); and

- (b) ***Need to review effect of FEHD's measures regarding past performance of contractors on future tender assessment exercises.*** Audit examination of the latest completed street cleansing service contracts for 19 DEHOs as of September 2024 (involving a total of 38 contracts) noted that the total number of default notices issued was 35 on average (ranging from 2 to 179) for each contract. Among these 38 contracts, Audit examination of 10 contracts with the largest number of default notices issued revealed that each of the 10 contracts was issued 74 (ranging from 45 to 179) default notices on average. Audit also noted that as of September 2024, scores of 7 and 15 (out of 100) technical marks were allocated for contractors' demerit point records and past performance records respectively in the tendering exercises of street cleansing service contracts and there was room for further adjusting the relevant scores (paras. 2.17 to 2.19).

7. ***Room for improvement in delivering in-house street cleansing services.*** Audit examined the records of the three DEHOs (see para. 3) for in-house street cleansing services in December 2023 and September 2024, and noted that:

- (a) for street sweeping services: (i) workmen of two and one DEHOs were absent for some work shifts in December 2023 and September 2024 respectively (e.g. 31 (1%) of 3,100 work shifts for a DEHO in December 2023); and (ii) for two DEHOs, some workmen were assigned to provide street sweeping services in more than one beat within a work shift (e.g. 121 (14%) of 837 work shifts for a DEHO in December 2023). As the duties of each workman concerned would be thinned out, the street sweeping services were not provided at a frequency as planned; and
- (b) for street washing services, street washing vehicles were not deployed as planned or their operation was temporarily suspended in some work shifts (e.g. 33 (53%) of 62 work shifts and 4 (17%) of 24 work shifts in December 2023 respectively) for two DEHOs (para. 2.22).

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8. ***Room for improvement in conducting monitoring inspections as well as submitting and reviewing monitoring inspection reports for in-house street cleansing services.*** Audit examined the monitoring inspection records of the three DEHOs (see para. 3) for in-house street cleansing services and noted that:

- (a) some monitoring inspections were not conducted in accordance with the frequencies and coverage stipulated in FEHD guidelines. For example, for Foremen's daily inspection, in the period from 1 to 14 September 2024 (comprising seven rounds), of 10 beats of each of the three DEHOs examined by Audit, the stipulated frequency and coverage (i.e. alternate days to every beat) was not met in most (i.e. five to seven) rounds of inspections for the three DEHOs. Besides, the monitoring inspection reports were not always submitted and reviewed in accordance with the timeframes stipulated in FEHD guidelines in the period from January 2023 to September 2024. The delays ranged from 1 to 17 working days; and
- (b) FEHD guidelines stipulate that Overseers may carry out random and surprise checks on the daily inspection work performed by Foremen under their purview and management of DEHOs should ensure a cycle of the inspection to all services to be taken within a reasonable period of time. However, in the period from January 2023 to December 2024, the numbers of Overseers' daily inspections varied among the three DEHOs, ranging from 152 to 556. Furthermore, 150 daily inspections were not recorded by one DEHO in the E-Management System for In-house Cleansing Services and Pest Control Services (EMS) as required. Besides, no reports were submitted for the 150 daily inspections and 796 reports were reviewed 1 to 519 working days (averaging 43 working days) after the Overseers' daily inspections. However, no timeframe was set in FEHD guidelines in this regard (paras. 2.3, 2.24 to 2.26, 2.28 and 2.29).

9. ***Need to keep under review provision of in-house street cleansing services.*** According to FEHD, the percentage of in-house street cleansing services slightly decreased from 19% as at 31 December 2019 to 18% as at 30 September 2024. In view of variance in such percentages among 19 DEHOs (ranging from 5% to 37% as of September 2024), higher percentage of work shifts in which in-house workmen were absent (see para. 7(a)) as compared to contractors' workmen (see para. 3) and a high vacancy rate of in-house workmen (i.e. a shortage of 283 (13%) workmen as of September 2024), FEHD needs to keep under review the provision of in-house street

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cleansing services and take follow-up actions as appropriate (paras. 2.33, 2.34 and 2.37).

Tackling illegal disposal of refuse

10. *Scope for improvement in monitoring work programs of Dedicated Enforcement Teams (DETs).* FEHD carries out enforcement actions against people committing public cleanliness offences. Under the Fixed Penalty (Public Cleanliness and Obstruction) Ordinance (Cap. 570), FEHD may issue Fixed Penalty Notices (FPNs) for specified public cleanliness offences (e.g. littering in public places). FEHD may also institute prosecution by way of summons against the offenders. Since 2017, FEHD has set up DETs to step up enforcement actions against various public cleanliness offences. DET members perform enforcement duties in plain clothes and are deployed to various littering black spots. According to FEHD, the work programs set out the work covered by DETs. However, FEHD had not specified in its guidelines the information to be included in the work programs. Audit visited three DEHOs to review the work of DETs and noted the following issues:

- (a) *Number of locations included in DETs' work programs varied significantly among DEHOs with similar number of DETs.* Audit examined the work programs for 2024 (up to October) and noted that while the number of DETs under the purview of the three DEHOs was similar (i.e. 5 to 6 DETs as of October 2024), the average number of locations selected for conducting daily inspection by DETs as shown in their work programs varied significantly (i.e. 2, 22 and 58 locations); and
- (b) *Need to enhance documentation of work performed by DETs for monitoring compliance with work programs.* For the three DEHOs, Audit noted that the documentation of the work performed by DETs varied (e.g. the time of inspection was recorded by two DEHOs but not by one DEHO) and there was no documentation showing that the locations inspected were compared against those in the work programs of DETs for monitoring compliance (paras. 1.12 and 3.6).

11. *Scope for improving situation reports.* According to FEHD guidelines, records on locations with littering activities and actions taken to tackle the problem should be properly recorded in a Situation Report on Handling of Locations with Littering Activities by DET (hereinafter referred to as situation report). The criteria

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for including locations with littering activities (in the past three months) in the situation report include identified top five hotspots under the Complaint Management Information System (CMIS) and frequent littering/illegal dumping activities reported at the locations. For the three DEHOs (see para. 10), Audit examined the situation reports for October 2024 and noted the following issues:

- (a) ***Some hotspots not included in situation reports.*** While 39 locations were identified as the top five hotspots in CMIS reports in the period from July to September 2024 (i.e. with littering activities in the past three months), 32 (82%) locations were not included in the situation reports for monitoring by DETs;
 - (b) ***Need to consider including locations with frequent littering activities detected by Internet Protocol (IP) cameras in situation reports.*** While 49 locations were detected by IP cameras (see para. 13) with illegal disposal of refuse in the period from July to September 2024, 39 (80%) locations were not included in the situation reports. In particular, 8 (21%) of the 39 locations had been reported with illegal disposal of refuse activities for over 500 to 2,141 times (averaging 1,170 times) in the three-month period; and
 - (c) ***Need to review actions needed at locations included in situation reports for a long time.*** Audit noted that 37 locations had been included in the situation reports of the three DEHOs for a long time, ranging from about 1.5 years to about 7.3 years (averaging about 3.6 years) in spite of the fact that 2 to 62 (averaging 6) blitz operations had been organised in the period from July to September 2024 for each location (paras. 3.5 and 3.8).
12. ***Need to review operations of DETs.*** DETs had been set up for more than 7 years and the number of DET members increased by about 34% from 158 in 2020 to 211 in 2024. Audit noted that the penalty levels of FPNs had increased since 22 October 2023, and the average number of FPNs issued by each DET member and the number of black spots of refuse dumping dealt with by DETs decreased generally from 2020 to 2024. On the other hand, the work programs of DETs varied among different DEHOs. As of February 2025, no documentation was available showing that an evaluation on operations of DETs had been conducted (para. 3.12).

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13. ***Need to enhance monitoring of deployment of IP cameras.*** FEHD has installed IP cameras at illegal refuse deposit black spots to curb the illegal deposits of refuse in public places. According to FEHD guidelines, based on the footage captured by IP cameras, districts can analyse the timing and patterns of the illegal acts to formulate more effective enforcement operations and take prosecution action against registered owners of vehicles or relevant offenders. Districts should periodically review the target locations for installation of IP cameras and relocation of the IP cameras to new target locations should be strategically considered. The number of locations installed with IP cameras was 470 as of December 2024. For the deployment of IP cameras by the three DEHOs (see para. 10), Audit noted the following issues:

- (a) ***Need to review locations installed with operating IP cameras but with no or few FPNs or summons issued.*** As of December 2024, 45 locations had been installed with operating IP cameras for more than six months. In the period from 2022 to 2024, for 7 (16%) locations, no FPN or summons was issued (the operating period of the IP cameras ranged from 10 months to about 2.8 years, averaging about 1.8 years); and
- (b) ***Some illegal refuse deposit black spots not installed with operating IP cameras.*** As of October 2024, of the 37 locations included in the situation reports of the three DEHOs for a long time (ranging from about 1.5 years to about 7.3 years), 23 (62%) locations had not been installed with operating IP cameras (paras. 3.13 and 3.14).

14. ***Scope for improving environmental hygiene of problematic spots.*** Audit conducted three site visits to 10 locations with environmental hygiene problems (hereinafter referred to as problematic spots) under the purview of the three DEHOs (see para. 10) in the period from December 2024 to February 2025, and noted the following issues:

- (a) ***Environmental hygiene problems found in some problematic spots and their adjacent areas.*** For 2 (20%) problematic spots, Audit found environmental hygiene problems at the locations during the three site visits. For other 2 (20%) problematic spots, while environmental hygiene problems were not always found at the spots, the problems were found in areas adjacent to the problematic spots during the three site visits; and

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- (b) ***Scope for enhancing actions against obstruction to cleansing operations.*** For any article obstructing or likely obstructing any cleansing operations, FEHD may serve the owner of such article or attach to such article a notice requiring removal within four hours after the notice is served or attached. For the 4 locations with environmental hygiene problems (see (a) above), Audit noted that no notice for removal of obstruction was attached to the articles in all three site visits. According to FEHD, the styrofoam boxes or carton boxes accumulated at the 4 locations were not waste, but were recyclable or reusable, and it would step up street cleansing services at locations with active recycling activities and carefully balance the need to facilitate recycling activities and upkeep environmental hygiene in public places in consultation with relevant departments (paras. 3.17 to 3.21).

Other related issues

15. ***Need to enhance reporting mechanism of performance measures on street cleansing services.*** FEHD has set performance measures in its Controlling Officer's Report (COR) and on its website. According to FEHD, DEHOs shall submit returns for the performance measures through the Environmental Hygiene Statistical Information System (EHSIS) and all the performance measures were met in 2019 to 2023. Audit examined the returns submitted by DEHOs and found that:

- (a) ***Street sweeping services.*** Regarding the reporting of the performance measure in COR (i.e. "completion of first round street sweeping services on main roads before 9:00 a.m. to ensure removal of over-night street litter"), some information in 47 (4%) of 1,140 returns was not available in the period from 2019 to 2023. Based on the information reported in 19 DEHOs' returns, the achievement of 100% of the performance measure could not be ascertained; and
- (b) ***Street washing services.*** Regarding the reporting of the performance measure "to wash streets on a need basis, at least once a week in busy areas, and at least 2 times weekly in problematic areas/black spots" on FEHD's website, the returns only required the reporting of achievement of washing streets at least once a week (i.e. the achievement of washing streets "on a need basis" and "at least 2 times weekly" was not required to be reported). Based on the information reported in 19 DEHOs' returns in the period from 2019 to 2023, the achievement of 100% of the performance measure could not be ascertained. Audit further examined the records of

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the three DEHOs (see para. 3) and noted that the number of streets to be washed at least once a week stated in the returns submitted by one DEHO was different from those in the list of busy areas maintained by the DEHO concerned (paras. 4.2 to 4.4 and 4.7).

16. ***Need to enhance management information for monitoring street cleansing services.*** Audit noted non-compliances with contracts by outsourced contractors and inadequacies in FEHD's monitoring of street cleansing services (e.g. compliance with staff attendance requirement for street cleansing services and compliance with the work programs of DETs). In this connection, some management information (e.g. highlights or summaries) was not readily available or regularly compiled to facilitate the monitoring of performance of all DEHOs (paras. 4.11 and 4.12).

17. ***Need to explore the use of technologies in monitoring service delivery.*** Audit noted that: (a) DEHOs relied heavily on paper-based documents submitted by contractors to monitor the delivery of street cleansing services. The work programmes and reports of in-house street cleansing services were also kept in paper forms. The manual vetting procedures involved were resource intensive, time consuming and prone to errors; and (b) apart from daily inspections, records of other monitoring inspections under the multi-tier monitoring mechanism (see para. 5) were in paper forms (para. 4.19).

18. ***Need to conduct more employment-related inspections.*** According to FEHD, public cleansing service contracts rely heavily on the deployment of non-skilled workers and the Central Investigation Team was set up under its Quality Assurance Section in September 2005 with a view to tightening the control on its contractors (e.g. conducting employment-related inspections to obtain timely feedback from contractors' employees through completing questionnaires). According to FEHD guidelines, employment-related inspections are conducted on a daily basis, subject to manpower deployment. Audit examination of 61 street cleansing service contracts commenced and completed in the period from January 2019 to December 2024 for 19 DEHOs noted that only 41 employment-related inspections (involving 36 street cleansing service contracts) were conducted, i.e. at a frequency far lower than "on a daily basis" stated in FEHD guidelines (paras. 4.24, 4.27 and 4.28).

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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 the Director of Food and Environmental Hygiene should:

Monitoring of service delivery

- (a) enhance checking on daily attendance records submitted by contractors and take follow-up actions against the contractors for submitting inaccurate records (para. 2.20(a));
- (b) take measures to enhance compliances with the requirements on conducting self-discipline quality inspections for outsourced street cleansing services and document the reasons for non-compliances (para. 2.20(b));
- (c) strengthen measures to monitor the compliance with the frequencies and coverage stipulated in FEHD guidelines for monitoring inspections, and the submission and review requirements on the monitoring inspection reports stipulated in FEHD guidelines for street cleansing services (paras. 2.20(c) and 2.38(c));
- (d) take measures to improve the timeliness in issuing warning letters and default notices to contractors, and review FEHD guidelines on the timeframe for issuing warning letters and default notices to contractors (para. 2.20(d) and (e));
- (e) review the effect of FEHD's measures regarding the past performance of contractors on future tender assessment exercises and take follow-up actions as appropriate (para. 2.20(f));
- (f) strengthen measures to monitor the compliance with the planned frequencies for in-house street sweeping services and approved work programmes for in-house street washing services (para. 2.38(a) and (b));

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- (g) regarding Overseers' daily inspections for in-house street cleansing services, regularly review the frequency, take measures to enhance the maintenance of records in EMS and consider setting a timeframe for reviewing the reports (para. 2.38(d) to (f));
- (h) keep under review the provision of in-house street cleansing services, taking into account the staff recruitment situation, and take follow-up actions as appropriate (para. 2.38(g));

Tackling illegal disposal of refuse

- (i) specify the information to be included in work programs of DETs in FEHD guidelines (para. 3.23(a));
- (j) enhance documentation of the work performed by DETs for monitoring compliance with the work programs (para. 3.23(b));
- (k) review the inspections and enforcement actions needed for locations with frequent littering activities and long outstanding cases in situation reports, and properly record the locations in situation reports for monitoring by DETs (para. 3.23(d));
- (l) conduct a review on the operations of DETs and take follow-up actions as appropriate (para. 3.23(e));
- (m) take measures to require DEHOs to periodically review the deployment of IP cameras in accordance with FEHD guidelines (para. 3.23(f));
- (n) review the current measures of improving street cleanliness of locations with persistent hygiene problems in public places (para. 3.23(g));
- (o) for cases involving obstruction to street cleansing operations and relating to broader street management issues, keep under review the street cleanliness of the locations and take appropriate follow-up actions (para. 3.23(h));

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Other related issues

- (p) **enhance EHSIS to monitor the completeness of information in the returns for performance measures (para. 4.9(a));**
- (q) **enhance the reporting mechanism of the performance measures on street cleansing services (para. 4.9(b));**
- (r) **regarding the performance measure on street washing services, review the design of the return to facilitate the reporting of achievement and take measures to check the consistencies between the number of streets in the returns and those in the lists of busy areas maintained by individual DEHOs (para. 4.9(d) and (e));**
- (s) **regularly compile management information for monitoring delivery of street cleansing services for all DEHOs and the enforcement figures against public cleanliness offences (para. 4.13);**
- (t) **explore the use of technologies in monitoring street cleansing services (para. 4.21(b)); and**
- (u) **conduct more employment-related inspections as far as practicable with a view to obtaining timely feedback from contractors' employees (para. 4.29(b)).**

Response from the Government

20. The Director of Food and Environmental Hygiene 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 Street cleanliness is an integral part of environmental hygiene and public health. It can reduce disease transmission and help curb rodent infestation, as well as create a favourable cityscape to enable citizens to enjoy an improved quality of life. The Food and Environmental Hygiene Department (FEHD) is responsible for providing quality environmental hygiene services and facilities and safeguarding public health. The core duties include monitoring of street cleansing service delivery (Note 1) as well as carrying out enforcement actions against illegal disposal of refuse under the relevant Ordinances (e.g. the Public Health and Municipal Services Ordinance (Cap. 132)).

Street cleansing services

1.3 According to FEHD, its street cleansing services mainly include sweeping and washing of streets, cleansing of gullies, and removal of illegal bills and posters (Note 2).

Note 1: *In general, FEHD is responsible for routine cleansing of public street/roads/lanes (other than expressways and connecting high speed roads), central dividers, roadside landscapes and other public facilities such as public transport interchanges, bus termini, taxi stands, public light bus termini, traffic islands, emergency vehicular access and public car parks. Routine sweeping of footbridges and subways (including associated lifts and escalators) and washing of floor of footbridges and subways with immediate hygiene problem also fall into the purview of FEHD.*

Note 2: *According to the Public Health and Municipal Services Ordinance, bills or posters include any word, letter, model, sign, placard, board, notice, device or representation.*

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1.4 **Street sweeping services.** According to FEHD, street sweeping is essential for keeping the city clean. Street sweeping services generally include:

- (a) manual street sweeping;
- (b) bin emptying services (e.g. emptying of litter containers and dog excreta collection bins); and
- (c) removal of the street waste to designated refuse collection points for disposal.

All streets are manually swept at least once every day and all bins are regularly emptied and cleansed. Complementing manual sweeping are mechanical street sweepers (see Photographs 1(a) and (b)) used to cleanse areas that may impose danger to cleansing workers carrying out manual sweeping (i.e. flyovers, central dividers and other high-use traffic areas). Such areas are swept 1 to 7 times per week normally after midnight when the traffic is light.

Photographs 1(a) and (b)

Mechanical street sweepers

(a)



(b)



Source: FEHD records

1.5 ***Street washing services.*** Street washing services include washing, scrubbing and brushing, and removing all dirt and water afterwards so that the streets are in a safe condition for use by pedestrians and/or vehicles. For trunk roads with heavy traffic where normal washing is not practicable, street flushing is done during non-busy hours. The frequency of street washing ranges from as-needed to daily, depending on the nature of the area served. Street washing vehicles (see Photograph 2) are used in delivering the street washing services.

Photograph 2

Street washing vehicle



Source: FEHD records

1.6 ***Gully cleansing services.*** Gully cleansing services include manual clearing of gullies, delivering the dirt and refuse taken from gullies to refuse collection points, and applying larvicidal oil to gullies as a precaution against mosquito breeding. According to FEHD, roadside gullies are generally cleared manually every two to four weeks and larvicidal oil is applied on weekly basis. Complementing manual clearing of roadside gullies are gully emptiers (see Photograph 3) used to clear gullies in areas where manual means will pose danger to life and limb (e.g. high speed roads, main thoroughfares and flyovers). Such gullies are cleared once every six weeks normally after midnight when the traffic is light.

Photograph 3

Gully emptier



Source: FEHD records

1.7 ***Poster removal services.*** Poster removal services include removing illegal bills and posters. Every day, FEHD patrols streets and removes illegal bills and posters that come into its attention.

Delivery of street cleansing services

1.8 According to FEHD, street cleansing services were delivered by its staff (i.e. in-house) as well as by contractors (i.e. outsourced) with a total workforce of about 13,200 (comprising about 3,000 in-house staff and about 10,200 contractors' staff) (Note 3) as at 30 September 2024. The outsourcing policy aims at greater cost-effectiveness and flexibility in the delivery of services. As at 30 September 2024, about 82% of the street cleansing services were outsourced.

1.9 According to FEHD guidelines, each district is divided into 12 cleansing sectors by making reference to the existing boundary areas of the supervisory staff of district cleansing sections and the distribution/percentage of the outsourced areas and in-house areas (see also Note 12 to para. 2.2(a)). The division of the cleansing sectors

Note 3: *According to FEHD, the total workforce of about 13,200 was also responsible for providing other public cleansing services (e.g. waste collection services).*

can be flexible taking into account the geographical locations and services involved as the broad principle is to cover each and every part of the district and to identify the responsible staff for follow-up actions. Besides, street cleansing service contracts (each with a duration of three years — Note 4) are arranged on district basis. As at 30 September 2024, FEHD had 42 street cleansing service contracts with a total contract value of \$7.62 billion (Note 5) and 2 bulk service contracts (i.e. serving all districts) (each with a duration of five years) for mechanical street sweeping services and mechanical gully cleansing services with contract values of \$111 million and \$39 million respectively.

Monitoring mechanism on street cleansing services

1.10 To monitor outsourced and in-house street cleansing services, FEHD conducts regular spot checks and surprise inspections as well as examining job records. In addition, to ensure that the outsourced cleansing operations in public places are performed with due diligence, FEHD has, depending on operational needs of individual districts, stipulated in the tender documents for outsourced services the required performance standards and minimum requirements on manpower and vehicles, work shifts and frequency of service for each cleansing task. In the event of any irregularities, defaults or non-compliances with contract provisions in the delivery of services by the contractors, FEHD will take follow-up and corresponding actions, including issuance of verbal/written warnings and/or default notices (coupled with the deductions of monthly payments to the contractors). The performance records will affect the eligibility and rating of contractors in their future bidding for FEHD's outsourced service contracts. Besides, FEHD uses the Complaint Management Information System (CMIS) to manage all complaints received. With a view to facilitating districts to conduct analyses on data on complaints about street cleansing services and draw up a list of hotspots of complaints on street cleanliness, FEHD rolled out CMIS – hotspot analysis in October 2021. In the period from

Note 4: *For street cleansing service contracts commencing on or before March 2022, the contract periods ranged from one to three years.*

Note 5: *The figure excluded the cost of public toilet management services in 17 districts, which amounted to \$740 million. According to FEHD, public toilet management services will be purchased independently upon renewal of the street cleansing service contracts in individual districts.*

Introduction

2020 to 2024, the number of complaints received by FEHD relating to street cleansing services was over 50,000 each year (Note 6).

Tackling illegal disposal of refuse

1.11 According to FEHD, to improve environmental hygiene, it combats illegal dumping in a multi-pronged manner. Apart from stepping up cleansing services, FEHD has enhanced enforcement actions and publicity.

1.12 ***Enforcement actions.*** FEHD carries out enforcement actions against people committing public cleanliness offences. Under the Fixed Penalty (Public Cleanliness and Obstruction) Ordinance (Cap. 570), FEHD may issue Fixed Penalty Notices (FPNs) for specified public cleanliness offences, including \$3,000 FPNs for depositing of litter or waste or spitting in public places, display of bills or posters without permission and fouling of street by dog faeces, and \$6,000 FPNs for unlawful depositing of waste. FEHD may also institute prosecution by way of summons against the offenders in accordance with the relevant legislations (Note 7). According to FEHD, with a view to enhancing enforcement efficiency, resources are deployed flexibly according to actual circumstances and enforcement actions are taken in a multi-pronged approach, including the following:

- (a) ***Dedicated Enforcement Teams (DETs).*** Since June 2017, FEHD has set up DETs to step up enforcement actions against various public cleanliness offences. DETs perform enforcement duties in plain clothes and are deployed to various littering black spots. DETs also convey health messages, distribute leaflets and warning notices to arouse public awareness of maintaining street cleanliness and the proper way for disposal of refuse.

Note 6: *The numbers of complaints received by FEHD relating to street cleansing services were 58,639 in 2020, 66,495 in 2021, 55,237 in 2022, 62,707 in 2023 and 66,120 in 2024.*

Note 7: *All the scheduled offences under the Fixed Penalty (Public Cleanliness and Obstruction) Ordinance are offences under the corresponding legislations, such as the Public Health and Municipal Services Ordinance (for display of bills or posters without permission under section 104A(2)) and the Public Cleansing and Prevention of Nuisances Regulation (Cap. 132BK) (for depositing of litter or waste in public places under section 4(1), spitting in public places under section 8A(1) and fouling of street by dog faeces under section 13(1)(a)).*

As of December 2024, there were 46 DETs with a total of 211 members; and

- (b) **Internet Protocol (IP) cameras.** According to FEHD, in December 2016, it launched a pilot scheme on installation of IP cameras at six illegal refuse deposit black spots in three districts, which had effectively curbed illegal deposits of refuse through targeted surveillance and enforcement actions. Since June 2018, FEHD has installed IP cameras at illegal refuse deposit black spots over the territory. According to FEHD, it can institute prosecution against registered owners of vehicles or relevant offenders for illegal dumping of refuse based on the footage captured by IP cameras (Note 8) and formulate more effective enforcement operations through analysing the timing and patterns of illegal acts. In November 2024, in order to combat the illegal act of littering from vehicles, the FEHD launched a trial scheme to pilot the installation of IP cameras on roads with central dividers in two districts. As of December 2024, IP cameras were installed at 470 illegal refuse deposit black spots.

1.13 **Publicity.** According to FEHD, it has been disseminating information on personal, household and environmental hygiene (including maintaining street cleanliness) through different channels, including broadcast of Announcements in the Public Interest on television and radio, display of posters at main public transport facilities, distribution of pamphlets and leaflets, and the use of social media platform pages of Keep Clean Ambassador Ah Tak.

Responsible sections and offices

1.14 FEHD's work relating to street cleansing services falls within the programme area "Environmental Hygiene and Related Services" (Note 9). In

Note 8: *Littering from vehicles is an offence under section 9A of the Public Cleansing and Prevention of Nuisances Regulation.*

Note 9: *Other work within the programme area "Environmental Hygiene and Related Services" includes waste collection, licensing and inspecting food premises, processing of applications for liquor licences and administrative support to the Liquor Licensing Board, management of cremation and burial facilities, regulating private columbaria, and abating environmental nuisances relating to dripping air-conditioners and water seepage.*

Introduction

2023-24 (Note 10), the expenditure for street cleansing and related services amounted to about \$5.1 billion (Note 11). The main sections and offices of FEHD responsible for work relating to street cleansing services are as follows:

- (a) the Headquarters Cleansing and Pest Control Section under Operations Division 3 is responsible for formulation, promulgation and review of procedures, standards and strategies on cleansing and pest control services, including street cleansing services;
- (b) the 19 District Environmental Hygiene Offices (DEHOs) under three Operations Divisions are responsible for overall planning, organisation, provision and monitoring of street cleansing services in respective districts. The duties include monitoring of street cleansing services delivery and carrying out enforcement actions against illegal disposal of refuse;
- (c) the 3 Operations Sections under three Operations Divisions are responsible for monitoring of mechanical street sweeping services and mechanical gully cleansing services on the Hong Kong Island and Islands, in Kowloon and the New Territories; and
- (d) the Quality Assurance Section of the Grade Management and Development Division is responsible for conducting audit inspections and employment-related inspections, and investigating employment-related

Note 10: *As announced in the 2022-23 Budget Speech, a total additional funding of \$500 million would be allocated within two years for FEHD to enhance environmental hygiene services. According to FEHD, of the additional funding, about \$369 million was for additional services (comprising \$246 million for street cleansing and management of public toilets, and \$123 million for refuse collection, pest control and market management), and the remaining of about \$131 million was for meeting part of the increase in costs of regular services in the aforementioned aspects. FEHD did not maintain a separate breakdown of the allocation of the funding to street cleansing services, and all funding was exhausted by the end of 2023-24.*

Note 11: *The expenditure for FEHD's programme area "Environmental Hygiene and Related Services" amounted to about \$6.7 billion in 2023-24. According to FEHD, the expenditure of about \$5.1 billion also included the expenditure on waste collection services and management of public cleansing facilities. It did not maintain a separate breakdown of the expenditure on street cleansing services.*

complaints concerning non-skilled workers (i.e. workmen) and their supervisors of FEHD's service contractors.

As at 30 September 2024, 1,809 staff under the three Operations Divisions and 7 staff under the Quality Assurance Section (see also Note 63 to para. 4.24) were responsible for the street cleansing services. An extract of the organisation chart of FEHD (as at 30 September 2024) is at Appendix A.

Audit review

1.15 In November 2024, the Audit Commission (Audit) commenced a review to examine FEHD's street cleansing services. The audit review has focused on the following areas:

- (a) monitoring of service delivery (PART 2);
- (b) tackling illegal disposal of refuse (PART 3); and
- (c) other related 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

1.16 The Secretary for Environment and Ecology expresses gratitude to Audit for the comprehensive review of FEHD's work in street cleansing services. He agrees with the audit recommendations, and affirms Government's commitment to keeping the city clean. Over the years, FEHD has introduced different initiatives to improve service delivery, strengthen performance management and enhance enforcement efficiency. The Environment and Ecology Bureau will provide policy steer and oversight for FEHD to take forward the audit recommendations to further enhance street cleansing services.

Introduction

1.17 The Director of Food and Environmental Hygiene expresses his appreciation for Audit's work in auditing FEHD's street cleansing services. He has also said that:

- (a) FEHD is committed to maintaining a clean and hygienic living environment for the people of Hong Kong, and has been working towards this goal through efficient cleansing services, effective enforcement actions, and sustained publicity efforts. In recent years, FEHD has been proactively taking forward various initiatives to improve its service quality and enforcement efficiency. For example, FEHD has brought in new type of street washing machine and expanded the use of IP camera system to assist enforcement actions against refuse dumping; and
- (b) FEHD agrees with the audit recommendations and will take them into account in its continuous efforts in improving its public cleansing services.

Acknowledgement

1.18 Audit would like to acknowledge with gratitude the full cooperation of the staff of FEHD during the course of the audit review.

PART 2: MONITORING OF SERVICE DELIVERY

2.1 This PART examines issues relating to the monitoring of service delivery, focusing on the following areas:

- (a) monitoring of outsourced street cleansing services (paras. 2.5 to 2.21); and
- (b) monitoring of in-house street cleansing services (paras. 2.22 to 2.39).

Background

2.2 ***Delivery of street cleansing services.*** According to FEHD, street cleansing services mainly include:

- (a) ***Street sweeping services.*** Services are delivered in day, evening and midnight shifts (Note 12). Each workman is allocated with a length of road (hereinafter referred to as a beat) within a work shift;
- (b) ***Street washing services.*** Services are delivered in day and evening shifts by street washing gangs/teams, comprising a ganger, two to three workmen and a driver operating the street washing vehicle in each gang/team (Note 13);
- (c) ***Gully cleansing services.*** Services are delivered only in day shifts by gully cleansing teams (generally comprising two workmen in each team) which are allocated with a number of roadside gullies within work shifts; and

Note 12: *According to FEHD, in some districts, evening shift work for in-house areas are carried out by contractors.*

Note 13: *For street washing services delivered by contractors, in general, a team with a supervisor-cum-driver and two to three workmen is deployed instead.*

Monitoring of service delivery

- (d) ***Poster removal services.*** Services are generally delivered in day and evening shifts by a workman for each route (Note 14).

The types of street cleansing services provided by in-house staff varied among DEHOs (see para. 2.34(a)). According to FEHD, it aims to provide efficient and courteous services and has set performance measures on the street cleansing services (see para. 4.2).

2.3 ***FEHD's multi-tier monitoring mechanism.*** According to FEHD guidelines, to monitor the street cleansing service delivery, it has adopted a multi-tier monitoring mechanism for outsourced and in-house street cleansing services in each DEHO. The details of various types of monitoring inspections are as follows:

- (a) ***Daily inspections.*** Frontline supervisory staff (i.e. Senior Foremen for outsourced areas and Foremen for in-house areas) are responsible for day-to-day supervision and monitoring of the street cleansing service delivery. In addition, for in-house areas, Overseers may carry out random and surprise checks on the daily inspection work performed by Foremen under their purview;
- (b) ***Formal inspections.*** With a view to making clear the performance standards and setting a performance benchmark for future inspections, Overseers, Health Inspectors and Senior Health Inspectors conduct formal inspections regularly to inspection targets selected by Chief Health Inspectors. During formal inspections, the inspecting officers are accompanied by Foremen for in-house areas, and Senior Foremen and contractors' supervisors for outsourced areas;
- (c) ***Assigned risk-based surprise inspections.*** With a view to timely identifying critical malpractice (e.g. improper work practice or non-performance of services in odd hours or remote areas that have higher risk of not being detected under the routine inspection system), and hence taking prompt remedial action to prevent the recurrence as well as imposing

Note 14: *According to FEHD, in-house workmen and some contractors' workmen responsible for providing street sweeping services also provide poster removal services. Besides, poster removal services may also be provided by other workmen who are not primarily responsible for street sweeping services or poster removal services (see also Note 19 to para. 2.6(c)).*

a sufficient deterrent effect, Overseers (Note 15) conduct assigned risk-based surprise inspections regularly to inspection targets selected by Senior Health Inspectors;

- (d) ***Supervisory checks.*** Supervisory check is an inspection system maintained at levels of Health Inspector and Senior Health Inspector with a view to ensuring that the required performance standards in service delivery are sustained and the relevant operational guidelines/procedures are properly followed. Supervisory checks are conducted in an unannounced manner; and
- (e) ***Systematic inspections.*** Chief Health Inspectors and District Environmental Hygiene Superintendents should conduct frequent district patrol as far as time permits with the ultimate aim of enhancing performance management and systematic improvement of the services in their districts.

FEHD guidelines also set out the details of the monitoring mechanism (including criteria for selecting inspection targets, inspection frequencies, timeframes and coverage (see Appendix B) and timeframes for submitting written reports after the inspections).

2.4 ***Audit's visits to three DEHOs.*** From December 2024 to March 2025, Audit visited three DEHOs (Note 16) (i.e. Central/Western, Sham Shui Po and Yuen Long DEHOs) to review their work relating to delivery of street cleansing services.

Note 15: *For outsourced street cleansing services, some Senior Foremen (Special Duties) may also conduct assigned risk-based surprise inspections.*

Note 16: *Audit visited one DEHO from each of the three Operations Divisions with the highest amount of total contract values of street cleansing service contracts as at 30 September 2024.*

Monitoring of outsourced street cleansing services

Need to enhance checking on daily attendance records submitted by contractors

2.5 According to the street cleansing service contracts, contractors are required to provide stipulated minimum numbers and types of contractor personnel and ensure their full attendance. For example, for street sweeping services, each work shift shall be attended by a workman. Contractors are also required to submit daily attendance records to FEHD for checking.

2.6 Audit examined the daily attendance records of the three DEHOs (see para. 2.4) for outsourced street cleansing services in December 2023 and September 2024, and found that the attendance requirement of contractors' staff was not fully met in some days, comprising:

- (a) for street sweeping services, in December 2023, in 7 of 9,300, 1 of 7,936 and 3 of 8,401 work shifts (Note 17), the attendances of contractors' workmen of Central/Western, Sham Shui Po and Yuen Long DEHOs respectively were not indicated in the records. In September 2024, in 3 of 9,000, 1 of 7,170 and 7 of 8,130 work shifts, the attendances of contractors' workmen of Central/Western, Sham Shui Po and Yuen Long DEHOs respectively were not indicated in the records;
- (b) for gully cleansing services, in 1 of 496 and 1 of 186 work shifts (Note 18), the records did not indicate that the stipulated minimum number of contractor personnel (i.e. shortfall of 1 workman) was provided for Central/Western and Yuen Long DEHOs respectively in December 2023; and

Note 17: *The total numbers of work shifts were calculated by multiplying the number of days in the month by the number of outsourced street sweeping beats per day.*

Note 18: *The total numbers of work shifts were calculated by multiplying the number of days in the month by the number of outsourced work shifts for gully cleansing services per day.*

- (c) for poster removal services (Note 19), in 2 of 651 and 1 of 310 work shifts (Note 20), the attendances of contractors' workmen of Central/Western and Sham Shui Po DEHOs respectively in December 2023 were not indicated in the records.

2.7 Upon enquiry, FEHD informed Audit in March 2025 that, based on the contractors' attendance books which were provided to FEHD upon request, all the above work shifts were actually attended by contractors' workmen and provided with the stipulated minimum number of contractor personnel. However, the daily attendance records of December 2023 and September 2024 submitted by the contractors concerned in the same months to FEHD were inaccurate and these attendances were not reflected. In this connection, Audit noted that Senior Foremen of FEHD had reviewed the daily attendance records submitted by the contractors concerned. In Audit's view, FEHD needs to enhance checking on daily attendance records submitted by contractors and take follow-up actions against the contractors for submitting inaccurate records.

Need to enhance compliances with requirements on conducting self-discipline quality inspections for outsourced street cleansing services

2.8 According to the street cleansing service contracts, contractors are required to provide the stipulated numbers of inspection teams to conduct self-discipline quality inspections to monitor the street cleansing services delivered by their workmen. Besides, FEHD guidelines stipulate that Health Inspectors shall assign each inspection team to conduct at least two inspections per week and cover two tasks for each inspection.

Note 19: *According to FEHD, depending on areas'/districts' needs, district management might consider not to require a separate team for providing the poster removal services upon renewal of the street cleansing service contracts. Under these circumstances, poster removal services were provided by mobile cleansing teams which are responsible for performing a variety of duties, such as removal of posters and chewing gums, repair and maintenance of public toilets, clearance of lanes and ad hoc duties. Their work was not included in this analysis. For Yuen Long DEHO and the existing contracts of Sham Shui Po DEHO, poster removal services were provided by the mobile cleansing teams.*

Note 20: *The total numbers of work shifts were calculated by multiplying the number of days in the month by the number of outsourced work shifts for poster removal services per day.*

Monitoring of service delivery

2.9 Audit examined the inspection records of contractors' inspection teams for outsourced street cleansing services of the three DEHOs (see para. 2.4) for September 2024 and found that for Central/Western DEHO:

- (a) 4 (44%) of 9 inspection teams carried out only one task in each self-discipline quality inspection; and
- (b) the other 5 (56%) of 9 inspection teams did not conduct any self-discipline quality inspection in the first week (Note 21) of September 2024 (i.e. 1 to 7 September 2024) and only conducted one self-discipline quality inspection each in the second and fourth weeks of September 2024 (i.e. 8 to 14 September 2024 and 22 to 28 September 2024 respectively).

In this connection, Audit noted that the Health Inspectors concerned had not assigned tasks/the required number of tasks to the contractors' inspection teams for conducting the self-discipline quality inspections for the period. Upon enquiry, FEHD informed Audit in March 2025 that it was mainly because they were deployed by district staff to carry out urgent inspections to handle ad hoc duties. Audit considers that FEHD needs to take measures to enhance compliances with the requirements on conducting self-discipline quality inspections for outsourced street cleansing services and document the reasons for non-compliances.

Need to conduct monitoring inspections for outsourced street cleansing services in accordance with stipulated frequencies and coverage

2.10 Apart from contractors' self-discipline quality inspections, FEHD conducts monitoring inspections under the multi-tier monitoring mechanism (see para. 2.3) to monitor outsourced street cleansing services. According to FEHD guidelines, monitoring inspections shall be conducted in accordance with the stipulated frequencies and coverage.

Note 21: *According to FEHD guidelines, a week is from Sunday to Saturday.*

2.11 Audit examined the monitoring inspection records of the three DEHOs (see para. 2.4) for outsourced street cleansing services in the period from January 2023 to September 2024 (Note 22) and noted a number of issues, as follows:

- (a) **Daily inspections.** In the period from 1 to 14 September 2024:
 - (i) for Central/Western and Yuen Long DEHOs, of 210 and 182 daily inspections required (Note 23), 5 (2%) and 21 (12%) did not cover the required beats (against the requirement of covering at least 10% of the cleansing sector each working day — see item 1(a) in Appendix B) respectively (Note 24); and
 - (ii) for Yuen Long DEHO, there was no documentation showing that 6 (2%) of 271 beats were covered in daily inspections (against the requirement of covering the whole cleansing sector (i.e. every beat) once every 10 working days — see item 1(a) in Appendix B) (see also Note 24);
- (b) **Formal inspections.** While formal inspections shall be conducted by Overseers monthly, in the period from January 2023 to September 2024 (comprising 21 months), for Central/Western and Sham Shui Po DEHOs, formal inspections were not conducted in 1 (5%) of 21 months. Upon enquiry, FEHD informed Audit in March 2025 that the formal inspections concerned were conducted within one month following the original scheduled date and the overall frequency of Overseers' formal inspections remained unchanged; and

Note 22: *The frequencies, timeframes and coverage for different types of monitoring inspections for outsourced street cleansing services varied (see Appendix B), Audit examination covered various periods, comprising: (a) 1 to 14 September 2024 for daily inspections; (b) January 2023 to September 2024 for formal inspections; (c) September 2024 for assigned risk-based surprise inspections; and (d) July to September 2024 for supervisory checks.*

Note 23: *The figure was calculated by multiplying the number of days in the period by the number of daily inspections required for outsourced street cleansing services in each day.*

Note 24: *According to FEHD, there was manpower shortage (i.e. a vacancy of 2 (11%) of 18 Senior Foremen in the area concerned), annual leave and alternative holiday arrangements for the inspecting officers in September 2024 for Yuen Long DEHO.*

Monitoring of service delivery

- (c) *Assigned risk-based surprise inspections.* While assigned risk-based surprise inspections shall be conducted not fewer than once per week, in September 2024, for Sham Shui Po DEHO, such inspections were not conducted in one week.

Audit considers that FEHD needs to strengthen measures to monitor the compliance with the frequencies and coverage stipulated in its guidelines for monitoring inspections for outsourced street cleansing services. In this connection, FEHD informed Audit in March 2025 that it would consider developing an information technology system for monitoring inspections for both outsourced and in-house street cleansing services (see para. 4.19(c)). In Audit's view, FEHD needs to make use of the system to facilitate its officers' compliance with the inspection requirements and monitoring work.

Need to submit and review monitoring inspection reports for outsourced street cleansing services in accordance with stipulated timeframes

2.12 According to FEHD guidelines, written reports shall be submitted by inspecting officers within 1 to 2 working days (depending on the types of monitoring inspections) after conducting the monitoring inspections. For supervisory checks, the reports need to be reviewed by senior officers within 5 working days. Audit examined the monitoring inspection reports of the three DEHOs (see para. 2.4) for outsourced street cleansing services in the period from January 2023 to September 2024 (see Note 22 to para. 2.11) and the findings were shown in Table 1.

Table 1

**Audit's findings on FEHD's submission and review of
monitoring inspection reports for outsourced street cleansing services
(January 2023 to September 2024)**

Type	Examination period	Timeframe for submission/ review	DEHO	No. of reports not meeting stipulated timeframes	Delay (Working day)
Formal inspection (by Health Inspector/ Senior Health Inspector)	January 2023 to September 2024	Submit within 2 working days	Central/ Western	4 (24%) of 17	3 to 7 (averaging 5)
			Sham Shui Po	9 (50%) of 18	1 to 10 (averaging 4)
			Yuen Long	3 (14%) of 22	1 to 3 (averaging 2)
Formal inspection (by Overseer)	January 2023 to September 2024	Submit within 2 working days	Sham Shui Po	1 (5%) of 21	4
				Not ascertainable for 4 (19%) of 21 reports (Note)	
Assigned risk-based surprise inspection	September 2024	Submit within 1 working day	Yuen Long	1 (13%) of 8	2
Supervisory check	July to September 2024	Submit within 2 working days	Central/ Western	4 (17%) of 24	4 to 6 (averaging 5)
			Sham Shui Po	5 (17%) of 29	2 to 10 (averaging 6)
				Not ascertainable for 1 (3%) of 29 reports (Note)	
		Review within 5 working days	Sham Shui Po	10 (34%) of 29	1 to 4 (averaging 3)

Source: Audit analysis of FEHD records

Note: The reports were not dated and hence the compliance with the stipulated timeframe could not be ascertained.

2.13 Audit considers that FEHD needs to strengthen measures to monitor the compliance with the submission and review requirements on the monitoring inspection reports stipulated in its guidelines for outsourced street cleansing services (e.g. making use of the information technology system to facilitate its officers' compliance with the relevant requirements and monitoring work).

Room for improvement in handling contractors' non-compliances with contract terms

2.14 Under the street cleansing service contracts, warnings (verbal/written) and/or default notices will be issued to contractors for breach of contract terms. In general, according to its nature of the breaches of contract terms, warnings and default notices are classified into four categories as follows:

- (a) ***Performance-related.*** It covers non-compliances with service requirements as laid down in the service contracts;
- (b) ***Behaviour-related.*** It covers misbehaviour (e.g. sleeping and idling) of contractors' staff;
- (c) ***Blatant.*** It covers serious defaults in the course of service delivery (e.g. improper disposal of waste) and breaches of contractual obligations in respect of the heat stroke prevention work plan (Note 25); and
- (d) ***Employment-related.*** It covers breaches of contractual obligations (e.g. on daily maximum working hours) under the employment contracts of non-skilled workers.

According to FEHD guidelines, if a non-compliance is identified by FEHD (e.g. during daily inspection), the inspection officer shall issue a warning to give the contractor a response time to remedy/rectify the failure (Note 26). If the contractor fails to comply with the instruction given by the inspection officer within the specified time, a performance-related default notice shall be issued. For each default notice

Note 25: *According to FEHD, in view of the revised Financial Circular No. 3/2019 (which was updated on 17 May 2023), to safeguard the occupational safety and health of non-skilled workers, it has included a requirement that tenderers shall submit a heat stroke prevention work plan for street cleansing service contracts tendered on or after 31 May 2023. The work plan shall cover, among others, work arrangements and measures to be implemented in hot weather.*

Note 26: *According to FEHD guidelines, for blatant, behaviour-related or employment-related non-compliances, warnings are not compulsory before issuing the default notices.*

issued, a fixed amount (Note 27) will be deducted from the monthly payment to the contractor concerned (Note 28).

2.15 *Need to issue warning letters and default notices in accordance with stipulated timeframe.* According to FEHD guidelines, to enable the contractors to have sufficient time for effecting remedial measures to prevent recurrence, all warning letters/default notices should be delivered to contractors as soon as possible and be completed within 7 working days after the discovery of the breaches. Audit examined the warning letters and default notices issued by FEHD to contractors of 19 DEHOs in the period from January 2019 to September 2024 and found that:

- (a) FEHD did not maintain readily available information on the delivery dates of warning letters/default notices. Upon enquiry, FEHD informed Audit in March 2025 that the issue dates of the warning letters/default notices would be recorded in its system instead of the delivery dates; and
- (b) based on the issue dates of the warning letters/default notices, the time lags between the identification of non-compliances and issuance of the warning letters/default notices had exceeded 7 working days for 230 (66%) of 351 warning letters and 2,103 (54%) of 3,870 default notices (see Table 2).

Note 27: *The amount of deduction varies with: (a) categories of default notices; and (b) number of default notices issued (only applicable to performance-related default notices). As of September 2024, the amount of deduction for each default notice ranged from \$1,220 to \$9,102.*

Note 28: *According to the street cleansing services contracts, FEHD has the discretion to make deductions of an amount from the monthly payment, as liquidated damages but not as penalty, in respect of various categories of default notices issued. The liquidated damages are to cover the administrative cost for investigation, issuance of the relevant notices and subsequent inspections to check that the default is rectified.*

Table 2

**Time lags between identification of non-compliances and issuance of warning letters and default notices
(January 2019 to September 2024)**

Category	No. of warning letters and default notices		Average time lags beyond the stipulated timeframe (Working day)
	Issued	Issued exceeding the stipulated timeframe	
<i>Warning letter</i>			
Performance-related	189	124 (66%)	37
Behaviour-related	110	62 (56%)	23
Blatant	14	6 (43%)	15
Employment-related	38	38 (100%)	79
Overall	351	230 (66%)	40
<i>Default notice</i>			
Performance-related	667	315 (47%)	16
Behaviour-related	2,707	1,466 (54%)	29
Blatant	495	321 (65%)	38
Employment-related	1	1 (100%)	114 (Note)
Overall	3,870	2,103 (54%)	28

Source: Audit analysis of FEHD records

Note: According to FEHD, the case involved complicated investigation relating to employment-related issues and extra time was required for handling the representation from the contractor.

2.16 Upon enquiry, FEHD informed Audit in March 2025 that the longer time taken for issuing some warning letters/default notices was mainly due to the time required for seeking legal advice, contractors' explanations, the involvement of the investigations by third-parties (e.g. law enforcement departments) or inspections by the Quality Assurance Section (see para. 1.14(d)), and checking a vast volume of records. Also, additional time was required due to departmental resources being allocated to combat the coronavirus disease (COVID-19) epidemic. Nevertheless, FEHD would contact the contractor as soon as possible upon detection of

non-compliances to enable the latter to effect remedial measures to prevent recurrence of similar problems. While noting FEHD's explanations, to facilitate the consideration of complete information (i.e. number of default notices issued to contractors involving in the tender exercises) in the tender assessment exercises of street cleansing service contracts (see para. 2.17), Audit considers that FEHD needs to take measures to improve the timeliness in issuing warning letters and default notices to contractors. FEHD also needs to review its guidelines on the timeframe for issuing warning letters and default notices to contractors to better monitor the timeliness in issuing the relevant documents.

2.17 *Need to review effect of FEHD's measures regarding past performance of contractors on future tender assessment exercises.* According to FEHD, in tender assessment exercises of street cleansing service contracts, the evaluation will take into account the number of default notices and demerit points issued to the contractors submitting the tenders, which has created a deterrent effect. The details are as follows:

- (a) ***Demerit point records.*** Demerit point system serves to give an early warning to contractors who have breached their contractual obligations. Under the demerit point system, a contractor accumulating three demerit points or more over a rolling period of 36 months is debarred from bidding for non-skilled worker contracts for a period of five years from the date of which the third demerit point is obtained. One demerit point is given to the contractor for:
 - (i) each employment-related default notice issued in respect of wages, daily maximum working hours, signing of standard employment contracts, payment of wages by means of autopay, statutory holiday pay, typhoon pay and gratuity; or
 - (ii) every two blatant default notices issued relating to an incident of substantiated complaint or non-compliance with the heat stroke prevention work plan over a continuous period of 12 months; and
- (b) ***Past performance records.*** Different types of default notices carry varying weightings. The total weighted number of default notices is calculated by the number of notices for blatant, performance-related and

Monitoring of service delivery

behaviour-related defaults (Note 29) issued under street cleansing service contracts of FEHD multiplied by a factor of 2, 1 and 0.5 respectively.

According to FEHD, as of September 2024, scores of 7 and 15 (out of 100) technical marks were allocated for contractors' demerit point records under all non-skilled worker contracts of the Government and past performance records in all street cleansing service contracts of FEHD respectively within 36 months immediately preceding the tender closing date (Note 30). As of March 2025, FEHD adopted a 50%-50% weighting for the price score and technical score in the tendering exercises of street cleansing service contracts.

2.18 Audit examination of the latest completed street cleansing service contracts for 19 DEHOs as of September 2024 (involving a total of 38 contracts — Note 31) noted that the total number of default notices issued was 35 on average (ranging from 2 to 179) for each contract (Note 32). Among these 38 contracts, Audit examination of 10 contracts with the largest number of default notices issued (involving 4 contractors) revealed that each of the 10 contracts was issued 74 (ranging from 45 to 179) default notices on average, including 55 (ranging from 25 to 110) behaviour-related default notices on average (Note 33) (see Appendix C). In the period from 2019 to 2024 (up to September), there were no record of debarment from bidding for the street cleansing service contracts under the demerit point system in respect of wages, daily maximum working hours, signing of standard employment contracts, payment of wages by means of autopay, statutory holiday pay, typhoon pay, gratuity and non-compliances with the heat stroke prevention work plan for the

Note 29: *According to FEHD, the number of employment-related default notices issued to contractors are already taken into account under the demerit point system.*

Note 30: *According to Financial Circular No. 2/2019, permitted technical marks for demerit point records were not less than 5 and the permitted range of technical marks for past performance records as well as experience and certification was 0 to 30. According to FEHD, as of September 2024, scores of 15 and 6 technical marks were allocated for past performance records as well as experience and certification respectively.*

Note 31: *These 38 street cleansing service contracts commenced and completed in the period from November 2019 to September 2024.*

Note 32: *The total amount of deductions ranged from \$3,183 to \$338,279 (averaging \$61,499) for each of the 38 contracts.*

Note 33: *The total amount of deductions ranged from \$56,525 to \$338,279 (averaging \$127,028) for each of the 10 contracts.*

4 contractors. Also, as of December 2024, 3 of them were the existing contractors of the street cleansing services.

2.19 In light of the large number of default notices (in particular for behaviour-related default notices) issued for each contract and the room for further adjusting the scores of technical marks allocated for contractors' demerit point records and past performance records (see para. 2.17), there is merit for FEHD to review the effect of its measures regarding the past performance of contractors on future tender assessment exercises and take follow-up actions as appropriate.

Audit recommendations

2.20 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

- (a) **enhance checking on daily attendance records submitted by contractors and take follow-up actions against the contractors for submitting inaccurate records;**
- (b) **take measures to enhance compliances with the requirements on conducting self-discipline quality inspections for outsourced street cleansing services and document the reasons for non-compliances;**
- (c) **strengthen measures to monitor the compliance with the frequencies and coverage stipulated in FEHD guidelines for monitoring inspections, and the submission and review requirements on the monitoring inspection reports stipulated in FEHD guidelines for outsourced street cleansing services (e.g. making use of the information technology system to facilitate the compliance with the relevant requirements by FEHD's officers and monitoring work);**
- (d) **take measures to improve the timeliness in issuing warning letters and default notices to contractors;**
- (e) **review FEHD guidelines on the timeframe for issuing warning letters and default notices to contractors to better monitor the timeliness in issuing the relevant documents; and**

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- (f) review the effect of FEHD's measures regarding the past performance of contractors on future tender assessment exercises and take follow-up actions as appropriate.

Response from the Government

2.21 The Director of Food and Environmental Hygiene agrees with the audit recommendations. He has said that FEHD:

- (a) has reviewed the relevant guidelines and workflow related to the audit recommendations and will monitor their compliance and implementation;
- (b) will explore the development of an information technology system to monitor staff compliance with the inspection and monitoring procedures; and
- (c) will review the effectiveness of its measures on contractors' past performance with respect to future tender assessments.

Monitoring of in-house street cleansing services

Room for improvement in delivering in-house street cleansing services

2.22 Audit examined the records of the three DEHOs for in-house street cleansing services in December 2023 and September 2024 (Note 34), and noted that:

- (a) for street sweeping services, according to FEHD guidelines, each workman is allocated with a length of road (i.e. beat) within a work shift based on time standards calculated by FEHD (e.g. about 3 minutes for 100 square meters of urban districts). However:
 - (i) in December 2023, workmen of Sham Shui Po and Yuen Long DEHOs were absent for 1 (0.2%) of 403 and 31 (1%) of 3,100 work

Note 34: *In December 2023 and September 2024, for Central/Western DEHO, no street washing services were provided by in-house staff (i.e. fully outsourced).*

shifts (Note 35) respectively. In September 2024, workmen of Yuen Long DEHO were absent for 36 (1%) of 3,000 work shifts (Note 36); and

- (ii) for Central/Western and Yuen Long DEHOs, some workmen were assigned to provide street sweeping services in more than one beat within a work shift (involving 121 (14%) of 837 work shifts in December 2023 and 58 (7%) of 810 work shifts in September 2024 for Central/Western DEHO, and 15 (0.5%) of 3,100 work shifts in December 2023 and 14 (0.5%) of 3,000 work shifts in September 2024 for Yuen Long DEHO — Note 37). Upon enquiry, FEHD informed Audit in March 2025 that the duties of each workman involving in the work shifts concerned would be thinned out or would be partially shared by workmen who were not primarily responsible for street sweeping services. As such, the original duties of workmen sharing the relevant duties of the work shifts mentioned above could not be fully carried out (i.e. the street sweeping services were not provided at a frequency as planned); and

- (b) for street washing services, according to FEHD guidelines, district management should closely monitor staff performance to ensure the provision of satisfactory street washing services in accordance with the approved work programmes. According to the work programmes approved by Senior Health Inspectors of Sham Shui Po and Yuen Long DEHOs

Note 35: *The total numbers of work shifts were calculated by multiplying the number of days in the month by the number of in-house street sweeping beats per day.*

Note 36: *According to FEHD, none of the work shifts in which workmen were absent involved street sweeping services on main roads, and the shortfall of 1% each in December 2023 and September 2024 for Yuen Long DEHO was attributed to the shortage of in-house workmen (i.e. 17 (9%) in December 2023 and 14 (7%) in September 2024).*

Note 37: *According to FEHD, to ensure that all beats were fully attended, a workman might be assigned to provide street sweeping services in more than one beat within a work shift. According to the attendance records, in addition to the beats originally assigned to them, the workmen concerned were assigned to take up additional beats (mainly 1 additional beat for each workman concerned) for 121 and 58 work shifts in December 2023 and September 2024 for Central/Western DEHO and 15 and 14 work shifts in December 2023 and September 2024 for Yuen Long DEHO respectively.*

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(Note 38), a street washing gang (comprising a ganger, three workmen and a driver operating the street washing vehicle — see para. 2.2(b)) should conduct street washing services for each work shift and there were one (Yuen Long DEHO) and two (Sham Shui Po DEHO) work shifts each day. However, for Sham Shui Po DEHO, no street washing vehicle was deployed in 33 (53%) of 62 and 17 (28%) of 60 work shifts as planned in December 2023 and September 2024 respectively (Note 39). For Yuen Long DEHO, there were temporary suspensions of the operation of the street washing vehicles during 4 (17%) of 24 and 6 (25%) of 24 work shifts in December 2023 and September 2024 respectively (Note 40). According to the work reports, of the 50 (i.e. 33 + 17) and 10 (i.e. 4 + 6) work shifts of Sham Shui Po and Yuen Long DEHOs, the staff of the street washing gangs of 45 and 1 work shifts respectively were deployed to perform other duties, comprising:

- (i) manual street washing services were provided at the designated sites in 26 work shifts of Sham Shui Po DEHO. However, of the 26 work shifts, the numbers of designated sites manually washed were less than that stated in the work programmes (i.e. some service locations were not washed as planned) in 12 work shifts. For the remaining work shifts, the street washing locations were not clearly specified (i.e. whether service locations were washed as planned could not be ascertained); and
- (ii) services other than street washing services (e.g. poster removal services) were provided in 19 and 1 work shifts of Sham Shui Po and Yuen Long DEHOs respectively (i.e. street washing services were not provided as planned).

Note 38: *According to FEHD guidelines, Health Inspectors of DEHOs were responsible for drawing up the work programmes for approval by Senior Health Inspectors in their respective DEHOs. Overseers and Health Inspectors of DEHOs should regularly review the effectiveness of work programmes of street washing services.*

Note 39: *According to the work reports, the reasons for not deploying street washing vehicles in the work shifts comprised not enough staff (88%) and vehicles requiring maintenance/not provided (12%).*

Note 40: *According to the work reports, the reason for suspensions of the operation of the street washing vehicles during the work shifts was vehicles requiring maintenance/not provided.*

There was no documentation showing that the staff of the street washing gangs of the remaining 5 work shifts of Sham Shui Po DEHO and the remaining 9 work shifts of Yuen Long DEHO were deployed to perform other duties (i.e. whether street washing services were provided as planned could not be ascertained) (Note 41).

2.23 Upon enquiry, FEHD informed Audit in March 2025 that there were various reasons for the occasional non-provision of in-house street washing services, including vehicle breakdowns and shortage of drivers. While noting FEHD's explanations, Audit considers that FEHD needs to strengthen measures to monitor the compliance with the planned frequencies for in-house street sweeping services and maintain documentation of the work carried out for beat when workman is absent. FEHD also needs to strengthen measures to monitor the compliance with approved work programmes for in-house street washing services.

Room for improvement in conducting monitoring inspections for in-house street cleansing services

2.24 ***Need to conduct monitoring inspections for in-house street cleansing services in accordance with stipulated frequencies and coverage.*** Audit examined the monitoring inspection records of the three DEHOs (see para. 2.4) for in-house street cleansing services in the period from January 2023 to September 2024 (Note 42) and noted a number of issues, as follows:

- (a) ***Daily inspections.*** Daily inspections shall be conducted by Foremen on alternate days to every beat and their records shall be maintained in an

Note 41: *According to FEHD, 3 work shifts of Yuen Long DEHO involved short-term suspensions (i.e. about 2 to 3 hours) of street washing services as a result of sudden breakdown of street washing vehicles at the service locations, which required immediate suspension of service and repairs. These were unplanned suspensions with unknown on-site repair times. Given this, and taking into account the transit time, the redeployment was deemed less important in these cases.*

Note 42: *The frequencies, timeframes and coverage for different types of monitoring inspections for in-house street cleansing services varied (see Appendix B), Audit examination covered various periods, comprising: (a) 1 to 14 September 2024 for daily inspections; (b) January 2023 to September 2024 for formal inspections; (c) September 2024 for assigned risk-based surprise inspections; and (d) July to September 2024 for supervisory checks.*

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information system, namely the E-Management System for In-house Cleansing Services and Pest Control Services (EMS — Note 43). However, in the period from 1 to 14 September 2024 (i.e. seven rounds of daily inspections), of 10 beats of each of the three DEHOs examined by Audit, some daily inspections were not conducted in accordance with the stipulated frequency and coverage (i.e. covering the 10 beats in each of the seven rounds of daily inspections) (Note 44) and/or some records were not input in EMS. The details were as follows:

- (i) the requirement was not met in all seven rounds of daily inspections of Central/Western DEHO, with shortfall ranged from 1 to 4 beats for each round. Upon enquiry, FEHD informed Audit in March 2025 that the stipulated frequency was not met in five rounds of daily inspections, with shortfall ranged from 1 to 3 beats for each round. However, the related monitoring inspection records were separately maintained and were not input in EMS;
- (ii) the requirement was not met in six rounds of daily inspections of Sham Shui Po DEHO, with shortfall ranged from 1 to 5 beats for each round; and
- (iii) the requirement was not met in all seven rounds of daily inspections of Yuen Long DEHO, with shortfall ranged from 4 to 8 beats for each round (Note 45). In particular, 1 beat was not covered throughout the period. Upon enquiry, FEHD informed Audit in March 2025 that the 1 beat had actually been covered and the shortfall should be 2 to 5 beats for each round, but the related monitoring inspection records were separately maintained and were not input in EMS; and

Note 43: *In 2022, EMS was launched to enhance the efficiency of reporting and management review of in-house cleansing services. EMS enables electronic submission and review of daily inspection reports.*

Note 44: *According to FEHD, Tropical Cyclone Warning Signal No. 8 was hoisted from 6:20 p.m. on 5 September 2024 to 12:40 p.m. on 6 September 2024 due to the impact of Super Typhoon Yagi.*

Note 45: *According to FEHD, there was manpower shortage (i.e. a vacancy of 1 (14%) of 7 Foremen in the area concerned) in September 2024 for Yuen Long DEHO and the Foreman concerned had to take up two posts in five days (36%) in the period which thinned out the duties.*

- (b) *Assigned risk-based surprise inspections.* While assigned risk-based surprise inspections shall be conducted not fewer than once per week, in September 2024, for Sham Shui Po DEHO, such inspections were not conducted in one week.

Audit considers that FEHD needs to strengthen measures to monitor the compliance with the frequencies and coverage stipulated in its guidelines for monitoring inspections for in-house street cleansing services (e.g. making use of the information technology system to facilitate its officers' compliance with the relevant requirements and monitoring work). FEHD also needs to take measures to enhance the maintenance of records of daily inspections conducted by Foremen for in-house street cleansing services in EMS.

2.25 *Need to regularly review frequency of Overseers' daily inspections for in-house street cleansing services.* Overseers may carry out random and surprise checks on the daily inspection work performed by Foremen under their purview (see para. 2.3(a)). According to FEHD guidelines, in a review conducted on the supervisory structure of district cleansing sections in 2006, regarding Overseers' daily inspections, it was recommended that:

- (a) the inspection schedule should be abolished but providing DEHOs with the autonomy to decide on the inspection requirements of the services under their purview, having regard to determining factors like cleanliness condition, elapsed time of last visit/inspection and any guidelines set out by the management;
- (b) management should ensure a cycle of the inspection to all services to be taken within a reasonable period of time; and
- (c) District Environmental Hygiene Superintendents, Chief Health Inspectors, Senior Health Inspectors or Health Inspectors might exercise discretion to increase the inspection frequency to meet specific operational requirements as appropriate.

2.26 Audit examination of the EMS records of daily inspections conducted by Overseers of the three DEHOs for in-house street cleansing services in the period from January 2023 to December 2024 found that the numbers of Overseers' daily inspections varied among DEHOs (i.e. 2 for Central/Western DEHO, 238 for Sham

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Shui Po DEHO and 556 for Yuen Long DEHO). Upon enquiry, FEHD informed Audit in March 2025 that 152 daily inspections were conducted by Overseers of Central/Western DEHO in the period from January 2023 to December 2024, and manual records (i.e. Overseers' notepads) for the 150 (i.e. 152 less 2) daily inspections were maintained but were not input in EMS.

2.27 Audit noted that while Overseers' daily inspections check the daily inspection work performed by Foremen (see para. 2.25), most (i.e. five to seven) rounds of daily inspections conducted by Foremen could not meet the required frequency and coverage (see para. 2.24(a)). In light of the audit findings, Audit considers that FEHD needs to regularly review the frequency of Overseers' daily inspections for in-house street cleansing services. FEHD also needs to take measures to enhance the maintenance of records of daily inspections conducted by Overseers for in-house street cleansing services in EMS.

Room for improvement in submitting and reviewing monitoring inspection reports for in-house street cleansing services

2.28 *Need to submit and review monitoring inspection reports for in-house street cleansing services in a timely manner.* According to FEHD guidelines, monitoring inspection reports shall be submitted by the inspecting officers and reviewed by senior officers within the stipulated timeframes. Audit examined the monitoring inspection reports of the three DEHOs (see para. 2.4) for in-house street cleansing services in the period from January 2023 to September 2024 (see Note 42 to para. 2.24) and found that monitoring inspection reports were not always submitted and reviewed in accordance with the stipulated timeframes (see Table 3).

Table 3

**Audit's findings on FEHD's submission and review of
monitoring inspection reports for in-house street cleansing services
(January 2023 to September 2024)**

Type	Examination period	Timeframe for submission/ review	DEHO	No. of reports not meeting stipulated timeframes	Delay
Daily inspection (by Foreman)	1 to 14 September 2024	Review weekly	Sham Shui Po	2 (6%) of 31	2 days each
Formal inspection	January 2023 to September 2024	Submit within 2 working days	Central/Western	4 (15%) of 27	1 to 17 working days (averaging 12 working days)
			Sham Shui Po	11 (39%) of 28	1 to 10 working days (averaging 4 working days)
			Yuen Long	2 (5%) of 41	2 and 3 working days
Supervisory check	July to September 2024	Submit within 2 working days	Central/Western	1 (7%) of 15	1 working day
			Yuen Long	1 (8%) of 12	4 working days
		Review within 5 working days	Central/Western	1 (7%) of 15	3 working days
			Sham Shui Po	2 (50%) of 4	1 and 5 working days
			Yuen Long	2 (17%) of 12	10 working days each

Source: Audit analysis of FEHD records

2.29 Audit also noted that for the daily inspections conducted by Overseers of the three DEHOs for in-house street cleansing services in the period from January 2023 to December 2024:

- (a) for the 796 daily inspections (i.e. 2 + 238 + 556 — see para. 2.26), the reports were reviewed 1 to 519 working days (averaging 43 working days) after the daily inspections. However, no timeframe was set in FEHD guidelines in this regard; and

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- (b) for the 150 daily inspections (see para. 2.26), no reports were submitted.

2.30 Audit considers that FEHD needs to strengthen measures to monitor the compliance with the submission and review requirements on the monitoring inspection reports stipulated in its guidelines for in-house street cleansing services (e.g. making use of the information technology system to facilitate its officers' compliance with the relevant requirements and monitoring work). To facilitate monitoring of Foremen's work, FEHD needs to consider setting a timeframe for reviewing Overseers' daily inspection reports for in-house street cleansing services.

2.31 *Need to enhance preparation and review process of formal inspection reports for in-house street cleansing services.* According to FEHD guidelines, if irregularities are identified during the formal inspections, the accompanying Foremen shall submit follow-up reports (with details of actions taken) to the inspecting officers for vetting before further submission to Senior Health Inspectors (or to Chief Health Inspectors if the inspecting officers are Senior Health Inspectors). Audit examined the formal inspection reports (including follow-up reports) of the three DEHOs for in-house street cleansing services in the period from January 2023 to September 2024 and noted that:

- (a) there were errors in some reports (e.g. the follow-up report was dated one year prior to the actual date of the formal inspection), comprising:
 - (i) 1 (4%) of 27 reports of Central/Western DEHO; and
 - (ii) 3 (23%) of 13 and 1 (4%) of 28 follow-up reports of Central/Western and Sham Shui Po DEHOs respectively; and
- (b) while 26 (93%) of 28 follow-up reports were signed by senior officers of Sham Shui Po DEHO, there was no documentation showing that the remaining 2 (7%) follow-up reports were submitted to senior officers of Sham Shui Po DEHO.

Audit considers that FEHD needs to enhance the preparation and review process of formal inspection reports for in-house street cleansing services (e.g. making use of the information technology system to facilitate report preparation and monitoring work).

*Need to keep under review
provision of in-house street cleansing services*

2.32 DEHOs are responsible for overall planning of street cleansing services, including preparing contracting-out proposals for cleansing sectors requiring renewal of the street cleansing service contracts. According to FEHD guidelines:

- (a) given the comparatively high percentage of overall outsourced street cleansing services, further expanding contracting-out requires critical examination of genuine need, for example:
 - (i) due to new developments which could not otherwise be provided by in-house staff and is more cost-effective to do so;
 - (ii) to improve existing services and meet increasing demands and new service requirements; and
 - (iii) to gain access to new skills and technologies in the market; and
- (b) prior to the expiry of each street cleansing service contract, a contracting-out proposal shall be prepared (taking into account departmental expenditure of existing services, estimated cost for new contract, availability of funding, etc.) for endorsement by the respective Assistant Director of the Operations Division (see para. 1.14).

2.33 According to FEHD, the percentage of in-house street cleansing services slightly decreased from 19% as at 31 December 2019 to 18% as at 30 September 2024 and the number of in-house workmen decreased from 1,876 to 1,819 (see Table 4).

Table 4

**Percentage of in-house street cleansing services
and number of in-house workmen
(January 2019 to September 2024)**

	As at 31 December					As at 30 September
	2019	2020	2021	2022	2023	2024
Percentage of in-house street cleansing services (Note 1)	19%	19%	19%	19%	18%	18%
No. of in-house workmen	1,876	1,908	1,823	1,820	1,756 (Note 2)	1,819 (Note 3)

Source: FEHD records

Note 1: According to FEHD, the percentage was calculated by dividing the total number of in-house street sweeping beats by the total number of street sweeping beats.

Note 2: According to FEHD, the higher vacancy rate might be attributed to a variety of contributing factors, such as the frequency and processing time of recruitment.

Note 3: As of September 2024, the establishment and strength of workmen were 2,102 and 1,819 (i.e. a shortage of 283 (13%) workmen) respectively.

2.34 Audit noted that:

- (a) the percentages of in-house street cleansing services varied among 19 DEHOs, ranging from 5% to 37% as at 30 September 2024. In particular, street washing services were fully outsourced in 3 DEHOs;
- (b) mini-street washing vehicles with pressure washer surface cleaners were used by contractors' staff, but not by in-house staff (see para. 4.17(b)); and
- (c) in the endorsed contracting-out proposals (see para. 2.32(b)) for the existing street cleansing service contracts of the three DEHOs (see para. 2.4), the comparison between the costs of outsourced and in-house street cleansing services was not included.

2.35 Upon enquiry, FEHD informed Audit in January and February 2025 that:

- (a) it did not have information on the per unit cost of outsourced and in-house street cleansing services or cost breakdown for each type of these services, or maintain a breakdown of expenditure of in-house street cleansing services (see Note 11 to para. 1.14); and
- (b) it currently had no plan to fully outsource the street cleansing services. Retention of some in-house capacity was deemed necessary for meeting operational demands and ensuring the continuity of street cleansing services in the event of unforeseen disruptions to outsourced services. This approach formed a key component of its contingency planning, safeguarding against potential service interruptions.

2.36 While noting FEHD's explanations, Audit noted that contractors were required to submit contingency plans to cope with emergency or contingency such as insufficiency of operative staff due to shortage or absence and insufficiency of vehicles and equipment due to breakdown or shortage. For example, for Sham Shui Po DEHO, the contractor stated in its contingency plan that:

- (a) it had over 3,000 frontline staff that provided a very strong back-up of flexible mobilisation for any emergency;
- (b) when there was absence of frontline staff, supervisors (who were equipped with mobile phones that could be reached at any time of emergency) could act promptly (i.e. within two hours) to manoeuvre at least one workman (reliever) to replace the absent workman for the required part of the cleansing services; and
- (c) it had spare operation vehicle/equipment for replacement in case of vehicle/equipment breakdown and experienced mechanics carrying out regular check-ups, maintenance and cleaning of its vehicles and equipment.

In addition, according to FEHD guidelines, the contractors' contingency plans have to be regularly reviewed by FEHD to ensure that the contractors have effective contingency arrangements in place (including the feasibility as well as the availability of spare/supplementary equipment).

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2.37 In view of the variance in percentages of in-house street cleansing services among DEHOs (see para. 2.34(a)), higher percentage of work shifts in which in-house workmen were absent (see para. 2.22(a)) as compared to contractors' workmen (see para. 2.6(a)), and a high vacancy rate of in-house workmen (see paras. 2.22(a)(i) and 2.33), Audit considers that FEHD needs to keep under review the provision of in-house street cleansing services, taking into account the staff recruitment situation, and take follow-up actions as appropriate.

Audit recommendations

2.38 Audit has *recommended* that the Director of Food and Environmental Hygiene should:

- (a) **strengthen measures to monitor the compliance with the planned frequencies for in-house street sweeping services and maintain documentation of the work carried out for beat when workman is absent;**
- (b) **strengthen measures to monitor the compliance with approved work programmes for in-house street washing services;**
- (c) **strengthen measures to monitor the compliance with the frequencies and coverage stipulated in FEHD guidelines for monitoring inspections, and the submission and review requirements on the monitoring inspection reports stipulated in FEHD guidelines, and enhance the preparation and review process of formal inspection reports for in-house street cleansing services (e.g. making use of the information technology system to facilitate the compliance with the relevant requirements by FEHD's officers, report preparation and monitoring work);**
- (d) **regularly review the frequency of Overseers' daily inspections for in-house street cleansing services;**
- (e) **take measures to enhance the maintenance of records of daily inspections for in-house street cleansing services in EMS;**

- (f) **consider setting a timeframe for reviewing Overseers' daily inspection reports for in-house street cleansing services; and**
- (g) **keep under review the provision of in-house street cleansing services, taking into account the staff recruitment situation, and take follow-up actions as appropriate.**

Response from the Government

2.39 The Director of Food and Environmental Hygiene agrees with the audit recommendations. He has said that FEHD:

- (a) has reviewed the relevant guidelines related to the audit recommendations and will monitor their compliance;
- (b) will explore the development of an information technology system to monitor staff compliance with the inspection, monitoring and reporting procedures;
- (c) has enhanced EMS for the maintenance of records of daily inspections for in-house street cleansing services; and
- (d) will keep under review the provision of in-house street cleansing services.

PART 3: TACKLING ILLEGAL DISPOSAL OF REFUSE

3.1 This PART examines FEHD's work on tackling illegal disposal of refuse, focusing on the following areas:

- (a) enforcement actions by DETs and through IP cameras (paras. 3.2 to 3.24);
- (b) other issues relating to enforcement actions (paras. 3.25 to 3.33); and
- (c) publicity work (paras. 3.34 to 3.38).

Enforcement actions by Dedicated Enforcement Teams and through Internet Protocol cameras

3.2 Under the Fixed Penalty (Public Cleanliness and Obstruction) Ordinance, FEHD may issue FPNs to offenders for specified public cleanliness offences, including:

- (a) depositing of litter or waste in public places;
- (b) spitting in public places;
- (c) display of bills or posters without permission;
- (d) fouling of street by dog faeces;
- (e) marine littering; and
- (f) unlawful depositing of waste.

3.3 With effect from 22 October 2023, the level of fixed penalty for the minor cleanliness offences under the Ordinance including depositing of litter or waste or spitting in public places, display of bills or posters without permission, fouling of street by dog faeces and marine littering has been raised from \$1,500 to \$3,000, and that for unlawful depositing of waste from \$1,500 to \$6,000. In 2024, FEHD issued

35,750 FPNs for the above offences (Note 46), involving total fines of about \$112 million.

3.4 FEHD may also institute prosecution by way of summons against the offenders. In 2024, 2,614 summons (Note 47) were issued for the specified public cleanliness offences (see para. 3.2) and littering from vehicles. According to FEHD, in order to combat illegal dumping, enforcement actions are taken in a multi-pronged approach, including setting up DETs since 2017 and installing IP cameras at illegal refuse deposit black spots over the territory since 2018 (see para. 1.12).

Need to enhance monitoring of DETs' work

3.5 According to FEHD, DETs are responsible for taking enforcement actions against public cleanliness offences and performing publicity and public education duties to arouse public awareness of maintaining street cleanliness. According to FEHD guidelines:

- (a) DET members perform enforcement duties in plain clothes and are deployed to various littering black spots, such as public places with conglomeration of food premises and shops. The work results of DETs should be closely monitored and suitable adjustment should be made to the work programs of DETs in achieving the target to reinforce the enforcement against public cleanliness offences;
- (b) records on locations with littering activities and actions taken to tackle the problem should be properly maintained to facilitate the monitoring of the ground situation. The information is recorded in a Situation Report on Handling of Locations with Littering Activities by DET (hereinafter

Note 46: *According to FEHD, apart from DETs, other teams such as the Hawker Control Teams and the Cleansing Teams also take enforcement actions against illegal dumping when performing their routine duties. Of the 35,750 FPNs issued in 2024, 20,366 (57%) FPNs were issued by DETs and 15,384 (43%) FPNs were issued by other teams.*

Note 47: *Of the 2,614 summons issued in 2024, as of January 2025, 1,209 (46.25%) were convicted cases (involving total fines of about \$4 million), 1 (0.04%) was an acquittal case and 1,404 (53.71%) cases were under processing.*

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referred to as situation report), which should be provided to Chief Health Inspectors for clearance on a bimonthly basis;

- (c) district management should explicitly look into those long outstanding and/or recurring cases and critically review the strategy in taking enforcement action and staff deployment (including the timing and frequency of enforcement operations) with a view to deleting them from the list as soon/far as practicable; and
- (d) the criteria for including locations with littering activities (in the past three months) in the situation report include identified top five hotspots under CMIS, number of justified complaints received, quantity of waste dumped at the locations, and frequent littering/illegal dumping activities reported at the locations.

3.6 *Scope for improvement in monitoring work programs of DETs.*

According to FEHD, the work programs set out the work covered by DETs and were maintained by individual DEHOs. However, FEHD had not specified in its guidelines the information to be included in the work programs. Audit visited three DEHOs (i.e. Eastern, Sham Shui Po and Yuen Long DEHOs — Note 48) to review the work of DETs and noted the following:

- (a) *Number of locations included in DETs' work programs varied significantly among DEHOs with similar number of DETs.* For the three DEHOs, Audit examined the work programs for 2024 (up to October) and noted the following:
 - (i) while the number of DETs under the purview of the three DEHOs was similar (i.e. 5 to 6 DETs as of October 2024), the number of locations (e.g. streets and public markets) selected for conducting daily inspection by DETs as shown in their work programs varied significantly (see Table 5);

Note 48: *Audit visited one DEHO from each of the three Operations Divisions with the largest number of DETs as at 30 September 2024 to review their operations.*

Table 5

**DETs' work programs of three DEHOs
(2024 (up to October))**

DEHO	As of October 2024		No. of locations selected for conducting daily inspection (Note)
	No. of DETs	No. of DET members	
Sham Shui Po	6	23	2 locations
Eastern	5	20	20 to 23 locations (averaging 22 locations)
Yuen Long	6	25	56 to 61 locations (averaging 58 locations)

Source: Audit analysis of FEHD records

Note: The work programs of DETs for Yuen Long and Eastern DEHOs were prepared for each month and that of Sham Shui Po DEHO was prepared for each day. According to the three DEHOs, the locations included in the work programs were selected for DETs to conduct inspection on a daily basis, and DETs were also required to perform ad hoc duties assigned by supervisors.

(ii) Audit examination of DETs' work programs of Sham Shui Po DEHO revealed that:

- the work programs had remained unchanged (i.e. only including the same 2 locations (i.e. two public markets and vicinity areas)) since late March 2023 (i.e. for about 1.6 years up to October 2024); and
- of the 6 DETs, only 2 DETs were assigned to carry out daily inspections at the 2 locations (the 6 DETs were assigned on a rotational basis). The work programs did not specify the daily work of the remaining 4 DETs.

Upon enquiry, FEHD informed Audit in March 2025 that the 2 locations were referring to the vicinity of Pei Ho Street Market and Po On Road Market which actually covered areas comprising 10 and 9 streets respectively, and were actually equivalent to

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19 individual locations in other DEHOs. However, Audit noted that the 19 streets covered under the 2 locations were not specified in the work programs; and

(iii) Audit examination of DETs' work program of Yuen Long DEHO for October 2024 revealed that of the 57 locations selected for conducting daily inspection by DETs, 6 (11%) locations were planned for inspection by 2 different teams on the same day under the same work shifts for handling the same targeted type of offence (e.g. littering of bagged refuse). Upon enquiry, FEHD informed Audit in March 2025 that Yuen Long District was a complicated district, especially the town area, and inspection of a complicated area with joint efforts of two DETs was appropriate. The planned locations involved large areas, rather than a single spot, which justified the deployment of resources;

(b) *Need to enhance documentation of work performed by DETs for monitoring compliance with work programs.* For the three DEHOs, Audit noted that documentation of the work performed by DETs varied, as follows:

- (i) the inspections conducted were summarised in computerised spreadsheets by Eastern and Sham Shui Po DEHOs and in emails by Yuen Long DEHO; and
- (ii) for the three DEHOs, the information recorded included the responsible DET, date of inspection and locations inspected. The number of FPNs issued was recorded by Yuen Long and Sham Shui Po DEHOs but not by Eastern DEHO. On the other hand, the time of inspection was recorded by Eastern and Yuen Long DEHOs but not by Sham Shui Po DEHO.

Audit also noted that for the three DEHOs, there was no documentation showing that the locations inspected were compared against those in the work programs of DETs for monitoring compliance; and

(c) *Need to enhance guidelines on supervisory inspections on DETs' work.* According to FEHD guidelines, for staff performing outdoor duties, supervisors should conduct regular and random spot checks,

Division/Section Heads should issue clear instructions to prescribe the frequency and procedures for the checks, and details of the checks (such as date, time and outcome) should be fully documented. According to FEHD, the Health Inspectors carry out supervisory inspections on DETs' outdoor work. Audit noted that:

- (i) as of February 2025, the requirements (e.g. frequency) for supervisory inspections on DETs' work were not specified in FEHD guidelines or documented by Sham Shui Po and Yuen Long DEHOs. For Eastern DEHO, it was specified that the supervisory inspection should be conducted at least once every two months; and
- (ii) for Eastern, Sham Shui Po and Yuen Long DEHOs, in 2024 (up to October), 7, 12 and 17 supervisory inspections were conducted on the work of DETs respectively, and each team was selected for 1 to 8 times.

3.7 In Audit's view, FEHD needs to:

- (a) specify the information to be included in work programs of DETs in its guidelines;
- (b) enhance documentation of the work performed by DETs for monitoring compliance with the work programs; and
- (c) specify the requirements (e.g. frequency) for supervisory inspections on DETs' work in its guidelines and maintain documentation of the inspections conducted.

3.8 ***Scope for improving situation reports.*** The situation reports include details of locations with littering activities meeting specific criteria (see para. 3.5(d)) for monitoring by DETs, with details including address, reason and date of inclusion in the report, number of blitz operations mounted for the past three months and result of the operations. For the three DEHOs (see para. 3.6), Audit examined the situation reports for October 2024 and found room for improvement in the following areas:

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- (a) ***Some hotspots not included in situation reports.*** According to FEHD guidelines, CMIS identifies the hotspots on street cleansing complaints in each district on monthly basis and a monthly report with the identified top five hotspots will be sent to districts for formulating operational tactics. For the three DEHOs, while 39 locations were identified as the top five hotspots in CMIS reports in the period from July to September 2024 (i.e. with littering activities in the past three months — see para. 3.5(d)), 32 (82%) locations were not included in the situation reports for monitoring by DETs. Of the 32 locations, 3 (9%) locations had been identified as hotspots for three consecutive months preceding the issuance of situation report and other 3 (9%) locations for two consecutive months. Upon enquiry, FEHD informed Audit in March 2025 that:
- (i) some DEHOs had used an obsolete form for situation reports which had not included the criterion of including the top five hotspots in CMIS reports. FEHD had reminded DEHOs to use the latest version of the form; and
 - (ii) some hotspots might involve environmental hygiene issues that should not be handled by DETs (e.g. stains on ground) or should be explicitly handled by other teams (e.g. illegal cooked food hawkers). DEHOs would make their judgement to consider whether these locations were needed to be included in situation reports.

However, Audit noted that the considerations for not including the hotspots in the situation reports were not documented;

- (b) ***Need to consider including locations with frequent littering activities detected by IP cameras in situation reports.*** According to FEHD, the footage captured with IP cameras will go through artificial intelligence image analysis (see para. 3.13(a)), and reports for illegal refuse deposit identified will be generated on a weekly basis. DETs will organise blitz operations based on the intelligence collected from IP cameras. For the three DEHOs, Audit noted that:
- (i) while 49 locations were detected by IP cameras with illegal disposal of refuse in the three-month period (i.e. July to September 2024), 39 (80%) locations were not included in the situation reports; and

- (ii) in particular, 8 (21%) of the 39 locations had been reported with illegal disposal of refuse activities for over 500 to 2,141 times (averaging 1,170 times) (involving 565 to 2,570 (averaging 1,433) units of refuse) in the three-month period; and
- (c) *Need to review actions needed at locations included in situation reports for a long time.* Audit noted that 37 locations had been included in the situation reports of the three DEHOs for a long time, ranging from about 1.5 years to about 7.3 years (averaging about 3.6 years) in spite of the fact that 2 to 62 (averaging 6) blitz operations had been organised in the period from July to September 2024 for each location. Upon enquiry, FEHD informed Audit in March 2025 that these locations usually had inherent complicated environments associated with environmental hygiene issues and had long been regarded as being “Long-standing, Big and Difficult Problems”, and it would continue to deploy reasonable manpower to contain the situation in these locations.

3.9 FEHD had specified in its guidelines the requirements to include locations with littering activities and meeting specific criteria in situation reports as well as to review the strategy in taking enforcement action against long outstanding cases (see para. 3.5). In Audit’s view, FEHD needs to review the inspections and enforcement actions needed for locations with frequent littering activities and long outstanding cases in situation reports, and properly record the locations in situation reports for monitoring by DETs.

Need to review operations of DETs

3.10 As of December 2024, FEHD had 46 DETs with a total of 211 members. For each of the 19 DEHOs, the number of DETs ranged from 1 to 5 (averaging about 2.4 teams) and the number of members ranged from 4 to 24 (averaging about 11 members). According to FEHD, DETs are deployed to various littering black spots to take enforcement actions against public cleanliness offences to catch offenders red-handed for littering on the spot. Apart from prosecution, DETs also perform publicity and public education duties. Audit examined FEHD records for the work performed by DETs and noted the following:

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- (a) **Number of FPNs issued by DETs.** Audit examined the annual number of FPNs issued by DETs on the specified public cleanliness offences (see para. 3.2) and noted that from 2020 to 2024 (see Table 6):
- (i) the number of DET members increased by about 37% from 158 as at 31 December 2020 to 217 as at 31 December 2022, then decreased by about 17% to 180 as at 31 December 2023 and increased by about 17% to 211 as at 31 December 2024; and
 - (ii) the average number of FPNs issued by each DET member generally increased by about 37% from 105 in 2020 to 144 in 2023, and decreased by about 33% to 97 in 2024;

Table 6

**Number of FPNs issued by DETs
(2020 to 2024)**

Year	No. of FPNs issued (Note 1) (a)	No. of DETs as at 31 December (Note 2) (b)	No. of DET members as at 31 December (c)	Average no. of FPNs issued by each DET (d) = (a) ÷ (b)	Average no. of FPNs issued by each DET member (e) = (a) ÷ (c)
2020	16,520	35	158	472	105
2021	24,725	40	182	618	136
2022	28,704	52	217	552	132
2023	25,994	51	180	510	144
2024	20,366	46	211	443	97

Source: *Audit analysis of FEHD records*

Note 1: *According to FEHD, apart from the public cleanliness offences stated in paragraph 3.2, DETs also issued FPNs to offenders for committing the offence of obstruction of public places. In 2020 to 2024, DETs issued 0 to 9 (averaging about 5) FPNs for obstruction of public places annually, which were not included in this analysis.*

Note 2: *According to FEHD, each DET generally comprises 1 Senior Foreman and 4 Foremen.*

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(b) ***Number of black spots of refuse dumping dealt with by DETs.*** As shown in Table 7, in general, from 2020 to 2024:

- (i) the number of black spots of refuse dumping dealt with by DETs included in situation reports decreased by about 2% from 291 as at 31 December 2020 to 285 as at 31 December 2024; and
- (ii) the increase in the annual number of black spots of refuse dumping dealt with by DETs decreased by about 86% from 261 in 2020 to 36 in 2024, and the annual number of black spots eliminated or markedly improved also decreased by about 75% from 174 in 2020 to 44 in 2024.

In this connection, Audit noted that the number of complaints received by FEHD relating to the specified public cleanliness offences (see para. 3.2) generally decreased by about 4% from 54,367 in 2020 to 51,941 in 2024 (the related numbers in 2021, 2022 and 2023 were 61,262, 51,474 and 58,216 respectively); and

Table 7

**Number of black spots of refuse dumping dealt with by DETs
(2020 to 2024)**

Year	As at 31 December			Annual no. of black spots increased (d)	Annual no. of black spots eliminated or markedly improved (e)
	Accumulated no. of black spots (a)	Accumulated no. of black spots eliminated or markedly improved (b)	No. of remaining black spots (c) = (a) – (b)		
2020	843	552	291	261	174
2021	1,135	891	244	292	339
2022	1,204	917	287	69	26
2023	1,244	951	293	40	34
2024	1,280	995	285	36	44

Source: Audit analysis of FEHD records

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- (c) **Publicity work of DETs.** According to FEHD, records of DETs' work on publicity and public education were maintained by individual DEHOs. According to the three DEHOs (see para. 3.6), in 2023 and 2024, publicity work (e.g. publicities relating to the amendment of fixed penalty levels) was conducted for a total of 4 to 42 days for each DEHO.

3.11 Upon enquiry, FEHD informed Audit in March 2025 that:

- (a) from 2020 to 2023, Hong Kong suffered from the outbreak of the COVID-19 epidemic, which affected different human activities including DETs' enforcement work and illegal dumping acts; and
- (b) after the effective date of the new penalty levels, the number of FPNs issued against environmental hygiene offences such as littering decreased by over 30% to about 15,000. This reflected that the new penalty levels had a significant deterrent effect. A lot of extrinsic factors such as the public awareness of maintaining cleanliness and the deterrence effects over the strategically targeting enforcement actions also affected the number of FPNs issued by FEHD officers including DETs.

3.12 Audit noted that the penalty levels of FPNs had increased since 22 October 2023 (see para. 3.3), and the average number of FPNs issued by each DET member and the number of black spots of refuse dumping dealt with by DETs decreased generally from 2020 to 2024 (see para. 3.10(a) and (b)). On the other hand, the work programs of DETs varied among different DEHOs (see para. 3.6(a)). As of February 2025, no documentation was available showing that an evaluation on operations of DETs had been conducted. In view of the fact that DETs had been set up for more than 7 years (since June 2017) and the number of DET members increased by about 34% from 158 in 2020 to 211 in 2024 (Note 49), and the changes in the penalty levels of FPNs, Audit considers that it is opportune for FEHD to conduct a review on the operations of DETs and take follow-up actions as appropriate.

Note 49: *According to FEHD, of the 211 members as at 31 December 2024, 154 members were civil servants and 57 members were post-retirement service contract staff. Based on the Notional Annual Mid-point Salary or contract salary of these staff, the annual salary cost was estimated to be about \$66 million.*

Need to enhance monitoring of deployment of IP cameras

3.13 FEHD has installed IP cameras at illegal refuse deposit black spots through services contract (Note 50) to curb the illegal deposits of refuse in public places (Note 51). According to FEHD guidelines:

- (a) all footage captured with IP cameras will go through artificial intelligence image analysis by the contractor whereby illegal acts (e.g. refuse deposit) can be identified. Districts can analyse the timing and patterns of the illegal acts to formulate more effective enforcement operations;
- (b) based on the footage of fly-tipping from vehicles captured by IP cameras with sufficient evidence, districts should take prosecution action against the registered owners of the vehicles or relevant offenders; and
- (c) the criteria for installation of IP cameras include existence of persistent and recurring problems of illegal dumping of refuse and community support of the concerned District Council. Periodically, districts should review the target locations for installation of IP cameras and the perimeter view of individual IP cameras to ensure that they meet the monitoring purpose. Relocation of the IP cameras to new target locations should be strategically considered and arranged if significant improvement of certain existing target location(s) is/are observed.

3.14 The number of locations installed with IP cameras increased by about two times from 151 as of December 2019 to 470 as of December 2024. According to FEHD, the number of FPNs or summons issued based on information of individual

Note 50: *FEHD has outsourced the work on installation and operation of IP cameras. The current contract for the period from 1 September 2023 to 31 August 2025 was awarded to a contractor by open tender with a contract value of about \$16 million.*

Note 51: *For illegal dumping of construction waste in public places, the Environmental Protection Department (EPD) is mainly responsible for enforcing the Waste Disposal Ordinance (Cap. 354) and taking enforcement actions against the offenders, and EPD has installed surveillance camera systems at locations of illegal waste disposal. According to FEHD, it has collaborated with EPD to establish a sharing mechanism for footage captured by IP cameras installed by both departments since November 2023, and prosecutions will be instituted against illegal dumping of waste offences captured by respective IP cameras under the corresponding department regardless of the waste type concerned.*

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IP cameras with operating status was not readily available (see also para. 4.11(f)). Audit examined the records of the three DEHOs (see para. 3.6) and noted that 141 locations under their purview had been installed with IP cameras as of December 2024. For the deployment of IP cameras by the three DEHOs, Audit noted the following:

- (a) ***Need to review locations installed with operating IP cameras but with no or few FPNs or summons issued.*** As of December 2024, 45 locations had been installed with operating IP cameras for more than six months. In the period from 2022 to 2024, for each location, the number of FPNs or summons issued ranged from 0 to 341 (averaging about 44) (see Table 8). For 7 (16%) locations, no FPN or summons was issued in the three-year period (the operating period of the IP cameras ranged from 10 months to about 2.8 years, averaging about 1.8 years); and

Table 8

Number of FPNs or summons issued at locations installed with operating IP cameras for more than six months (2022 to 2024)

No. of FPNs or summons issued	No. of locations (Note)			
	Eastern DEHO (a)	Sham Shui Po DEHO (b)	Yuen Long DEHO (c)	Total (d) = (a) + (b) + (c)
0	—	2	5	7
1 to 10	—	10	1	11
11 to 50	1	7	8	16
51 to 100	1	—	4	5
101 to 150	—	—	4	4
151 to 200	—	—	1	1
341	—	—	1	1
Total	2	19	24	45

Source: Audit analysis of FEHD records

Note: As of December 2024, on average, the IP cameras at the 45 locations had been operating for about 2.2 years in the period from 2022 to 2024.

- (b) *Some illegal refuse deposit black spots not installed with operating IP cameras.* As of October 2024, 37 locations had been included in the situation reports of the three DEHOs for a long time (ranging from about 1.5 years to about 7.3 years) (see para. 3.8(c)). Audit noted that 23 (62%) locations had not been installed with operating IP cameras.

3.15 Upon enquiry, FEHD informed Audit in March 2025 that:

- (a) for those locations installed with operating IP cameras but with no or few FPNs or summons issued (see para. 3.14(a)), some cameras were for achieving a continuous deterrent effect with a comparatively low recurrent cost; and
- (b) for those illegal refuse deposit black spots not installed with operating IP cameras (see para. 3.14(b)), each case should be considered on its own merit, and substantial improvement on hygienic condition did not necessarily require the deployment of all enforcement tools.

However, documentation of the periodic review with the considerations for not relocating those IP cameras with no or few FPNs or summons issued (see (a) above) or not installing IP cameras at some illegal refuse deposit black spots (see (b) above) was not available.

3.16 According to FEHD guidelines, the timing and patterns of the illegal acts can be analysed based on information of IP cameras for formulating more effective enforcement operations, and districts should periodically review the target locations for installation and relocation of IP cameras (see para. 3.13(a) and (c)). In Audit's view, FEHD needs to take measures to require DEHOs to periodically review the deployment (including installation, dismantlement and relocation) of IP cameras in accordance with its guidelines.

Scope for improving environmental hygiene of problematic spots

3.17 Audit conducted site visits to 10 locations with environmental hygiene problems (hereinafter referred to as problematic spots — Note 52) under the purview of the three DEHOs (see para. 3.6) in the period from December 2024 to February 2025. For each problematic spot, three site visits (one in December 2024/January 2025 and the other two in February 2025 (in the morning and afternoon of the same day)) were conducted.

3.18 *Environmental hygiene problems found in some problematic spots and their adjacent areas.* For the 10 problematic spots (see para. 3.17), Audit's site visits found the following:

- (a) for 2 (20%) problematic spots (under the purview of Yuen Long DEHO), Audit found environmental hygiene problems at the locations during the three site visits (see Problematic Spot A in Photograph 4 for an example); and
- (b) for other 2 (20%) problematic spots (under the purview of Sham Shui Po DEHO and of Yuen Long DEHO), while environmental hygiene problems were not always found at the spots (found in two visits for one spot and not found in all three visits for the other spot), the problems were found in areas adjacent to the problematic spots (i.e. at the locations within sight of the problematic spots) during the three site visits (see the adjacent area to Problematic Spot B in Photograph 5 for an example).

Note 52: *The problematic spots selected were based on the locations included in situation reports for October 2024 (see para. 3.8), the top five hotspots in CMIS reports in the period from July to September 2024 (see para. 3.8(a)) and the locations installed with IP cameras as of December 2024 (see para. 3.14). Each problematic spot selected by Audit referred to a specific location or street.*

Photograph 4

Environmental hygiene conditions of Problematic Spot A



Source: Photograph taken by Audit staff on Wednesday, 5 February 2025 (at 4:33 p.m.)

Photograph 5

Environmental hygiene conditions of adjacent area to Problematic Spot B



Source: Photograph taken by Audit staff on Tuesday, 7 January 2025 (at 5:11 p.m.)

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3.19 *Scope for enhancing actions against obstruction to cleansing operations.*

Under section 22 of the Public Health and Municipal Services Ordinance, any person obstructs, or causes or permits any article to be so placed as to obstruct or to be likely to obstruct any cleansing operations shall be guilty of an offence. FEHD may serve the owner of such article or attach to such article a notice requiring removal within four hours after the notice is served or attached, and seize and detain such article if it is not removed or is found causing obstruction within the period specified in the notice. According to FEHD guidelines:

- (a) obstruction is primarily a question of fact and has to be determined with reference to the surrounding circumstances. District management should from time to time, review the enforcement strategy to take a more proactive approach against those persistent and serious cases; and
- (b) for cases under the jurisdiction of other departments, referrals should be made to the concerned departments for their appropriate action.

3.20 For the 10 problematic spots (see para. 3.17), Audit found environmental hygiene problems at 2 problematic spots and 2 adjacent areas to the problematic spots during the three site visits (see para. 3.18). For the 4 locations, Audit noted that no notice for removal of obstruction was attached to the articles in all three site visits. The time lapse between the second and third site visits (conducted on the same day) ranged from about 4 to 5 hours.

3.21 Upon enquiry, FEHD informed Audit in March 2025 that:

- (a) the 4 locations selected by Audit were adjacent to public markets or clusters of fresh provision shops, and the environmental hygiene problems observed by Audit concerned the accumulation of styrofoam boxes or carton boxes generated by the operations of the markets and shops. These styrofoam boxes or carton boxes were not waste, but were recyclable or reusable. Typically, scavengers collected these materials from markets and shops, sorted them on the street, and passed them to recycling operators. At times these materials might stay on the street for a period of time;
- (b) recognising the value of recycling activities, and that many scavengers were grassroots or elderly citizens, it had been adopting a flexible approach towards them. Instead of taking strict enforcement action, FEHD would

monitor the hygiene condition and where necessary, remind scavengers to review their operational mode, minimise the nuisance and avoid piling up articles on busy streets for long periods. Many scavengers were cooperative, and would move their operations to less busy areas, which could be a reason why Audit found those materials in adjacent areas to the problematic spots. In addition, FEHD would step up street cleansing services at locations with active recycling activities; and

- (c) it would carefully balance the need to facilitate recycling activities and upkeep environmental hygiene in public places in consultation with relevant departments.

3.22 Audit noted that the 10 problematic spots had been monitored by FEHD (through DETs or IP cameras — see Note 52 to para. 3.17), and the articles so placed would obstruct or likely to obstruct street cleansing operations. In Audit's view, FEHD needs to review the current measures of improving street cleanliness of locations with persistent hygiene problems in public places. For cases involving obstruction to street cleansing operations and relating to broader street management issues, FEHD needs to keep under review the street cleanliness of the locations and take appropriate follow-up actions.

Audit recommendations

3.23 Audit has *recommended* that the Director of Food and Environmental Hygiene should:

- (a) **specify the information to be included in work programs of DETs in FEHD guidelines;**
- (b) **enhance documentation of the work performed by DETs for monitoring compliance with the work programs;**
- (c) **specify the requirements (e.g. frequency) for supervisory inspections on DETs' work in FEHD guidelines and maintain documentation of the inspections conducted;**

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- (d) **review the inspections and enforcement actions needed for locations with frequent littering activities and long outstanding cases in situation reports, and properly record the locations in situation reports for monitoring by DETs;**
- (e) **conduct a review on the operations of DETs and take follow-up actions as appropriate;**
- (f) **take measures to require DEHOs to periodically review the deployment (including installation, dismantlement and relocation) of IP cameras in accordance with FEHD guidelines;**
- (g) **review the current measures of improving street cleanliness of locations with persistent hygiene problems in public places; and**
- (h) **for cases involving obstruction to street cleansing operations and relating to broader street management issues, keep under review the street cleanliness of the locations and take appropriate follow-up actions.**

Response from the Government

3.24 The Director of Food and Environmental Hygiene agrees with the audit recommendations. He has said that FEHD:

- (a) has enhanced documentation and guidelines on DETs' work and will further review DETs' operations;
- (b) has reminded staff to review the deployment of IP cameras quarterly;
- (c) will review the current measures with a view to improving street cleanliness in locations with persistent hygiene problems in public places; and
- (d) will continue to carefully balance the need to facilitate recycling activities and upkeep environmental hygiene in public places in consultation with relevant departments.

Other issues relating to enforcement actions

Scope for enhancing guidelines in taking enforcement actions against repeated offenders

3.25 According to FEHD guidelines, if the offender is a repeated offender (e.g. the offender has three similar contraventions, including prosecutions by way of summons or issuance of FPNs), the enforcement officers may consider taking prosecution actions by way of summons (Note 53) instead of by issuance of FPNs.

3.26 Audit examined the number of FPNs issued by FEHD for the specified public cleanliness offences from 2020 to 2024 based on records of the Fixed Penalty Computer System (FPCS) and noted the following:

- (a) of the total 223,347 FPNs issued, 20,743 (9%) FPNs were issued to 3,742 repeated offenders (issued with 3 or more FPNs for the same/similar type of offence). The number of FPNs issued to each repeated offender ranged from 3 to 111 FPNs (averaging about 6 FPNs) (see Table 9); and

Note 53: *If situation warrants, FEHD may consider applying to the court for handing down penalties under the summons system. For example, the maximum penalty levels that the court may impose for the offences of: (a) display of bills or posters without permission: a fine at level 3 (\$10,000) and daily fine of \$300; and (b) depositing of litter or waste in public places: a fine at level 4 (\$25,000) and imprisonment for 6 months.*

Table 9

**Number of FPNs issued to repeated offenders
(2020 to 2024)**

Type of offences	No. of repeated offenders (Note 1) (a)	No. of FPNs issued (b)	Average no. of FPNs issued to each offender (c) = (b) ÷ (a)	Range of no. of FPNs issued to each offender (d)
(a) Display of bills or posters without permission	810	10,939	14	3 to 111
(b) Littering (i.e. deposition of litter or waste in public places, unlawful depositing of waste or marine littering — Note 2)	2,920	9,767	3	3 to 41
(c) Spitting in public places	12	37	3	3 to 4
Overall	3,742	20,743	6	3 to 111

Source: Audit analysis of FEHD records

Note 1: A repeated offender referred to an offender issued with 3 or more FPNs for the same/similar type of offence. The same offender issued with 3 or more FPNs for another type of offence would be counted as a separate repeated offender in this analysis.

Note 2: According to FEHD records, deposition of litter or waste in public places, unlawful depositing of waste and marine littering are grouped as the same type of offence (i.e. littering).

- (b) Audit further examined the records of the 5 repeated offenders issued with the highest number of FPNs for each type of offences mentioned in Table 9 (i.e. a total of 15 repeated offenders for the three types of offences). While prosecution actions by way of summons may be taken against repeated offenders in accordance with FEHD guidelines (see para. 3.25), no summons had been issued against the 15 repeated offenders from 2020 to 2024.

3.27 Audit noted that while some offenders had committed the same offences for quite a number of times (see para. 3.26), FEHD had not taken prosecution actions against them by way of summons in accordance with its guidelines (see para. 3.25).

According to FEHD, the officers could only verify whether the offenders were repeated offenders after they got back to office, but not on the spot. In light of the limitations of the current approach in identifying repeated offenders, Audit considers that FEHD needs to review its guidelines on enforcement actions against repeated offenders of public cleanliness offences.

Need to review guidelines for supervisory checks of FPNs issued

3.28 According to FEHD guidelines:

- (a) when the enforcement officers witness the commission of the specified public cleanliness offences, they will serve FPNs (in manual form) to the offenders on the spot. After returning to the district office, the enforcement officers should report the issue of FPN into FPCS. The FPN cases should be checked and endorsed by vetting officers in FPCS (Note 54); and
- (b) the Section Heads are required to conduct random checking of their staff's FPN booklets and arrange sample checking of the issued FPNs to FPCS not less than once in every three months to ensure that all FPNs are issued in a proper manner.

3.29 Audit noted that the sampling methodology and the number of samples required for the supervisory checks (see para. 3.28(b)) were not specified in FEHD guidelines. Audit examined the records of the three DEHOs (see para. 3.6) for 2024 and noted that their practices of supervisory checks varied, as follows:

- (a) for Sham Shui Po, Eastern and Yuen Long DEHOs, 4, 12 and 15 supervisory checks (involving 11, 60 and 52 FPNs) were conducted for DETs in 2024 respectively. For each checking, while 5 FPNs were selected from the same DET member for Eastern DEHO, 1 to 7 FPNs were selected

Note 54: *According to FEHD guidelines, if an offender fails to pay within 21 days from the date of the issue of an FPN, FPCS will generate a demand notice. FEHD's Prosecution Section will issue the demand notice, requiring the offender to pay the penalty within 10 days. If no payment is received within the deadline, the Prosecution Section will follow up the case and can apply for court order for payment of fixed penalty.*

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from different DET members for Sham Shui Po and Yuen Long DEHOs; and

- (b) the percentages of DET members selected for supervisory checks in 2024 for Sham Shui Po, Eastern and Yuen Long DEHOs were 26% (i.e. 6 of total 23 members as of December 2024), 53% (i.e. 9 of total 17 members as of December 2024) and 79% (i.e. 19 of total 24 members as of December 2024) respectively. For the three DEHOs, 12 members had been selected for 2 to 3 times.

Audit also noted that there was no documentation of the rationale for the sampling methodology adopted by each DEHO.

3.30 Upon enquiry, FEHD informed Audit in March 2025 that as every issued FPN had been checked by the supervisors of the enforcement officers, it was planning to streamline the procedures by eliminating the requirement on the supervisory checks by Section Heads on the issued FPNs in the guidelines. In Audit's view, FEHD needs to timely update and promulgate its guidelines on public cleanliness offences for the supervisory checks on FPNs issued after confirming the elimination of the relevant requirement.

Scope for exploring use of information technology in taking enforcement actions

3.31 Audit noted that when witnessing the commission of public cleanliness offences, FPNs served were in manual form and details of FPNs were needed to be input into FPCS after returning to the district office (see para. 3.28(a)). Upon enquiry, FEHD informed Audit in mid-March 2025 that it would launch a trial in selected districts in late-March 2025 under which enforcement officers would be able to print out FPNs by using mobile devices. In Audit's view, with a view to enhancing efficiency, FEHD needs to explore the use of information technology to facilitate enforcement officers in issuing FPNs to the offenders on the spot.

Audit recommendations

3.32 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

- (a) **review FEHD guidelines on enforcement actions against repeated offenders of public cleanliness offences;**
- (b) **timely update and promulgate FEHD guidelines on public cleanliness offences for the supervisory checks on FPNs issued after confirming the elimination of the relevant requirement; and**
- (c) **explore the use of information technology to facilitate enforcement officers in issuing FPNs to the offenders on the spot.**

Response from the Government

3.33 The Director of Food and Environmental Hygiene agrees with the audit recommendations. He has said that FEHD:

- (a) will review the guidelines on enforcement actions against repeated offenders;
- (b) has reviewed guidelines on supervisory checks on FPNs issued; and
- (c) has commenced a trial in selected districts under which enforcement officers will be able to print out FPNs by using mobile devices.

Publicity work

3.34 According to FEHD, with regard to publicity and health education, it seeks to raise public awareness of environmental hygiene through various channels, including press releases, the social media platform pages of Keep Clean Ambassador Ah Tak, broadcast of Announcements in the Public Interest on television and radio, as well as display of posters and banners at Government venues (e.g. public markets and public toilets) and main public transport facilities (e.g. Mass Transit Railway stations and bus stops).

Tackling illegal disposal of refuse

Scope for strengthening work in promoting street cleanliness

3.35 During Audit's site visits to the 10 problematic spots in the period from December 2024 to February 2025, environmental hygiene problems were found in some spots (see para. 3.18) and that:

- (a) posters, banners or notices for warning against street cleanliness offences were displayed in 9 (90%) spots but not in 1 (10%) spot; and
- (b) for 2 (22%) of the 9 spots with posters, banners or notices displayed, environmental hygiene problems were found during all three site visits (see Problematic Spots A and C in Photographs 6 and 7). In this connection, Audit's site visits also found that in a location, the notice displayed was outdated (i.e. fixed penalty level stated in the notice was \$1,500 instead of \$3,000 or \$6,000 — see para. 3.3).

Photograph 6

Problematic Spot A with banners displayed and environmental hygiene problems



Source: Photograph taken by Audit staff on Tuesday, 7 January 2025 (at 4:30 p.m.)

Photograph 7

**Problematic Spot C with banners displayed
and environmental hygiene problems**



*Source: Photograph taken by Audit staff on
Wednesday, 5 February 2025 (at 11:13 a.m.)*

3.36 Upon enquiry, FEHD informed Audit in March 2025 that there might be site-specific constraints (e.g. absence of suitable fixtures) at some problematic sites and therefore, professional judgement was needed in determining whether the posting of notice/banner was required at each location. In view of the environmental hygiene problems identified by Audit in site visits (see para. 3.18), and the long-standing littering problems of some locations (see para. 3.8(c)), FEHD needs to continue to strengthen the work in promoting street cleanliness. FEHD also needs to take measures to enhance the display of posters, warning banners and notices against street cleanliness offences at suitable locations, including displaying up-to-date ones and removing outdated ones.

Audit recommendations

3.37 Audit has *recommended* that the Director of Food and Environmental Hygiene should:

- (a) continue to strengthen the work in promoting street cleanliness; and
- (b) take measures to enhance the display of posters, warning banners and notices against street cleanliness offences at suitable locations, including displaying up-to-date ones and removing outdated ones.

Response from the Government

3.38 The Director of Food and Environmental Hygiene agrees with the audit recommendations. He has said that FEHD:

- (a) will continue to strengthen the work in promoting street cleanliness through various channels; and
- (b) has reminded staff to enhance the display of warning materials at target locations and replace outdated materials.

PART 4: OTHER RELATED ISSUES

4.1 This PART examines other issues relating to the provision of street cleansing services, focusing on the following areas:

- (a) performance measurement (paras. 4.2 to 4.10);
- (b) management information for monitoring street cleansing services (paras. 4.11 to 4.14);
- (c) application of technologies in street cleansing services (paras. 4.15 to 4.22);
and
- (d) issues related to non-skilled workers (paras. 4.23 to 4.30).

Performance measurement

4.2 FEHD has set performance targets in its Controlling Officer's Report (COR) and performance pledges on its website. Table 10 shows the performance measures (including targets and pledges) on street cleansing services in 2019 to 2023. According to FEHD, all the performance measures were met in these five years.

Table 10

Performance measures on street cleansing services
(2019 to 2023)

Performance measure	Target/ pledge	Actual				
		2019	2020	2021	2022	2023
<i>COR</i>						
1. Completion of first round street sweeping services on main roads before 9:00 a.m. to ensure removal of over-night street litter	99 %	100 %	100 %	100 %	100 %	100 %
<i>FEHD's website</i>						
2. To sweep streets and empty litter bins at least 4 times daily in built-up areas and up to a frequency of 8 times daily in very busy locations or black spots	95 %	100 %	100 %	100 %	100 %	100 %
3. To wash streets on a need basis, at least once a week in busy areas, and at least 2 times weekly in problematic areas/black spots	97 %	100 %	100 %	100 %	100 %	100 %

Source: COR and FEHD records

***Need to enhance reporting mechanism of
performance measures on street cleansing services***

4.3 According to FEHD guidelines, in reporting the achievement of performance measures, DEHOs shall ensure accuracy and reliability of data, and submit monthly and quarterly returns for the performance measures in COR and on FEHD's website, respectively, through the Environmental Hygiene Statistical Information System (EHSIS — Note 55). For example, in the monthly return for the performance measure in COR (see item 1 in Table 10 in para. 4.2), each DEHO is required to input data in three data fields (i.e. the number of main roads with the first round street sweeping services to be completed before 9:00 a.m., the number of working days in the month, and the number of days with under-performance on main roads). According to FEHD, based on the respective DEHO's input in the three data

Note 55: *EHSIS maintains statistical information for street cleansing services, among others, for district management to review the effectiveness of various cleansing operations of the districts, and to map out and refine district's operations ahead.*

fields in the returns (Note 56), the achievement of performance measures for each DEHO is automatically calculated by EHSIS (Note 57). The overall achievement of performance measures is compiled automatically by EHSIS by taking average of the achievement of DEHOs in respective year.

4.4 ***Room for improvement in reporting achievement of performance measures on street sweeping services.*** Regarding the reporting of the performance measure on street sweeping services in COR and on FEHD's website (see items 1 and 2 in Table 10 in para. 4.2), Audit examined the monthly and quarterly returns submitted by DEHOs and found that:

- (a) ***19 DEHOs.*** For the performance measure in COR, some information in 47 (4%) of 1,140 returns was not available (i.e. data was not input in one or two data fields in 44 and 3 returns respectively) in the period from 2019 to 2023. For example, in the monthly returns of Kwun Tong DEHO for September and October 2021 and Sha Tin DEHO for December 2021, only the numbers of working days in the months were input. Based on the information reported in DEHOs' returns, the achievement of 100% of the performance measure in COR could not be ascertained; and
- (b) ***3 DEHOs visited by Audit.*** Audit further examined the records of the three DEHOs (see para. 2.4) of December 2023 and noted that while the achievement was reported by the three DEHOs (Note 58) as 100% in the

Note 56: *According to FEHD, in reporting the achievement of performance measures, each DEHO inputs data in the three data fields based on the information of both outsourced and in-house street cleansing services as there is no separate return made for each of them in EHSIS.*

Note 57: *For example, the achievement of the performance measure in COR for each DEHO is calculated based on:*

$$1 - \frac{\text{Number of days with under-performance on main roads} \times \text{Number of days}}{\text{Number of main roads with the first round street sweeping services to be completed before 9:00 a.m.} \times \text{Number of working days in the month}} \times 100\%$$

Note 58: *According to FEHD, for Sham Shui Po and Yuen Long DEHOs, service locations relating to main roads, built-up areas and very busy locations/black spots were all located in outsourced areas (i.e. the achievement of performance measures on street sweeping services was reported based on information of outsourced street sweeping services).*

respective monthly and quarterly returns, the actual achievement of the performance measures on street sweeping services in COR and on FEHD's website in the month was not ascertainable. For example, while workmen should be providing street sweeping services at the assigned beats which were planned based on the time standards (see para. 2.22(a)), some workmen of Central/Western DEHO were assigned to provide street sweeping services in more than one beat within a work shift (see para. 2.22(a)(ii)). In this connection, each workman concerned performed only part of the duties for each beat involved within the work shift. On the other hand, FEHD adopted an outcome-based approach (i.e. services were assumed if no exception report was raised — see para. 4.5(a)) in reporting of achievement of performance measures. As such, whether the stipulated timeframe (i.e. before 9:00 a.m. on main roads) and required frequency (i.e. at least 4 times daily in built-up areas and up to a frequency of 8 times daily in very busy locations or black spots) had been achieved could not be ascertained. Also, the requirement of completing first round street sweeping services on main roads before 9:00 a.m. was not laid down in FEHD guidelines.

4.5 Upon enquiry, FEHD informed Audit in March 2025 that:

- (a) the street cleansing service contracts had stipulated the requirements on the completion time of first round street sweeping services before 9:00 a.m. and the frequencies of services for each service location. In this connection, in reporting of achievement of the performance measure on street sweeping services in COR and on FEHD's website, FEHD adopted a cost-effective outcome-based approach backed by risk-based monitoring inspection system (see para. 2.3). Specifically, street sweeping services were assumed if cleansing workmen did not raise any exception report of service failure. Supervisory/inspecting officers would conduct risk-based and random checks on the cleansing conditions after sweeping (e.g. on main roads before 9:00 a.m.). It was considered that the established targets had been met if no non-compliance of performance requirements had been reported;
- (b) the duties of each workman involving in more than one beat within a work shift would be thinned out to achieve the performance measure for street sweeping services on main roads before 9:00 a.m.; and

- (c) the findings of FEHD staff through various types of prevailing monitoring inspections would also serve to assess and evaluate the overall performance so as to deduce whether the performance achievement could be met.

4.6 While noting FEHD's explanations, Audit noted that there were instances where Senior Foremen of FEHD reviewed the contractors' daily attendance records but were unaware of their non-compliances with contract terms prior to Audit enquiry (see para. 2.7) and some monitoring inspections were not conducted in accordance with the stipulated frequencies and coverage (see paras. 2.11 and 2.24). In Audit's view, FEHD needs to:

- (a) enhance EHSIS to monitor the completeness of information in the returns for performance measures;
- (b) enhance the reporting mechanism of the performance measures on street sweeping services; and
- (c) lay down the requirement for completing first round street sweeping services on main roads before 9:00 a.m. for in-house street cleansing services in its guidelines.

4.7 ***Room for improvement in reporting achievement of performance measure on street washing services.*** Regarding the reporting of the performance measure "to wash streets on a need basis, at least once a week in busy areas, and at least 2 times weekly in problematic areas/black spots" (see item 3 in Table 10 in para. 4.2), Audit examined the quarterly returns submitted by DEHOs in the period from 2019 to 2023 and found that:

- (a) ***19 DEHOs.*** The quarterly returns only required the reporting of achievement of washing streets at least once a week. In other words, the achievement of washing streets "on a need basis" and "at least 2 times weekly" was not required to be reported in DEHOs' returns. In this regard, based on the information reported in DEHOs' returns, the achievement of 100% of the performance measure on street washing services on FEHD's website could not be ascertained; and

Other related issues

- (b) **3 DEHOs visited by Audit.** Audit further examined the records of the three DEHOs and noted that the number of streets to be washed at least once a week stated in the returns (i.e. 92) submitted by one (i.e. Yuen Long DEHO) of the three DEHOs was different from those in the list of busy areas maintained by the DEHO concerned (i.e. 109). Upon enquiry, FEHD informed Audit in March 2025 that the list had been revised by removing 6 venues managed by FEHD and 11 redundant records to align the number of streets in the list with those in the returns.

4.8 In Audit's view, FEHD needs to:

- (a) review the design of the return to facilitate the reporting of achievement of performance measure on street washing services;
- (b) enhance the reporting mechanism of the performance measure on street washing services; and
- (c) take measures to check the consistencies between the number of streets in the returns of performance measure on street washing services and those in the lists of busy areas maintained by individual DEHOs.

Audit recommendations

4.9 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

- (a) **enhance EHSIS to monitor the completeness of information in the returns for performance measures;**
- (b) **enhance the reporting mechanism of the performance measures on street cleansing services;**
- (c) **lay down the requirement for completing first round street sweeping services on main roads before 9:00 a.m. for in-house street cleansing services in FEHD guidelines;**

- (d) **review the design of the return to facilitate the reporting of achievement of performance measure on street washing services; and**
- (e) **take measures to check the consistencies between the number of streets in the returns of performance measure on street washing services and those in the lists of busy areas maintained by individual DEHOs.**

Response from the Government

4.10 The Director of Food and Environmental Hygiene agrees with the audit recommendations. He has said that FEHD has enhanced EHSIS and reviewed relevant guidelines to facilitate comprehensive and accurate reporting of information on performance.

Management information for monitoring street cleansing services

4.11 In PARTs 2 and 3 of this Audit Report, Audit noted non-compliances with contracts by outsourced contractors and inadequacies in FEHD's monitoring of street cleansing services. In this connection, Audit noted that some management information (e.g. highlights or summaries) was not readily available or regularly compiled, for example:

- (a) compliances with staff attendance requirement and the requirements for conducting self-discipline quality inspections for outsourced street cleansing services (see paras. 2.6 and 2.9);
- (b) compliance with FEHD guidelines for in-house street cleansing services, including staff attendance requirement and approved work programmes (see para. 2.22);
- (c) compliance with the stipulated frequencies, timeframes and coverage for conducting monitoring inspections and submitting and reviewing the related reports (see paras. 2.11, 2.12, 2.24 and 2.28);
- (d) compliance with the work programs of DETs (see para. 3.6(b));

Other related issues

- (e) the locations with littering activities monitored by DETs of all DEHOs with aging analysis on duration of their inclusion in situation reports (see para. 3.8(c)); and
- (f) the number of FPNs or summons issued based on information of individual IP cameras with operating status (see para. 3.14).

4.12 In Audit's view, to facilitate the monitoring of performance of all DEHOs, FEHD needs to regularly compile the relevant management information to facilitate its monitoring work and evaluation of the enforcement figures against public cleanliness offences.

Audit recommendation

4.13 **Audit has *recommended* that the Director of Food and Environmental Hygiene should regularly compile management information for monitoring delivery of street cleansing services for all DEHOs and the enforcement figures against public cleanliness offences.**

Response from the Government

4.14 The Director of Food and Environmental Hygiene agrees with the audit recommendation. He has said that FEHD will follow up on this recommendation.

Application of technologies in street cleansing services

4.15 According to FEHD, it has been strengthening environmental hygiene and street cleansing through a multi-pronged approach, including adopting new technologies for mechanical and automated cleansing to enhance the quality and efficiency of street cleansing services. It reviews and conducts market survey on whether there is any new technological development in street cleansing services from time to time. However, the adoption of new vehicles and equipment in street cleansing services depends on operational needs and budget availability. As of December 2024, major vehicles used by contractors and in-house staff in street cleansing services included 11 mechanical street sweepers, 85 street washing vehicles, 63 mini-street washing vehicles (see para. 4.17(a)) and 5 gully emptiers.

Need to continue to explore wider use of technologies in delivering street cleansing services

4.16 According to FEHD, subject to the compatibility with the existing street cleansing service contracts, technologies that have proven to be effective after testing on various fronts are applied through entering into separate bulk service contracts (i.e. mechanical street sweeping services and mechanical gully cleansing services — see para. 1.9) for territory-wide application or incorporating into the street cleansing service contracts in the form of contractual provisions.

4.17 Audit noted the following issues:

- (a) ***No contractual requirement for using mini-street washing vehicles.*** According to FEHD, using mini-street washing vehicles with pressure washer surface cleaners (see Photograph 8) can reduce manual cleansing and enhance cleansing efficiency (e.g. the pressure washer surface cleaners can remove stubborn stains speedily). Audit noted that:
 - (i) in May 2021, FEHD informed the Subcommittee on Issues Relating to the Improvement of Environmental Hygiene and Cityscape of the Panel on Food Safety and Environmental Hygiene of the Legislative Council that for street cleansing service contracts renewing from July 2018, mini-street washing vehicles with pressure washer surface cleaners were required to be used by contractors under the newly added contractual provisions; and
 - (ii) of 50 street cleansing service contracts (commencing on or after 1 January 2022) as of December 2024, 9 (18%) did not require the contractors to use mini-street washing vehicles with pressure washer surface cleaners.

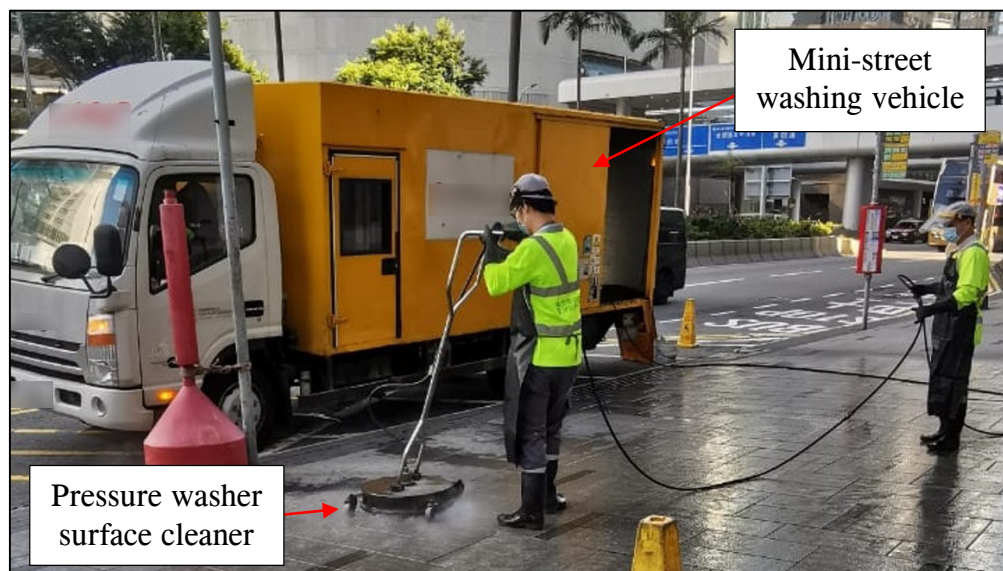
Upon enquiry, FEHD informed Audit in March 2025 that while 9 contracts did not provide mini-street washing vehicles with pressure washer surface cleaners, the services were covered by other street cleansing contracts of the same district. All districts (except the outlying islands of Islands District) had used mini-street washing vehicles under the contracts as the contract provisions would allow cross-contract mobilisation of the mini-street washing vehicles to respond to operational needs within each district for optimised deployment of resources. For outlying islands, high

Other related issues

pressure hot water cleaners would be deployed for providing street washing services; and

Photograph 8

Mini-street washing vehicle with pressure washer surface cleaner



Source: FEHD records

- (b) ***Mini-street washing vehicles with pressure washer surface cleaners not used by in-house staff.*** As of December 2024, all 63 mini-street washing vehicles were used by contractors (i.e. no mini-street washing vehicle was used by FEHD) to provide street washing services on a routine and need basis. Audit examined the relevant documents of Sham Shui Po and Yuen Long DEHOs (Note 59) for December 2023 and September 2024, and noted that while the street cleansing service contracts stipulated that FEHD should have the right to direct the contractors to provide the street washing services in any other locations in the districts covered by the respective contracts (i.e. the mini-street washing vehicles can be deployed to the in-house areas of Sham Shui Po and Yuen Long districts), there was no documentation showing that this had been done. Upon enquiry, FEHD informed Audit in March 2025 that:

Note 59: *As of December 2024, for Central/Western DEHO, no street washing services were provided by in-house staff (i.e. fully outsourced).*

- (i) for Sham Shui Po and Yuen Long districts, areas most in need of services were located in the outsourced areas and the service need of mini-street washing vehicles for the in-house areas was minimal; and
- (ii) based on the ground situation, DEHOs should gainfully deploy their resources to the most concerned areas in the districts. Some DEHOs might deploy the mini-street washing vehicles to the outsourced areas instead of in-house areas as the need of street washing using mini-street washing vehicles should be higher in outsourced areas in general.

4.18 According to FEHD, the number of service locations using mini-street washing vehicles had been increased from approximately 1,750 in January 2024 to approximately 3,600 in March 2025 across the territory. Also, using mini-street washing vehicles with pressure washer surface cleaners can reduce manual cleansing and enhance cleansing efficiency (see para. 4.17(a)). In this connection, there is merit for FEHD to continue to explore the wider use of technologies in delivering street cleansing services (including the deployment of mini-street washing vehicles to outsourced areas and in-house areas as appropriate).

Need to explore the use of technologies in monitoring service delivery

4.19 Audit noted the following issues:

- (a) ***Lot of manual procedures involved in monitoring delivery of street cleansing services.*** DEHOs relied heavily on paper-based documents submitted by contractors to monitor the delivery of street cleansing services. In particular, contractors were required to submit a work programme (containing planned beats/routes) and a work report (containing actual beats/routes) for each day to FEHD for vetting to ensure the satisfactory performance of the services (e.g. carrying out services in accordance with the work programmes). Similarly, the work programmes and reports of in-house street cleansing services were also kept in paper forms. The manual vetting procedures involved were resource intensive, time consuming and prone to errors (see paras. 2.7 and 2.22);

- (b) ***Coverage of some streets in daily inspections not ascertainable.*** According to FEHD, Senior Foremen and Foremen/Overseers (for monitoring outsourced and in-house street cleansing services respectively) are provided with official smart phones that can be used in taking photographs, inputting key locations (Note 60) inspected and submitting written reports of daily inspections (see para. 2.3(a)). The smart phones are installed with an information system (i.e. the Contract Management System (CMS — Note 61) for use by Senior Foremen or EMS for use by Foremen/Overseers). According to FEHD guidelines, the broad principle of street cleansing services is to cover each and every part of the district (see para. 1.9). Audit examined CMS and EMS records of the three DEHOs (see para. 2.4) of September 2024 and noted that no photograph was taken for some streets (e.g. 17 (37%) of 46 streets in Central/Western DEHO) during daily inspections as these streets might not have any key locations (i.e. whether these streets were inspected could not be readily ascertained); and
- (c) ***Records of most types of monitoring inspections not maintained in information systems.*** CMS and EMS were used for submitting and reviewing daily inspection reports (see (b) above). However, apart from daily inspections, records of other monitoring inspections under the multi-tier monitoring mechanism (see para. 2.3) were in paper forms. Upon enquiry, FEHD informed Audit in March 2025 that it would consider developing an information technology system for monitoring inspections for both outsourced and in-house street cleansing services.

Audit also noted that some management information for monitoring street cleansing services was not readily available (see para. 4.11) and information systems were not used for compiling or maintaining such management information. In Audit's view, FEHD needs to explore the use of technologies in monitoring street cleansing services.

Note 60: *According to FEHD guidelines, key locations include major facilities, street sweeping beats, black spots with cleansing problems, locations with scheduled cleansing operations, etc.*

Note 61: *Following a major revamp in 2016, CMS is used for supporting FEHD's work on monitoring of service delivery under outsourced service contracts. Examples of CMS' functions include submitting/reviewing daily inspection reports, and reporting on/vetting the issuance of written warnings and default notices electronically.*

***Need to enhance EMS to capture key data
to facilitate monitoring of daily inspections***

4.20 Audit noted that while CMS maintained information (e.g. beat number) of the beats inspected, EMS did not have such data field. In this connection, senior officers had to review the address of service locations input manually and photographs taken at key locations inspected, and compare against the work programmes in order to ascertain the beat inspected. The process was resource intensive, time consuming and prone to errors (see para. 2.24(a)). To enhance efficiency and facilitate monitoring work, FEHD needs to consider enhancing EMS in this regard.

Audit recommendations

4.21 Audit has *recommended* that the Director of Food and Environmental Hygiene should:

- (a) **explore the wider use of technologies in delivering street cleansing services (including the deployment of mini-street washing vehicles to outsourced areas and in-house areas as appropriate);**
- (b) **explore the use of technologies in monitoring street cleansing services; and**
- (c) **consider enhancing EMS to capture key data (e.g. beat number) to enhance efficiency and to facilitate monitoring of daily inspections.**

Response from the Government

4.22 The Director of Food and Environmental Hygiene agrees with the audit recommendations. He has said that FEHD:

- (a) will continue to explore the wider use of technologies to improve service efficiency and monitoring; and
- (b) has enhanced EMS to include key data to facilitate the monitoring of daily inspections.

Issues related to non-skilled workers

4.23 According to FEHD, it attaches great importance to the treatment and occupational safety and health arrangements of its employees (regardless of FEHD's or contractors' employees). Examples of measures taken to enhance the benefits and working conditions of non-skilled workers, particularly those working outdoor, include optimising meal arrangements, providing drinking water and portable waist fans, and adopting sweat-wicking, breathable and reflective uniforms.

4.24 According to FEHD, public cleansing service contracts rely heavily on the deployment of non-skilled workers. With a view to tightening the control on its contractors (Note 62), the Central Investigation Team (Note 63) was set up under the Quality Assurance Section in September 2005. The major responsibilities of the Central Investigation Team are as follows:

- (a) investigation of employment-related complaints concerning non-skilled workers and their supervisors; and
- (b) monitoring the contractors' compliance with the Employment Ordinance (Cap. 57), the Minimum Wage Ordinance (Cap. 608), the Mandatory Provident Fund Schemes Ordinance (Cap. 485) and terms of service contracts with FEHD through conducting audit inspections and employment-related inspections.

Note 62: *According to FEHD, district/section staff are responsible for contract management and monitoring, such as monitoring the service performance of contractors' non-skilled workers and employment-related matters.*

Note 63: *According to FEHD guidelines, the Central Investigation Team under the Quality Assurance Section had an establishment of 7 staff. It is responsible for checking whether FEHD's service contractors for street cleansing services, waste collection services, pest control services, etc. that rely heavily on the deployment of non-skilled workers have fulfilled employment-related contractual obligations. In the period from January 2019 to December 2024, the strength was generally 6 to 7 (only 5 in the period from 31 January to 22 February 2024).*

***Need to conduct audit inspections
in accordance with stipulated frequency***

4.25 According to FEHD guidelines, contractual documents (e.g. employment contracts, monthly wages returns, daily attendance records) will be examined during the audit inspections. At least three audit inspections have to be carried out for every two-year contract, each to be carried out during the following contract period:

- (a) within three months from the commencement of contract;
- (b) every following year; and
- (c) within three months before expiry of contract.

The above audit inspection principle also covers street cleansing service contracts with contract periods exceeding two years.

4.26 There were a total of 61 street cleansing service contracts commenced and completed during the period from January 2019 to December 2024 for 19 DEHOs. Audit examined 56 street cleansing service contracts (Note 64) and found that in 1 (2%) of 56 street cleansing service contracts, only 2 audit inspections were conducted (against the stipulated frequency of at least three audit inspections) during the contract period. Audit considers that FEHD needs to take measures to ensure that audit inspections relating to non-skilled workers are conducted in accordance with the frequency stipulated in its guidelines.

Need to conduct more employment-related inspections

4.27 According to FEHD guidelines, employment-related inspections are conducted on a daily basis, subject to manpower deployment (see also Note 63 to para. 4.24). In every employment-related inspection, some non-skilled workers employed by the contractors will be interviewed on-site randomly. Each interviewee will be asked to complete a questionnaire to see whether he/she has any complaint

Note 64: *5 (out of 61) street cleansing service contracts with contract periods of 1 year were excluded in the analysis. 2 audit inspections were conducted for each of these 5 street cleansing service contracts.*

Other related issues

against the contractor. Audit examination of 61 street cleansing service contracts commenced and completed in the period from January 2019 to December 2024 for 19 DEHOs noted that only 41 employment-related inspections (Note 65) (involving 36 street cleansing service contracts) were conducted, i.e. at a frequency far lower than “on a daily basis” stated in FEHD guidelines.

4.28 Upon enquiry, FEHD informed Audit in March 2025 that as required under Financial Circular No. 3/2019 “Protection of Non-skilled Workers Engaged by Government Service Contractors”, apart from service contracts, the Central Investigation Team also conducted audit inspections to services procured by direct purchase authority since 2019. Besides, the Central Investigation Team also needed to conduct gratuity inspections to service contracts and direct purchase authority upon expiry of the services since then. Together with the increase in the total number of service contracts and the direct purchase authority from 201 in 2019 to 301 in 2024 (i.e. an increase of 50%), the total number of audit inspections and gratuity inspections required to be conducted had been increased from 235 in 2019 to 378 in 2024 (i.e. an increase of 61 %). The staff of the Central Investigation Team had gone all out. Nevertheless, the Central Investigation Team would endeavour to conduct more employment-related inspections as far as practicable. In Audit’s view, conducting employment-related inspection is one of the tools for FEHD to obtain timely feedback from contractor’s employees, there is merit for FEHD to conduct more employment-related inspections as far as practicable.

Audit recommendations

4.29 **Audit has *recommended* that the Director of Food and Environmental Hygiene should:**

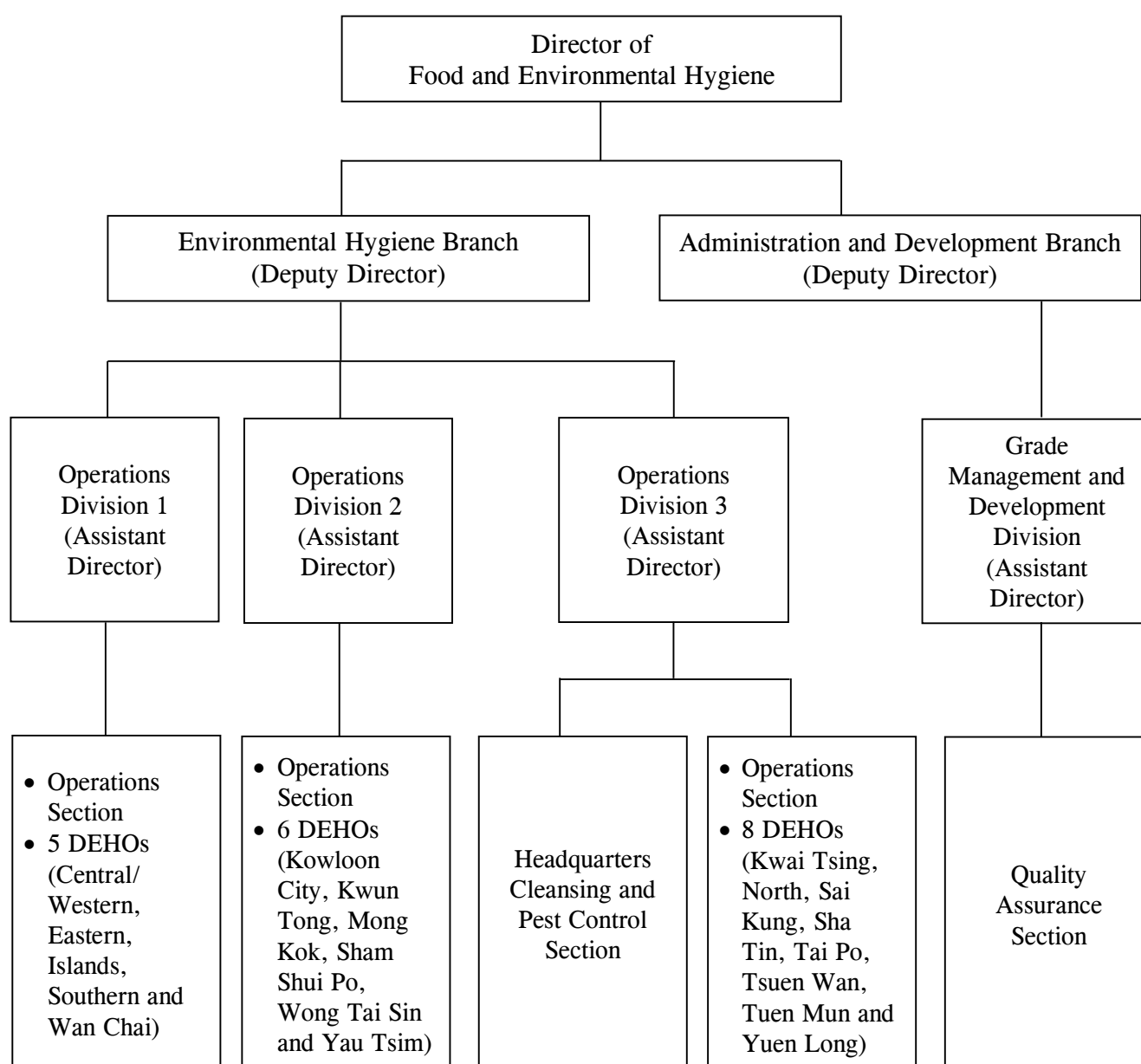
- (a) **take measures to ensure that audit inspections relating to non-skilled workers are conducted in accordance with the frequency stipulated in FEHD guidelines; and**
- (b) **conduct more employment-related inspections as far as practicable with a view to obtaining timely feedback from contractors’ employees.**

Note 65: *The numbers of employment-related inspections conducted were 6 in 2019, 14 in 2020, 9 in 2021, 2 in 2022, 6 in 2023 and 4 in 2024 (up to September).*

Response from the Government

4.30 The Director of Food and Environmental Hygiene agrees with the audit recommendations.

**Food and Environmental Hygiene Department:
Organisation chart (extract)
(30 September 2024)**



Source: FEHD records

Remarks: Only the branches/divisions/offices/sections related to the street cleansing services are shown.

Appendix B
(paras. 2.3, 2.11
and Note 42 to
para. 2.24 refer)

**Frequencies, timeframes and coverage of monitoring inspections
stipulated in Food and Environmental Hygiene Department's guidelines
(30 September 2024)**

Item	Type	Staff	Inspection frequency	Inspection timeframe/coverage
1	Daily inspection	<i>For outsourced areas:</i>		
		Senior Foreman	(a) <i>Street sweeping and poster removal services</i> : at least 10% of the cleansing area under his/her charge each working day and whole cleansing sector under his/her charge once every 10 working days (b) <i>Street washing services</i> : at least 1 scheduled service location under his/her charge on the day service is provided (c) <i>Gully cleansing services</i> : at least 10% of scheduled service locations under his/her charge on the day service is provided	
2		<i>For in-house areas:</i>		
Foreman		(a) <i>Street sweeping services</i> : alternate days to every shift/beat (b) <i>Street washing and poster removal services</i> : once per shift (c) <i>Gully cleansing services</i> : weekly		
		Overseer	Overseers to decide on the inspection requirements of the services under their purview (see para. 2.25(a) and (b))	
3	Formal inspection	Overseer	Monthly	All cleansing sectors annually. Targets strategically selected by district management on specific area(s) concerns of cleansing services for inspection
		Senior Health Inspector and Health Inspector	At least once quarterly	
4	Assigned risk-based surprise inspection	Overseer and Senior Foreman (Special Duties)	Not fewer than once per week	Specific targets strategically selected by district management on specific area(s) concerns of cleansing services for inspection
5	Supervisory check	Health Inspector	Weekly	1 cleansing sector at a time and all cleansing sectors under his/her charge within 6 weeks
		Senior Health Inspector	Fortnightly	2 cleansing sectors at a time and all cleansing sectors within 3 months
6	Systematic inspection	Chief Health Inspector and District Environmental Hygiene Superintendent	Frequent (as far as time permits) (see para. 2.3(e))	N.A.

Source: FEHD records

Appendix C
(para. 2.18 refers)

**10 latest completed street cleansing service contracts
with largest number of default notices issued
(September 2024)**

Contract	Contractor	No. of default notices issued				Total amount of deductions (e) (\$)
		Performance -related (a)	Behaviour -related (b)	Blatant (c)	Total (d) = (a) + (b) + (c)	
A	A	51	110	18	179	338,279
B	A	21	76	6	103	161,879
C	B	1	83	7	91	129,344
D	A	13	44	18	75	170,747
E	C	2	49	3	54	73,746
F	D	14	25	11	50	118,067
G	B	2	41	5	48	76,413
H	D	1	40	6	47	77,848
I	C	6	38	2	46	67,432
J	D	0	43	2	45	56,525

Source: Audit analysis of FEHD records

Acronyms and abbreviations

Audit	Audit Commission
CMIS	Complaint Management Information System
CMS	Contract Management System
COR	Controlling Officer's Report
DEHO	District Environmental Hygiene Office
DET	Dedicated Enforcement Team
EHSIS	Environmental Hygiene Statistical Information System
EMS	E-Management System for In-house Cleansing Services and Pest Control Services
EPD	Environmental Protection Department
FEHD	Food and Environmental Hygiene Department
FPCS	Fixed Penalty Computer System
FPN	Fixed Penalty Notice
IP	Internet Protocol

CHAPTER 7

**Security Bureau
Department of Health**

**The Society for the Aid and Rehabilitation of
Drug Abusers**

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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THE SOCIETY FOR THE AID AND REHABILITATION OF DRUG ABUSERS

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THE SOCIETY FOR THE AID AND REHABILITATION OF DRUG ABUSERS

Executive Summary

1. The Government adopts a multi-pronged approach in anti-drug policy, comprising preventive education and publicity, treatment and rehabilitation (T&R), legislation and law enforcement, external cooperation and research. The Narcotics Division (ND) of the Security Bureau is tasked with co-ordinating policies and measures across the public sector, non-governmental organisations (NGOs) and the community to combat the problem of drug abuse. Regarding T&R, the Government has long-adopted a multi-modality approach in providing T&R services to cater for the divergent needs of drug abusers from different backgrounds, including the residential drug T&R programmes run by NGOs which are under the subvention of the Department of Health (DH) and/or the Social Welfare Department (SWD) or on a self-financing basis. According to ND, in 2023-24, the financial provision on the drug T&R programmes under the recurrent subventions of DH and SWD amounted to \$304.6 million, of which \$126.6 million (42%) was provided to an NGO, namely The Society for the Aid and Rehabilitation of Drug Abusers (SARDA).

2. SARDA is a non-profit-making NGO established in 1961. Its vision is to provide voluntary drug T&R services to all drug abusers and create a drug-free community by promoting preventive education. It adopts medical and psycho-social counselling model and provides diversified voluntary T&R services, free of charge to drug abusers. SARDA's core services can be classified into four categories, namely voluntary residential drug T&R programmes, aftercare services, outpatient clinic and Methadone Treatment Programme counselling service.

3. Government funding forms a major part of SARDA's income. In 2023-24, SARDA received a total of recurrent subventions of \$131.5 million from various sources, including \$121.3 million (92%) from DH and \$5.3 million (4%) from SWD. DH and SWD each entered into a Funding and Service Agreement (FSA) with SARDA, and they monitor the performance of SARDA accordingly. The Audit Commission (Audit) has recently conducted a review of SARDA with a view to identifying areas for improvement.

Voluntary residential drug treatment and rehabilitation services

4. ***High frequency of re-admission of patients.*** As at 31 December 2024, SARDA ran four drug treatment and rehabilitation centres (DTRCs), providing a total of 346 beds. Audit analysis of SARDA's admission records in the period from 2019-20 to 2023-24 revealed that the proportion of re-admission cases was high, accounting for 76% of the total number of admissions. Of the 618 re-admission cases in 2023-24, Audit analysis revealed that these cases involved 417 patients and the average number of their admissions to SARDA's DTRCs in the period from 2019-20 to 2023-24 was 4 (ranging from 1 to 17). Audit examination of the records of the 23 (6% of 417) patients with 10 times or more admissions in the period revealed that all the 23 patients were admitted to the general T&R programme in the Shek Kwu Chau Treatment and Rehabilitation Centre (SKC). There is a need for SARDA to review T&R services (paras. 2.4 to 2.6).

5. ***Large number of patients discharged without completing both detoxification and rehabilitation programmes.*** Of the 3,513 admissions taken up by the four DTRCs in the period from 2019-20 to 2023-24, 2,624 (75%) admissions were admitted to SKC's general T&R programme, in which 2,621 admissions were discharged as at 31 December 2024. According to SARDA, the general T&R programme offered by SKC generally provides 3 weeks of detoxification programme and 4 to 12 weeks of rehabilitation programme. Audit analysed the discharge records of 2,621 admissions and found that:

- (a) only 1,131 (43%) admissions had completed both the detoxification and rehabilitation programmes; and
- (b) of the remaining 1,490 (57%) admissions, 405 failed to complete the detoxification programme and 1,085 only completed the detoxification programme (paras. 2.12 and 2.13).

6. ***Occupancy of DTRCs.*** For monitoring the performance of SARDA on residential drug T&R services, prior to signing of the new FSA in October 2024, DH has set three performance standards for SARDA, namely detoxification rate, rehabilitation rate and occupancy rate. SARDA is required to meet the performance standards and submit statistical returns regularly on the performance indicators (para. 2.17). Audit examination revealed the following areas for improvement:

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(a) ***Failure to meet the occupancy standards set by DH.*** Audit examined records of occupancy rates in the period from 2015-16 to 2024-25 (up to December 2024) and found that:

- (i) the annual occupancy rates of SKC and the Sister Aquinas Memorial Women's Treatment Centre (WTC) were below the occupancy standards of 75% and 80% respectively in the whole period, ranging from 39% to 70% for SKC and from 30% to 59% for WTC. In particular, both SKC and WTC could only meet less than half of their serving capacity since 2020-21;
- (ii) for the remaining two DTRCs, namely the Au Tau Youth Centre (ATYC) and the Adult Female Rehabilitation Centre (AFRC), except for the 4-year period from 2016-17 to 2019-20, all the annual occupancy rates were below the standard of 80%, ranging from 41% to 76% for ATYC and from 44% to 79% for AFRC; and
- (iii) while the occupancy standards for all DTRCs have been aligned at 75% upon signing of the new FSA with DH in October 2024, the occupancy rates of all DTRCs in the period from October to December 2024 still fell short of the newly agreed occupancy standards (paras. 2.18 and 2.19); and

(b) ***Need to consider publishing occupancy rate and other performance standards in DH's Controlling Officer's Report (COR).*** Among the three performance standards as mentioned above, Audit noted that DH has not reported the occupancy rate as one of the key performance measures in its COR. Furthermore, the new performance standards set out in the new FSA with DH have not been reported in COR (paras. 2.26 and 2.27).

7. ***Way forward.*** While SARDA mainly provides residential drug T&R programmes for abusers addicted to heroin and poly-drug abusers taking both heroin and psychotropic substances, in response to the changing drug scene, SARDA has launched T&R programmes targeting at patients with only psychotropic substances abuse in SKC (i.e. Project SARDA and Project WAVE), providing a total of 60 rehabilitation beds. Audit examined SARDA records and found that the occupancy rates of Project SARDA were generally higher than that of the overall situation of SKC in the period from 2019-20 to 2024-25 (up to September 2024). The higher occupancy rates of Project SARDA are consistent with the changing drug scene on

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the prevalence of psychotropic substances abuse. Audit observations on the high proportion of re-admission cases, high frequency of re-admission of patients, large number of patients discharged without completing both the detoxification and rehabilitation programmes and the persistently low occupancy rates of DTRCs revealed that there might be a need for SARDA to evaluate whether its drug T&R services can respond to the changes in drug scene in recent years and support Government's anti-drug policy (paras. 2.32 to 2.34).

Aftercare and counselling services

8. ***Effectiveness of aftercare services.*** SARDA provides the rehabilitees with aftercare services for 12 months after their discharge from DTRCs with completion of at least the detoxification phase. According to SARDA, the effectiveness of aftercare services is measured with reference to the following four key performance indicators. Audit found that there was scope for improvement in compiling and disclosing these indicators, as follows:

- (a) ***Re-application rate.*** It was calculated by dividing the total number of patients who re-applied to SARDA's DTRCs when they were receiving aftercare services by the total number of aftercare cases during the reporting period. In preparing the yearly re-application rate, SARDA added up the numbers of aftercare cases at each month end. As the aftercare cases normally last for 12 months, there would be duplications in the yearly total number of aftercare cases. For example, after eliminating such duplications, the re-application rate for SKC in 2023-24 should be adjusted from 3.6% to 26.8%;
- (b) ***Aftercare completion rate.*** It was calculated by dividing the total number of aftercare closed cases which had successfully completed the required aftercare period by the total number of aftercare closed cases. The calculation did not include the re-application cases (see (a) above). If these cases were taken into account, the published aftercare completion rates of 93.7% to 95.3% from 2019-20 to 2023-24 would be significantly reduced; and
- (c) ***Employment rate and criminal rate.*** In measuring these rates, the social workers would interview the rehabilitees at the time of aftercare services successfully completed for their employment status and criminal records during the aftercare period. Some rehabilitees could not be contacted or

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might have refused to discuss their employment status and criminal records. From 2019-20 to 2023-24, there was generally a rising trend in the number of unknown cases. In 2023-24, the number of unknown cases on employment status and criminal records of rehabilitees were 46% and 45% of the total number of closed cases with aftercare services successfully completed respectively. SARDA included the unknown cases in the population for calculating these rates and therefore, the employment rates and criminal rates published in SARDA's annual report might not have reflected the actual scenario (paras. 3.2, 3.4 to 3.7).

9. *Need to promulgate guidelines on the criteria of closing aftercare cases.*

While SARDA is committed to providing 12-month aftercare services to rehabilitees discharged from DTRCs, Audit noted that the duration of aftercare services provided to each rehabilitee varied. Audit examination of the 507 aftercare closed cases during 2021-22 to 2023-24 revealed that in 373 (73%) cases, the rehabilitees received aftercare services for more than 2 years. In particular, in 121 (24%) cases, the rehabilitees received the services for more than 5 years, ranging from 5.01 to 9.55 years. Audit examined 5 aftercare closed cases and noted that in 4 cases, the reason for closing the cases was loss of contact with the rehabilitees. In the remaining case, for more than 1 year before closing the case, there was no record of any aftercare services provided to the rehabilitee as the rehabilitee insisted that he would contact the social worker for re-admission when necessary. In order to better utilise the resources, Audit considers that SARDA needs to promulgate guidelines on the criteria of closing the aftercare cases and document the justifications for providing prolonged aftercare services exceeding the 12-month period (paras. 3.9 and 3.10).

10. *Long duration of resident placements in halfway houses.* SARDA operates five halfway houses with 76-bed spaces to provide transitory accommodation in a semi-protective and supportive environment for the ex-drug abusers newly discharged from DTRCs so as to facilitate their reintegration into society. According to FSAs signed with SWD for the four subvented halfway houses, the normal duration of placement in halfway houses is 3 to 6 months. Audit examined the list of residents in the four subvented halfway houses as at 31 December 2024 and noted that of the 60 residents, 13 (22%) residents had been residing in the halfway houses for more than 6 months to 1 year, and the other 13 (22%) residents had been residing in the halfway houses for more than 1 year. Audit further examined the case files of the 3 residents who had been residing in the Female Hostel for more than 4 years (ranging from 4.9 to 5.2 years) and noted that progress review was conducted every 3 months, instead of every 6 weeks as required by SARDA's guidelines, and the justifications

Executive Summary

for the need for transitory accommodation to extend the residence in the halfway house were not documented. In addition, the residents were approved to reside in the halfway house for 1 to 3 nights per week or per month. Audit is concerned about if this practice deviates from the objective of halfway house service (paras. 3.13, 3.19, 3.20 and 3.22).

Corporate governance and administrative issues

11. ***Governance structure.*** SARDA is governed by its Executive Committee (EC) which is supported by two committees, namely the Management Committee (MC) and the Research Committee (RC). In 2024-25, EC comprises 7 Officers (including the Chairman, the Vice-Chairman, the Honorary Treasurer, the Honorary Secretary, the Immediate Past Chairman, the Chairman of MC and the Chairman of RC), 16 committee members, 6 ex-officio members and 2 government representatives (para. 1.7). Audit examination of the membership of EC found areas for improvement, as follows:

- (a) ***Need to comply with the requirement on number of members in EC as stipulated in the Constitution of SARDA.*** In the term years 2019-20 and 2020-21 (i.e. starting in December of a year and ending in November of the following year), EC had 17 members, exceeding the maximum number of members (i.e. 16) by 1 as stipulated in the Constitution of SARDA; and
- (b) ***Terms of some Officers in EC longer than norm as stipulated in the Constitution of SARDA.*** 4 (57%) of the 7 Officers in EC, namely the Chairman, the Vice-Chairman, the Immediate Past Chairman and the Chairman of RC, had been elected to the same posts for a long period of 14 years from the term years 2011-12 to 2024-25 (para. 4.4).

12. ***Need to consider publishing audited annual accounts and/or annual financial statements of SARDA.*** While SARDA submitted the audited annual accounts and annual financial statements to DH for internal monitoring to ensure full compliance with the requirements as stipulated in FSAs, these accounts had never been published in the websites of DH nor SARDA. As SARDA is receiving government subvention which forms a major part of its income, Audit considers that SARDA needs to consider publishing the audited annual accounts and/or annual financial statements on its website or displaying the hyperlink to them in its annual report for enhancing public accountability (para. 4.7).

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13. ***Room for improvement in monitoring strategic management of SARDA.***

According to FSAs signed with DH, SARDA should establish a formal strategic planning process, which includes, among others, conducting regular review and updating the strategic plan (para. 4.8). Audit examination of the strategic plan and relevant records of SARDA found that:

- (a) there was no documentary evidence showing that SARDA had conducted any yearly review and updating, and evaluation of the strategic plan, contrary to the requirements as set out in FSAs; and
- (b) SARDA had neither discussed nor approved any strategic plan in the meetings of EC and MC from the term years 2019-20 to 2023-24 (para. 4.9).

14. ***Attendance and proceedings of committee meetings.*** According to the Constitution of SARDA, EC shall meet not less than four times during its term of office. In general, EC holds five meetings in each year while MC usually holds four meetings and RC holds two meetings in each year (para. 4.12). Audit examination found that:

- (a) ***Low attendance rates for some individual voting members.*** From the term years 2019-20 to 2023-24, there were 3 to 7 and 2 to 4 voting members who attended less than half of EC and MC meetings held in each year respectively. Despite their low attendance rates, some of them were re-appointed as voting members of MC in the term year 2024-25 (para. 4.13); and
- (b) ***Short time interval between dates of issue of papers and dates of RC meetings.*** According to SARDA's Standing Administrative Instructions, any papers for EC and MC should be issued one week-end to the committee members before each meeting. No similar requirements are set for RC. Audit examined the dates of papers issued in respect of the 10 RC meetings held from the term years 2019-20 to 2023-24 (involving 33 discussion items) and found that the papers related to 25 (76%) of the 33 discussion items were issued to committee members less than one week-end before RC meetings. In particular, the papers related to 4 discussion items were issued to committee members after the meetings (paras. 4.16 and 4.17).

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15. *Need to step up efforts in recruiting and retaining staff.* As at 31 December 2024, the establishment and strength in SARDA under subventions from DH and SWD were 229 and 204 respectively. Audit analysed the staff turnover of SARDA for the period from 2019-20 to 2023-24 and found that the staff turnover rates ranged from 13.8% to 16.3%, and in particular, the turnover rates for nursing grade staff varied from 5.6% to 52.9% (paras. 4.28 and 4.29).

16. *Need to promulgate a training policy.* In 2023-24, SARDA incurred training expenses amounting to \$308,050. According to SARDA, there was no training policy and training subsidies were approved on a need basis. Furthermore, a summary of training record by individual staff was not maintained by SARDA (para. 4.35).

Audit recommendations

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

Voluntary residential drug T&R services

- (a) **draw on the experience gained from high-frequency re-admission cases, and make continuous improvement in enhancing T&R programmes and strengthening support services after programme completion (para. 2.9);**
- (b) **take measures to motivate the admitted patients to complete both detoxification and rehabilitation programmes under the general T&R programme (para. 2.15);**
- (c) **in consultation with DH, take measures to improve the occupancy rates of its DTRCs (para. 2.28(a));**
- (d) **regularly review the provision of T&R services under its purview for continuous improvement taking into account the changing drug scene (para. 2.35);**

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Aftercare and counselling services

- (e) **make improvement in compiling and disclosing the four key performance indicators, including:**
 - (i) **reviewing the number of aftercare cases adopted in the calculation of the re-application rate in its annual report and ascertaining whether the rate had been understated;**
 - (ii) **stating the basis on the compilation of aftercare completion rate in its annual report; and**
 - (iii) **making greater efforts in ascertaining the employment status and the criminal records of rehabilitees having successfully completed the aftercare services (para. 3.11(a) to (c));**
- (f) **promulgate guidelines on the criteria of closing the aftercare cases and document the justifications for providing prolonged aftercare services exceeding the 12-month period (para. 3.11(d));**
- (g) **conduct progress review for residents of halfway houses according to its guidelines in a timely manner and document full justifications for the extension of residence in halfway houses for each case, and consider ceasing the practice of allowing rehabilitees to reside in the halfway houses for only few nights (para. 3.23(b) and (c));**

Corporate governance and administrative issues

- (h) **take measures to ensure that:**
 - (i) **the composition of its EC is in compliance with the requirement as stipulated in its Constitution (para. 4.10(a)(i)); and**
 - (ii) **a succession mechanism is drawn up for its EC, especially for the Chairman and other key posts, where there are no such restrictions in its Constitution, including the maximum terms of office and number of consecutive terms (para. 4.10(a)(ii));**

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- (i) **consider publishing the audited annual accounts and/or annual financial statements of SARDA on its website or displaying the hyperlink to them in its annual report for enhancing public accountability (para. 4.10(b));**
 - (j) **submit its strategic plan and other related records on the regular review, updating and evaluation of the plan to its EC for approval (para. 4.10(c));**
 - (k) **take measures to improve the attendance of committee members with low attendance rates (para. 4.19(a));**
 - (l) **critically review the attendance records of individual committee members before re-appointment (para. 4.19(b));**
 - (m) **consider setting requirement on the issuance of papers for RC meetings with a view to providing committee members with sufficient time to consider the papers before the meetings (para. 4.19(c));**
 - (n) **step up efforts in recruiting and retaining staff, especially the nursing grade staff and peer support workers (para. 4.36(a)); and**
 - (o) **promulgate a training policy, including the policy and procedures of granting training subsidies, and maintain a training record by individual staff for staff development and monitoring purposes (para. 4.36(c) and (d)).**
18. **Audit has also *recommended* that the Director of Health should:**
- (a) **enhance the reporting of SARDA's performance in DH's COR, for example incorporating the occupancy rate of DTRCs as one of the performance targets in DH's COR (para. 2.29(a)); and**
 - (b) **keep in view SARDA's performance on the new initiatives and consider incorporating the new performance indicators in DH's COR where appropriate (para. 2.29(b)).**

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Response from The Society for the Aid and Rehabilitation of Drug Abusers

19. SARDA agrees with the audit recommendations.

Response from the Government

20. The Director of Health 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 **Government's anti-drug policy.** The Government adopts a multi-pronged approach in anti-drug policy, comprising preventive education and publicity, treatment and rehabilitation (T&R), legislation and law enforcement, external cooperation and research. The Narcotics Division (ND) of the Security Bureau (SB) is tasked with co-ordinating policies and measures across the public sector, non-governmental organisations (NGOs) and the community to combat the problem of drug abuse.

1.3 **Voluntary residential drug T&R programmes.** Regarding T&R, it is the Government's policy to help drug abusers quit drugs and remain drug free. According to ND, the provision of T&R services (Note 1) helps drug abusers overcome addiction, quit drugs, maintain abstinence, and eventually reintegrate into the society. The Government has long-adopted a multi-modality approach in providing T&R services to cater for the divergent needs of drug abusers from different backgrounds, including the residential drug T&R programmes run by NGOs which are under the subvention of the Department of Health (DH) and/or the Social Welfare Department (SWD) or on a self-financing basis. According to ND, in 2023-24, the financial provision on the drug T&R programmes under the recurrent subventions of DH and SWD amounted to \$304.6 million, of which \$126.6 million (42%) (\$121.3 million from DH and \$5.3 million from SWD — Note 2) was provided to an NGO, namely The Society for the Aid and Rehabilitation of Drug Abusers (SARDA).

Note 1: *Since 1997, ND has been working closely with stakeholders to formulate a plan on T&R services every three years. The purpose is to set out the strategic directions for T&R services as a reference for anti-drug service providers to develop their plans and programmes.*

Note 2: *As at 31 March 2024, there were unused subventions of about \$18,000 and \$0.8 million to be refunded to DH and SWD respectively.*

SARDA

1.4 **Background.** Established in 1961, SARDA is a non-profit-making NGO incorporated under the Registered Trustees Incorporation Ordinance (Cap. 306). Its vision is to provide voluntary drug T&R services to all drug abusers and create a drug-free community by promoting preventive education. According to SARDA, it is the largest voluntary drug rehabilitation organisation in Hong Kong. It adopts medical and psycho-social counselling model and provides diversified voluntary T&R services, free of charge to drug abusers.

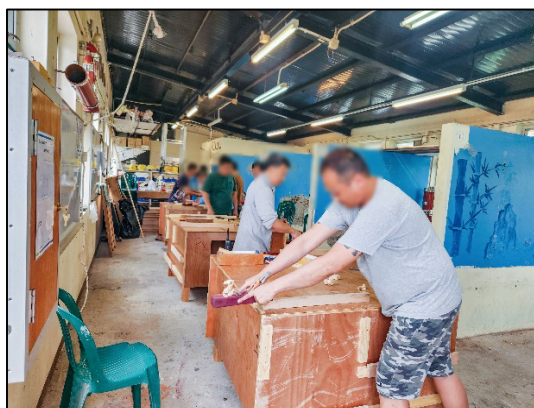
1.5 **Core services.** SARDA's core services can be classified into the following categories:

- (a) **Voluntary residential drug T&R programmes.** SARDA runs four drug treatment and rehabilitation centres (DTRCs), including two for males and two for females, providing a total of 346 beds. DTRCs provide a drug-free residential environment and different voluntary residential drug T&R programmes to drug abusers to help them quit drugs. The centres also offer support services (e.g. vocational and/or life skill training — see Photographs 1(a) and (b) for examples) to facilitate rehabilitees to reintegrate into the society after leaving the centres;

Photographs 1(a) and (b)

Examples of voluntary residential drug T&R programmes at DTRCs

(a) At Shek Kwu Chau Treatment and Rehabilitation Centre



(b) At Sister Aquinas Memorial Women's Treatment Centre



Source: SARDA records

- (b) **Aftercare services.** On discharge from DTRCs after a period of T&R, the rehabilitees are provided with aftercare services for 12 months. The aims of SARDA's aftercare services are to minimise the rehabilitees' psychological dependence on drugs following the treatment of their physical dependence and to achieve their social rehabilitation upon re-entry into the community where they will live in and work. A variety of essential social services are available for rehabilitees including:
- (i) **Halfway house service.** SARDA operates five halfway houses to provide transitory accommodation for rehabilitees discharged from DTRCs who have no home or suitable place to live in or those who are unable to lead an independent living in the community upon discharge. Among the five halfway houses, the operation of four halfway houses are subvented by SWD while the remaining one is operated on a self-financing basis; and
 - (ii) **Counselling services and other activities.** SARDA operates four social service centres, providing psychological and vocational counselling, as well as social and recreational activities to help rehabilitees maintain a drug-free life;

Introduction

- (c) ***Outpatient clinic.*** SARDA operates one outpatient clinic which carries out physical examination for applicants before admission into its DTRCs and provides medical consultation to rehabilitees; and
- (d) ***Methadone Treatment Programme (MTP) counselling service.*** SARDA provides counselling and support services for methadone patients and their families at the 18 methadone clinics operated by DH. A series of group services for methadone patients is provided, including counselling groups for patients of all ages (e.g. female groups, youth groups and family groups), recreational activities, community volunteer services, etc.

1.6 Table 1 shows the key performance indicators of SARDA's core services published in its annual reports for the period from 2019-20 to 2023-24.

Table 1

**Key performance indicators of SARDA
(2019-20 to 2023-24)**

Performance indicator	2019-20	2020-21	2021-22	2022-23	2023-24
<i>Voluntary residential drug T&R programmes</i>					
Number of admission to DTRCs	969	459	571	715	799
Detoxification rate (Note 1)	84.0%	88.1%	86.3%	84.5%	84.8%
Rehabilitation rate (Note 2)	87.1%	91.6%	91.8%	87.3%	84.7%
Number of bed days available (Note 3)	126,636	126,290	126,290	126,290	126,636
<i>Aftercare services</i>					
Re-application rate (Note 4)	3.1%	1.8%	2.0%	2.3%	2.6%
Aftercare completion rate (Note 5)	95.0%	94.6%	95.3%	93.9%	93.7%
Employment rate (Note 6)	60.6%	55.1%	52.2%	40.6%	45.2%
Criminal rate (Note 7)	2.2%	4.4%	3.8%	3.6%	3.8%
<i>MTP counselling service</i>					
Caseload	1,919	1,926	1,894	1,907	1,902
Number of group programmes	584	588	588	646	643
Number of participants	6,423	5,841	4,458	4,661	4,702

Source: Audit Commission analysis of SARDA records

Note 1: Detoxification rate refers to the proportion of residents who have completed the agreed detoxification programme which lasts for three weeks or a shorter period as specified by the attending doctor. This performance indicator is also included in DH's Controlling Officer's Report.

Table 1 (Cont'd)

- Note 2: Rehabilitation rate refers to the proportion of residents who have completed the agreed rehabilitation programme. This performance indicator is also included in DH's Controlling Officer's Report.*
- Note 3: For example, in 2023-24, 346 beds (see para. 1.5(a)) were available for 366 days, resulting in 126,636 (346 beds times 366 days) bed days being available. The related occupancy rate of beds is neither included as a performance indicator in SARDA's annual report nor DH's Controlling Officer's Report (see para. 2.26). In 2021-22, the figure was reported as 58,674 in SARDA's annual report. Upon enquiry, in December 2024, SARDA said that the number of bed days available in 2021-22 should be 126,290. The figure published represented the actual bed days occupied.*
- Note 4: Re-application rate is calculated by dividing the total number of patients who have re-applied to SARDA's DTRCs when they are receiving aftercare services by the total number of aftercare cases during the reporting period.*
- Note 5: Aftercare completion rate is calculated by dividing the total number of aftercare closed cases which have successfully completed the required aftercare period by the total number of aftercare closed cases.*
- Note 6: Employment rate refers to the proportion of rehabilitees (with aftercare services successfully completed during the reporting period) who have full-time/part-time/casual employment during the aftercare period.*
- Note 7: Criminal rate refers to the proportion of rehabilitees (with aftercare services successfully completed during the reporting period) who have been convicted during the aftercare period.*
- Remarks: The definitions of detoxification rate, rehabilitation rate, re-application rate, aftercare completion rate, employment rate and criminal rate were provided by SARDA.*

Governance structure of SARDA

1.7 SARDA is governed by its Executive Committee (EC) which is supported by two committees, namely the Management Committee (MC) and the Research Committee (RC). EC provides steer to SARDA in its long term development and in the achievement of its aims and objectives in accordance with its vision and mission. According to the Constitution of SARDA, members of EC shall be elected in annual general meeting from members of SARDA (see para. 4.21). In 2024-25, EC comprises 7 Officers (including the Chairman, the Vice-Chairman, the Honorary Treasurer, the Honorary Secretary, the Immediate Past Chairman, the Chairman of MC (Note 3) and the Chairman of RC), 16 committee members, 6 ex-officio members and 2 government representatives (from ND and DH).

1.8 Under the direction of EC, the Executive Director of SARDA is responsible for the overall management of SARDA and overseeing day-to-day operations. As at 31 December 2024, SARDA had 204 staff (Note 4), including managerial staff, doctors, nurses, social workers, operational staff (e.g. peer support workers) and clerical staff. An organisation chart of SARDA as at 31 December 2024 is at Appendix A.

Income and expenditure of SARDA

1.9 Government funding forms a major part of SARDA's income. In 2023-24, SARDA received a total of recurrent subventions of \$131.5 million from various sources, including \$121.3 million (92%) from DH and \$5.3 million (4%) from SWD (see para. 1.3). SARDA's income and expenditure from 2019-20 to 2023-24 is shown in Table 2.

Note 3: *In 2024-25, the same member assumed the offices of the Immediate Past Chairman of EC and the Chairman of MC.*

Note 4: *The number of staff includes staff recruited under subventions from DH and SWD, but not staff recruited under other sources of funding which were not covered in this audit review.*

Table 2

**Income and expenditure of SARDA
(2019-20 to 2023-24)**

	2019-20	2020-21	2021-22	2022-23	2023-24
	Amount (\$ million)				
<i>Income</i>					
Government subvention	117.9	120.5	122.6	123.1	126.6
Non-government subvention (Note 1)	3.9	4.7	4.5	4.5	4.9
Other income (Note 2)	18.3	18.4	19.9	24.3	26.7
Total	140.1	143.6	147.0	151.9	158.2
<i>Expenditure</i>					
Personal emoluments	107.9	109.3	107.0	110.3	114.1
Administration	23.4	23.7	29.8	31.9	30.1
Depreciation	7.5	7.7	9.2	8.7	8.5
Total	138.8	140.7	146.0	150.9	152.7
Surplus	1.3	2.9	1.0	1.0	5.5

131.5

Source: Audit Commission analysis of SARDA records

Note 1: Non-government subvention comprised recurrent funding received from the Community Chest of Hong Kong and the Hong Kong Jockey Club Charities Trust.

Note 2: Other income mainly included donations and grants, interest income and accommodation charges.

Monitoring of SARDA's performance

1.10 **Funding and Service Agreements (FSAs).** Regarding the government subventions, DH and SWD each entered into an FSA with SARDA, defining the roles of DH and SWD in monitoring the performance of SARDA, the type of services to be provided, the service performance standards, the basis of subvention, etc. As a condition of subvention, SARDA is required to submit, among others, monthly income and expenditure statement, and an annual budget for each DH subvented

service and supporting function as set out in FSA as well as audited annual accounts of SARDA as a whole to DH. In addition, SARDA is required to meet the service performance standards set out in FSAs and submit statistical returns regularly on the performance indicators to DH and SWD respectively. According to ND, DH and SWD monitor the performance of SARDA in the provision of government subvented services according to FSAs. Government representatives from ND and DH attend meetings of SARDA's EC and a representative from DH attends meetings of SARDA's MC as observers (see Notes 1 and 2 to Table 13 in para. 4.3). Government representatives may give their advice to SARDA on government subvented services where appropriate.

1.11 ***Recent development.*** Following the new policy measure announced in the 2023 Policy Address to provide additional resources for subvented service units to strengthen manpower and training, from 2024-25, additional resources had been provided to government subvented anti-drug service units including DTRCs and halfway house service for strengthening medical and allied health support for drug abusers as well as aftercare services for drug rehabilitees. In addition, capacity building of relevant frontline personnel of the anti-drug sector will also be strengthened. In this regard, in October 2024:

- (a) additional part-year recurrent subventions of \$6.8 million from DH and \$0.8 million from SWD were approved to allocate to SARDA in 2024-25 to implement some new initiatives (Note 5); and
- (b) DH and SWD each entered into a new FSA with SARDA, setting out several new performance standards to cover both existing services and new initiatives.

According to DH, with the additional resources provided to SARDA in 2024-25, it is expected that SARDA would be able to enhance its services and support for drug abusers through the implementation of new initiatives to address drug abusers' needs and achieving the performance standards.

Note 5: *The key new initiatives included: (a) procuring medical/allied health and drug testing services from the private sector for residents of DTRCs/halfway houses; (b) providing accredited vocational training for residents of DTRCs/halfway houses; (c) employing additional registered nurses and peer support workers; and (d) providing training for peer support workers. According to DH and SWD, SARDA should implement the new initiatives starting from October 2024.*

Introduction

1.12 **Performance targets.** Up to 2024, DH has reported two performance targets in respect of the voluntary residential drug T&R services provided by SARDA in its Controlling Officer's Report (COR). Table 3 shows the actual achievement of the performance targets for the period from 2020 to 2024.

Table 3

**Actual achievement of SARDA's performance targets
(2020 to 2024)**

Performance target		2020	2021	2022	2023	2024
<i>Completion rate of SARDA's inpatient T&R courses</i>						
Detoxification	more than 70%	88%	86%	86%	85%	86%
Rehabilitation	more than 60%	89%	91%	89%	85%	86%

Source: DH records

Latest drug scene and drug trend

1.13 The Central Registry of Drug Abuse (CRDA) administered by SB provides relevant drug abuse statistics for monitoring changes in the drug abuse trends and characteristics of drug abusers to facilitate the planning of anti-drug strategies and programmes in Hong Kong. It is a voluntary reporting system recording the details of drug abusers who have come into contact with and have been reported by the reporting agencies specified in the Dangerous Drugs Ordinance (Cap. 134), including law enforcement agencies, treatment and welfare agencies, tertiary institutions, hospitals and clinics. According to SB, by its nature, while CRDA does not measure the exact size of the drug abusing population in Hong Kong at any particular time, statistics derived therefrom are indicators of the trends of drug abuse over time, providing useful information on the latest drug situation in Hong Kong, and supporting an evidence-based approach to the formulation of anti-drug policy and allocation of resources for suitable anti-drug initiatives.

1.14 According to CRDA, there has been a continuation of a declining trend in the total number of reported drug abusers since 2009. In particular, the total number of reported drug abusers dropped by 39% from 9,068 in 2014 to 5,500 in 2023.

However, there have been some major changes in the local drug scene, which continue to warrant attention, as follows:

- (a) ***Hidden drug abuse.*** The median drug history of newly reported abusers was 3.4 years in 2021 but rose to 4.3 years in 2022 and as long as 6 years in 2023. “Home/friend’s home only” continued to be the most common locality for drug taking (ranging from 54% to 62% during 2019 to 2023). These statistics revealed the problem of hidden drug abuse;
- (b) ***High proportion of young adult drug abusers.*** The proportion of newly reported drug abusers being young adults aged 21 to 35 remained relatively high (ranging from 43% to 47% during 2019 to 2023); and
- (c) ***Rising trend in the prevalence of psychotropic substances abuse.*** While heroin, a type of narcotics analgesics (i.e. opioids), has remained the most common type of drug abused for decades, there has been a rising trend in the prevalence of psychotropic substances abuse (e.g. methamphetamine, cocaine, cannabis, etc.) (Note 6). Among the reported drug abusers, the proportion of narcotics analgesics abuse was 51% in 2019 and dropped to 43% in 2023, while that for psychotropic substances abuse rose from 64% in 2019 to 68% in 2023.

Audit review

1.15 In November 2024, the Audit Commission (Audit) commenced a review of SARDA. The audit review has focused on the following areas:

- (a) voluntary residential drug T&R services (PART 2);
- (b) aftercare and counselling services (PART 3); and

Note 6: *According to SB, regarding the abuse of psychotropic substances, frontline anti-drug workers noticed an emergence of “space oil drug” in 2023 after the coronavirus disease (COVID-19) epidemic, and it had begun to gain traction among local young people and some of them even started taking it. Its main ingredient is usually etomidate, an anaesthetic which can only be prescribed by a doctor. To step up the control of etomidate in view of its abuses, the Government has listed etomidate as a dangerous drug under the Dangerous Drugs Ordinance in February 2025.*

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- (c) corporate governance and 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 Society for the Aid and Rehabilitation of Drug Abusers

- 1.16 SARDA agrees with the audit recommendations.

General response from the Government

- 1.17 The Director of Health agrees with the audit recommendations.

Acknowledgement

- 1.18 Audit would like to acknowledge with gratitude the full cooperation of the staff of SARDA, ND of SB, DH and SWD during the course of the audit review.

PART 2: VOLUNTARY RESIDENTIAL DRUG TREATMENT AND REHABILITATION SERVICES

2.1 This PART examines the work of SARDA in providing voluntary residential drug T&R services, focusing on:

- (a) admission to DTRCs (paras. 2.2 to 2.10);
- (b) monitoring of T&R services (paras. 2.11 to 2.16);
- (c) occupancy of DTRCs (paras. 2.17 to 2.31); and
- (d) way forward (paras. 2.32 to 2.36).

Admission to drug treatment and rehabilitation centres

2.2 *General admission policy.* According to SARDA, its primary aim is to give aid to, to treat and to take all necessary steps to rehabilitate persons who are drug abusers. To this end, SARDA has long-adopted a policy of allowing the re-admission of patients without imposing a limit on the number of re-admissions that may be permitted. SARDA considers that tighter pre-admission screening procedures cannot reliably assess the patient's motivation for T&R because too much screening may dampen the patient's motivation and turn patients away from treatment. The details of SARDA's policy for admitting patients into its DTRCs are as follows:

- (a) providing treatment on demand; and
- (b) unrestricted re-admission except for:
 - (i) a waiting period of around 1 to 3 months (Note 7) for relapsed patients; and

Note 7: *The waiting period may be shortened or waived on the merits of each individual case at the discretion of the Superintendents of DTRCs.*

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- (ii) a longer waiting period ranging from 4 months to 3 years (see Note 7 above), depending on the seriousness of the violation of the DTRC rules by dishonourably discharged patients.

2.3 ***Admission criteria.*** According to SARDA's Social Service Department Manual (SSDM), to be eligible for T&R at DTRCs, an applicant should:

- (a) be a drug abuser;
- (b) be willing to be admitted under a T&R programme; and
- (c) not be detrimental to the health and well-being of other patients under treatment with his/her presence.

Higher priority is accorded to first-timers or those with the least number of prior treatments at DTRCs. According to SARDA, the general sources of admission included voluntary applications and referrals from medical social workers, probation offices and other social service agencies.

2.4 ***Admission statistics.*** As at 31 December 2024, SARDA ran four DTRCs, including two for males and two for females, providing a total of 346 beds (see Table 4). DTRCs provide a drug-free residential environment and different voluntary residential drug T&R programmes to drug abusers to help them quit drugs. From 2019-20 to 2023-24, of the 3,513 admissions to the four DTRCs, 3,015 (86%) admissions were taken up by the Shek Kwu Chau Treatment and Rehabilitation Centre (SKC — the largest DTRC with 260 (75% of 346) beds).

Table 4

**DTRCs operated by SARDA
(31 December 2024)**

DTRC	Target group		Capacity
	Gender	Age	Number of beds
SKC	Male	18 or above	260
Au Tau Youth Centre (ATYC)	Male	29 or below	20
Sister Aquinas Memorial Women's Treatment Centre (WTC)	Female	29 or below	42
Adult Female Rehabilitation Centre (AFRC)	Female	30 or above	24
Total			346

Source: SARDA records

High proportion of re-admission cases

2.5 Audit analysis of SARDA's admission records in the period from 2019-20 to 2023-24 revealed that the proportion of re-admission cases was high, accounting for 76% of the total number of admissions (see Table 5). The high proportion of re-admission cases might warrant SARDA's attention.

Table 5

**Analysis of admissions to DTRCs
(2019-20 to 2023-24)**

	Number of cases					
	2019-20	2020-21	2021-22	2022-23	2023-24	Overall
New admissions	182 (19%)	117 (25%)	161 (28%)	193 (27%)	181 (23%)	834 (24%)
Re-admissions (Note)	787 (81%)	342 (75%)	410 (72%)	522 (73%)	618 (77%)	2,679 (76%)
Total	969 (100%)	459 (100%)	571 (100%)	715 (100%)	799 (100%)	3,513 (100%)

Source: Audit analysis of SARDA records

Note: According to SARDA, patients not being admitted to SARDA's DTRCs for the first time were regarded as re-admission cases.

High frequency of re-admission of patients

2.6 Of the 618 re-admission cases in 2023-24 (see Table 5 in para. 2.5), Audit analysis revealed that these cases involved 417 patients and the average number of their admissions to SARDA's DTRCs in the period from 2019-20 to 2023-24 was 4 (ranging from 1 to 17). Audit examination of the records of the 23 (6% of 417) patients with 10 times or more admissions in the same period revealed that all the 23 patients were admitted to the general T&R programme in SKC (see para. 2.12(a)), indicating that SARDA might need to review T&R services. For example:

- (a) **Case A.** In this case, the patient, a man at his 70s, had been admitted to the general T&R programme in SKC for 12 times in the period from 2019-20 to 2023-24. The patient had successfully completed both the detoxification and rehabilitation programmes (see paras. 2.11 and 2.12(a)) in 11 out of the 12 admissions. During the 5-year period, he had resided at SKC for 1,043 days (i.e. almost 3 years). The average time apart between each discharge and re-admission was 69 days (ranging from 20 to 188 days). Audit further checked to the admission records as at

31 December 2024 and noted that he had been admitted to the general T&R programme in SKC for 46 times; and

- (b) *Case B.* In this case, the patient, a man at his 60s, had been admitted to the general T&R programme in SKC for 12 times in the period from 2019-20 to 2023-24. The patient had only completed the detoxification programme (see paras. 2.11 and 2.12(a)) in 11 out of the 12 admissions. During the 5-year period, he had resided at SKC for 174 days. The average period of stay for each admission was 15 days (ranging from 6 to 20 days). The average time apart between each discharge and re-admission was 143 days (ranging from 47 to 414 days). Audit further checked to the admission records as at 31 December 2024 and noted that he had been admitted to the general T&R programme in SKC for 32 times.

2.7 In February and March 2025, SARDA informed Audit that:

- (a) drug addiction was a chronic brain disease with its course of development influenced by many personal and social determinants. Heroin was a highly addictive opioid, and relapse was widely recognised as a common and expected part of the recovery process. For heroin users, the relapse rate could be even higher due to the drug's profound physiological and psychological effects. According to the Guidelines for the Psychosocially Assisted Pharmacological Treatment of Opioid Dependence published by the World Health Organization, as with other chronic conditions, opioid dependence tended mostly to follow a relapsing and remitting course. In addition, according to the Guidelines for the Diagnosis and Treatment of Opioid Use Disorder published by the then National Health and Family Planning Commission of the People's Republic of China (Note 8), opioid use disorder was a chronic and highly relapsing brain disease. Its occurrence and development were the results of the combined effects of biological, psychological and social factors. This posed a challenge to SARDA;
- (b) SARDA's T&R programmes were designed to support individuals through multiple stages of recovery, often requiring repeated interventions. The 417 patients with re-admissions averaging 4 times over the five-year period

Note 8: *The Guidelines published by the then National Health and Family Planning Commission are in Chinese only.*

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(see para. 2.6) demonstrated that these individuals continued to seek help from SARDA's treatment services. It was an indicator of trust in SARDA's services;

- (c) re-admission was viewed by SARDA as a positive engagement relationship. Each re-admission represented an individual's willingness to return to SARDA's treatment rather than disengage entirely from the recovery process. For a population with heroin addiction, maintaining this connection to support services was a critical step toward long-term recovery, even if it involved multiple attempts; and
- (d) Cases A and B were individual cases that illustrated the nature of addiction which was a chronic illness characterised by relapse. SARDA agreed that understanding the reasons behind high-frequency re-admission cases could inform service improvements. These cases might reflect unique challenges, such as co-occurring mental health issues or lack of stable living environment or healthy social support network. SARDA was committed to conducting a targeted review of these high-frequency re-admission cases to identify specific barriers.

2.8 As shown in Table 5 in paragraph 2.5, the proportion of re-admission has rebounded from 72% to 77% from 2021-22 to 2023-24. While noting that such high proportion of re-admission might be largely attributable to the chronic relapsing conditions in different drug abuse scenarios, Audit considers that there is scope for service improvements, including drawing on the experience gained from high-frequency re-admission cases, and making continuous improvement in enhancing T&R programmes and strengthening support services after programme completion.

Audit recommendation

2.9 Audit has *recommended* that SARDA should draw on the experience gained from high-frequency re-admission cases, and make continuous improvement in enhancing T&R programmes and strengthening support services after programme completion.

Response from The Society for the Aid and Rehabilitation of Drug Abusers

2.10 SARDA agrees with the audit recommendation.

Monitoring of treatment and rehabilitation services

2.11 In general, SARDA's voluntary residential drug T&R programmes (see para. 1.5(a)) consist of two phases, namely detoxification and rehabilitation. During the detoxification phase, patients will undergo withdrawal treatment and convalescence. Afterwards, patients will undergo the rehabilitation phase under which support and counselling services are provided to help them reintegrate into the society.

2.12 **T&R programmes at SKC.** According to SARDA, there are various T&R programmes with different durations provided by the four DTRCs. SKC, the largest DTRC with 260 (75% of 346) beds in SARDA (Note 9), provides three T&R programmes to its patients, as follows:

- (a) **General T&R programme.** The general T&R programme offered by SKC generally provides 3 weeks of detoxification programme and 4 to 12 weeks of rehabilitation programme through work therapy and counselling for people addicted to heroin and poly-drug abusers taking both heroin and psychotropic substances. Patients can decide on the treatment plan to choose either detoxification programme or both detoxification and rehabilitation programmes;
- (b) **Project SARDA.** Launched in 2010, Project SARDA offers 1 to 3 weeks of detoxification programme and 25 to 51 weeks of tailored and comprehensive residential rehabilitation for psychotropic substance abusers

Note 9: *According to SARDA, as at 31 December 2024, of the 260 beds available at SKC, 82 beds were used for detoxification and the remaining 178 beds were used for rehabilitation. Of the 178 beds for rehabilitation, 118 beds were designated to rehabilitate patients addicted to heroin and poly-drug abusers taking both heroin and psychotropic substances, 40 beds and 20 beds were designated to rehabilitate patients with only psychotropic substances abuse under Project SARDA and Project WAVE respectively.*

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(PSAs). The project promotes positive changes in thinking and behaviour; and

- (c) ***Project WAVE.*** Launched in 2023, Project WAVE provides T&R services to PSAs with shorter history of drug use and little inpatient experience on detoxification and rehabilitation. Project WAVE targets at patients receiving SKC's service for the first time. The detoxification programme lasts for 1 to 3 weeks and the rehabilitation programme lasts for 11 to 23 weeks, focusing on adventure training and mindfulness practice elements.

Large number of patients discharged without completing both detoxification and rehabilitation programmes

2.13 Of the 3,513 admissions taken up by the four DTRCs in the period from 2019-20 to 2023-24, 2,624 (75%) admissions were admitted to SKC's general T&R programme, in which 2,621 admissions were discharged as at 31 December 2024. Audit analysed the discharge records of 2,621 admissions and found that:

- (a) only 1,131 (43%) admissions had completed both the detoxification and rehabilitation programmes (see para. 2.11); and
- (b) of the remaining 1,490 (57%) admissions, 405 failed to complete the detoxification programme and 1,085 only completed the detoxification programme. The reasons of discharge/background of the patients of these 1,490 admissions were as follows:
 - (i) 708 (47% of 1,490) admissions were self-discharge cases due to various personal reasons such as health issues, family issues and work commitments;
 - (ii) 548 (37% of 1,490) admissions were planned discharge cases. In these cases, the patients usually intended for short-term stay and expected to discharge after completing the detoxification programme; and
 - (iii) 234 (16% of 1,490) admissions were mainly dishonourably discharged (see para. 2.2(b)(ii)).

2.14 In February 2025, SARDA informed Audit that:

- (a) considering the voluntary nature of the residential T&R programmes in DTRCs, patients had the freedom to select the programme that best aligned with their distinct needs and backgrounds. For instance, some individuals might face financial difficulties and required employment to sustain their livelihood, making it challenging to commit to an extended stay at DTRCs;
- (b) SARDA's approach allowed patients finding a suitable T&R programme that accommodated their specific circumstances while providing the patients with the necessary support to overcome addiction. Patients would have a better chance of sustaining abstinence if they joined T&R programmes for a longer time. The flexibility and patient-centred care were key components in fostering long-term recovery and improving overall well-being; and
- (c) the completion rates of SARDA's detoxification and rehabilitation programmes had been over 85%. There were different factors affecting the successful completion of the general T&R programme, such as personal health conditions, financial situations, court hearing and family matters. SARDA strove to assist the patients, for instance by providing escort service, family support and individual counselling, to successfully complete the general T&R programme.

In Audit's view, there is a higher risk of relapse resulting in re-admission if a patient has only completed the detoxification programme. There is a need for SARDA to take measures to motivate the admitted patients to complete both detoxification and rehabilitation programmes under the general T&R programme.

Audit recommendation

2.15 **Audit has *recommended* that SARDA should take measures to motivate the admitted patients to complete both detoxification and rehabilitation programmes under the general T&R programme.**

Response from The Society for the Aid and Rehabilitation of Drug Abusers

2.16 SARDA agrees with the audit recommendation.

Occupancy of drug treatment and rehabilitation centres

2.17 For monitoring the performance of SARDA on residential drug T&R services, prior to signing of the new FSA in October 2024 (see para. 1.11(b)), DH has set three performance standards for SARDA, namely detoxification rate, rehabilitation rate and occupancy rate. SARDA is required to meet the performance standards and submit statistical returns regularly on the performance indicators. Regarding the occupancy rates, DH had set different standards for different DTRCs (i.e. 75% for SKC and 80% for the remaining three DTRCs) in the period from 2015-16 to 2024-25 (up to September 2024). In October 2024, upon signing of the new FSA with DH (see para. 1.11(b)), the occupancy standards for all DTRCs have been aligned at 75%.

Failure to meet the occupancy standards set by DH

2.18 Audit examined DH records of occupancy rates and SARDA's quarterly returns of performance indicators submitted to DH in the period from 2015-16 to 2024-25 (up to September 2024) (see Table 6) and found that:

- (a) the annual occupancy rates of SKC and WTC were below the occupancy standards of 75% and 80% respectively in the whole period, ranging from 39% to 70% for SKC and from 30% to 59% for WTC. In particular, both SKC and WTC could only meet less than half of their serving capacity since 2020-21; and
- (b) for the remaining two DTRCs, namely ATYC and AFRC, except for the 4-year period from 2016-17 to 2019-20 with occupancy rates above the standard of 80%, all the annual occupancy rates were below the standard, ranging from 41% to 76% for ATYC and from 44% to 79% for AFRC.

Table 6

**Occupancy rates of DTRCs
(2015-16 to 2024-25 (up to December 2024))**

Year	Occupancy rate (Note)			
	SKC	ATYC	WTC	AFRC
<i>Occupancy standard</i>	75 %	80 %		
2015-16	67%	76%	59%	79%
2016-17	70%	84 %	52%	84 %
2017-18	66%	86 %	50%	81 %
2018-19	69%	91 %	52%	86 %
2019-20	59%	82 %	51%	85 %
2020-21	39%	41%	30%	78%
2021-22	46%	62%	33%	56%
2022-23	48%	50%	31%	44%
2023-24	49%	75%	33%	61%
2024-25 (Up to September 2024)	47%	67%	32%	46%
<i>Occupancy standard (since October 2024)</i>	75 %			
2024-25 (October to December 2024)	53%	64%	40%	48%

Source: Audit analysis of DH and SARDA records

Note: According to FSAs signed between DH and SARDA, the occupancy rate is the percentage of bed days occupied divided by the total available bed days during the reporting period.

2.19 In October 2024, upon signing of the new FSA with DH (see para. 1.11(b)), the occupancy standards for all DTRCs have been aligned at 75%. However, the occupancy rates of all DTRCs in the period from October to December 2024 still fell short of the newly agreed occupancy standard (see Table 6 in para. 2.18). According

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to FSA signed between DH and SARDA, if SARDA fails to meet any of the performance standards, SARDA has to provide an explanation and work out a plan to improve performance of its services within a time frame as agreed by DH. In practice, the occupancy standards of DTRCs have been reviewed annually, and SARDA was invited to give an account of the low level of occupancy of the DTRCs and its plan to boost their occupancy rates.

2.20 According to SARDA, the low occupancy rates at DTRCs in recent years were attributable to the following:

- (a) during the outbreak of the coronavirus disease (COVID-19) epidemic in 2019-20 to 2021-22, SARDA had implemented stringent precaution measures at its DTRCs, such as admitting patients in small groups and one patient each time for SKC and the other three DTRCs respectively to maintain social distancing and avoid sharing rooms, which seriously affected the overall admission;
- (b) the continuous decline in reported drug abusers and the prevalence of hidden drug abuse led to a significant decrease in the number of referrals; and
- (c) psychotropic substances abuse patients with complicated nature required psychiatric follow up and thus would be more likely to drop out from T&R programme. Over 50% of its patients had mental problems and some of them were also suffering from mood and personality disorder or had self-harm tendency. These patients were fragile and had a low tolerance for frustration, making it difficult for them to adapt to group living.

2.21 Audit examined the enhancement measures proposed by SARDA to boost the occupancy of DTRCs for the period from 2015-16 to 2024-25 (up to September 2024) and found that:

- (a) **SKC.** For the years from 2019-20 to 2021-22, SARDA proposed to carry out a review on its T&R programme targeting at PSAs for service enhancement (i.e. Project SARDA — see para. 2.12(b)) as its share of bed spaces in SKC was far less than its corresponding share in the total reported cases with psychotropic substances abuse in the community. However, it was not until 2023 that SARDA expanded Project SARDA by launching

another new T&R programme targeting at PSAs who would receive SKC's T&R services for the first time (i.e. Project WAVE — see para. 2.12(c)); and

- (b) **WTC.** For the years from 2016-17 to 2023-24, SARDA proposed to strengthen its referral network with different service providers (such as hospitals, some service centres and counselling centres under SWD and other NGOs, methadone clinics, etc.) to promote the treatment services of SARDA.

Despite the fact that the above enhancement measures have been proposed and implemented for some years, Audit noted that the occupancy rates of DTRCs still fell short of the required standards in recent years. In Audit's view, SARDA, in consultation with DH, needs to take measures to improve the occupancy rates of its DTRCs.

Need to strengthen outreach registration and intake services

2.22 Upon approval of the additional subvention in October 2024 (see para. 1.11), with a view to boosting the occupancy rates of DTRCs to the standard, DH has required SARDA, among others, to redeploy manpower to perform outreaching duties with a view to identifying potential clients proactively and expanding the scope of services.

2.23 Audit notes that the outreach registration and intake services are arranged and conducted by the social service centres operated by SARDA once a month on a rotational basis. Audit examination of the records of the outreach registration and intake services of SARDA in 2024 (involving 12 times) revealed room for improvement, as follows:

- (a) ***Not all social service centres took part in outreach registration and intake services.*** Only 3 of the 4 social service centres operated by SARDA had conducted outreach registration and intake services;
- (b) ***Need to extend the variety of outreaching time and locations.*** Of the 12 outreach registration and intake services:

Voluntary residential drug treatment and rehabilitation services

- (i) outreach registration and intake services were performed only at 6 locations in the territory (i.e. Sham Shui Po Tung Chau Street Park and areas near 5 of the 18 methadone clinics (see para. 1.5(d))); and
- (ii) except for 1 outreach registration and intake service which was conducted at day time, the outreaching time was mainly set in the evening for the remaining 11 outreach registration and intake services; and
- (c) *Low admission rate arising from registered cases.* A total of 81 drug abusers were registered in the 12 outreach registration and intake services, of which only 6 (7% of 81) drug abusers were subsequently admitted into SARDA's DTRCs.

2.24 In February 2025, SARDA informed Audit that:

- (a) outreaching was the initial point of contact in the continuum of care for drug abusers. Building rapport with individuals suffering from addiction was a gradual process that required time and trust before they could be encouraged to engage in T&R services. Forging these relationships was an essential first step and was part of a comprehensive strategy;
- (b) there were various and more effective means of recruiting cases other than outreaching. For instance, collaboration with other service units such as hospitals, probation offices, and community organisations could significantly enhance referral processes and case acquisition. Through these partnerships, SARDA could create a robust referral network, ensuring that individuals in need were more efficiently connected to the appropriate T&R programmes. By leveraging these diverse recruitment methods, SARDA could effectively broaden its reach and provide timely support to a greater number of individuals struggling with drug addiction;
- (c) it had been actively organising a variety of programmes and activities to reach individuals in different locations, extending beyond the traditional outreaching efforts conducted by social service centres. For instance, in late 2024, a dedicated team was established to engage with Substance Abuse Clinics at hospitals. Social workers at methadone clinics also conducted

outreach work in the surrounding areas, often referred to as “black spots”, to connect with those in need of support; and

- (d) social workers from SKC regularly visited prisons and provided group activities for inmates, fostering rehabilitation and reintegration. These comprehensive initiatives highlighted SARDA’s commitment to reaching and supporting individuals across various settings, ensuring that those struggling with addiction received the necessary care and resources to overcome their challenges.

2.25 While acknowledging SARDA’s efforts in conducting outreaching work, and that DH has required SARDA to redeploy manpower to perform outreaching duties upon signing of the new FSA with DH in October 2024, Audit notes that there are no promulgated guidelines on outreach registration and intake services. In Audit’s view, there is a need for SARDA to promulgate guidelines on outreach registration and intake services and make improvements to address the inadequacies identified in paragraph 2.23.

Need to consider publishing occupancy rate and other performance standards in DH’s COR

2.26 Among the three performance standards (i.e. detoxification rate, rehabilitation rate and occupancy rate) set by DH in respect of the voluntary residential drug T&R services provided by SARDA, Audit noted that DH has only published two performance standards in its COR (see para. 1.12). The occupancy rate has not been reported as one of the key performance measures. Instead, DH has only reported the number of patients admitted for residential treatment and the number of bed days occupied at all residential DTRCs under its subvention, without stating the targets and achievements.

2.27 Audit considers that the indicators on the number of patients admitted and the number of bed days occupied at DTRCs reported in the COR may not be able to provide a comprehensive picture on the overall occupancy for SARDA’s DTRCs, as well as the attainment of the occupancy standard established between DH and SARDA. In addition, upon signing of the new FSA with DH in October 2024, several new performance standards to cover both existing services and new initiatives have

Voluntary residential drug treatment and rehabilitation services

been set (see para. 1.11(b)). With a view to better monitoring the performance of SARDA and enhancing transparency, DH should:

- (a) enhance the reporting of SARDA's performance in its COR, for example incorporating the occupancy rate of DTRCs as one of the performance targets in its COR; and
- (b) keep in view SARDA's performance on the new initiatives and consider incorporating the new performance indicators in its COR where appropriate.

Audit recommendations

2.28 Audit has *recommended* that SARDA should:

- (a) **in consultation with DH, take measures to improve the occupancy rates of its DTRCs; and**
- (b) **promulgate guidelines on outreach registration and intake services and make improvements to address the inadequacies identified in paragraph 2.23.**

2.29 Audit has also *recommended* that the Director of Health should:

- (a) **enhance the reporting of SARDA's performance in DH's COR, for example incorporating the occupancy rate of DTRCs as one of the performance targets in DH's COR; and**
- (b) **keep in view SARDA's performance on the new initiatives and consider incorporating the new performance indicators in DH's COR where appropriate.**

Response from The Society for the Aid and Rehabilitation of Drug Abusers

2.30 SARDA agrees with the audit recommendations in paragraph 2.28.

Response from the Government

2.31 The Director of Health agrees with the audit recommendations in paragraph 2.29.

Way forward

2.32 According to SARDA, it has consistently upheld the spirit of “No Drug Addict Left Behind”, dedicating itself to helping individuals overcome drug addiction and build a healthy new life since its establishment in 1961. SARDA has been playing a pivotal role in providing voluntary drug T&R services free of charge to drug abusers of all ages, genders, races, and religions, as well as providing diverse support services for their families, benefiting a significant number of drug abusers and their families. As mentioned in paragraph 1.14, there have been major changes in drug scene, notably the high proportion of drug abusers being young adults and the prevalence of psychotropic substances abuse (including vaping “space oil drug”). While SARDA mainly provides residential drug T&R programmes for abusers addicted to heroin and poly-drug abusers taking both heroin and psychotropic substances, in response to the changing drug scene, SARDA has launched T&R programmes targeting at patients with only psychotropic substances abuse in SKC (i.e. Project SARDA and Project WAVE which have been launched in 2010 and 2023 respectively), providing a total of 60 rehabilitation beds (see Note 9 to para. 2.12).

2.33 Audit examined SARDA records and found that the occupancy rates of Project SARDA were generally higher than that of the overall situation of SKC in the period from 2019-20 to 2024-25 (up to September 2024) (see Table 7). The higher occupancy rates of Project SARDA are consistent with the changing drug scene on the prevalence of psychotropic substances abuse (see para. 1.14(c)).

Table 7

**Comparison of occupancy rates of SKC and Project SARDA
(2019-20 to 2024-25 (up to September 2024))**

	Occupancy rate					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25 (up to September 2024)
SKC	59%	39%	46%	48%	49%	47%
Project SARDA	75%	65%	69%	75%	68%	89%

Source: Audit analysis on SARDA records

2.34 The changing drug scene demands a proactive approach to ensure that the services provided by SARDA remain relevant and responsive to the emerging needs of individuals seeking support and rehabilitation. Audit observations on the high proportion of re-admission cases, high frequency of re-admission of patients, large number of patients discharged without completing both the detoxification and rehabilitation programmes and the persistently low occupancy rates of DTRCs revealed that there might be a need for SARDA to evaluate whether its drug T&R services can respond to the changes in drug scene in recent years and support Government's anti-drug policy. In order to make continuous improvement, SARDA needs to regularly review the provision of T&R services under its purview taking into account the changing drug scene.

Audit recommendation

2.35 **Audit has recommended that SARDA should regularly review the provision of T&R services under its purview for continuous improvement taking into account the changing drug scene.**

Response from The Society for the Aid and Rehabilitation of Drug Abusers

2.36 SARDA agrees with the audit recommendation.

PART 3: AFTERCARE AND COUNSELLING SERVICES

3.1 This PART examines the work of SARDA in providing aftercare and counselling services, focusing on:

- (a) aftercare services (paras. 3.2 to 3.12);
- (b) halfway house service (paras. 3.13 to 3.24); and
- (c) MTP counselling service (paras. 3.25 to 3.29).

Aftercare services

3.2 According to ND, the process of rehabilitation is no easier than treatment. In particular, drug rehabilitees are often most fragile and prone to falling prey to relapse to drugs soon after completing their residential treatment programmes and attempting to reintegrate into the society as the open environment, full of temptation to drugs and life challenges, is very different from the secluded environment of DTRCs where intensive care and guidance are provided. As such, provision of aftercare services is crucial in minimising the rehabilitees' psychological dependence on drugs as well as achieving their social rehabilitation upon re-entry into the community where they will live in and work. For this purpose, SARDA provides the rehabilitees with aftercare services for 12 months after their discharge from DTRCs with completion of at least the detoxification phase (see para. 2.11).

3.3 According to SARDA's SSDM, in the first six months of aftercare services, the focus of professional interventions is assisting the rehabilitees with psychological adaptation and social adaptation while in the subsequent six months of aftercare services, the focus shifts to assisting them in maintaining life balance, setting long-term recovery plans and establishing social support networks.

Effectiveness of aftercare services

3.4 As at 31 March 2024, there were 982 rehabilitees receiving aftercare services. As shown in Table 1 in paragraph 1.6, the effectiveness of aftercare services is measured with reference to the four key performance indicators, namely, re-application rate, aftercare completion rate, employment rate and criminal rate. Audit found that there was scope for improvement in compiling and disclosing these key performance indicators as mentioned in paragraphs 3.5 to 3.7.

3.5 ***Re-application rate.*** From 2019-20 to 2023-24, the published re-application rates ranged from 1.8% to 3.1%. According to SARDA:

- (a) the re-application rate was calculated by dividing the total number of patients who re-applied to SARDA's DTRCs when they were receiving aftercare services by the total number of aftercare cases during the reporting period; and
- (b) the aftercare services provided to rehabilitees normally last for 12 months. In preparing the yearly re-application rate, it added up the numbers of aftercare cases at each month end. For example, in 2023-24, out of the 12,088 aftercare cases (i.e. adding up the number of aftercare cases at each month end), there were 319 cases in which the rehabilitees had relapsed when they were receiving aftercare services and re-applied to DTRCs. Therefore, the re-application rate in 2023-24 was 2.6% (i.e. 319 divided by 12,088).

As the aftercare cases normally last for 12 months, there would be duplications in the 12,088 aftercare cases. Taking SKC as an example, after eliminating the duplications, the total number of aftercare cases during 2023-24 would be reduced by 7,460 (87%) from 8,607 to 1,147. The re-application rate for SKC in 2023-24 should be adjusted from 3.6% to 26.8%. In Audit's view, SARDA needs to review the number of aftercare cases adopted in the calculation of the re-application rate in its annual report and ascertain whether the rate had been understated.

3.6 ***Aftercare completion rate.*** From 2019-20 to 2023-24, the published aftercare completion rates ranged from 93.7% to 95.3%. According to SARDA:

- (a) the aftercare completion rate was calculated by dividing the total number of aftercare closed cases which had successfully completed the required aftercare period by the total number of aftercare closed cases; and
- (b) in 2023-24, there were 189 aftercare closed cases and the number of successful completion cases was 177 (93.7% of 189), in which the required aftercare period was met.

Audit noted that the calculation in 2023-24 did not include the 319 re-application cases (see para. 3.5(b)). If these cases were taken into account, the aftercare completion rate would be significantly reduced. Audit considers that SARDA needs to state the basis on the compilation of aftercare completion rate in its annual report.

3.7 *Employment rate and criminal rate.* From 2019-20 to 2023-24, the published employment rates and criminal rates ranged from 40.6% to 60.6% and 2.2% to 4.4% respectively. According to SARDA, in measuring the employment rate and criminal rate, the social workers would interview the rehabilitees at the time of aftercare services successfully completed for their employment status and criminal records during the aftercare period. Some rehabilitees could not be contacted or might have refused to discuss their employment status and criminal records (i.e. unknown cases). Audit examination found that (see Table 8):

- (a) from 2019-20 to 2023-24, there was generally a rising trend in the number of unknown cases. In 2023-24, the numbers of unknown cases on employment status and criminal records of rehabilitees were 46% and 45% of the total number of closed cases with aftercare services successfully completed respectively; and
- (b) SARDA included the unknown cases in the population for calculating the employment rate and criminal rate. Given the significant number of unknown cases, the employment rates and criminal rates published in SARDA's annual report might not have reflected the actual scenario.

Audit considers that SARDA needs to make greater efforts in ascertaining the employment status and the criminal records of rehabilitees having successfully completed the aftercare services.

Table 8

**Employment status and criminal records of rehabilitees
among the aftercare closed cases with services successfully completed
(2019-20 to 2023-24)**

	Number of cases				
	2019-20	2020-21	2021-22	2022-23	2023-24
<i>Employment status</i>					
Full-time/part-time/ casual	163 (60%)	124 (55%)	83 (52%)	56 (41%)	71 (45%)
Unemployed	53 (20%)	70 (31%)	38 (24%)	40 (29%)	14 (9%)
Unknown	53 (20%)	31 (14%)	38 (24%)	42 (30%)	72 (46%)
Total	269 (100%)	225 (100%)	159 (100%)	138 (100%)	157 (100%)
<i>Criminal record</i>					
Convicted	6 (2%)	10 (4%)	6 (4%)	5 (4%)	6 (4%)
No criminal record	207 (77%)	184 (82%)	113 (71%)	94 (68%)	80 (51%)
Unknown	56 (21%)	31 (14%)	40 (25%)	39 (28%)	71 (45%)
Total	269 (100%)	225 (100%)	159 (100%)	138 (100%)	157 (100%)

Source: Audit analysis of SARDA records

3.8 As mentioned in paragraph 3.2, the provision of aftercare services is crucial in minimising the rehabilitees' psychological dependence on drugs as well as achieving their social rehabilitation upon re-entry into the community where they will live in and work. However, in view of the inherent weaknesses identified in the compilation of the four key performance indicators as mentioned above, it appears that the effectiveness of aftercare services cannot be reliably measured by the performance indicators included in the annual report. Furthermore, the prolonged aftercare services due to loss of contact with the rehabilitees is also a cause of concern (see paras. 3.9 and 3.10).

***Need to promulgate guidelines on
the criteria of closing aftercare cases***

3.9 While SARDA is committed to providing 12-month aftercare services to rehabilitees discharged from DTRCs according to SSDM, Audit noted that the duration of aftercare services provided to each rehabilitee varied. Audit examination of the 507 aftercare closed cases (excluding re-application cases — see para. 3.6) during 2021-22 to 2023-24 revealed the following (see Table 9):

- (a) in 373 (73%) cases, the rehabilitees received aftercare services for more than 2 years; and
- (b) in particular, in 121 (24%) cases, the rehabilitees received the services for more than 5 years, ranging from 5.01 to 9.55 years.

Table 9

**Duration of aftercare services provided to rehabilitees
among the 507 aftercare closed cases
(2021-22 to 2023-24)**

Number of years	Number of cases			
	2021-22	2022-23	2023-24	Overall
1 or less	7 (4%)	12 (8%)	15 (8%)	34 (7%)
More than 1 to 2	45 (26%)	31 (21%)	24 (13%)	100 (20%)
More than 2 to 3	30 (18%)	16 (11%)	15 (8%)	61 (12%)
More than 3 to 4	24 (14%)	34 (23%)	46 (24%)	104 (20%)
More than 4 to 5	25 (15%)	25 (17%)	37 (20%)	87 (17%)
More than 5 (Note)	39 (23%)	30 (20%)	52 (27%)	121 (24%)
Total	170 (100%)	148 (100%)	189 (100%)	507 (100%)

373
(73%)

Source: Audit analysis of SARDA records

Note: The longest period of aftercare services provided to a rehabilitee was 9.55 years and the case was closed in 2022-23.

Remarks: There were 7 aftercare cases (2022-23: 4 cases; 2023-24: 3 cases) closed within 1 year but SARDA considered them as having successfully completed the required aftercare period (see para. 3.6). On the other hand, there were 2 aftercare cases (2021-22: 1 case; 2022-23: 1 case) closed after more than 1 year but SARDA considered them as not having successfully completed the required aftercare period. According to SARDA, of those 9 cases, 5 cases were closed within 1 year due to the death of rehabilitees. The misclassification of the remaining 4 cases were due to input errors in the calculation of aftercare completion rates.

3.10 Audit examined 5 aftercare closed cases and noted the following:

- (a) in 4 cases, the reason for closing the cases was loss of contact with the rehabilitees. For example, in the case with the longest period of aftercare services (i.e. 9.55 years — see Note to Table 9 in para. 3.9), the rehabilitee was discharged from a DTRC in December 2012. According to SARDA's case file, the rehabilitee was last interviewed in September 2015. As SARDA had made multiple attempts to contact him but in vain, the case was closed in June 2022; and

- (b) in the remaining case, the rehabilitee was self-discharged from a DTRC after completing the detoxification programme in October 2020. According to the case note of January 2022, the rehabilitee had relapsed immediately after discharge. During the period from February 2022 to October 2023, there was no record in the case file of any aftercare services provided to the rehabilitee. In the closing summary, the social worker recorded that as the rehabilitee insisted that he would contact the social worker for re-admission when necessary, the case was closed in November 2023.

Audit noted that there were no guidelines on the criteria of closing aftercare cases. In order to better utilise the resources, Audit considers that SARDA needs to promulgate guidelines on the criteria of closing the aftercare cases and document the justifications for providing prolonged aftercare services exceeding the 12-month period.

Audit recommendations

3.11 Audit has *recommended* that SARDA should:

- (a) **review the number of aftercare cases adopted in the calculation of the re-application rate in its annual report and ascertain whether the rate had been understated;**
- (b) **state the basis on the compilation of aftercare completion rate in its annual report;**
- (c) **make greater efforts in ascertaining the employment status and the criminal records of rehabilitees having successfully completed the aftercare services; and**
- (d) **promulgate guidelines on the criteria of closing the aftercare cases and document the justifications for providing prolonged aftercare services exceeding the 12-month period.**

Response from The Society for the Aid and Rehabilitation of Drug Abusers

3.12 SARDA agrees with the audit recommendations.

Halfway house service

3.13 SARDA operates five halfway houses with 76-bed spaces to provide transitory accommodation in a semi-protective and supportive environment for the ex-drug abusers newly discharged from DTRCs so as to facilitate their reintegration into society. Among the five halfway houses, the four halfway houses are subvented by SWD while the remaining one is operated on a self-financing basis (see Table 10).

Table 10

**Halfway houses operated by SARDA
(31 December 2024)**

Halfway house	Target group	Capacity
	Gender	Number of beds
Bradbury Hong Ching Centre	Male	14
Bradbury Pui Ching Centre (Note)	Male	18
Female Hostel	Female	12
Kowloon Hostel	Male	16
Luen Ching Centre	Male	16
Total		76

Source: SARDA records

Note: Since November 2003, Bradbury Pui Ching Centre has been hived off from government subvention and operated on a self-financing basis. SARDA's service provided in this halfway house was not covered in this audit review.

Remarks: SARDA obtained licences to operate DTRCs and halfway houses pursuant to the Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance (Cap. 566). According to the licences, the total maximum number of residents that the halfway houses were capable of accommodating was 93, which was more than the number of beds as stated. According to SARDA, the difference was to facilitate the management of the halfway houses and accommodate more residents when necessary.

3.14 SARDA's halfway house services (Note 10) include:

- (a) providing transitory accommodation (Note 11) to the discharged ex-drug abusers of DTRCs before they are able to lead an independent living in the community;
- (b) procuring medical and allied health care, and drug-testing services for the residents;
- (c) providing nursing care services including but not limited to daily nursing duties, administration and supervision of medication, and delivering health care talks for staff, residents and/or their families;
- (d) providing peer support services for residents and their family members by providing emotional and empathetic support to facilitate detoxification, treatment, rehabilitation and relapse prevention; and
- (e) providing various programmes (e.g. vocational training, groups, counselling, training and activities) to the residents to cultivate their interests in healthy hobbies, develop a productive lifestyle and prepare for reintegrating into the community.

Note 10: *As mentioned in paragraph 1.11(b), a new FSA was signed between SWD and SARDA in October 2024, in which medical and allied health care, drug-testing services, nursing care services and peer support services were newly added (see para. 3.14(b) to (d)).*

Note 11: *For the four subvented halfway houses, residents have to pay SARDA the residential fee which is determined by SWD (2023-24: \$13 per day). SARDA does not provide meals in halfway houses but may coordinate for the meals, with the amount of meal fee agreed among residents. Residents of halfway houses have to comply with SARDA's housekeeping rules which aim at promoting disciplines and encouraging cooperation among residents, and cover areas such as time to return to the halfway houses, financial management, regular and spot urine tests, and inhibiting improper behaviour such as gambling and drinking alcohol, etc. Depending on the severity of non-compliance with the rules, it may result in a verbal warning, a written warning and denial of renewal of residence, or a request to move out immediately.*

Need to sustain efforts in meeting performance standards

3.15 According to FSA signed with SWD for the four subvented halfway houses which was effective from July 2006 to September 2024, SARDA was required to provide 24-hour care per day with at least one staff member present at all times. In addition, SARDA had to meet the following performance standards:

- (a) the rate of placement occupancy (Note 12), with an agreed level at 95 % per halfway house per year;
- (b) the total number of hours for rendering groups, counselling, training and activities (Note 13) to the residents by registered social workers, with an agreed level at a total of 480 hours per year for the four subvented halfway houses; and
- (c) the rate of achieving case plans (Note 14) with goals accomplished, with an agreed level at 65 % per halfway house per year.

3.16 To strengthen the medical/allied health support and aftercare services for drug rehabilitees, a new FSA, covering the period from 1 October 2024 to 30 September 2029 with the provision of additional subvention, was signed between SWD and SARDA. According to the new FSA, SARDA is required to meet nine additional performance standards (e.g. the number of accredited vocational training sessions, the number of medical consultation/treatment sessions provided to residents, and the percentage of service users indicating improvement in occupational efficacy and self-esteem after having received accredited vocational training).

Note 12: *Placement occupancy refers to the number of places of the halfway house occupied, starting from the date of admission to the date of formal discharge.*

Note 13: *Each session should last for at least half an hour with specific objectives gearing to reintegration of the residents such as maintaining drug abstinence and preventing relapse, cultivating interests in healthy hobbies, developing life skills and financial management skills, and improving interpersonal and family relationships.*

Note 14: *A case plan refers to a goal-oriented plan agreed between the social worker and the resident and aims at helping the resident in maintaining a drug-free life and reintegration into community.*

3.17 Audit examined the quarterly returns submitted to SWD by SARDA for the period from 2019-20 to 2023-24 and noted that:

- (a) the rates of placement occupancy of the four subvented halfway houses only attained the agreed level at 95% in some years. For Bradbury Hong Ching Centre, the rates of placement occupancy only ranged from 59% to 84% during the period (see Table 11); and
- (b) except for not meeting the agreed level at a total of 480 hours as required for rendering groups, counselling, training and activities to the residents by registered social workers in 2020-21 (actual hours being 248 hours), the agreed levels of the other two performance standards (see para. 3.15(b) and (c)) were met during the period.

Table 11

**Rates of placement occupancy of the four subvented halfway houses
(2019-20 to 2023-24)**

Halfway house	2019-20	2020-21	2021-22	2022-23	2023-24
Bradbury Hong Ching Centre	80%	59%	76%	63%	84%
Female Hostel	106%	75%	81%	83%	100%
Kowloon Hostel	101%	79%	92%	97%	96%
Luen Ching Centre	103%	66%	81%	98%	96%

Source: Audit analysis of SARDA records

Remarks: As mentioned in the remarks to Table 10 in paragraph 3.13, the total maximum number of residents that the halfway houses were capable of accommodating was 93. As the number of beds occupied in the Female Hostel, Kowloon Hostel and Luen Ching Centre in 2019-20 exceeded the number of beds subvented by SWD, the rates of placement occupancy exceeded 100%.

3.18 Despite that the rates of placement occupancy showed improvement in 2023-24, Audit considers that SARDA needs to sustain efforts in meeting the agreed

Aftercare and counselling services

level of rate of placement occupancy in each halfway house as required by FSA signed with SWD.

Long duration of resident placements in halfway houses

3.19 According to FSAs signed with SWD for the four subvented halfway houses, the normal duration of placement in halfway houses is 3 to 6 months. According to SARDA's guidelines:

- (a) after a 9-week stay in a DTRC, a DTRC resident may apply for halfway house service;
- (b) the responsible social worker will arrange a meeting with the applicant, consult the principal of DTRC and the applicant's family, and assess the applicant's need for halfway house service (Note 15); and
- (c) after admitting to a halfway house, the social worker will conduct progress review of the service needs of the resident every 6 weeks.

3.20 Audit examined the list of residents in the four subvented halfway houses as at 31 December 2024 and noted that of the 60 residents (see Table 12):

- (a) 34 (56%) residents had been residing in the halfway houses for 6 months or less;
- (b) 13 (22%) residents had been residing in the halfway houses for more than 6 months to 1 year; and
- (c) 13 (22%) residents had been residing in the halfway houses for more than 1 year, including 3 residents in the Female Hostel residing for more than 4 years.

Note 15: *The assessment criteria include the applicant's financial condition, emotional and psychological condition, motivation in job seeking, preventive plan for relapse, family relationship and enthusiasm for participating in activities, etc.*

Table 12

**Duration of resident placement in the four subvented halfway houses
(31 December 2024)**

Halfway house	Number of residents			
	6 months or less	More than 6 months to 1 year	More than 1 year	Total
Bradbury Hong Ching Centre	13 (81%)	3 (19%)	0 (0%)	16 (100%) (Note 1)
Female Hostel	1 (9%)	2 (18%)	8 (73%)	11 (100%)
Kowloon Hostel	11 (64%)	3 (18%)	3 (18%)	17 (100%) (Note 1)
Luen Ching Centre	9 (56%)	5 (31%)	2 (13%)	16 (100%)
Overall	34 (56%)	13 (22%)	13 (22%) (Note 2)	60 (100%)

Source: Audit analysis of SARDA records

Note 1: While the number of subvented beds in the Bradbury Hong Ching Centre and the Kowloon Hostel was 14 and 16 (see Table 10 in para. 3.13) respectively, the maximum numbers of residents under the licences issued pursuant to the Drug Dependent Persons Treatment and Rehabilitation Centres (Licensing) Ordinance was 18 and 20 respectively.

Note 2: The resident with longest placement had been residing in the Female Hostel for 5.2 years as at 31 December 2024.

3.21 Audit noted that 3 of 11 residents had been residing in the Female Hostel for more than 4 years as at 31 December 2024. Upon enquiry, SARDA informed Audit in January 2025 that:

- (a) all applications for halfway houses were thoroughly reviewed and discussed in the halfway house meetings to ensure fairness and transparency; and
- (b) to optimise the use of available resources and make good use of bed vacancies, SARDA, where necessary, would extend the stay of existing residents to support their rehabilitation process effectively.

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3.22 Audit examined the case files of the 3 residents who had been residing in the Female Hostel for more than 4 years (ranging from 4.9 to 5.2 years) and noted the following:

- (a) ***Progress review not timely conducted.*** In general, the progress review was conducted every 3 months, instead of every 6 weeks as required by SARDA's guidelines (see para. 3.19(c));
- (b) ***Lack of justifications for extension.*** Comments were given by the social workers for recommending the extension of residence in the halfway house for their supervisors' approval. In most cases, the comments made were on the residents' employment and family relationship without documenting any justifications for the need for transitory accommodation; and
- (c) ***Approval of residence for only few nights per week or month in halfway house.*** The residents were approved to reside in the halfway house for 1 to 3 nights per week or per month. According to FSAs signed with SWD, the objective of halfway house service is to provide living accommodation in a semi-protective and supportive environment for ex-drug abusers newly discharged from DTRCs so as to facilitate their reintegration into society. Audit is concerned about if this practice deviates from the objective.

In February 2025, SARDA informed Audit that apart from the progress review, extra procedures were conducted to review the performance of each resident and the residents' behaviours were recorded in the hostel duty logbook by the hostel warden. In Audit's view, SARDA needs to conduct progress review for residents of halfway houses according to its guidelines in a timely manner and document full justifications for the extension of residence in halfway houses for each case. In addition, the practice of allowing residence for only few nights per week or month in halfway houses might not achieve its objective and exaggerate the rate of placement occupancy. In order to better utilise the resources, Audit considers that SARDA needs to consider ceasing the practice of allowing rehabilitees to reside in the halfway houses for only few nights.

Audit recommendations

3.23 **Audit has *recommended* that SARDA should:**

- (a) **sustain efforts in meeting the agreed level of rate of placement occupancy in each halfway house as required by FSA signed with SWD;**
- (b) **conduct progress review for residents of halfway houses according to its guidelines in a timely manner and document full justifications for the extension of residence in halfway houses for each case; and**
- (c) **consider ceasing the practice of allowing rehabilitees to reside in the halfway houses for only few nights.**

Response from The Society for the Aid and Rehabilitation of Drug Abusers

3.24 SARDA agrees with the audit recommendations. The Chairman of the Executive Committee, The Society for the Aid and Rehabilitation of Drug Abusers has said that SARDA has already ceased the practice as mentioned in paragraph 3.23(c) recently.

Methadone Treatment Programme counselling service

3.25 MTP was introduced by DH in 1972 to offer an alternative way of outpatient drug T&R services for opiate abusers. Since 1993, SARDA has assumed the responsibility to provide counselling service to methadone patients, which may take place in the 18 methadone clinics or at any suitable venue such as SARDA's social service centres, and outside clinic hours. Methadone patients under the age of 21, first-time applicants and female patients are automatically included in MTP counselling service. Other methadone patients may also join the counselling service through self-application, referral by doctors or invitation by SARDA's social workers.

3.26 According to SARDA's SSDM, when a patient is admitted into MTP counselling programme, he/she is assigned to a social worker, who has the following responsibilities:

Aftercare and counselling services

- (a) **Direct services.** These include the initial assessment interview (Note 16), on-going counselling interviews (Note 17) and crisis intervention services, etc. If the patient fails to attend a counselling appointment or has irregular attendance in methadone medication, his/her social worker has to take follow-up actions including conducting home visits or making phone calls; and
- (b) **Case management.** This includes periodic case review, regular meetings with clinic doctor to review the patient's status and progress, and referrals to external services. The social worker has to assess the patient's needs, make effective referrals (for external services such as social security, housing, psychiatric consultation and financial assistance) and take follow-up action on the referrals.

In 2023-24, 1,902 methadone patients received counselling services. SARDA's social workers conducted 16,122 interviews and 669 visits for them and 1,314 referrals were made to external services.

Need to ascertain the reasons for the decrease in number of participants in group programmes

3.27 In addition to the individual counselling services, SARDA organised a series of group services for methadone patients, including family group, youth group, female group etc. As shown in Table 1 in paragraph 1.6, in the period from 2019-20 to 2023-24, while the number of methadone patients receiving counselling services remained at about 1,900 each year and the number of group programmes increased by 10% from 584 in 2019-20 to 643 in 2023-24, the number of persons participating in group programmes decreased by 27% from 6,423 in 2019-20 to 4,702 in 2023-24. With a view to evaluating and enhancing the effectiveness of group programmes, Audit considers that SARDA needs to ascertain the reasons for the decrease in the number of participants and take appropriate follow-up actions.

Note 16: *This involves tasks such as clarifying the objective of MTP and misunderstanding about methadone, assessing the patient's treatment needs, developing a preliminary treatment plan and addressing the urgency of the patient's psycho-social needs or presenting problems, etc.*

Note 17: *Common topics include clinic discipline, family problems and social relationship.*

Audit recommendation

3.28 Audit has *recommended* that SARDA should ascertain the reasons for the decrease in the number of participants in group programmes of MTP counselling service and take appropriate follow-up actions.

Response from The Society for the Aid and Rehabilitation of Drug Abusers

3.29 SARDA agrees with the audit recommendation.

PART 4: CORPORATE GOVERNANCE AND ADMINISTRATIVE ISSUES

4.1 This PART examines SARDA's corporate governance and administrative issues, focusing on:

- (a) governance structure (paras. 4.2 to 4.11);
- (b) attendance and proceedings of committee meetings (paras. 4.12 to 4.20);
- (c) management of membership (paras. 4.21 to 4.26); and
- (d) human resources management (paras. 4.27 to 4.37).

Governance structure

4.2 SARDA is governed by its EC which is supported by two committees, namely MC and RC (see para. 1.7). Under the direction of EC, the Executive Director of SARDA is responsible for the overall management of SARDA and overseeing day-to-day operations. The main duties of the committees are as follows:

- (a) **EC.** EC provides steer to SARDA in its long term development and in the achievement of its aims and objectives in accordance with its vision and mission. According to the Constitution of SARDA, the general management of the affairs of SARDA shall be conducted by EC which may take any action or exercise any powers in the name of SARDA deemed necessary to further its aims;
- (b) **MC.** MC is mainly responsible for overseeing all matters of SARDA and supervising the work of the Executive Director in the administration and day-to-day management of SARDA, and making recommendations to EC on policy changes and advising on major decision-making; and
- (c) **RC.** RC is mainly responsible for identifying areas of research and programme evaluation that can improve T&R programmes and services of SARDA and updating information on local and overseas research findings

in the drug area that has important bearings on SARDA's T&R programmes and services.

4.3 Table 13 shows the number of EC, MC and RC members as at 31 December 2024.

Table 13

**Number of EC, MC and RC members
(31 December 2024)**

EC			MC			RC	
Voting member	Ex-officio member	Government representative (Note 1)	Voting member	Ex-officio member	Government representative (Note 2)	Voting member	Ex-officio member
22	6	2	16	6	1	10	3

Source: SARDA records

Note 1: The government representatives were from ND and DH respectively. According to FSA signed between DH and SARDA, they attend the meetings of EC as observers.

Note 2: The government representative was from DH. According to FSA signed between DH and SARDA, the government representative attends the meetings of MC as an observer.

Room for improvement in the governance of EC

4.4 According to the Constitution of SARDA, members of EC shall be elected in the annual general meeting from members of SARDA (see para. 4.21), and thereafter members of EC shall elect among themselves as Officers. The Officers include the Chairman, the Vice-Chairman, the Honorary Treasurer, the Honorary Secretary, the Immediate Past Chairman, the Chairman of MC and the Chairman of RC. Audit examination of the membership of EC found areas for improvement, as follows:

- (a) ***Need to comply with the requirement on number of members in EC as stipulated in the Constitution of SARDA.*** According to the Constitution

of SARDA, EC shall consist of the Officers and not more than 16 other members of SARDA excluding the government representatives, ex-officio members and co-opted members. Audit examination found that in the term years 2019-20 and 2020-21 (Note 18), EC had 17 members (excluding the government representatives, ex-officio members and co-opted members), exceeding the maximum number of members by 1 as stipulated in the Constitution of SARDA; and

- (b) ***Terms of some Officers in EC longer than norm as stipulated in the Constitution of SARDA.*** According to the Constitution of SARDA, the individual term of each Officer will not normally extend beyond 5 years except with the consent of at least two-thirds of members present and voting at EC meeting at which such member is nominated. Audit examination found that 4 (57%) of the 7 Officers in EC, namely the Chairman, the Vice-Chairman, the Immediate Past Chairman and the Chairman of RC, had been elected to the same posts for a long period of 14 years from 2011-12 to 2024-25.

4.5 In Audit's view, as a good governance structure and with a view to enhancing a sustainable development of EC of SARDA, SARDA needs to take measures to ensure that:

- (a) the composition of its EC is in compliance with the requirement as stipulated in its Constitution; and
- (b) a succession mechanism is drawn up for its EC, especially for the Chairman and key posts (such as the Honorary Secretary, the Honorary Treasurer, etc.), where there are no such restrictions in its Constitution, including the maximum terms of office and number of consecutive terms.

Note 18: *Since the committee members of MC and RC are appointed in the first meeting of EC in December each year, a term year is regarded as the 12-month period starting in December of a year and ending in November of the following year (e.g. the term year 2023-24 ran from December 2023 to November 2024). For simplicity, all years mentioned in paragraphs 4.4 to 4.26 are referred to as term years.*

Need to consider publishing audited annual accounts and/or annual financial statements of SARDA

4.6 According to FSAs signed with DH, SARDA is required to submit, among others, audited annual accounts of SARDA as a whole and annual financial statements for all DH subvented activities after the end of each financial year to DH. However, FSAs have no disclosure requirements on them.

4.7 Audit found that the audited annual accounts and annual financial statements of SARDA were submitted to DH for internal monitoring to ensure full compliance with the requirements as stipulated in FSAs, and these accounts had never been published in the websites of DH nor SARDA. In this connection, Audit notes that NGOs receiving lump sum grant subvention by SWD are required to make available their annual financial reports to the public to enhance transparency and public accountability. As SARDA is receiving government subvention which forms a major part of its income (see para. 1.9), Audit considers that despite the fact that FSAs did not require SARDA to disclose its audited annual accounts and/or annual financial statements, SARDA needs to consider publishing the audited annual accounts and/or annual financial statements on its website or displaying the hyperlink to them in its annual report for enhancing public accountability.

Room for improvement in monitoring strategic management of SARDA

4.8 Strategic planning helps an organisation achieve its goals and objectives. It lays out the practical steps to accomplish the organisation's vision and mission. To implement a strategic plan effectively, it is important to have a monitoring and tracking system, which monitors progress, compiles management information, and keeps the plan on course. According to FSAs signed with DH, with a view to providing effective strategic directions for future development, SARDA should establish a formal strategic planning process, which includes:

- (a) conducting regular review and updating the strategic plan at least on a yearly basis;
- (b) evaluating the implementation of the strategic plan upon its expiry; and

- (c) assessing the financial resources required for implementing initiatives set out in its strategic issues that pose challenges to SARDA.

4.9 While a strategic plan was provided to Audit, Audit examination of the strategic plan and relevant records found that:

- (a) there were no effective and expiry dates stated in the strategic plan;
- (b) there was no documentary evidence showing that SARDA had conducted any yearly review and updating, and evaluation of the strategic plan, contrary to the requirements as set out in FSAs; and
- (c) SARDA had neither discussed nor approved any strategic plan in the meetings of EC and MC from 2019-20 to 2023-24.

With a view to providing effective strategic directions for SARDA's future development, Audit considers that SARDA needs to submit its strategic plan and other related records on the regular review, updating and evaluation of the plan to its EC for approval.

Audit recommendations

4.10 **Audit has *recommended* that SARDA should:**

- (a) **take measures to ensure that:**
 - (i) **the composition of its EC is in compliance with the requirement as stipulated in its Constitution; and**
 - (ii) **a succession mechanism is drawn up for its EC, especially for the Chairman and key posts (such as the Honorary Secretary, the Honorary Treasurer, etc.), where there are no such restrictions in its Constitution, including the maximum terms of office and number of consecutive terms;**

- (b) consider publishing the audited annual accounts and/or annual financial statements of SARDA on its website or displaying the hyperlink to them in its annual report for enhancing public accountability; and
- (c) submit its strategic plan and other related records on the regular review, updating and evaluation of the plan to its EC for approval.

Response from The Society for the Aid and Rehabilitation of Drug Abusers

4.11 SARDA agrees with the audit recommendations. With regard to paragraph 4.10(a)(ii), the Chairman of the Executive Committee, The Society for the Aid and Rehabilitation of Drug Abusers has said that:

- (a) SARDA has been following the Constitution to arrange elections for the post of Chairman of EC and other key posts annually. Members have been convinced by the competences and devotion of certain candidates and therefore, elected them to continue to lead SARDA in previous years;
- (b) given the complexity of drug addiction problem and the comorbidity of health issues of drug abusers, it often requires, among other competences, more specialised knowledge, more extensive experience and stronger commitment for the management of an organisation to run drug T&R services than other social services. The pool of candidates may be restricted for SARDA; and
- (c) SARDA will take measures to promote membership with a view to allowing more suitable candidates for the key posts in EC.

Attendance and proceedings of committee meetings

Low attendance rate of committee meetings

4.12 ***Attendance of members.*** According to the Constitution of SARDA, EC shall meet not less than four times during its term of office. In general, EC holds five meetings in each year while MC usually holds four meetings and RC holds

Corporate governance and administrative issues

two meetings in each year. Audit reviewed the records of meetings from 2019-20 to 2023-24 (involving 23 EC meetings, 19 MC meetings and 10 RC meetings) and found that:

- (a) the attendance rates of 8 (35%) of the 23 EC meetings, 11 (58%) of the 19 MC meetings and 2 (20%) of the 10 RC meetings were below 70% (see Table 14); and
- (b) in particular, the attendance rate of 1 of the 19 MC meetings was below 50% (i.e. 47%).

Table 14

**Number of meetings held and attendance rates
(2019-20 to 2023-24)**

Attendance rate	Number of meetings held		
	EC	MC	RC
90% to 100%	0	0	4
80% to 89%	8	4	2
70% to 79%	7	4	2
60% to 69%	4	8	1
50% to 59%	4 } 8	2 } 11	1 } 2
40% to 49%	0	1	0
Total	23	19	10

Source: Audit analysis of SARDA records

4.13 **Low attendance rates for some individual voting members.** Audit analysed the attendance rates of individual voting members of respective committee meetings from 2019-20 to 2023-24 and found that:

- (a) **EC meetings.** There were 3 to 7 voting members who attended less than half of the meetings held in each year (see Table 15). In particular:

- (i) 1 voting member had not attended any EC meeting held from 2019-20 to 2020-21. While he did not serve as EC voting member since 2021-22, he was appointed as an MC voting member since 2021-22. Despite the fact that he had not attended any of the 12 MC meetings held since his appointment, he was re-appointed as an MC voting member in 2024-25; and
- (ii) another member had served as both EC and MC voting member from 2019-20 to 2023-24. While his attendance rates for both EC and MC meetings were low (i.e. only attended 3 (13%) of the 23 EC meetings and 3 (16%) of the 19 MC meetings held in the period), he was re-appointed as an MC voting member in 2024-25;

Table 15

**Attendance rates of individual voting members of EC
(2019-20 to 2023-24)**

Attendance rate	Number of voting members of EC				
	2019-20 (3 meetings) (Note 1)	2020-21 (5 meetings)	2021-22 (5 meetings)	2022-23 (5 meetings)	2023-24 (5 meetings)
0%	3	1	3	1	2
1% to 24%	0 } 6	1 } 4	0 } 3	1 } 4	1 } 7
25% to 49%	3	2	0	2	4
50% to 74%	2	2	3	8	4
75% to 100%	16	17	16	10	11
Total	24 (Note 2)	23	22	22	22

Source: Audit analysis of SARDA records

Note 1: According to SARDA, two scheduled meetings were cancelled due to COVID-19 epidemic. The businesses were transacted by circulation of papers.

Note 2: According to the Constitution of SARDA, EC may appoint up to four members of SARDA to serve as co-opted members of EC with full voting rights in committee proceedings. In 2019-20, there was one co-opted member.

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- (b) **MC meetings.** There were 2 to 4 voting members who attended less than half of the meetings held in each year (see Table 16). In particular, while 1 voting member had not attended any MC meeting held from 2019-20 to 2023-24, he was re-appointed as an MC voting member in 2024-25; and

Table 16

**Attendance rates of individual voting members of MC
(2019-20 to 2023-24)**

Attendance rate	Number of voting members of MC				
	2019-20 (3 meetings) (Note)	2020-21 (4 meetings)	2021-22 (4 meetings)	2022-23 (4 meetings)	2023-24 (4 meetings)
0 %	2 }	1 }	3 }	3 }	4 }
1 % to 24 %	0 } 3	0 } 2	0 } 3	0 } 4	0 } 4
25 % to 49 %	1 }	1 }	0 }	1 }	0 }
50 % to 74 %	3	1	2	2	1
75 % to 100 %	7	10	10	9	11
Total	13	13	15	15	16

Source: Audit analysis of SARDA records

Note: According to SARDA, a scheduled meeting was cancelled due to COVID-19 epidemic. The businesses were transacted by circulation of papers.

- (c) **RC meetings.** For each of 2019-20 (involving 2 meetings) and 2023-24 (involving 2 meetings), while there was one voting member who had not attended any RC meeting held, one of them was re-appointed as an RC voting member in 2024-25.

4.14 As regards the member who was re-appointed as an RC voting member in 2024-25 as mentioned in paragraph 4.13(c), in February 2025, SARDA informed Audit that the concerned member was:

- (a) a professor whose teaching schedule could not cater for each RC meeting scheduled; and
- (b) an expert at the drug field whose contribution to RC was significant.

4.15 In Audit's view, taking into account that committee members' participation in meetings was of vital importance to the governance of SARDA, there is a need for SARDA to take measures to improve the attendance of committee members with low attendance rates and critically review the attendance records of individual committee members before re-appointment.

***Room for improvement on
issuance of papers for RC meetings***

4.16 According to SARDA's Standing Administrative Instructions, to provide committee members with sufficient time to consider before each meeting, any papers (e.g. agenda, discussion papers containing proposals for endorsement and information papers) for EC and MC should be issued one week-end to the committee members before each meeting. No similar requirements are set for RC.

4.17 ***Short time interval between dates of issuance of papers and dates of RC meetings.*** Audit examined the dates of papers issued in respect of the 10 RC meetings held from 2019-20 to 2023-24 (involving 33 discussion items) and found that:

- (a) the papers related to 25 (76%) of the 33 discussion items (involving 9 meetings) were issued to committee members less than one week-end before RC meetings; and
- (b) in particular:
 - (i) the papers related to 3 discussion items (involving 3 meetings) were issued to committee members on the same days before the meetings;
 - (ii) the papers related to 7 discussion items (involving 5 meetings) were tabled at the meetings; and

- (iii) the papers related to 4 discussion items (involving 3 meetings) were issued to committee members after the meetings. For example, the papers related to a discussion item were a technical proposal and a fee proposal of a total of 51 pages for bidding the provision of services for conducting surveys relating to drug issues.

4.18 In February 2025, SARDA informed Audit that:

- (a) papers related to vetting research projects usually required quality time for applicants/coordinators of respective research studies to submit to RC. The RC secretariat in general received all the requested documentation a week before RC meeting. After obtaining the Chairman of RC's approval, the papers were issued to committee members less than one week before RC meeting;
- (b) for some of the papers tabled at the meetings, comments from RC members were also considered via email or any other means before submitting final version to RC; and
- (c) the example mentioned in paragraph 4.17(b)(iii) was an exceptional scenario. The invitation of quotation for conducting the surveys was received on 23 May 2023 with submission deadline falling on 13 June 2023. SARDA had been rushing the papers related to a technical proposal and a fee proposal for bidding the provision of services. SARDA struck to follow proper procedure in obtaining approval from RC on 11 June 2023 (i.e. after the RC meeting held on 7 June 2023).

With a view to providing committee members with sufficient time to consider the papers before the meetings, Audit considers that SARDA needs to consider setting requirement on the issuance of papers for RC meetings.

Audit recommendations

4.19 **Audit has *recommended* that SARDA should:**

- (a) **take measures to improve the attendance of committee members with low attendance rates;**

- (b) critically review the attendance records of individual committee members before re-appointment; and
- (c) consider setting requirement on the issuance of papers for RC meetings with a view to providing committee members with sufficient time to consider the papers before the meetings.

Response from The Society for the Aid and Rehabilitation of Drug Abusers

4.20 SARDA agrees with the audit recommendations.

Management of membership

Need to promote membership

4.21 According to the Constitution of SARDA, ordinary membership of SARDA shall be open to any person on payment of the subscription therein prescribed. A person desiring to become ordinary member of SARDA shall apply in writing to the Honorary Secretary. The Honorary Secretary shall inform the applicant upon acceptance of application by EC. The membership fee for life members is \$1,000 (one-off), and that for ordinary members is \$100 per year. Members of SARDA shall be entitled to attend annual general meeting and elect members to EC. The quorum of the annual general meeting is 15 members.

4.22 As at 31 December 2024, SARDA had 100 members, all of whom were life members. Table 17 shows the number of members and attendance at annual general meetings from 2020 to 2024.

Table 17

**Number of members and attendance at annual general meetings
(2020 to 2024)**

Year	Number of new members		Total number of members	Attendance at annual general meeting
2020	0	5	95	20 (21 %)
2021	1		96	24 (25 %)
2022	0		96	23 (24 %)
2023	3		99	23 (23 %)
2024	1		100	19 (19 %)

Source: Audit analysis of SARDA records

4.23 Audit found that from 2020 to 2024:

- (a) only 5 new members were recruited. The net increase in number of members was 5, from 95 in 2020 to 100 in 2024;
- (b) the attendance rates at the annual general meetings were on the low side, ranging from 19% to 25%; and
- (c) there was no documentary evidence showing that there was an option for member to appoint a proxy as his/her representative to attend the annual general meetings.

4.24 In Audit's view, a larger pool of members with diversity of experience and expertise would be conducive to the development of SARDA. However, Audit noted that there was no information in the public domain (e.g. SARDA's website) about avenues for applying SARDA's membership. Upon enquiry, in January 2025, SARDA informed Audit that new members were mainly recruited by referrals from the Government and existing members. With a view to enhancing the future development of SARDA, Audit considers that SARDA needs to step up efforts in recruiting new members and take measures to address the low attendance rates at the annual general meetings.

Audit recommendations

4.25 Audit has *recommended* that SARDA should:

- (a) step up efforts in recruiting new members; and
- (b) take measures to address the low attendance rates at the annual general meetings.

Response from The Society for the Aid and Rehabilitation of Drug Abusers

4.26 SARDA agrees with the audit recommendations.

Human resources management

4.27 Staff costs, which include staff salaries, Mandatory Provident Fund contributions, and other benefits and allowances, constitute a significant share of SARDA's expenditure. In 2023-24, SARDA's staff costs amounted to \$114.1 million, representing 75% of its total expenditure of \$152.7 million.

Need to step up efforts in recruiting and retaining staff

4.28 According to FSAs signed between DH and SARDA, staff administration, including appointment and promotion, is the responsibility of SARDA. As at 31 December 2024, the establishment and strength in SARDA under subventions from DH and SWD were 229 (including 26 new positions established under the new FSAs signed in October 2024 — Note 19) and 204 respectively.

Note 19: *The 26 new positions included 7 registered nurses, 16 peer support workers (including senior group leaders and group leaders) and 3 administrative staff.*

Corporate governance and administrative issues

4.29 Audit analysed the staff turnover of SARDA for the period from 2019-20 to 2023-24 (see Table 18) and found that:

- (a) the staff turnover rates ranged from 13.8% to 16.3%; and
- (b) in particular, the turnover rates for nursing grade staff varied from 5.6% to 52.9%.

Table 18

**Staff turnover rate
(2019-20 to 2023-24)**

	2019-20	2020-21	2021-22	2022-23	2023-24
(a) Number of staff leaving SARDA					
- Nursing grade (Note 1)	1	9	5	2	7
- Others	26	19	27	29	22
- Total	27	28	32	31	29
(b) Average number of staff strength (Note 2)					
- Nursing grade	18	17	18	18	18
- Others	178	178	178	179	178
- Total	196	195	196	197	196
(c) Turnover rate (c) = (a) ÷ (b) × 100%					
- Nursing grade	5.6%	52.9%	27.8%	11.1%	38.9%
- Others	14.6%	10.7%	15.2%	16.2%	12.4%
- Overall	13.8%	14.4%	16.3%	15.7%	14.8%

Source: Audit analysis of SARDA records

Note 1: Nursing grade staff includes registered nurses, enrolled nurses and nursing officers.

Note 2: The average number of staff strength is calculated by averaging the number of staff strength at the beginning (1 April) and end (31 March) of the financial year.

4.30 Upon enquiry, SARDA informed Audit in January 2025 that:

- (a) recruiting nurses and peer support workers was a persistent, year-round difficulty for SARDA;
- (b) the remote locations of DTRCs presented a significant challenge since only a few candidates were interested in working with drug abusers or in a residential setting. The fringe benefits offered by SARDA were not competitive with other NGOs in the same field. This made it harder to attract qualified nurses who had options to work elsewhere; and
- (c) the recruitment challenges were more complex for peer support workers as they were not only required to have knowledge to manage a DTRC but also had personal experience as drug rehabilitees. This dual requirement significantly reduced the pool of eligible candidates and exacerbated the difficulty in recruitment efforts.

4.31 In order to address the difficulties in staff recruitment and retention, DH approved SARDA to enhance the staff fringe benefits (e.g. providing outpatient medical benefits and increasing employer's contribution to staff's Mandatory Provident Fund) under the new subventions from DH in 2024. Audit considers that SARDA needs to step up efforts in recruiting and retaining staff, especially the nursing grade staff and peer support workers.

Room of improvement in meeting the training needs of SARDA's staff

4.32 According to the Three-year Plan on Drug T&R Services in Hong Kong (2024-2026) published by ND (see Note 1 to para. 1.3) in March 2024:

- (a) professionals, and those who might encounter drug abusers at their work, were in need of training to upgrade or to refresh their skills and knowledge given the change of drug scene in recent years. Training for peer counsellors would be conducive to enhancing their capacity to assist in the anti-drug work; and

- (b) a structured training programme on a regular basis for frontline anti-drug workers would be conducive to offering a more systematic approach for relevant personnel to handle matters in relation to drug abuse.

4.33 *Need to develop a structured training programme.* In the proposals on the new initiatives to be taken forward submitted by SARDA to DH in April 2024, SARDA stated that it would develop a structured training programme for peer support workers that covered essential topics such as addiction recovery principles, basic counselling techniques, communication skills, and relapse prevention strategies to ensure that peer support workers are well-equipped to carry out their responsibilities effectively. Upon enquiry, SARDA informed Audit in February 2025 that:

- (a) since the new initiatives commenced in November 2024, peer support workers had only been recruited over the past few months and some of them had already participated in various training courses; and
- (b) there was no immediate need to launch a structured training programme. If SARDA was to develop a structured training programme, it would require additional time to prepare an appropriate staff training programme.

4.34 Since ND advised that a structured training programme on a regular basis for frontline anti-drug workers was conducive to their work (see para. 4.32(b)), Audit considers that in addition to providing training programmes to peer support workers, SARDA needs to develop a structured training programme to other frontline anti-drug workers (e.g. social workers) when appropriate.

4.35 *Need to promulgate a training policy.* In 2023-24, SARDA incurred training expenses amounting to \$308,050. According to SARDA, there was no training policy and a summary of training record by individual staff. Audit randomly selected 10 training forms for examination and noted that:

- (a) the training forms stated that the reimbursement of training expenses should be supported by the Unit Head, endorsed by the Head of Department, recommended by the Administrative Secretary and approved by the Executive Director; and

(b) in a case, a senior group leader applied for training subsidies of various courses during October 2023 to June 2024 with a total amount of \$63,700 in 5 training forms (ranging from \$5,200 to \$33,100). SARDA indicated in the forms that subsidies were approved at 50% of the amounts. For the remaining 5 forms with reimbursement amounts less than \$5,000, SARDA approved to subsidise 100% of the amounts. Upon enquiry, SARDA informed Audit in January and February 2025 that:

- (i) training subsidies were approved on a need basis; and
- (ii) of the 5 training forms submitted by the senior group leader, 1 form was used for pre-approval of training subsidies (i.e. \$16,550, 50% of \$33,100) and the remaining 4 forms were used for reimbursement. Up to June 2024, \$15,300 were reimbursed to the senior group leader.

However, Audit noted that the same standard form was used for pre-approval and reimbursement of training subsidies and there was no indication regarding the purpose of submission.

Audit considers that SARDA needs to promulgate a training policy, including the policy and procedures of granting training subsidies, and maintain a training record by individual staff for staff development and monitoring purposes.

Audit recommendations

4.36 **Audit has *recommended* that SARDA should:**

- (a) **step up efforts in recruiting and retaining staff, especially the nursing grade staff and peer support workers;**
- (b) **develop a structured training programme to frontline anti-drug workers (e.g. peer support workers and social workers) when appropriate;**
- (c) **promulgate a training policy, including the policy and procedures of granting training subsidies; and**

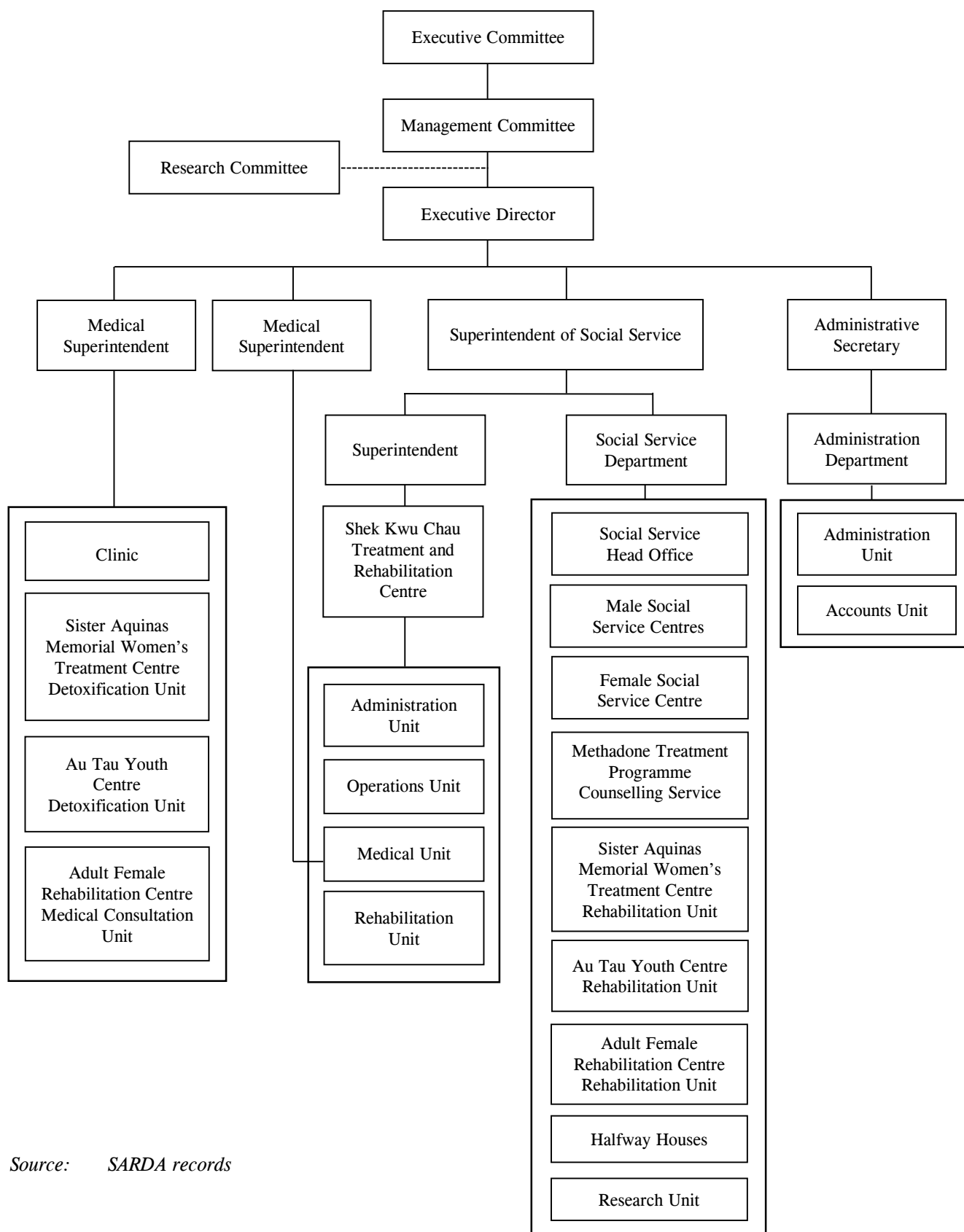
- (d) **maintain a training record by individual staff for staff development and monitoring purposes.**

Response from The Society for the Aid and Rehabilitation of Drug Abusers

4.37 SARDA agrees with the audit recommendations. The Chairman of the Executive Committee, The Society for the Aid and Rehabilitation of Drug Abusers has said that:

- (a) SARDA has been striving hard to overcome the difficulties in staff recruitment, and will continue to improve the situation. Given the nature, job posts in the anti-drug field are often considered less appealing in the labour market, and the staff benefits (including retirement and medical) and remuneration package of SARDA are considered less than competitive. The high staff turnover of the anti-drug sector (in particular, registered nurses and social workers) and the general shortage of labour (e.g. peer support workers) in past few years have only posed more challenges to SARDA's work in human resources management; and
- (b) "training and development" has been one of the long-term management objectives of SARDA. SARDA will make the best out of the current resources.

**The Society for the Aid and Rehabilitation of Drug Abusers:
Organisation chart
(31 December 2024)**



Source: SARDA records

Acronyms and abbreviations

AFRC	Adult Female Rehabilitation Centre
ATYC	Au Tau Youth Centre
Audit	Audit Commission
COR	Controlling Officer's Report
CRDA	Central Registry of Drug Abuse
DH	Department of Health
DTRCs	Drug treatment and rehabilitation centres
EC	Executive Committee
FSAs	Funding and Service Agreements
MC	Management Committee
MTP	Methadone Treatment Programme
ND	Narcotics Division
NGOs	Non-governmental organisations
PSAs	Psychotropic substance abusers
RC	Research Committee
SARDA	The Society for the Aid and Rehabilitation of Drug Abusers
SB	Security Bureau
SKC	Shek Kwu Chau Treatment and Rehabilitation Centre
SSDM	Social Service Department Manual
SWD	Social Welfare Department
T&R	Treatment and rehabilitation
WTC	Sister Aquinas Memorial Women's Treatment Centre

CHAPTER 8

Labour and Welfare Bureau Working Family and Student Financial Assistance Agency

Working Family Allowance Scheme

**Audit Commission
Hong Kong
31 March 2025**

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. 84 of the Director of Audit contains 8 Chapters which are available on our website (<https://www.aud.gov.hk>).



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WORKING FAMILY ALLOWANCE SCHEME

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WORKING FAMILY ALLOWANCE SCHEME

Executive Summary

1. The Working Family Allowance (WFA) Scheme has been enhanced and renamed from the Low-income Working Family Allowance Scheme with effect from 1 April 2018. WFA Scheme aims at encouraging self-reliance and easing inter-generational poverty by supporting low-income working households which are not on the Comprehensive Social Security Assistance and have longer working hours. To qualify for WFA, a household must meet the requirements for working hours, and income and asset limits. Different rates of allowances are provided based on the monthly aggregate working hours of the household (i.e. Basic Allowance, Medium Allowance or Higher Allowance) and household income (i.e. full-rate, 3/4-rate or half-rate). Each eligible child within the household may be granted Child Allowance. A WFA application is made on a household basis and covers the immediate past 6 calendar months. Since the introduction of WFA Scheme and up to September 2024, over 770,000 applications had been received with some 700,000 applications approved and about \$11 billion granted. As of September 2024, there were about 51,000 active WFA households (i.e. households which had been approved with WFA and submitted latest applications in the past 6 months), involving around 173,000 persons, including about 72,000 children.

2. The Working Family Allowance Office (WFAO) of the Working Family and Student Financial Assistance Agency (WFSFAA), comprising 457 civil servants and 253 non-civil service contract staff, is responsible for implementing WFA Scheme. In 2023-24, the expenditure for WFAO was \$2,201 million (including approved WFA of \$1,713 million, one-off WFA extra payment of \$79 million and operational expenses of \$409 million). The Audit Commission (Audit) has recently conducted a review to examine the implementation of WFA Scheme.

Processing of applications

3. *Need to further encourage online submission of applications.* An applicant may submit an application for WFA by post, in person, using drop-in boxes,

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or through WFAO's electronic-submission system which was rolled out in September 2019. While the use of electronic-submission for WFA application increased from 4% in 2019-20 (from September 2019) to 54% in 2024-25 (up to September 2024), around 46% of the applications were still submitted by non-electronic means. For these applications, a contractor had been engaged by WFAO to input the information in the application forms (e.g. income and assets of applicants/household members) for uploading to WFAO's computer system, namely, the Working Family Allowance Management System (WFAMS). The cost for engaging the contractor was \$1.6 million in 2023-24 (paras. 1.8 and 2.7).

4. *Need to improve monitoring of processing time of applications.* WFAO has stipulated in its Operational Manual some internal timeframes for processing applications by stages. For example, Vetting Officers should submit recommendations to Vetting Supervisors for approval within 20 working days upon receipt of applications, receipt of complete information, or the applicants' deadlines for reply for providing information. According to WFAO, as the circumstances of individual cases were unique, no timeframe had been set on the overall processing time of applications. Audit noted that for the period from 2022-23 to 2024-25 (up to September 2024), some applications were with longer processing time. For example, of the 277,230 processed applications with complete information, the processing time from receipt of complete information to completion of processing was over 30 days in 13,563 (4.9%) applications, ranging from 31 to 519 days (averaging 44 days). Audit examined 105 applications received in 2022-23 to 2024-25 (up to September 2024) and noted that:

- (a) in 21 (20%) applications, the time taken for Vetting Officers to submit recommendations to Vetting Supervisors for approval exceeded the internal stipulated timeframe by 6 to 331 working days (averaging 63 working days). According to WFAO, the longer time taken was because the previous applications from the same applicants approved with WFA were either under special investigation or internal review; and
- (b) in 9 (9%) applications, WFAO did not contact the applicants to request for supplementary information (e.g. bank statements) until 21 to 372 working days (averaging 105 working days) after receipt of applications. In 6 of these 9 applications, WFAO did not contact the applicants to clarify irregularities noted in the supporting documents until 21 to 159 working days (averaging 45 working days) after receipt of the related documents. While according to WFAO, the longer time taken was due to various

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reasons (e.g. cross-checking of voluminous transactions in bank statements against supporting documents), the reasons were not documented in WFAMS/casefiles (paras. 2.11, 2.12 and 2.14 to 2.16).

5. ***Need to ensure consistent practice in vetting applications.*** Audit noted some inconsistent practices in vetting applications. Among the 105 applications examined by Audit, in 1 application, the rental deposit paid by the applicant for her public rental housing unit was included as household assets, whereas it was not included for 67 applicants who also resided in public rental housing units. Besides, in 3 applications, the applicants/their household members had reported the balances of electronic-wallet as household assets. However, in 3 other applications, while there were electronic-wallet transactions shown in the bank statements, WFAO did not request the applicants to report the electronic-wallet balances as household assets (para. 2.20).

6. ***Need to review timeframe for reporting quality assurance (QA) checks results and strengthen improvement measures identified in QA checks.*** WFAO conducts QA checks on processed applications selected on a random basis by WFAMS as part of the control mechanism to ensure that they are in order. Audit noted that:

- (a) the overall percentage of applications failing QA checks (i.e. applications found with errors) for the period from April 2018 to September 2024 was 13%, with percentages ranging from 9% to 18%. The percentage of applications that failed QA checks in 2024 (up to September) had increased to 15% (13% in 2023);
- (b) according to the Summary of Quality Assurance Checking Result of Working Family Allowance Applications (the Summary Report) for 2023, the 558 errors found in applications that failed QA checks were mostly caused by input errors, or some vetting staff had not exercised sufficient due care in analysing the information/proof provided by applicants or might have difficulty in fully comprehending various types of documentary proof and therefore had made inaccurate assessments; and
- (c) the Summary Report is compiled on an annual basis and the 2023 report was issued in April 2024 (i.e. 4 months after the year-end) (paras. 2.24 to 2.27).

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7. ***Room for improvement in handling rejected applications.*** For the period from 2018-19 to 2024-25 (up to September 2024), the rejection rates of applications averaged at 5.6%, ranging from 4.4% to 6.5%. Audit noted that for the period 2022-23 to 2024-25 (up to September 2024):

- (a) the major reason for rejection was “Rejected (No Response)” (i.e. WFAO has requested an applicant for supplementary information but the required information or clarification is not received after the deadline for reply), which accounted for 82% of the rejected applications;
- (b) about 16% of the rejected applications were due to failure in meeting eligibility criteria (e.g. working hour requirements) and rejections due to this reason were on an increasing trend; and
- (c) in 9 (60%) of the 15 rejected applications examined by Audit, the reasons for rejection were internally classified as “Rejected (No Response)”. In 5 (56%) of the 9 cases, the applicants had replied to WFAO but the applications were finally rejected because of insufficient supporting information/documents provided to satisfy WFAO’s requirements (paras. 2.32, 2.33 and 2.35).

Follow-up on processed applications

8. ***Need to review target percentage of high-risk cases for special investigation.*** WFAO has set up a Special Investigation Section (SI Section) to conduct special investigation of selected cases. According to WFAO, SI Section aims to, among others, detect and investigate suspected fraud cases so as to ensure that the limited public resources are utilised to support households that are most in need. A risk-based approach is adopted for conducting special investigation, under which an overall target percentage has been set on conducting in-depth investigation on high-risk cases (including cases randomly selected by WFAMS from the pool of post-payment applications meeting one or more of the risk rules prescribed by WFAO, all internal referrals, all external referrals and all SI-initiated cases). A lower target percentage is applied for conducting authentication on random selection of cases which do not meet the risk rules. According to WFAO, the target percentages had been met for the years from 2018-19 to 2024-25 (up to September 2024). In the same period, the percentage of special investigation cases arising from internal referrals had increased exponentially (e.g. from 19% in 2019-20 to 59% in 2023-24). By contrast, the percentage of special investigation cases arising from randomly selected cases

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meeting risk rules decreased from 34% in 2019-20 to 6% in 2023-24. Audit noted the following issues:

- (a) ***Decrease in proportion of high-risk current year applications with special investigation conducted.*** When a referral was made, it was common for some or all of the previous applications of the same applicant to be retrieved and referred for investigation. Each previous application of the same applicant covering a claim period of 6 months would be counted as one case. Among the high-risk cases selected for special investigation, there was a decreasing trend in the proportion of current year applications (i.e. applications with disbursement made in the same year as the commencement of the special investigation) from 73% in 2019-20 to 16% in 2023-24;
 - (b) ***Decrease in number of applicants involved in high-risk cases selected for special investigation.*** The number of applicants involved in high-risk cases selected for special investigation was on a decreasing trend, with a decrease of about 9% in 2023-24 compared to 2019-20; and
 - (c) ***Decrease in percentage of high-risk cases selected for special investigation from applications meeting the risk rules.*** There was a decreasing trend in the percentage of high-risk cases being selected for special investigation from the pool of applications meeting the risk rules prescribed by WFAO, which are reviewed regularly and considered by WFAO as effective in identifying possible fraud risks. This may pose a risk of some high-risk and current year fraud cases being undetected (paras. 3.2, 3.3 and 3.5 to 3.11).
9. ***Need to improve management information for reviewing risk rules.*** As at 9 December 2024, of the cases with special investigation commenced during the period from the launch of WFA Scheme in 2018-19 to 2024-25 (up to September 2024), 84% of the cases had been completed and 16% were on-going. Audit noted that:
- (a) of the completed cases, 41% of the cases involved under-reported items, comprising 22% of the cases not affecting the amount of allowance disbursed, 18% of the cases involving recovery of overpaid allowance (involving an amount of \$20.1 million) and 1% of the cases suspected to involve fraud and referred to the enforcement agency for investigation

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(involving overpaid allowance of \$1.4 million). The percentage of special investigation cases with under-reported items ranged from 24% in 2018-19 to 52% in 2023-24;

- (b) while checkboxes are available in WFAMS for inputting over-payment reasons (e.g. unreported assets or unreported income from work), there was no additional breakdown tier of the types of under-reported items (e.g. for unreported assets, whether they were related to unreported bank accounts or cash values of insurance policies);
- (c) the risk rules for identifying applications with possible fraud risks should be reviewed on a half-yearly basis and are updated when necessary. Audit noted that there was no documentation showing that statistics/analyses on special investigation results had been reviewed during the latest review meeting on risk rules in October 2024; and
- (d) the percentage of special investigation cases randomly selected from applications meeting the risk rules and subsequently detected with under-reported items had been on a decreasing trend since 2021-22, decreasing from 25% to 14% in 2023-24 (paras. 3.12 to 3.15).

10. ***Need to shorten processing time of special investigation cases.*** For special investigation cases commenced during the period from the launch of WFA Scheme in 2018-19 to 2024-25 (up to September 2024), the longest processing time of cases completed as at 9 December 2024 was 1,301 days (i.e. 3.6 years), averaging 210 days. As for the on-going special investigation cases, the longest time elapsed from case commencement and up to September 2024 was 1,221 days (i.e. 3.3 years), averaging 231 days. Audit examined 50 special investigation cases conducted in the period from 2021-22 to 2024-25 (up to September 2024) and noted that:

- (a) in 7 (35%) of the 20 on-going cases examined (with elapsed time ranging from 567 to 1,221 days and averaging 960 days), there were long time lags between the follow-up actions taken with applicants and/or the corresponding organisations regarding information search (e.g. bank search). For example, in a case with an elapsed time of 567 days since commencement, since issuing correspondences to insurance companies in November 2023 and up to September 2024 (i.e. 10 months), there was no evidence showing that WFAO had followed up on the case; and

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- (b) no internal timeframe had been set on processing of special investigation cases, and WFAMS did not issue alerts (e.g. reminding case officers to take actions within a specified timeframe after the last follow-up action). There was also no management information on the processing time on special investigation cases (paras. 3.17, 3.19 and 3.20).

11. ***Room for improvement in issuing notifications and consent forms.*** According to WFAO's guidelines, for performing information search to verify/collect information about household members, WFAO needs to seek prescribed consent and will adopt a consistent and prudent approach by asking each household member to sign a consent form on verification of personal information. It is WFAO's practice to issue a Notification on Assessment and Verification to the applying household to inform the applicant/household members that the application is under investigation. Audit examined 50 special investigation cases and noted room for improvement. For example, among the 48 cases with notifications/consent forms issued, the time lag between the commencement of investigation and issuance of notifications/consent forms varied significantly, ranging from 0 to 683 days (averaging 55 days). In 6 (13%) cases, the time lags were over 3 months (paras. 3.22 to 3.24).

12. ***Need to issue notifications for review/appeal cases within stipulated timeframes.*** According to the Guidance Notes for Applications under WFA Scheme, an applicant for WFA who is not satisfied with the application results may apply in writing to WFAO for a review within 4 weeks from the issue of the Notification of Application Result. If the applicant is not satisfied with the review results, he/she may apply in writing to WFAO for an appeal within 6 weeks from the issue of the Notification of Review Result. In the period from 2018-19 to 2024-25 (up to September 2024), WFAO processed 839 review cases and 2 appeal cases. The timeframes for issuing Acknowledgement of Receipt of Application for Review/Appeal and Notification of Review/Appeal Result are set out in the Operational Manual. Audit examined 30 review/appeal cases (comprising 20 approved cases, 7 withdrawn cases and 3 rejected cases) processed in the period from 2022-23 to 2024-25 (up to September 2024) and noted that there were delays in issuing both types of notifications. For example, while the timeframe for issuing Acknowledgement of Receipt of Application for Review/Appeal is within 10 days from the receipt of application, delays were found in 6 (20%) of the 30 cases, ranging from 1 to 20 days (averaging 8 days) (paras. 3.29 to 3.31).

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13. *Need to maintain proper documentation on processing withdrawal of review/appeal cases.* An applicant may request for withdrawal of his/her application for review/appeal. Audit examination of the 7 withdrawn review/appeal cases revealed areas for improvement. For example, according to the Operational Manual, before issuing a Notification of Withdrawal of Application for Review/Appeal to an applicant, an assessment should be made that the case does not warrant in-depth investigation or does not involve restitution of overpaid allowance. However, in all the 7 withdrawn cases examined, there was no documentation showing that such assessment had been performed (paras. 3.34 and 3.35).

Other related issues

14. *Need to set and publicise performance measures for WFA Scheme.* WFSFAA administered various student financial assistance schemes and WFA Scheme. For the former, it published a number of performance targets and indicators in the Controlling Officer's Reports and on website for the various schemes. However, WFSFAA had not publicised any performance pledges or targets/indicators for WFA Scheme. For example, timeframe had not been set on the overall processing time of WFA applications (see para. 4) (para. 4.3).

15. *Need to review provision of outreaching activities.* WFAO organises outreaching activities, including information booths, briefing sessions and form-filling sessions, for promoting WFA Scheme and facilitating the public to apply for WFA. For the period from 2018-19 to 2024-25 (up to September 2024), WFAO conducted a total of 718 outreaching activities, with an attendance of about 93,000. Audit noted that there is a need to review the provision of form-filling sessions and information booths. For example, of the 164 form-filling sessions conducted in the period from 2018-19 to 2024-25 (up to September 2024), 46 (28%) sessions were attended by 5 persons or fewer. With regard to the districts where the sessions were offered, since 2019-20, except for 3 sessions, all the other sessions had been provided in Sham Shui Po. While Kwun Tong and Yuen Long were among the top three districts in terms of successful applicants' residential districts since the launch of WFA Scheme, Yuen Long had not been covered in all years and no sessions had been conducted in Kwun Tong since 2020-21. There is also a need to keep under review service hours of information booths. For the 421 information booths set up in the period from 2018-19 to 2024-25 (up to September 2024), only 24 (6%) booths were open at weekends or after office hours on weekdays (paras. 4.9 to 4.14).

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16. ***Need to ascertain reasons for higher rejection rates and provide more assistance to ethnic minorities (EM) applicants.*** According to WFAO, various efforts had been made to facilitate EM applicants' easy understanding of WFA Scheme (e.g. translating guidelines of the Scheme into 8 languages). Audit noted that from 2018-19 to 2024-25 (up to September 2024), the rejection rates for EM applicants over the years (average: 10.2%) were consistently higher than the overall rejection rates (average: 5.6%). Audit considers that WFSFAA needs to ascertain the reasons for the higher rejection rates of EM WFA applicants and provide appropriate assistance to them accordingly (paras. 4.15 to 4.17).

17. ***Need to keep under review WFA Scheme.*** According to the Government, upon the launch of WFA Scheme, it has constantly kept the Scheme under review. Enhancements have been made aiming at improving the effectiveness of the Scheme and better supporting low-income working families (e.g. an increase in allowance rates by 15% across the board with effect from the claim month of April 2024). Audit noted that the number of WFA applications had been on a decreasing trend since the peak in 2020-21. According to the Government, the number of WFA applications and active households might be affected by multiple factors, including the prevailing economic situation and labour market conditions, as well as eligible applicants' individual circumstances and keenness to apply for WFA. In this audit review, Audit has identified room for improvement in the administration of WFA Scheme. Having regard to the developments of WFA Scheme, WFSFAA needs to, in collaboration with the Labour and Welfare Bureau, take into account the audit observations and recommendations in this Audit Report, keep under review the operation of WFA Scheme with a view to enhancing the Scheme as appropriate (paras. 4.22 to 4.24).

Audit recommendations

18. **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 Head, WFSFAA should:**

Processing of applications

- (a) **continue to explore measures to further enhance the process on receipt of WFA applications, including exploring feasibility of making better**

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use of technology and encouraging electronic-submission of applications (para. 2.9);

- (b) take measures to expedite the processing of WFA applications as far as practicable (e.g. exploring ways to enhance WFAMS), and ensure that staff collect and/or clarify necessary information for processing WFA applications in a timely manner and record all contacts with applicants (para. 2.22(a) and (b));
- (c) take measures to ensure that consistent practices are adopted by staff in the vetting process, including regularly reviewing the list of items to be counted as household assets and providing more staff training; and enhance the list of items counted/not counted as household assets in the Guidance Notes for Applications under WFA Scheme by including more common examples (para. 2.22(d) and (e));
- (d) further strengthen efforts to enhance the quality and accuracy of vetting of WFA applications (para. 2.29(a));
- (e) review the timeframe and frequency for compiling and submitting the Summary of Quality Assurance Checking Result of Working Family Allowance Applications (para. 2.29(b));
- (f) provide more pertinent reasons for rejection of applications and make continued efforts to facilitate WFA applicants' understanding of the eligibility criteria (para. 2.36(a));

Follow-up on processed applications

- (g) review the selection of cases for special investigations and take follow-up actions as appropriate (para. 3.27(a));
- (h) conduct further analyses on special investigation results and make use of such information in reviewing the risk rules (para. 3.27(b));
- (i) upon reviewing the special investigation results, formulate measures as appropriate to improve WFAO's risk management and application vetting process (para. 3.27(c));

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- (j) explore measures to shorten the processing time of special investigation cases as appropriate (para. 3.27(d));
- (k) review and monitor the practice of issuing Notification on Assessment and Verification and the consent forms to applicants and household members in WFAO's guidelines, including setting a reference timeframe for issuing the relevant documents, and consider adding an alert function in WFAMS to help ensure compliance with the timeframe (para. 3.27(e));
- (l) enhance the Operational Manual by specifying more clearly the timeframe for issuing the Acknowledgement of Receipt of Application for Review/Appeal, and take measures to ensure that review and appeal cases are handled in a timely manner, including complying with the timeframes of issuing acknowledgements/notifications as stipulated in the Operational Manual (para. 3.37(a));
- (m) take measures to ensure that proper documentation is maintained for processing review and appeal cases and in handling withdrawal requests, such as stipulating requirements in the Operational Manual to record the assessment made on withdrawal requests (para. 3.37(b));

Other related issues

- (n) take measures to improve the performance management and reporting for WFA Scheme, including setting performance targets/indicators in the Controlling Officer's Reports and/or on website and publicising the achievements thereon (para. 4.6);
- (o) review the provision of outreaching activities, including keeping under review the arrangement of outreaching activities and the service hours of information booths and taking follow-up actions as appropriate (para. 4.20(a));
- (p) ascertain the reasons for the higher rejection rates of EM WFA applicants and provide appropriate assistance to them accordingly (para. 4.20(b)); and

Executive Summary

- (q) **in collaboration with the Secretary for Labour and Welfare, take into account the audit observations and recommendations in this Audit Report, keep under review the operation of WFA Scheme with a view to enhancing the Scheme as appropriate (para. 4.25).**

Response from the Government

- 19. The Head, WFSFAA 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 ***Low-income Working Family Allowance (LIFA) Scheme.*** According to the Government, the 2012 poverty statistics indicated a need to relieve the financial burden of working poor families not receiving the Comprehensive Social Security Assistance (CSSA), with particular focus on children, in order to address inter-generational poverty. These families typically need to support children by a relatively smaller number of working members. In the 2014 Policy Address, the Chief Executive of the Hong Kong Special Administrative Region announced the Government's proposal to introduce a scheme with an aim to encourage self-reliance of low-income families not receiving CSSA through employment and to support children and youths in these families to alleviate inter-generational poverty. According to the Government, there were two considerations:

- (a) firstly, despite the protection offered by the statutory minimum wage, many grassroots workers, as the sole breadwinners of families, still bore a heavy financial burden. Providing them with suitable assistance and encouraging them to remain employed would help them from falling into the CSSA safety net; and
- (b) secondly, offering appropriate support to the children and youths of these families would promote upward mobility and break the vicious cycle of inter-generational poverty.

LIFA Scheme was launched in May 2016. The allowance was means-tested, granted on a household basis and tied to working hours to encourage self-reliance.

1.3 ***Working Family Allowance (WFA) Scheme.*** In July 2017, the Government commenced a comprehensive review of LIFA Scheme with a view to making improvements to benefit more working households. In the 2017 Policy Address, it was announced that LIFA Scheme would be enhanced (including extending to cover

Introduction

singleton households and allowing all household members to aggregate their working hours) and renamed as WFA Scheme with effect from 1 April 2018.

1.4 WFA Scheme aims at encouraging self-reliance and easing inter-generational poverty by supporting low-income working households which are not on CSSA and have longer working hours. The salient features of the Scheme are as follows:

(a) **Eligibility.** To qualify for WFA, a household must meet the requirements for working hours, and income and asset limits:

(i) **Working hour requirements (Note 1).** Under the principle of rewarding hard work, the Scheme provides different rates of allowances based on the aggregate working hours of the household. The working hour requirements for non-single-parent households are:

- **Basic Allowance.** Total monthly working hours of 144 to less than 168 hours;
- **Medium Allowance.** Total monthly working hours of 168 to less than 192 hours; and
- **Higher Allowance.** Total monthly working hours of 192 hours or more.

Single-parent households benefit from lower working hour requirements (Note 2); and

Note 1: *Working hours include hours of paid work performed by the applicant and other members of the household (employed or self-employed), and hours derived from their paid holidays and absence (e.g. sick leave and maternity leave).*

Note 2: *For single-parent households, the total monthly working hour requirements are: (a) 36 to less than 54 hours for Basic Allowance; (b) 54 to less than 72 hours for Medium Allowance; and (c) 72 hours or more for Higher Allowance.*

- (ii) ***Income and asset limits (Note 3).*** Households of different sizes are subject to different monthly household income and asset limits. Depending on household income, the allowance may be granted at full-rate, 3/4-rate or half-rate (Note 4). For example, for a 4-person household, the monthly household income upper limit for the full-rate allowance is \$25,000 and the household asset limit is \$590,000 for the claim months from April 2024 to March 2025 (see Appendix A). The income and asset limits are reviewed annually;
- (b) ***Child Allowance.*** Each eligible child within the household (Note 5) may be granted Child Allowance;
- (c) ***Household basis.*** Application is made on a household basis (Note 6), including singleton households. Members must be Hong Kong residents. The applicant and his/her household members may report the working hours of more than one job within the same month, and the working hours of the applicant and his/her household members are aggregated;

Note 3: *Household income includes wages, fees received for services rendered, profits from business and rental income, etc. Household assets include land, landed properties (excluding self-occupied properties), vehicles/vessels, taxi/public light bus licences, investments, shares/business undertakings, and bank deposits/cash, etc.*

Note 4: *The income limits are calculated with reference to the Median Monthly Domestic Household Income of economically active (MMDHIEA) households, as follows:*

- (a) *full-rate allowance: monthly household income not exceeding 50% of MMDHIEA households;*
- (b) *3/4-rate allowance: monthly household income exceeding 50% but not higher than 60% of MMDHIEA households; and*
- (c) *half-rate allowance: monthly household income exceeding 60% but not higher than 70% of MMDHIEA households.*

Note 5: *An eligible child has to be aged below 15, or aged between 15 and 21 receiving full-time non-post-secondary education.*

Note 6: *A household generally refers to a unit with persons having close economic ties (but excluding economic ties arising from employment relationships) and living on the same premises in Hong Kong.*

Introduction

- (d) ***Claim period.*** An application covers the immediate past 6 calendar months. The allowance is granted for each month in which the eligibility criteria are met. The rate of allowance is determined based on the aggregate working hours and total income of the household, provided that the household assets are within the asset limits; and
- (e) ***Non-CSSA recipient.*** CSSA cannot be received concurrently with WFA in the same month.

1.5 In the 2023 Policy Address, it was announced that the Government would increase the rates of allowances under WFA Scheme by 15% across the board with effect from the claim month of April 2024, benefiting all households receiving WFA. According to the Government, increasing the rates would effectively strengthen the policy objectives of the Scheme. Apart from further alleviating the burden of grassroots working families, the initiative would also encourage continuous self-reliance through full-time employment and incentivise more families to join the labour market. The WFA rates with effect from the claim month of April 2024 are shown in Table 1 (Notes 7 and 8).

Note 7: *According to the Working Family Allowance Office, for the applications received from 2018-19 to 2024-25 (up to September 2024) and approved as of December 2024: (a) 88%, 8% and 4% of the approved applications were granted the Higher, Medium and Basic Allowances respectively; and (b) 68%, 20% and 12% of the approved applications were granted the full-rate, 3/4-rate and half-rate allowances respectively.*

Note 8: *For example, for a 4-person household including 2 eligible children with monthly working hours of 195 hours and monthly income of \$24,000 (subject to household asset limit of \$590,000), Higher Allowance and Child Allowance are granted at full-rate (i.e. \$1,610 for each type of allowance), totalling \$4,830 (i.e. \$1,610 + \$1,610 × 2) per month. The total WFA payable for a 6-month claim period is \$28,980 (i.e. \$4,830 × 6).*

Table 1

**Rates of allowances under WFA Scheme
(with effect from claim month of April 2024)**

Type of allowances	Full-rate (\$)	3/4-rate (\$)	Half-rate (\$)
<i>Monthly allowance for each household</i>			
Basic Allowance	1,150	863	575
Medium Allowance	1,380	1,035	690
Higher Allowance	1,610	1,208	805
<i>Monthly allowance for each eligible child</i>			
Child Allowance	1,610	1,208	805

Source: Working Family and Student Financial Assistance Agency records

1.6 Since the introduction of WFA Scheme in April 2018 and up to September 2024, over 770,000 applications had been received with some 700,000 applications approved and about \$11 billion granted. As of September 2024, there were about 51,000 active WFA households (i.e. households which had been approved with WFA and submitted latest applications in the past 6 months), involving around 173,000 persons, including about 72,000 children. The number of applications received and approved, and amount of allowance approved from 2018-19 to 2024-25 (up to September 2024) are shown in Table 2.

Table 2

**Number of applications and amount of allowance approved
(2018-19 to 2024-25 (up to September 2024))**

Year of application	Number of applications		Amount of allowance approved (Note 2) (\$ million)
	Received	Approved	
2018-19	92,883	86,875	1,184
2019-20	109,011	101,826	1,346
2020-21	135,229	123,854	1,792
2021-22 (Note 1)	134,942	125,314	2,070
2022-23 (Note 1)	128,127	117,467	1,889
2023-24	115,589	104,576	1,713
2024-25 (up to September 2024)	58,816	43,646	756
Total	774,597	703,558	10,750

Source: Working Family and Student Financial Assistance Agency records

Note 1: According to the Government, due to the impact brought by the coronavirus disease (COVID-19) epidemic, a time-limited special arrangement had been implemented for the claim months from June 2021 to May 2022 to reduce the working hour requirements for non-single-parent households (i.e. from 144 to 72 working hours for Basic Allowance and from 168 to 132 working hours for Medium Allowance, while maintaining that at 192 working hours for Higher Allowance). The lower working hour requirements for single-parent households remained unchanged.

Note 2: The rates of allowances for WFA Scheme were increased with effect from the claim months of July 2020 and April 2024 respectively (see Appendix B).

Remarks: According to the Working Family Allowance Office, all yearly figures shown in the table pertain to the year of application.

Responsible office

1.7 ***The Working Family Allowance Office (WFAO).*** The Working Family and Student Financial Assistance Agency (WFSFAA) is responsible for providing dedicated financial assistance to needy families in Hong Kong, supporting children and youths receiving education and encouraging household members to stay in active employment. WFAO of WFSFAA is responsible for implementing WFA Scheme. Headed by a Principal Executive Officer, WFAO comprises 3 operation divisions and an Information Technology Management Unit. Each of the operation divisions, led by a Chief Executive Officer, is responsible for the processing of WFA applications, such as handling of receipt of applications, vetting of applications, quality assurance (QA) checking, handling of review and appeal regarding processed applications, as well as arranging payment of allowances. There is also a Special Investigation Section (SI Section) responsible for conducting special investigation of selected cases. An extract of the organisation chart of WFSFAA as at 31 December 2024 is at Appendix C. As at 31 December 2024, the number of staff responsible for administering WFA Scheme totalled 710, including 457 civil servants and 253 non-civil service contract staff. In 2023-24, the expenditure for WFAO was \$2,201 million (including approved WFA of \$1,713 million, one-off WFA extra payment of \$79 million (Note 9) and operational expenses of \$409 million (Note 10)).

Processing of WFA applications

1.8 ***Application and processing procedures.*** An applicant may submit an application for WFA by post, in person, using drop-in boxes, or through WFAO's electronic-submission (e-submission) system (Note 11). The processing of an application generally involves the following procedures:

Note 9: *According to WFAO, the one-off extra payment granted to all eligible WFA recipients, announced in the 2023-24 Budget, was equal to one half of the average monthly allowance in approved months in a recipient's most recently submitted WFA application, provided that it was submitted within the application period from 1 November 2022 to 3 May 2023 and eventually approved.*

Note 10: *The estimated expenditure for WFAO in 2024-25 was \$2,305 million. According to WFSFAA, the increase in expenditure in 2024-25 was mainly due to the increase in rates of allowances under WFA Scheme by 15% (see para. 1.5).*

Note 11: *According to WFAO, the e-submission system was rolled out in September 2019 to provide more user-friendly service for WFA applicants and improve operational efficiency of the office.*

Introduction

- (a) upon receipt of a paper-form application, application details will be input into WFAO's computer system (see para. 1.10). For applications submitted online, the data will be transferred to the system automatically;
- (b) the application details will be automatically matched with the database of the Social Welfare Department (SWD) (i.e. to ascertain whether the household is a CSSA recipient) and the Immigration Department (i.e. to check against death records) respectively before proceeding to the vetting process;
- (c) WFAO will check the application details together with the supporting documents provided in the application, and where applicable information provided by the applicant in his/her previous application(s) (e.g. address proof and birth certificates of eligible children) to ascertain the applicant's eligibility for WFA;
- (d) WFAO may also contact other parties concerned (e.g. applicant's employers) to enquire and verify information in relation to the application if necessary during the vetting process;
- (e) upon completion of the processing of an application, WFAO will issue a Notification of Application Result to the applicant, stating whether the household is eligible and the reasons for ineligible claim months (if applicable); and
- (f) if the application is approved, WFA will in general be disbursed to the applicant's bank account within 7 days from the issue of the Notification of Application Result.

1.9 ***Review and appeal mechanism.*** An applicant who is not satisfied with the application results may apply in writing to WFAO for a review within 4 weeks from the issue of the Notification of Application Result with justifications. If the applicant is not satisfied with the review results, he/she may apply in writing for an appeal within 6 weeks from the issue of the Notification of Review Result with justifications.

1.10 ***Working Family Allowance Management System (WFAMS).*** WFAO uses WFAMS to administer WFA Scheme. In addition to maintaining a database of WFA application details (including particulars of applicants and household members, working hours, income and assets information), application status and amount of approved allowance, WFAMS also provides automated functions in the processing and management of applications, including assigning applications to officers for vetting applications, calculating allowances, preparing for payments, issuing acknowledgement messages and generating various correspondences to applicants, and generating management information.

Publicity and facilitation measures

1.11 To raise public awareness of WFA Scheme and to encourage eligible working households to submit applications, WFAO promotes the Scheme through various channels. Apart from a 24-hour hotline (Note 12) and the website, WFAO has launched a chatbot to enhance enquiry services of the Scheme. It also operates enquiry counters and sets up information booths to answer enquiries, offers assistance in filling out application forms at sessions organised by non-governmental organisations (NGOs), and directly mails promotional leaflets (see Figure 1) to low-income households. Other channels for promotion such as advertisements in public transport, roadside banners and promotional video broadcasts in public areas are also utilised.

Note 12: *According to WFAO, calls received outside office hours are handled by 1823.*

Figure 1

Promotional leaflet for WFA Scheme



Source: WFSFAA records

Audit review

1.12 In December 2024, the Audit Commission (Audit) commenced a review to examine the implementation of WFA Scheme. The audit review has focused on the following areas:

- (a) processing of applications (PART 2);
- (b) follow-up on processed applications (PART 3); and
- (c) other related 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

1.13 The Secretary for Labour and Welfare and the Head, WFSFAA agree with the audit recommendations and will take appropriate follow-up actions and improvement measures correspondingly.

Acknowledgement

1.14 Audit would like to acknowledge with gratitude the full cooperation of the staff of WFSFAA during the course of the audit review.

PART 2: PROCESSING OF APPLICATIONS

2.1 This PART examines issues relating to the processing of WFA applications, focusing on the following areas:

- (a) receipt of applications (paras. 2.5 to 2.10);
- (b) vetting and assessment of applications (paras. 2.11 to 2.23);
- (c) QA checks (paras. 2.24 to 2.30); and
- (d) handling of rejected applications (paras. 2.31 to 2.37).

Background

2.2 WFAO has issued an Operational Manual laying down various administrative procedures for WFA Scheme for internal reference by staff. The processing of WFA applications generally include the following phases:

- (a) ***Receipt of applications.*** WFA Scheme is open for application all year round. To apply for WFA, an applicant is required to submit a completed application form and documentary proof (e.g. address proof and proof of working hours, household income and assets) to WFAO. The claim period is the immediate past 6 calendar months before the submission of the application. The application deadline is the last day of the month following the last claim month (Note 13). Late applications or applications with invalid claim periods will normally not be accepted;
- (b) ***Vetting of applications.*** Upon receipt of an application, WFAO conducts vetting of the application based on the information and supporting documents provided by the applicant, and determines whether a household is eligible for WFA for each month of the claim period. Subject to the

Note 13: *For example, application for WFA for the period from January to June needs to be submitted within the period from 1 to 31 July of that year.*

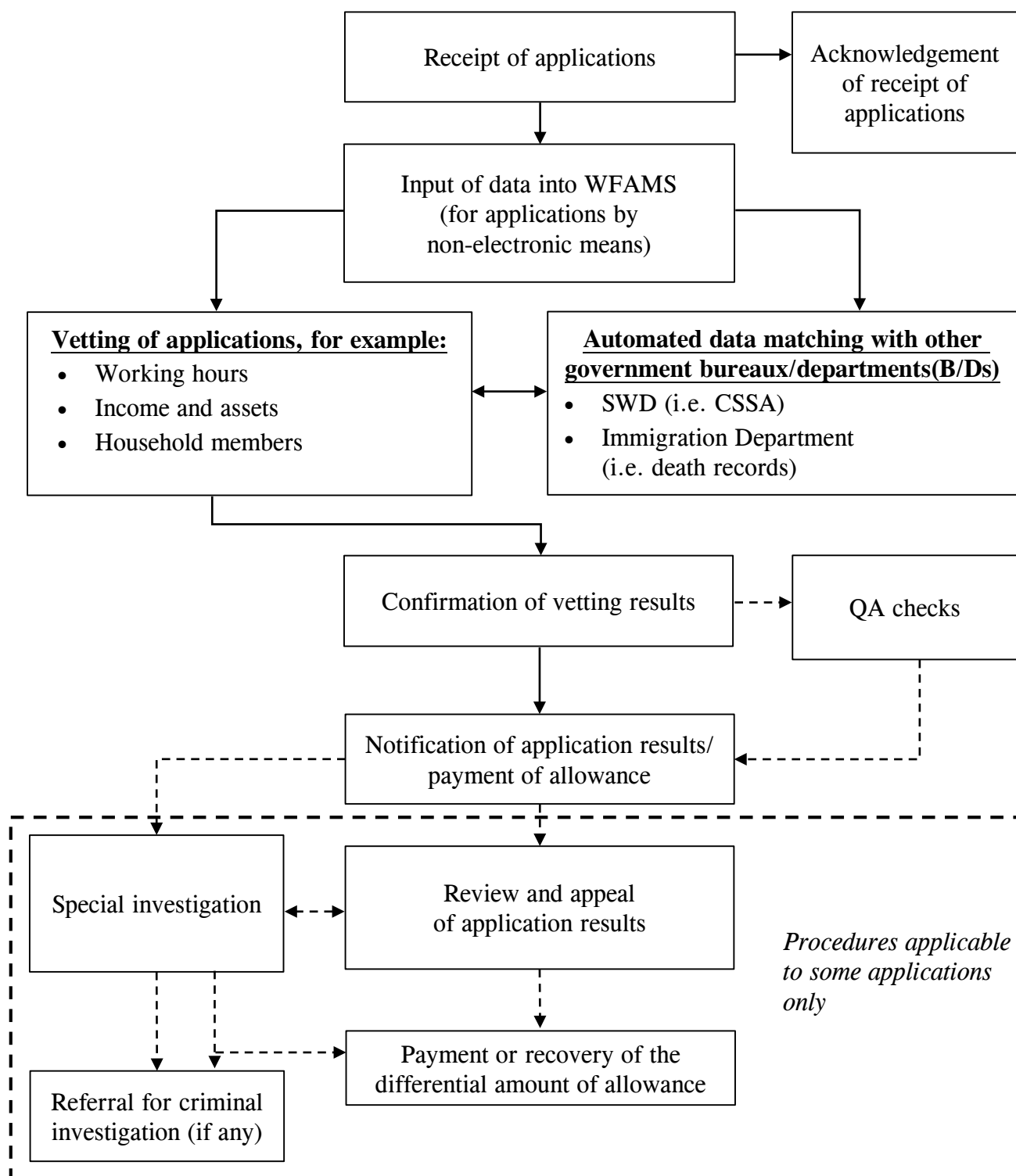
eligibility criteria being met, the amount of allowance for each claim month is calculated by WFAMS;

- (c) ***QA checks.*** A specified percentage of the processed applications are randomly selected by WFAMS for QA checks. The applications are checked against supporting documents, information in WFAMS and physical casefiles (see para. 2.3) to ensure that they are in order;
- (d) ***Outcome and notification.*** Upon completion of processing of the application, a Notification of Application Result will be issued, stating whether the household is eligible for WFA and the reasons for ineligible claim months (if applicable); and
- (e) ***Payment of allowance.*** If an application is approved for WFA, the allowance will in general be disbursed to the applicant's bank account within 7 days from the issue of the Notification of Application Result. For each application (covering a claim period of 6 months), the applicant may receive the allowance for all eligible month(s) in one go.

2.3 WFAO uses WFAMS (see para. 1.10) for processing applications and also maintains a paper-based file (i.e. physical casefile) for each application. According to WFAO, the physical casefile, along with WFAMS, serves as an integral part of the record-keeping system in compliance with the Government's records management requirements and related guidelines. For the handling of an application, the information in WFAMS is to be considered in conjunction with that in the physical casefile. Figure 2 shows a flowchart of the application processing procedures for WFA.

Figure 2

Flowchart of application processing procedures for WFA



Source: WFSFAA records

2.4 In the period from 2018-19 to 2024-25 (up to September 2024), 774,597 applications were received and 703,558 (90.8%) were approved (see Table 3).

Table 3

**Number of applications processed
(2018-19 to 2024-25 (up to September 2024))**

Year of application	Number of applications (Note)			
	Received	Approved	Rejected	Withdrawn
2018-19	92,883	86,875	4,051	1,957
2019-20	109,011	101,826	5,314	1,871
2020-21	135,229	123,854	8,754	2,621
2021-22	134,942	125,314	6,869	2,759
2022-23	128,127	117,467	7,243	3,416
2023-24	115,589	104,576	7,413	3,591
2024-25 (up to September 2024)	58,816	43,646	3,662	2,209
Total	774,597 (100.0%)	703,558 (90.8%)	43,306 (5.6%)	18,424 (2.4%)

Source: WFSFAA records

Note: As at 30 September 2024, 765,288 applications had been processed and 9,309 (1.2%) applications were under processing.

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year of application.

Receipt of applications

Need to further encourage online submission of applications

2.5 Applicants may submit application forms and supporting documents to WFAO either by post, in person, using drop-in boxes, or through WFAO's e-submission system (Note 14). WFAO has accepted e-submission of applications since September 2019. The utilisation of e-submission is shown in Table 4.

Table 4

**Number of WFA applications by e-submission
(2019-20 (from September 2019)
to 2024-25 (up to September 2024))**

Year of application	Number of applications		Percentage of e-submission (c) = (b) ÷ (a) × 100%
	Total (a)	By e-submission (b)	
2019-20 (from September 2019)	63,509	2,247	4 %
2020-21	135,229	11,341	8 %
2021-22	134,942	22,887	17 %
2022-23	128,127	42,549	33 %
2023-24	115,589	52,181	45 %
2024-25 (up to September 2024)	58,816	31,879	54 %

Source: Audit analysis of WFSFAA records

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year of application.

Note 14: According to WFAO, previously successful WFA applicants using e-submission service can make use of e-prefilled forms (i.e. with prefilled basic information from the last successful application) and submit supplementary information online. Those who have registered for “iAM Smart” accounts can also view their application status/results, download submitted applications and documents, and make withdrawal, review and appeal requests online. Applicants with “iAM Smart+” can, in addition, digitally sign the application forms.

2.6 According to WFAO, the significant increase in the percentage of e-submission over the years was mainly contributed by:

- (a) gradual enhancements in the user-friendliness of the e-submission system. For example, enhancements rolled out in August 2021 included an option to support digital signing for applicants with “iAM Smart+”, and allowed form-saving and data pre-filling. In December 2021, further enhancements had been rolled out to allow applicants to update personal information, withdraw applications and submit review/appeal applications; and
- (b) the promotion efforts on publicising the e-submission service, including highlighting to applicants the benefits of using the service and providing a Quick Response Code (i.e. QR Code) for direct access to the service through promotional messages and slogan on flyers, banners, application materials, letters and paper pre-filled forms issued to applicants, and drop-in boxes (see Photograph 1), and promoting the WFA e-submission service on the Government’s “iAM Smart” website and mobile application.

Photograph 1

Promotional message of e-submission service on drop-in box



Source: WFSFAA records

Processing of applications

2.7 While the use of e-submission for WFA application increased from 4% in 2019-20 (from September 2019) to 54% in 2024-25 (up to September 2024), around 46% of the applications were still submitted by non-electronic means (i.e. by post, in person or via drop-in boxes). For these applications, a contractor had been engaged by WFAO to input the information in the application forms (e.g. personal particulars, details of working hours, and income and assets of applicants/household members). The electronic data would then be submitted to WFAO for uploading to WFAMS. The cost for engaging the contractor was \$1.6 million in 2023-24.

2.8 In Audit's view, to save costs and enhance efficiency, WFSFAA needs to continue to explore measures to further enhance the process on receipt of WFA applications.

Audit recommendation

2.9 **Audit has *recommended* that the Head, WFSFAA should continue to explore measures to further enhance the process on receipt of WFA applications, including exploring feasibility of making better use of technology and encouraging e-submission of applications (e.g. enhancing cooperation with other B/Ds and NGOs to further promote e-submission).**

Response from the Government

2.10 The Head, WFSFAA agrees with the audit recommendation. He has said that over the years, WFSFAA has implemented tech-enabled measures to enhance efficiency in the registration of applications and promoted the e-submission service to applicants, and will continue to explore opportunities to further enhance the process of receiving and processing applications.

Vetting and assessment of applications

Need to improve monitoring of processing time of applications

2.11 The Operation Teams are responsible for processing WFA applications, under each of which are a number of Vetting Teams that comprise Vetting Officers, Vetting Supervisors, Assistant Managers and overseen by Managers/Senior

Managers. Applications are assigned to Vetting Officers by WFAMS according to pre-set criteria. The Operational Manual has stipulated some internal timeframes for processing applications by stages and vetting staff should take follow-up actions as soon as practicable according to the internal timeframes, for example:

- (a) Vetting Officers may approach applicants or their household members to verify information and/or request supplementary information. Applicants/household members are requested to reply to WFAO within 14 calendar days. If no reply is received on or before the due date, a reminder letter will be issued to request the applicants/household members to reply to WFAO within 14 calendar days (i.e. deadline for reply). Vetting Officers/Vetting Supervisors need to document in WFAMS or casefiles the records of contacts (including verbal contacts) with the applicants/household members; and
- (b) Vetting Officers should submit recommendations to Vetting Supervisors for approval within 20 working days upon receipt of applications (where no supplementary information is needed), receipt of complete information, or the applicants' deadlines for reply for providing information.

2.12 According to WFAO:

- (a) WFAMS included built-in alerts according to the pre-set timeframes to remind Vetting Officers/Vetting Supervisors for follow-up actions. Weekly progress reports were also generated highlighting cases with applicable timeframes falling due, and alert messages were sent to Assistant Managers of the Vetting Teams for monitoring purposes; and
- (b) as the circumstances of individual cases were unique, no timeframe had been set on the overall processing time of applications (i.e. from the date of receipt of application to completion of processing). Rather, to ensure timely processing, alerts were issued to officers concerned according to internal timeframes set for each stage (e.g. from the date of receipt of complete information/the applicant's deadline for reply for providing information to the date of the Vetting Officer making recommendation to the Vetting Supervisor).

Processing of applications

2.13 To facilitate Audit’s analysis, WFAO compiled the statistics on the average processing time (Note 15) for the years from 2018-19 to 2024-25 (up to September 2024) (see Tables 5 and 6).

Table 5

**Average processing time of processed applications
from receipt of application to completion of processing
(2018-19 to 2024-25 (up to September 2024))**

Year of application	Number of processed applications	Average processing time (days)
2018-19	87,495	40
2019-20	102,936	52
2020-21	132,208	60
2021-22	134,942	46
2022-23	128,126	39
2023-24	115,580	36
2024-25 (up to September 2024)	49,517	31
Overall (Note)	750,804	45

Source: WFSFAA records

Note: According to WFAO: (a) the total number differs from the total number of applications processed reported in the Note to Table 3 in paragraph 2.4 (i.e. 765,288 applications) because the records of 14,484 applications were purged (i.e. data was no longer available) pursuant to WFAO’s record-keeping guidelines in compliance with the Personal Data (Privacy) Ordinance (Cap. 486); and (b) the number of processed applications included those which were rejected because the applicants did not respond to WFAO’s request for information, or provided supplementary information but was found to be insufficient for WFAO’s continued processing of the applications. The processing time of such rejected applications were in general longer.

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year of application.

Note 15: For this analysis, the completion date of processing refers to the date on which the Vetting Supervisor endorsed the recommendation by the Vetting Officer.

Table 6

**Average processing time of processed applications
from receipt of complete information to completion of processing
(2018-19 to 2024-25 (up to September 2024))**

Year of application	Number of processed applications with complete information	Average processing time (days)
2018-19	87,000	11
2019-20	101,881	15
2020-21	126,419	17
2021-22	128,704	13
2022-23	121,686	10
2023-24	109,083	10
2024-25 (up to September 2024)	46,461	9
Overall (Note)	721,234	13

Source: WFSFAA records

Note: According to WFAO, for the calculation of the average processing time of applications from receipt of complete information to completion of processing, applications without complete information should be excluded. Therefore, 29,570 applications which were rejected due to applicants' failure to submit supplementary information or the required supporting documents had been excluded from this analysis.

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year of application.

Processing of applications

2.14 Audit further analysed the processing time of applications for the period from 2022-23 to 2024-25 (up to September 2024) (see Table 7) and noted that some applications were with longer processing time (Note 16), as follows:

- (a) of the 293,223 processed applications, the processing time from receipt of applications to completion of processing for 31,672 (10.8%) applications was over 60 days, ranging from 61 to 608 days (averaging 77 days) (Note 17); and
- (b) of the 277,230 processed applications with complete information, the processing time from receipt of complete information to completion of processing was over 30 days in 13,563 (4.9%) applications, ranging from 31 to 519 days (averaging 44 days).

Note 16: *For this analysis, a longer processing time represents:*

- (a) *more than 60 days from receipt of application to completion of processing, making reference to (b) below and a total of 28 days allowed for applicants/household members to submit supplementary information to WFAO (see para. 2.11(a)); and*
- (b) *more than 30 days from receipt of complete information to completion of processing, making reference to the 20-working day timeframe for Vetting Officers to submit recommendations to Vetting Supervisors upon receipt of applications, receipt of complete information, or the applicants' deadlines for reply for providing information (see para. 2.11(b)).*

Note 17: *According to WFAO, for the case with the longest processing time (i.e. 608 days), the long processing time was mainly due to an ongoing special investigation (see para. 3.2) on a previous application of the household, at the end of which under-reported items were found. To safeguard public money, it was WFAO's practice to put the processing of the current application on hold pending the outcome of the special investigation.*

Table 7

**Processing time of applications
(2022-23 to 2024-25 (up to September 2024))**

Processing time	Number of applications	
	From receipt of application to completion of processing (Note 1)	From receipt of complete information to completion of processing (Note 2)
30 days or less	137,978 (47.1%)	263,667 (95.1%)
31 to 60 days	123,573 (42.1%)	12,035 (4.3%)
61 to 90 days	26,379 (9.0%)	1,265 (0.5%)
91 to 120 days	4,300 (1.5%)	208 (0.08%)
More than 120 days	993 (0.3%)	55 (0.02%)
Total	293,223 (100.0%)	277,230 (100.0%)

Source: Audit analysis of WFSFAA records

Note 1: According to WFAO, the number of applications for calculation of processing time from receipt of application to completion of processing included those which were rejected because the applicants did not respond to WFAO's request for information, or provided supplementary information but was found to be insufficient for WFAO's continued processing of the applications. The processing time of such rejected applications were in general longer.

Note 2: According to WFAO, for the calculation of the average processing time of applications from receipt of complete information to completion of processing, applications without complete information (see Note 1 above) should be excluded. Therefore, 15,993 applications which were rejected due to applicants' failure to submit supplementary information or the required supporting documents had been excluded from this analysis.

Processing of applications

2.15 Audit examined 105 applications received in 2022-23 to 2024-25 (up to September 2024) (Note 18) and noted that:

- (a) in 21 (20%) applications, the time taken for Vetting Officers to submit recommendations to Vetting Supervisors for approval exceeded the internal stipulated timeframe (i.e. within 20 working days upon receipt of applications (where no supplementary information is needed), receipt of complete information or the applicants' deadlines for reply for providing information (see para. 2.11(b))). The time exceeded ranged from 6 to 331 working days (averaging 63 working days). However, there was no documentation in the casefiles showing the justifications for the longer time taken; and
- (b) of the 50 approved applications, the processing time from receipt of applications to completion of processing ranged from 11 to 608 days, averaging 182 days, and the processing time from receipt of complete information to completion of processing ranged from 1 to 519 days, averaging 53 days. Audit noted that the time spent on collecting complete information from applicants/household members ranged from 1 to 401 working days (averaging 89 working days), and found scope for expediting the collection and/or clarification of necessary information/documents, as follows:
 - (i) in 9 (9%) applications, WFAO did not contact the applicants to request for supplementary information (e.g. bank statements and pay slips) until 21 to 372 working days (averaging 105 working days) after receipt of the applications; and
 - (ii) in 6 of these 9 applications, WFAO did not contact the applicants to clarify irregularities noted in the supporting documents (e.g. nature of income/expenditure items in bank statements, and suspected unreported income/assets) until 21 to 159 working days (averaging 45 working days) after receipt of the related documents.

Note 18: *The 105 applications examined by Audit included: (a) 50 approved applications, 15 rejected applications and 15 withdrawn applications and most of them were with longer processing time (i.e. over 60 days from receipt of applications to completion of processing); and (b) 25 applications with QA checks conducted by WFAO in 2023 and 2024 (up to September).*

2.16 Upon enquiry of the reasons for the longer time taken for processing the applications mentioned in paragraph 2.15, WFAO informed Audit in February and March 2025 that:

- (a) the longer time taken for the 21 applications (see para. 2.15(a)) was because the previous applications from the same applicants approved with WFA were either under special investigation (see para. 3.2) or internal review (Note 19). While the reasons for exceeding the internal timeframe might not be explicitly documented in the casefiles, Vetting Teams would always, as and when needed, make easy cross-references to WFAMS and casefiles of previous applications, relevant on-going special investigations and internal reviews. As such, documentation on the justifications for the longer time taken in casefiles was considered not necessary; and
- (b) the longer time taken to collect and/or clarify information in the 9 applications (see para. 2.15(b)) was because:
 - (i) in 5 applications, more time was required due to various reasons including cross-checking of voluminous transactions in bank statements against the supporting documents, suspicious bank account transactions with unreported income found, inconsistent

Note 19: *According to WFAO, it may initiate an internal review on an application/review case/appeal case in which vetting has been completed, mainly on the following grounds:*

- (a) *an applicant, whose application has been rejected by WFAO due to his/her failure to submit supplementary information or the required supporting documents by the deadline specified by WFAO and who has hence been issued with a Notification of Insufficient Information for Following Up on the Application, requests for the re-opening of his/her application after having submitted all the required information or supporting documents;*
- (b) *back-pay of allowance or recovery of overpaid allowance is required, as identified by the investigation by SI Section;*
- (c) *adjustments on the amount of allowance is required due to other reasons (e.g. under-reported items related to the previous claim periods found in re-applications); or*
- (d) *other reasons based on circumstances of the cases.*

For the period from 2018-19 to 2024-25 (up to September 2024), 15,683 internal reviews had been initiated.

Processing of applications

self-declaration of working hours and income, referral of the application to law enforcement agency (i.e. the Hong Kong Police Force (HKPF)) for investigation, and retrieval of previous applications which were potential over-payment cases for internal review. However, Audit noted that the reasons for the longer time taken were not specifically documented in the casefiles;

- (ii) in 2 applications, the Vetting Officers had contacted the applicants verbally within 20 working days before issuing letters to request for supplementary information. However, Audit noted that such verbal contacts with the applicants were not recorded in WFAMS/casefiles, contrary to the requirement in the Operational Manual (see para. 2.11(a)); and
- (iii) in 2 applications, the vetting process was held up due to special investigation of the applicants' previous applications. The processing resumed and letters to request for supplementary information were issued when the special investigations were largely finalised/completed.

2.17 As the reasons for the long processing time of individual applications were not specifically documented in WFAMS nor the casefiles (see paras. 2.15 and 2.16), the WFAMS-generated reports could not facilitate senior management's monitoring unless a case-level enquiry was made. Upon enquiry, WFAO informed Audit in January and March 2025 that:

- (a) the internal timeframes served primarily as reference points to help timely identify applications potentially warranting intervention at a more senior level. The actual processing time of application always varied case-by-case depending on individual circumstances;
- (b) the internal timeframes also helped ensure that unless for good reasons, all key procedures in the processing of applications were attended by staff within reasonable time. Assistant Managers of the Vetting Teams would review the progress reports generated by WFAMS and, having regard to case-specific circumstances, take appropriate actions on cases warranting attention; and

- (c) WFAO's senior management did not only rely on WFAMS-generated reports to monitor the processing of cases. Instead, there were other more effective means for senior management to monitor the progress. For example, overall processing time of applications was reported to the top management at monthly meetings. Senior Managers of Operation Teams also held regular meetings with Managers/Assistant Managers to examine cases with long processing time.

2.18 While noting WFAO's explanations, in view of the longer time taken noted in processing some applications, WFSFAA needs to:

- (a) take measures to expedite the processing of WFA applications as far as practicable (e.g. exploring ways to enhance WFAMS);
- (b) take measures to ensure that staff collect and/or clarify necessary information for processing WFA applications in a timely manner, and record all contacts with applicants; and
- (c) consider compiling more management information to facilitate monitoring of processing of WFA applications.

Need to ensure consistent practice in vetting applications

2.19 To be eligible for WFA, the household assets must be within the asset limits (see para. 1.4(a)(ii)). All household members (including the applicant) need to report all assets within and outside Hong Kong. WFAO has listed out common examples of items counted/not counted as assets for applicants' reference on website and in the Guidance Notes for Applications under WFA Scheme (the Guidance Notes for Applications). It has also listed out more examples on items to be counted as household assets in the Operational Manual for staff reference.

2.20 Audit examination of the 105 applications (see para. 2.15) noted some inconsistent practices in vetting applications, as follows:

Processing of applications

- (a) ***Rental deposit for public rental housing.*** In 1 application, the rental deposit paid by the applicant for her public rental housing unit was included as household assets. However, for 67 applicants who also resided in public rental housing units, there was no evidence showing that WFAO had confirmed with the applicants if rental deposits were paid for their public rental housing units, and no such deposits were included as household assets. According to WFAO, any form of rental deposit should not be counted as household assets; and
- (b) ***Electronic-wallet balances.*** In 3 applications, the applicants/their household members had reported the balances of electronic-wallet as household assets. However, in 3 other applications, while there were electronic-wallet transactions shown in the bank statements, WFAO did not request the applicants to report the electronic-wallet balances as household assets.

2.21 To ensure fairness in the vetting process, WFSFAA needs to take measures to ensure that consistent practices are adopted by staff in the vetting process, including regularly reviewing the list of items to be counted as household assets and providing more staff training. WFSFAA also needs to enhance the list of items counted/not counted as household assets in the Guidance Notes for Applications by including more common examples (e.g. electronic-wallet balances).

Audit recommendations

2.22 **Audit has *recommended* that the Head, WFSFAA should:**

- (a) **take measures to expedite the processing of WFA applications as far as practicable (e.g. exploring ways to enhance WFAMS);**
- (b) **take measures to ensure that staff collect and/or clarify necessary information for processing WFA applications in a timely manner, and record all contacts with applicants;**
- (c) **consider compiling more management information to facilitate monitoring of processing of WFA applications;**

- (d) **take measures to ensure that consistent practices are adopted by staff in the vetting process, including regularly reviewing the list of items to be counted as household assets and providing more staff training; and**
- (e) **enhance the list of items counted/not counted as household assets in the Guidance Notes for Applications under WFA Scheme by including more common examples (e.g. electronic-wallet balances).**

Response from the Government

2.23 The Head, WFSFAA agrees with the audit recommendations and will take necessary follow-up actions as recommended. He has said that WFSFAA will:

- (a) continue to adopt built-in alerts to remind Operation Teams to take necessary follow-up actions and explore ways to further enhance WFAMS to expedite the processing of applications as appropriate;
- (b) explore ways to further enhance WFAMS to alert staff to collect information and seek clarification in good time, and remind staff to record all contacts with applicants in accordance with the Operational Manual;
- (c) enhance the monitoring of the processing of individual cases and compile more management information to facilitate senior management's monitoring of complicated cases with long processing time;
- (d) continue to review and update the list of household asset items in the Operational Manual based on operational experience to ensure consistency in practices adopted by staff in the vetting process, continue to organise training and sharing sessions for vetting staff on the handling of WFA applications, refine the training materials and remind staff of updates in the Operational Manual; and
- (e) continue to update the list of household asset items in the Guidance Notes for Applications based on operational experience by including more common examples of household assets.

Quality assurance checks

Need to review timeframe for reporting QA checks results and strengthen improvement measures identified in QA checks

2.24 WFAO conducts QA checks on processed applications selected on a random basis by WFAMS as part of the control mechanism to ensure that they are in order. As stipulated in the Operational Manual, for QA checks:

- (a) a specified percentage of processed applications are selected on a random basis by WFAMS before the issue of Notification of Application Result to applicants;
- (b) checking officers have to check the applications against supporting documents and information in WFAMS to ensure that they are in order within 4 working days upon receipt of a checking request, and record the checking outcomes and follow-up actions in WFAMS; and
- (c) checking officers are at least one rank higher than the approving officers (i.e. at Assistant Manager level or above) and not the officers involved in the vetting process.

2.25 The results of QA checks for the period from April 2018 to September 2024 (see Table 8) showed that the overall percentage of applications failing QA checks (i.e. applications found with errors) was 13%, with percentages ranging from 9% to 18%.

Table 8

**Results of QA checks
(April 2018 to September 2024)**

Year of QA checks completed	Number of applications with QA checks	
	Conducted	Failed
2018 (from April)	2,854	513 (18%)
2019	4,663	730 (16%)
2020	4,148	471 (11%)
2021	4,280	368 (9%)
2022	4,008	478 (12%)
2023	3,564	450 (13%)
2024 (up to September)	2,580	399 (15%)
Overall	26,097	3,409 (13%)

Source: WFSFAA records

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year of completion QA checks.

2.26 According to WFAO, since December 2022, checkboxes specifying the reasons for failing QA checks have been provided in WFAMS and a report showing such details is generated on an annual basis. A report, namely Summary of Quality Assurance Checking Result of Working Family Allowance Applications (the Summary Report), is then submitted to WFAO's senior management for review. According to the Summary Report for 2023, for the 3,564 applications with QA checks conducted:

Processing of applications

- (a) 450 (13%) applications failed QA checks and involved 558 errors, with 36 (1%) involved changes in WFA amounts (Note 20);
- (b) out of the 36 applications that involved changes in WFA amounts, assessment results of 5 applications changed from approved to rejected (i.e. the applicants were not eligible for WFA);
- (c) in 1 case, the checking officer and the approving officer of the application were both at the Assistant Manager rank, contrary to the requirement in the Operational Manual that the checking officers should be at least one rank higher than the approving officers (see para. 2.24(c));
- (d) the 558 errors found in applications that failed QA checks were mostly caused by:
 - (i) input errors resulting from careless mistakes in checking or overlooking of documents;
 - (ii) some vetting staff had not exercised sufficient due care in analysing the information/proof provided by applicants; or
 - (iii) some vetting staff might have difficulty in fully comprehending various types of documentary proof (e.g. insurance policies/income statements issued by different companies) and therefore had made inaccurate assessments; and
- (e) a number of recommendations would be implemented to enhance the quality of vetting. For example, vetting staff should be reminded to pay more attention to the handling of documentary proof in the vetting process and pay extra attention to data input/record in WFAMS. Operation Teams should also identify common/frequent errors and/or weaknesses, draw up

Note 20: *The reasons for failing QA checks were mainly due to irregularities found in information relating to: (a) working hours and income (35.8%); (b) assets (29.4%); and (c) household members (11.9%). For the 36 applications involved changes in WFA amounts, WFAO uplifted the allowance amounts in 17 applications, lowered the allowance amounts in 14 applications and rejected 5 applications.*

areas for improvement and share them with vetting staff regularly, say at a six-month interval.

2.27 The Summary Report provided analyses and offered insights on areas for improvement in the vetting process to enhance service quality. However, Audit noted that:

- (a) the percentage of applications that failed QA checks in 2024 (up to September) had increased to 15% (13% in 2023) (see Table 8 in para. 2.25);
- (b) as the Summary Report is compiled on an annual basis, the analysis for the QA checks conducted in 2024 (up to December) was under compilation as of February 2025. According to WFAO, further analysis and evaluation of the process were still underway. In this connection, Audit also noted that the 2023 report (showing the results of QA checks conducted in 2023) was issued in April 2024 (i.e. 4 months after the year-end) (Note 21); and
- (c) according to WFAO, the recommendations (see para. 2.26(e)) had been implemented. For example, from time to time, different teams would hold meetings to brief vetting staff of updates in guidelines on vetting requirements and to remind them to handle data/files and data input/records with care. Operation Teams had also held regular meetings to review the QA failed cases and discuss the common errors identified, and had taken follow-up actions with vetting staff immediately.

2.28 The QA results indicated the need for WFAO to further strengthen efforts to enhance the quality and accuracy of vetting of WFA applications (e.g. exploring the feasibility of making better use of technology and providing more training to Vetting Officers). As the results of QA checks are useful for monitoring the vetting quality and formulating measures to enhance the vetting process, there is merit to

Note 21: *According to WFAO, the enhancement of vetting procedures and quality did not depend solely on the Summary Report as the office reviewed the practices from time to time throughout the year and made suitable enhancements whenever necessary. Besides, when the 2023 Summary Report was under preparation, the findings were already reported to the top management for deliberation on the follow-up actions in the monthly meeting in February 2024.*

Processing of applications

review the timeframe and frequency for compiling and submitting the Summary Report. WFSFAA also needs to take measures (e.g. establishing controls in WFAMS) to ensure that QA checks are conducted by officers of the rank stipulated in the Operational Manual.

Audit recommendations

2.29 **Audit has *recommended* that the Head, WFSFAA should:**

- (a) **further strengthen efforts to enhance the quality and accuracy of vetting of WFA applications (e.g. exploring the feasibility of making better use of technology and providing more training to Vetting Officers);**
- (b) **review the timeframe and frequency for compiling and submitting the Summary of Quality Assurance Checking Result of Working Family Allowance Applications; and**
- (c) **take measures (e.g. establishing controls in WFAMS) to ensure that QA checks are conducted by officers of the rank stipulated in the Operational Manual.**

Response from the Government

2.30 The Head, WFSFAA agrees with the audit recommendations which align with WFSFAA's long-standing efforts to enhance the effectiveness of its vetting of WFA applications. He has said that:

- (a) the vetting process involves the review of a wide variety of documentary proof and individualised communication with applicants. The room for fully automating the process is currently limited. This notwithstanding, WFSFAA has been proactively exploring wider adoption of information technology applications. Examples of enhancement made to WFAMS include built-in functions to detect and draw attention to potentially inconsistent and self-contradictory information regarding the applications. On the training front, WFSFAA has long been running induction courses for new vetting staff, briefings for serving staff on recent updates on WFA

Scheme and vetting practices/standards, as well as sharing sessions on skills for vetting complicated applications. WFSFAA will also continue to refine the training materials and remind vetting staff through regular briefings of the importance of quality and accuracy of vetting. Moreover, newly joined staff will undergo a two-week understudy period, followed by hands-on training and coaching;

- (b) on top of the annual QA Summary Report, which is to be compiled within the first quarter of the following year, WFSFAA will prepare a mid-year summary report; and
- (c) WFSFAA will review the control functions in WFAMS and relevant provision in the Operational Manual to ensure compliance.

Handling of rejected applications

Room for improvement in handling rejected applications

2.31 Upon completion of the processing of a WFA application, WFAO will issue a Notification of Application Result to the applicant, stating whether the household is eligible and the reasons for ineligible claim months (if applicable). For unsuccessful applications, it is WFAO's practice to inform applicants of the reasons for rejecting their applications in the Notification of Application Result.

2.32 For the period from 2018-19 to 2024-25 (up to September 2024), the rejection rates of WFA applications averaged at 5.6% (see Table 3 in para. 2.4), ranging from 4.4% (in 2018-19) to 6.5% (in 2020-21). Audit analysis of reasons for rejection of applications (totalling 18,318 applications) recorded in WFAMS for the period 2022-23 to 2024-25 (up to September 2024) (see Table 9) and noted that:

- (a) the major reason for rejection was "Rejected (No Response)". According to the Operational Manual, this internal classification represents cases for which reminder letters requesting for supplementary information have been issued to applicants but the required information or clarification is not received after the deadline for reply. According to WFAO, rejected applications under this classification in WFAMS cover those with no response at all, and those with some information submitted but found to be

Processing of applications

insufficient for following up on the applications. A notification letter will be issued to inform the applicant that the application cannot be further processed due to insufficient information for following up on the application. They accounted for 82 % of the rejected applications; and

- (b) there were slight increases in the percentages of applications failing to meet working hour requirements and exceeding income limits.

Table 9

**Reasons for rejection of applications
(2022-23 to 2024-25 (up to September 2024))**

Reason	Number of rejected applications			
	2022-23	2023-24	2024-25 (up to September 2024)	Overall
No response (Note)	5,962 (82 %)	6,125 (83 %)	2,927 (80 %)	15,014 (82 %)
Failed to meet working hour requirements	349 (5 %)	408 (5 %)	246 (7 %)	1,003 (5 %)
Exceeded income limits	374 (5 %)	416 (6 %)	266 (7 %)	1,056 (6 %)
Exceeded asset limits	436 (6 %)	325 (4 %)	130 (4 %)	891 (5 %)
Others	122 (2 %)	139 (2 %)	93 (2 %)	354 (2 %)
Total	7,243(100 %)	7,413(100 %)	3,662 (100 %)	18,318 (100 %)

Source: Audit analysis of WFSFAA records

Note: According to WFAO, rejected applications under this classification in WFAMS included those with no response at all and those with insufficient information submitted for following up on the applications.

2.33 Audit examination of 15 rejected applications (see Note 18 to para. 2.15) and noted room for improvement:

- (a) ***Need to continue taking measures to facilitate applicants' understanding of eligibility criteria of WFA Scheme.*** In 9 (60%) of the 15 rejected applications examined, the reasons for rejection were internally classified as "Rejected (No Response)". According to the Operational Manual, this classification should be made when WFAO has requested an applicant for supplementary information but the required information or clarification is not received after the deadline for reply (see para. 2.32(a)). Audit noted that in 5 (56%) of the 9 cases, the applicants had replied to WFAO but the applications were finally rejected because of insufficient supporting information/documents provided to satisfy WFAO's requirements. For example, in 3 cases, the applicants submitted declarations at WFAO's requests (e.g. an applicant declared that he did not hold any bank account for his own companies that had ceased operations). However, the applications were rejected because other supporting information/documents sought were not provided (e.g. a profit and loss account verified by a certified public accountant). In another case, WFAO requested the applicant to provide an employer's certification (as the applicant's bank statement showed that he had regular monthly income which contradicted with his declaration as a casual worker earning a daily wage (Note 22)). The applicant informed WFAO of the difficulty in submitting the required document (i.e. his employer refused to provide an employer's certification) and requested WFAO to arrange an interview to discuss possible solutions (including his signing of another self-declaration). However, there was no documentation showing that WFAO had responded to his request. According to WFAO, notification letters informing the applicants that there was insufficient information for following up on the applications were issued. In Audit's view, WFSFAA needs to provide more pertinent reasons for rejection of applications in WFAMS (e.g. adding "insufficient information" as a rejection reason), and continue exploring measures to facilitate applicants' understanding of eligibility criteria of WFA Scheme (see para. 2.34); and
- (b) ***Need to exercise due care in calculating household assets.*** According to the Operational Manual, amounts of outstanding mortgage loans from land, properties, vehicles and vessels, etc, should be deducted from the amounts of total household assets. Audit noted that in 1 rejected application, the

Note 22: *According to WFAO, after the office's request for clarification on the contradiction, the applicant revised his declaration without giving any explanation. Having regard to his history of under-reporting household income and assets, WFAO asked him to provide a certification from employer.*

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Vetting Officer mistakenly informed the applicant that the outstanding mortgage loan of his property should not be deducted from the total household assets. Accordingly, the Vetting Officer did not request the applicant to provide relevant supporting document, and the amount of the outstanding mortgage loan had not been deducted from the amount of total household assets (Note 23).

2.34 According to WFAO, efforts had been made to facilitate applicants' understanding of the application process, including:

- (a) offering assistance and guidance to applicants in the submission of documents (e.g. use of other WFA forms and screen captures of relevant mobile applications) as far as practicable;
- (b) explaining the eligibility criteria of the Scheme and documentary proof required to applicants. For example, since December 2024, apart from promulgating the required documents to be submitted through various means (e.g. Guidance Notes for Applications and website), WFAO has introduced a pop-up message showing individual tables on items required to be reported/counted as income and assets before applicants filling in the e-submission form; and
- (c) informing all unsuccessful applicants of the eligibility criteria they failed to meet in the Notification of Application Result, with elaborations given as necessary in complicated cases.

2.35 In Audit's view, given that about 16% of the rejected WFA applications were due to failure in meeting eligibility criteria (e.g. working hour requirements) and rejections due to this reason were on an increasing trend, there are merits for WFAO to provide more pertinent reasons for rejection of applications so as to further facilitate applicants' application process.

Note 23: *According to WFAO, the exclusion of the outstanding mortgage loan amount did not affect the assessment result of the application.*

Audit recommendations

- 2.36 **Audit has *recommended* that the Head, WFSFAA should:**
- (a) **provide more pertinent reasons for rejection of applications and make continued efforts to facilitate WFA applicants' understanding of the eligibility criteria; and**
 - (b) **remind Vetting Officers to exercise due care in calculating household assets according to the requirements stipulated in the Operational Manual.**

Response from the Government

- 2.37 The Head, WFSFAA agrees with the audit recommendations and will take necessary follow-up actions as recommended. He has said that WFSFAA will:
- (a) review and provide more pertinent reasons for rejection, and make continued efforts to facilitate applicants' understanding of the eligibility criteria and supporting documents required. In particular, having regard to the feedback gathered from vetting staff during their day-to-day interaction with applicants, WFSFAA will continue to review the reference materials on WFA Scheme and means of promulgating information useful to applicants; and
 - (b) continue to organise induction courses for new vetting staff and briefings for serving staff on recent updates on WFA Scheme and vetting practices/standards, as well as sharing sessions on skills for vetting complicated applications, and continue to remind vetting staff to ensure compliance with the requirements of the Operational Manual and other relevant guidelines through regular briefings.

PART 3: FOLLOW-UP ON PROCESSED APPLICATIONS

3.1 This PART examines the follow-up on processed applications, focusing on the following areas:

- (a) special investigation (paras. 3.2 to 3.28);
- (b) review and appeal on processed applications (paras. 3.29 to 3.38); and
- (c) recovery of overpaid allowance (paras. 3.39 to 3.45).

Special investigation

3.2 WFAO has set up an SI Section (see Appendix C) to conduct special investigation of selected cases. According to WFAO, SI Section aims to:

- (a) detect and investigate suspected fraud cases so as to ensure that the limited public resources are utilised to support households that are most in need;
- (b) review if the cases are approved according to the vetting standards and ensure that eligible households are granted the appropriate amounts of allowance; and
- (c) continuously evaluate and improve the risk management of WFAO based on the investigation results, and thereby enable the effective and efficient vetting of WFA applications.

According to WFAO, SI Section adopts a risk-based approach and endeavours to detect and deter fraud cases as far as possible through conducting in-depth investigations and/or authentication depending on risk levels of cases (see para. 3.5).

3.3 According to the internal guidelines laid down in WFAO's Operational Manual and SI Section's working manual, cases for special investigation are selected from the following sources:

- (a) ***Randomly selected by WFAMS.*** WFAMS randomly selects specified percentages of post-payment applications meeting one or more of the risk rules prescribed by WFAO (Note 24) for in-depth investigation and those do not for authentication on a monthly basis;
- (b) ***Internal referrals.*** Suspected fraud cases referred by Operation Teams;
- (c) ***External referrals.*** Suspected fraud cases referred or reported by external parties (e.g. members of public or other B/Ds); and
- (d) ***SI-initiated.*** Investigation initiated by SI Section on post-payment cases. For example, if an application is found with irregularities in the course of special investigation, SI Section may initiate investigation into the applicant's previous applications.

3.4 The workflow for special investigation typically involves collection of evidence, which may include obtaining information from other B/Ds and/or other organisations, conducting interviews and/or home visits and verification of supporting documents. When it is confirmed that the household should not be entitled to the approved amount of WFA, WFAO will initiate recovery of overpaid allowance and/or refer the suspected fraud cases to law enforcement agencies (e.g. HKPF).

Need to review target percentage of high-risk cases for special investigation

3.5 According to WFAO's guidelines, a risk-based approach is adopted for conducting special investigation:

- (a) ***In-depth investigation on high-risk cases.*** In this context, high-risk cases include: (i) cases randomly selected from the pool of applications meeting the risk rules; (ii) all internal referrals; (iii) all external referrals; and (iv) all SI-initiated cases (see para. 3.3). An overall target percentage has been set on conducting in-depth investigation on these high-risk cases; and

Note 24: *Risk rules are set as one of the means to identify high-risk cases and are reviewed regularly by SI Section and endorsed by WFAO's senior management.*

Follow-up on processed applications

- (b) *Authentication on cases not meeting risk rules.* As for the cases which do not meet the risk rules, a lower target percentage is applied for random selection of such cases for authentication.

3.6 According to WFAO, the target percentages of cases selected for special investigation for high-risk cases and cases not meeting the risk rules had been met for the years from 2018-19 to 2024-25 (up to September 2024). The percentage of high-risk cases with special investigation conducted significantly exceeded the target percentage for the years from 2022-23 to 2024-25 (up to September 2024).

3.7 Table 10 shows the percentage of special investigation cases by sources for the period from 2018-19 to 2024-25 (up to September 2024). Audit noted that among the high-risk cases:

- (a) the percentage of special investigation cases arising from internal referrals had increased exponentially from 19% in 2019-20 to 59% in 2023-24. Internal referrals had replaced randomly selected cases meeting risk rules as the major source of high-risk cases for special investigation since 2021-22, and accounted for over 75% of the high-risk cases since 2022-23; and
- (b) by contrast, the percentage of special investigation cases arising from randomly selected cases meeting risk rules decreased from 34% in 2019-20 to 6% in 2023-24.

Audit further analyses noted areas warranting attention.

Table 10

**Percentage of special investigation cases by sources
(2018-19 to 2024-25 (up to September 2024))**

Year of commencement of special investigation	Randomly selected cases meeting risk rules (a)	Internal referrals (b)	External referrals (c)	SI-initiated (d)	High-risk cases (e) = (a) + (b) + (c) + (d)	Randomly selected cases not meeting risk rules (f)	Total (g) = (e) + (f)
2018-19	56 %	4 %	1 %	1 %	62 %	38 %	100 %
2019-20	34 %	19 %	2 %	3 %	58 %	42 %	100 %
2020-21	24 %	22 %	4 %	4 %	54 %	46 %	100 %
2021-22	15 %	35 %	3 %	4 %	57 %	43 %	100 %
2022-23	7 %	50 %	4 %	5 %	66 %	34 %	100 %
2023-24	6 %	59 %	4 %	4 %	73 %	27 %	100 %
2024-25 (up to September 2024)	5 %	60 %	4 %	7 %	76 %	24 %	100 %
Overall	16 %	41 %	4 %	4 %	65 %	35 %	100 %

Source: Audit analysis of WFSFAA records

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year when special investigation commenced (i.e. the case commencement date recorded in WFAMS).

3.8 Decrease in proportion of high-risk current year applications with special investigation conducted. Audit noted that when a referral was made (e.g. internal referrals by the Operation Teams to SI Section), it was common for some or all of the previous applications of the same applicant to be retrieved and referred for investigation, as suspected unreported items (e.g. bank accounts) recently discovered might also affect previous applications. Each previous application of the same applicant covering a claim period of 6 months would be counted as one case. For

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example, in 2023-24, for the special investigation cases arising from internal referrals, the average number of cases per applicant was 4.7 cases. As such, out of the cases on which special investigation were conducted, a large proportion was related to previous year applications made by the same applicants. Audit noted that among the high-risk cases selected for special investigation, the proportion of current year applications (i.e. applications with disbursement made in the same year as the commencement of the special investigation) showed a decreasing trend from 73% in 2019-20 to 16% in 2023-24. According to WFAO, this was because the majority of applicants selected for special investigation involved multiple previous applications.

3.9 ***Decrease in number of applicants involved in high-risk cases selected for special investigation.*** Audit examination found that the number of applicants involved in high-risk cases selected for special investigation was on a decreasing trend. For example, despite the increase in the number of active households by about 20% from some 42,000 in May 2019 to some 51,000 in March 2024, there was a decrease in the number of applicants involved in high-risk cases selected for special investigation of about 9% in 2023-24 compared to 2019-20.

3.10 ***Decrease in percentage of high-risk cases selected for special investigation from applications meeting the risk rules.*** One of the sources of high-risk special investigation cases is the post-payment applications which meet one or more of the risk rules prescribed by WFAO (see para. 3.5(a)), which are reviewed regularly and considered by WFAO as effective in identifying possible fraud risks (e.g. unreported assets or income). Audit however noted that there was a decreasing trend in the percentage of high-risk cases being selected for special investigation from the pool of applications meeting the risk rules (Note 25).

3.11 With WFA Scheme being implemented for a longer period of time, returning applicants have in general accumulated a greater number of re-applications. According to WFAO, there was a need for the Operation Teams to refer previous applications of the applicants concerned to SI Section as suspected unreported items recently discovered might also affect previous applications (see para. 3.8), and the number of special investigation cases arising from internal referrals would increase

Note 25: *The percentage of high-risk cases being selected for special investigation from the pool of applications meeting the risk rules decreased by over 50% from 2018-19 to 2021-22, and remained approximately the same thereafter, except for 2023-24 which saw a very slight increase.*

over time (Note 26). In this connection, while the target percentage for selecting high-risk cases for special investigation had been met (see para. 3.6), given the same amount of resources, the number of high-risk cases that were randomly selected for special investigation based on WFAO's prescribed risk rules (which were mainly current year applications) had decreased. This may pose a risk of some high-risk and current year fraud cases being undetected. In Audit's view, WFSFAA needs to review the selection of cases for special investigations and take follow-up actions as appropriate.

Need to improve management information for reviewing risk rules

3.12 As at 9 December 2024 (see Note 28 to para. 3.17), of the cases with special investigation commenced during the period from the launch of WFA Scheme in 2018-19 to 2024-25 (up to September 2024), 84% of the cases had been completed and 16% were on-going. An analysis of the results of the completed cases showed that:

- (a) 59% of the cases were without under-reported items;
- (b) among the 41% of the cases with under-reported items:
 - (i) 22% of the cases involved under-reported items which did not affect the amount of allowance disbursed;
 - (ii) 18% of the cases involved recovery of overpaid allowance, and the total amount involved was \$20.1 million; and
 - (iii) 1% of the cases were suspected to involve fraud and were referred to HKPF for investigation (Note 27). These involved a total of \$1.4 million of overpaid allowance; and

Note 26: *For example, for special investigation cases arising from internal referrals, the average number of cases per applicant had increased from 1.8 in 2019-20 to 5.2 in 2024-25 (up to September 2024).*

Note 27: *For convicted cases, the applicants concerned were sentenced to imprisonment for 2 to 4 months (suspended for 3 years).*

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- (c) the percentage of special investigation cases with under-reported items ranged from 24% in 2018-19 to 52% in 2023-24.

3.13 Upon completion of an investigation, the officer of SI Section will record the investigation results in WFAMS. For cases involving overpaid allowance, checkboxes are available in WFAMS for inputting the over-payment reasons (e.g. unreported assets, unreported income from work and ineligible child status for Child Allowance). Audit noted that there was no additional breakdown tier of the types of under-reported items (e.g. for unreported assets, whether they were related to unreported bank accounts, cash values of insurance policies or properties). According to WFAO, no analysis or breakdown was conducted or generated as these statistics were not needed from the case handling or operational point of view.

3.14 ***Review of risk rules.*** According to WFAO's guidelines, the risk rules for identifying applications with possible fraud risks should be reviewed on a half-yearly basis (see para. 3.10) and are updated when necessary. The last revision was made in May 2022. According to WFAO, in the latest review meeting held in October 2024, the effectiveness of risk rule cases was deliberated and no revision of risk rules was considered necessary until more data could be accumulated over time for effective analysis and assessment. However, Audit noted that there was no documentation showing that statistics/analyses on special investigation results had been reviewed during the meeting.

3.15 ***Decreasing detection rate of under-reported items from randomly selected cases meeting the risk rules.*** Audit's analysis revealed that the percentage of special investigation cases randomly selected from applications meeting the risk rules and subsequently detected with under-reported items had been on a decreasing trend since 2021-22, decreasing from 25% to 16% in 2022-23 and further to 14% in 2023-24.

3.16 As the risk rules may be defined or revised for detecting applications with particular types of under-reported items (e.g. bank account balances as one type of unreported assets), to facilitate the evaluation of the effectiveness of the risk rules, WFSFAA needs to conduct further analyses on special investigation results (e.g. compile additional breakdown of the types of under-reported items and conduct analyses of ineligible claim periods for applicants concerned), and make use of such information in reviewing the risk rules. Upon reviewing the results, WFSFAA also

needs to formulate measures as appropriate (e.g. providing more staff training) to improve WFAO's risk management and application vetting process (see para. 3.2(c)).

Need to shorten processing time of special investigation cases

3.17 No overall timeframe has been laid down in the internal guidelines on processing special investigation cases, i.e. from the date of case commencement (as recorded in WFAMS) to the date of completion of the investigation. For special investigation cases commenced during the period from the launch of WFA Scheme in 2018-19 to 2024-25 (up to September 2024), the longest processing time of special investigation cases completed as at 9 December 2024 (Note 28) was 1,301 days (i.e. 3.6 years), averaging 210 days (see Table 11). As for the on-going special investigation cases, the longest time elapsed from case commencement and up to September 2024 was 1,221 days (i.e. 3.3 years), averaging 231 days (see Table 12 for the elapsed time of on-going cases).

Note 28: *The calculation of the processing time was based on the list of special investigation cases completed as at 9 December 2024.*

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Table 11

**Processing time of completed special investigation cases
(2018-19 to 2024-25 (up to September 2024))**

Year of commencement	Processing time (days)	
	Longest	Average
2018-19	685	143
2019-20	1,177	185
2020-21	1,301	204
2021-22	1,050	246
2022-23	913	269
2023-24	596	196
2024-25 (up to September 2024)	243	90
Overall	1,301	210

Source: Audit analysis of WFSFAA records

Remarks: Processing time represents the time elapsed from the case commencement date to the completion date as recorded in WFAMS.

Table 12

**Elapsed time of on-going special investigation cases
(As at 30 September 2024)**

Elapsed time since case commencement	Percentage of cases
360 days or less	79.4%
361 to 720 days	18.3%
721 to 1,080 days	2.1%
1,081 to 1,440 days	0.2%
Total	100%

Source: Audit analysis of WFSFAA records

3.18 According to WFAO, special investigation cases usually involved obtaining necessary information from multiple third parties/private-sector organisations, in particular financial institutions. As their cooperation with WFAO was voluntary, the turnaround time was always beyond WFAO's control and could be relatively long. Some complicated cases spanned for years due to the intricate process in verifying the validity and accuracy of information.

3.19 Audit examined 50 special investigation cases (comprising 30 completed cases and 20 on-going cases) conducted in the period from 2021-22 to 2024-25 (up to September 2024) and noted that:

- (a) apart from the lead time for third parties to provide information (e.g. replies from banks on bank search) as mentioned by WFAO, in some cases, much time had been spent on collecting information of applicants/household members for verification/clarification (e.g. updating mailing address for tracking an applicant who was out of reach in the midst of investigation and obtaining specimen signatures of all household members for conducting information search); and
- (b) in 7 (35%) of the 20 on-going cases examined (with elapsed time ranging from 567 to 1,221 days and averaging 960 days), there were long time lags between the follow-up actions taken with applicants and/or the corresponding organisations regarding the information search. For example:
 - (i) in 2 cases which involved the same applicant, upon receiving the relevant correspondences from a bank (i.e. requesting signature specimen that matched the bank record), there was no documentation showing that WFAO had contacted the applicant to submit a signature specimen until 622 days (i.e. 1.7 years) later. Upon enquiry, WFAO informed Audit in March 2025 that the case officer had contacted the applicant multiple times requesting the correct signature specimen or alternative documents during the period, although the conversations were not documented. In this connection, Audit also noted that there were no guidelines requiring officers to document contacts (including verbal contacts) with the applicants/household members during special investigation; and

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- (ii) in another case (with an elapsed time of 567 days since commencement), since issuing correspondences to insurance companies in November 2023 and up to September 2024 (i.e. 10 months), there was no evidence showing that WFAO had followed up on the case (e.g. contacting the applicant/organisation concerned).

3.20 Audit noted that no internal timeframe had been set on the processing of special investigation cases, and WFAMS did not issue alerts (e.g. reminding case officers to take actions within a specified timeframe after the last follow-up action). There was also no management information on the processing time on special investigation cases. Upon enquiry, WFAO informed Audit in February 2025 that, instead of only relying on WFAMS-generated reports, cases with prolonged processing time or other complications warranting special attention of senior management would be brought up on a case-by-case basis by relevant officers having regard to the unique nature if necessary.

3.21 Special investigation may result in recovery of overpaid allowance that have a financial impact on public money. Besides, the processing time of special investigation cases may prolong the WFA applications process (i.e. for applicants whose previous applications are under special investigation — see para. 2.16(a)). In Audit's view, there is a need for WFSFAA to explore measures to shorten the processing time of special investigation cases as appropriate.

Room for improvement in issuing notifications and consent forms

3.22 According to WFAO's guidelines, when an application is selected for special investigation:

- (a) for performing information search (e.g. bank search) to verify/collect information about household members, WFAO needs to seek prescribed consent. To facilitate other organisations (e.g. other B/Ds and banks) that the household members have consented to the release of their personal data, WFAO will adopt a consistent and prudent approach by asking each household member to sign a consent form on verification of personal

information for conducting various types of information search (Note 29); and

- (b) upon completion of special investigation and for cases involving overpaid allowance, WFAO will issue a Notification of Special Investigation Result to the applying household to inform them of the investigation results and the relevant recovery amounts.

3.23 Audit also noted the following practices adopted by WFAO staff when conducting special investigation:

- (a) issuing a Notification on Assessment and Verification to the applying household to inform the applicant/household members that the application is under investigation, to solicit their cooperation in the course of the investigation and to remind them of the consequences of concealment of information or failure to provide information/clarification as required by WFAO;
- (b) endorsement of approving officer is sought prior to the issuance of the Notification on Assessment and Verification and consent forms for conducting information search; and
- (c) the forms for seeking consent from both the applicants and household members, together with a form requiring them to provide signature specimen with bank accounts (if applicable) are attached to the Notification on Assessment and Verification.

Note 29: *According to WFAO, while applicants are generally deemed to have provided their consent for WFAO to obtain information of themselves and their household members by signing the Declaration by Applicant on the application forms, some organisations (in particular banks and insurance companies) have specifically requested for prescribed consent (e.g. with the signature fully matching the specimen of the bank account) before the organisations are willing to consider the information search. Therefore, where necessary, WFAO has to adopt a consistent and prudent approach by asking each household member to sign a consent form on verification of personal information for conducting various types of information search. Households which fail to sign and return the consent forms will be required to refund in full the paid allowance.*

Follow-up on processed applications

3.24 Audit examination of the 50 special investigation cases (see para. 3.19) noted that:

- (a) ***Notifications/consent forms not sent.*** In 2 (4%) cases, WFAO did not issue the Notification on Assessment and Verification and consent forms to the applicants and household members. In 1 of these cases, information search on household members' mandatory provident fund accounts was conducted without their prescribed consent (Note 30) (see para. 3.22(a));
- (b) ***Time lag between commencement of investigation and issue of notifications/consent forms.*** According to WFAO, information search provides important evidence in special investigation. Since seeking consent from applicants/household members is essential in most cases for conducting the search, issuing the consent forms in a timely manner would help speed up the investigation process. Among the 48 cases with notifications/consent forms issued, the time lag between the commencement of investigation (as recorded in WFAMS) and issuance of notifications/consent forms varied significantly, ranging from 0 to 683 days (averaging 55 days). In 6 (13%) cases, the time lags were over 3 months;
- (c) ***Endorsement from approving officer not sought prior to issuance of notifications/consent forms.*** In 14 (29%) of the 48 cases, the notifications/consent forms were issued before obtaining the endorsement of the approving officers; and
- (d) ***Inconsistent practice in issuing notification of results.*** Of the 30 completed cases, 18 cases involved overpaid allowance and 12 cases did not. Audit noted that in 3 (25%) of the 12 cases where special investigation did not reveal any over-payment, the notification of results had not been issued to the applicants.

3.25 Upon enquiry, WFAO informed Audit in January and March 2025 that:

- (a) for the 2 cases mentioned in paragraph 3.24(a), the signed declarations by the applicants already sufficed and replaced the consent forms for

Note 30: *In the other case, WFAO conducted information search on the applicant only as there was no other adult household member.*

information search. In the case in which information search on the mandatory provident fund accounts of the applicant's household members was conducted, copies of the signed application form were provided to the mandatory provident fund trustee and the results were obtained successfully (i.e. no prescribed consent or specimen signatures were required); and

- (b) the necessity and timing of issuing the notification/consent forms depended on the specific circumstances of each case under investigation. The presumption that the notification/consent forms must invariably be issued at the earliest stage of the investigation might not align with the specific requirements of such cases.

3.26 While noting WFAO's explanations, Audit considers that WFSFAA needs to review the guidelines on issuing consent forms for conducting information search (e.g. specifying circumstances under which prescribed consent is needed). WFSFAA also needs to take measures to ensure that a consistent approach is adopted by its staff in conducting special investigation and follow-up actions are taken in a timely manner.

Audit recommendations

3.27 **Audit has *recommended* that the Head, WFSFAA should:**

- (a) **review the selection of cases for special investigations and take follow-up actions as appropriate;**
- (b) **conduct further analyses on special investigation results (e.g. further breakdown of the types of under-reported items and ineligible claim periods for applicants concerned), and make use of such information in reviewing the risk rules;**
- (c) **upon reviewing the special investigation results, formulate measures as appropriate (e.g. providing more staff training) to improve WFAO's risk management and application vetting process;**
- (d) **explore measures to shorten the processing time of special investigation cases as appropriate;**

Follow-up on processed applications

- (e) **review and monitor the practice of issuing Notification on Assessment and Verification and the consent forms to applicants and household members in WFAO's guidelines, including setting a reference timeframe for issuing the relevant documents, and consider adding an alert function in WFAMS to help ensure compliance with the timeframe;**
- (f) **take measures to ensure that prior endorsement by approving officers are obtained before issuing the Notification on Assessment and Verification and consent forms; and**
- (g) **formalise the practice of issuing Notification of Special Investigation Result upon completion of investigation in WFAO's guidelines and adding an alert function in WFAMS to help ensure compliance.**

Response from the Government

3.28 The Head, WFSFAA agrees with the audit recommendations. He has said that WFSFAA will:

- (a) whilst the present special investigation mechanism has been effective in revealing cases with over-payment and other irregularities, continue to review its strategy in selecting cases for special investigation taking into account such factors as risks, resource implications and cost-effectiveness;
- (b) conduct analysis on the types of under-reported items as revealed in special investigations, and review the risk rules with the benefit of such analysis to further improve the mechanism;
- (c) enhance staff training and sharing on the findings and experience from special investigations so as to improve the overall vetting quality and risk management;
- (d) continue to explore ways to streamline the process of special investigation as appropriate;

- (e) consider setting a reference timeframe and adding an alert function in WFAMS to ensure consistency in issuing Notification on Assessment and Verification and consent forms;
- (f) review the practice of issuing Notification on Assessment and Verification and consent forms, and ensure compliance with the requirement in the Operational Manual; and
- (g) formalise the issuance of Notification of Special Investigation Result in the Operational Manual, to be supported by an alert function in WFAMS to ensure compliance.

Review and appeal on processed applications

3.29 According to the Guidance Notes for Applications, an applicant for WFA who is not satisfied with the application results may apply in writing to WFAO for a review within 4 weeks from the issue of the Notification of Application Result. If the applicant is not satisfied with the review results, he/she may apply in writing to WFAO for an appeal within 6 weeks from the issue of the Notification of Review Result. An applicant may lodge one review and one appeal against each application. In the period from 2018-19 to 2024-25 (up to September 2024), WFAO processed 839 review cases and 2 appeal cases, and the results are shown in Table 13.

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Table 13

**Number of review and appeal cases processed by WFAO
(2018-19 to 2024-25 (up to September 2024))**

Year of application	Number of review/appeal cases (Note 1)			
	Approved (Note 2)	Withdrawn	Rejected	Total
2018-19	94	1	2	97
2019-20	97	—	2	99
2020-21	156	2 (1)	5	163 (1)
2021-22	121	2	3	126
2022-23	183	2	1	186
2023-24	115	3	2	120
2024-25 (up to September 2024)	42 (1)	5	1	48 (1)
Total	808 (1)	15 (1)	16	839 (2)

Source: WFSFAA records

Note 1: The number of appeal cases is shown in brackets (i.e. for the 2 appeal cases, 1 was approved in 2024-25 (up to September 2024) and the other was withdrawn by the applicant in 2020-21).

Note 2: According to WFAO, the approved cases involved an additional disbursement of WFA of about \$2.5 million on circumstances such as provision of new information by applicants that justified the grant of more allowance.

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year of application.

Need to issue notifications for review/appeal cases within stipulated timeframes

3.30 According to the Operational Manual, the timeframes for issuing notifications to applicants for review/appeal cases include:

- (a) issuing Acknowledgement of Receipt of Application for Review/Appeal within 10 days from the receipt of applications; and

- (b) issuing Notification of Review/Appeal Result within 6 weeks from the receipt of applications and all documentary proof required by WFAO for processing the cases.

3.31 Audit examined 30 review/appeal cases (comprising 20 approved cases, 7 withdrawn cases and 3 rejected cases) (Note 31) processed in the period from 2022-23 to 2024-25 (up to September 2024) and noted delays in issuing both types of notifications, as follows:

- (a) delays in issuing Acknowledgements of Receipt of Application for Review/Appeal were found in 6 (20%) cases, ranging from 1 to 20 days (averaging 8 days); and
- (b) delays in issuing Notifications of Review/Appeal Result were found in 2 (7%) cases, ranging from 1 to 21 days (averaging 11 days) (Note 32).

3.32 Upon enquiry, WFAO informed Audit in March 2025 that given there were limits to the number of review/appeal that an applicant could submit, it had been the office's practice to issue the acknowledgement of receipt of applications upon establishing the review/appeal requests with applicants. In other words, the acknowledgement would be issued upon WFAO's acceptance of the review/appeal request. In some cases, time had been taken to clarify information/documents with the applicants after the receipt of applications for review/appeal.

3.33 In Audit's view, WFSFAA needs to enhance the Operational Manual by specifying more clearly the timeframe for issuing the Acknowledgement of Receipt of Application for Review/Appeal, and take measures to ensure that review and appeal cases are handled in a timely manner.

Note 31: *The cases selected for examination included 29 review cases and 1 appeal case.*

Note 32: *According to WFAO, the case which took 21 days longer than the internal timeframe to issue the Notification of Review Result was mainly due to receipt of information/declarations from the applicant for his next round of WFA application which aroused suspicion on the authenticity of certain declarations he made for the review. To ensure consistency in decision-making, WFAO had to handle the review with the new application together and eventually concluded them on the same day.*

Need to maintain proper documentation on processing withdrawal of review/appeal cases

3.34 According to the Operational Manual, an applicant may request for withdrawal of his/her application for review/appeal. Having ascertained that the application involves neither suspicious circumstances that warrant in-depth investigation nor restitution of overpaid allowance, the Assistant Manager/Manager should issue a Notification of Withdrawal of Application for Review/Appeal to the applicant. If, in reviewing the application, WFAO identifies a need for the applicant to retribute any overpaid allowance, the Vetting Supervisor, Assistant Manager and Manager should continue following up on the case based on the documents submitted by the applicant, despite the applicant's request for the withdrawal of the application for review/appeal.

3.35 Audit examination of the 30 review/appeal cases (see para. 3.31) revealed areas for improvement in handling withdrawn/rejected cases, as follows:

- (a) ***Withdrawal request made by applicant not documented.*** Applicants can make withdrawal requests by various means (e.g. by telephone or in writing). It is WFAO's practice to record contacts with applicants in casefiles and/or in WFAMS (see para. 2.11(a)). However, in 1 case, there was no documentation on the withdrawal request made by the applicant;
- (b) ***Assessment of case not documented.*** Before issuing a Notification of Withdrawal of Application for Review/Appeal to an applicant, an assessment should be made that the case does not warrant in-depth investigation or does not involve restitution of overpaid allowance (see para. 3.34). However, in all the 7 withdrawn cases examined, there was no documentation showing that such assessment had been performed; and
- (c) ***Applicant's request not processed as intended.*** In 1 of the 3 rejected cases examined, despite that the applicant made a withdrawal request through a telephone call (which was documented in the casefile), the case officer continued to process the review case (e.g. issuing letters to the applicant to request for supplementary information). Upon enquiry, WFAO informed Audit in March 2025 that the officer had misunderstood that the applicant would submit a withdrawal request in writing. Without receiving the written request, the staff continued to handle the review case.

3.36 In Audit's view, WFSFAA needs to take measures to ensure that proper documentation is maintained for processing review and appeal cases and in handling withdrawal requests, such as stipulating requirements in the Operational Manual to record contacts with applicants and the assessment made on withdrawal requests.

Audit recommendations

3.37 Audit has *recommended* that the Head, WFSFAA should:

- (a) **enhance the Operational Manual by specifying more clearly the timeframe for issuing the Acknowledgement of Receipt of Application for Review/Appeal, and take measures to ensure that review and appeal cases are handled in a timely manner, including complying with the timeframes of issuing acknowledgements/notifications as stipulated in the Operational Manual; and**
- (b) **take measures to ensure that proper documentation is maintained for processing review and appeal cases and in handling withdrawal requests, such as stipulating requirements in the Operational Manual to record contacts with applicants and the assessment made on withdrawal requests.**

Response from the Government

3.38 The Head, WFSFAA agrees with the audit recommendations. He has said that WFSFAA will:

- (a) specify more clearly in the Operational Manual the timeframes for issuing the Acknowledgement of Receipt of Application for Review/Appeal, and remind staff to take timely and appropriate actions with regard to review and appeal cases; and
- (b) enhance WFAMS to ensure that proper documentation is maintained for processing review and appeal cases, contacts with applicants and assessment made on withdrawal requests lodged by applicants.

Recovery of overpaid allowance

Need to expedite and monitor recovery of overpaid allowance

3.39 Review/appeal cases, special investigation cases and internal reviews may reveal discrepancies and result in differences in WFA amounts that the applying households should be entitled. For a case involving overpaid allowance, WFAO will recover the amount by either offsetting it with the subsequent re-application submitted by the same applicant, or issuing a general demand note to the applicant under other circumstances (e.g. the overpaid amount cannot be fully offset by the subsequently approved allowance, or no re-application is submitted by the same applicant).

3.40 According to the Operational Manual, for recovery of overpaid allowance by way of issuing general demand notes, if applicants do not settle the amounts on or before the due dates, WFAO will reach out to the applicants to understand their situation and remind them to settle the payment as soon as possible. Under the circumstance that the amounts are still outstanding for a specified timeframe, reminder letter(s) will be issued to request the applicants for immediate payment. Cases with payments still outstanding after a specified timeframe will be handed over to SI Section and referred to the Department of Justice (DoJ) for recovery actions.

3.41 According to WFAO, for the period from 2018-19 to 2024-25 (up to September 2024), about \$43 million of overpaid allowance had been recovered. As at 11 December 2024, there were 465 on-going recovery cases involving about \$5.5 million. Audit noted that 227 (49%) cases had been outstanding for over one year (hereinafter referred to as long outstanding cases), involving about \$3 million. Table 14 shows an ageing analysis of the long outstanding cases.

Table 14

**Ageing analysis of long outstanding recovery cases
(As at 11 December 2024)**

Outstanding period	Number of cases	Amount involved (\$)
More than 1 and up to 2 years	143	2,024,350
More than 2 and up to 3 years	45	521,050
More than 3 and up to 4 years	25	314,000
More than 4 and up to 5 years	8	111,200
More than 5 years	6	73,200
Total	227	3,043,800

Source: WFSFAA records

3.42 Upon enquiry, WFAO informed Audit in February 2025 that for the 227 long outstanding cases:

- (a) 47 (21%) cases involving over-payment of about \$0.6 million had been recovered as at 22 January 2025;
- (b) 114 (50%) cases had been referred to DoJ for recovery actions (Note 33);
- (c) 25 (11%) cases were either related to applicants who entered bankruptcy and WFAO had been liaising with the relevant parties for possible recovery actions, or under WFAO's monthly instalment arrangements (offered to applicants with financial difficulties); and
- (d) the remaining 41 (18%) cases involving 7 applicants were under consideration by SI Section having regard to the peculiar situations of individual cases.

Note 33: *According to WFAO, among the 114 cases, 12 (11%) cases concerning 4 applicants had been referred to DoJ for more than 3 years and up to 5 years. According to DoJ, these cases were undergoing recovery actions.*

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3.43 Regarding the 41 cases that were under consideration by SI Section, Audit examination of 24 cases (involving 5 applicants) found that 81 reminder letters to the applicants were issued beyond the timeframes stipulated in the Operational Manual (see para. 3.40), ranging from 16 to 154 days (averaging 60 days). Upon enquiry, WFAO informed Audit in March 2025 that reminder letters would be issued having regard to the actual situation of the over-payment cases. The timing of issuing the reminder letters in the above cases were having regard to the actual and latest situation of the applicants that WFAO was aware of.

Audit recommendations

3.44 Audit has *recommended* that the Head, WFSFAA should take measures to expedite the recovery of overpaid allowance, including continuing to:

- (a) expedite follow-up actions on cases under SI Section's considerations;
- (b) monitor the progress of cases that the applicants concerned entered bankruptcy and were under WFAO's monthly instalment arrangements; and
- (c) take measures to ensure that reminder letters to request for repayment of overpaid allowance are issued in accordance with the timeframes stipulated in the Operational Manual having regard to the latest situation of applicants.

Response from the Government

3.45 The Head, WFSFAA agrees with the audit recommendations. He has said that WFSFAA will continue to:

- (a) closely monitor the recovery actions on cases under SI Section and ensure that follow-up actions are taken in a timely manner;
- (b) monitor the progress of cases involving applicants in bankruptcy by periodically bringing up such cases for review. With regard to applicants under monthly instalment arrangements, WFSFAA will issue general

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demand notes and reminder letters as appropriate in accordance with the Operational Manual; and

- (c) monitor on-going over-payment cases on a monthly basis, and will document the underlying considerations where reminder letters are not issued according to the timeframes stipulated in the Operational Manual.

PART 4: OTHER RELATED ISSUES

4.1 This PART examines other issues relating to WFA Scheme, focusing on the following areas:

- (a) performance management and reporting (paras. 4.2 to 4.7);
- (b) publicity and facilitation measures (paras. 4.8 to 4.21); and
- (c) way forward (paras. 4.22 to 4.26).

Performance management and reporting

Need to set and publicise performance measures for WFA Scheme

4.2 The Government has issued guidelines to B/Ds in relation to the performance management, including:

- (a) according to Civil Service Bureau Circular No. 7/2009 “Performance Pledges in the Civil Service” (issued in September 2009 and last updated in December 2024), performance pledges inform the public of the standards of service that they can expect from the Government and what they can do if the services they receive fall short of such standards. Performance pledges, their updates and achievements should be publicised and disseminated to customers and the public at large; and
- (b) according to the Financial Services and the Treasury Bureau’s guidelines provided to B/Ds on performance targets/indicators to be included in Controlling Officer’s Reports (CORs), for individual programmes, Controlling Officers should focus on targets measured preferably in terms of intended outcome, and should apply the most relevant performance indicators that measure economy, efficiency and cost-effectiveness of the resources deployed. Controlling Officers should review their performance against these targets throughout the financial year and be ready to account for deviations.

4.3 Audit noted that for WFA Scheme, WFSFAA had not publicised any performance pledges or targets/indicators. For example, timeframes had not been set on the overall processing time of WFA applications (see para. 2.12(b)) and special investigation cases (see para. 3.17). For review/appeal cases, while an internal timeframe for issuing notification of results within 6 weeks from the receipt of applications and all documentary proof required by WFAO for processing the cases had been laid down in the Operational Manual (see para. 3.30(b)), this was not published as a performance pledge/target. In this connection, Audit also noted that:

- (a) WFSFAA administered various student financial assistance schemes and WFA Scheme. For the former, it published a number of performance targets and indicators in the CORs and on website for the various schemes. For example, for the Tertiary Student Finance Scheme — Publicly-funded Programmes which was also a means-tested scheme, it had set a target processing time for applications at 60 days, and a target processing time for application for review at 70 days, both subject to the receipt of complete information by the applicants; and
- (b) for CSSA Scheme administered by SWD, which was also a means-tested scheme, SWD published a number of performance targets and indicators in the CORs and on website, including the average time for processing a new case by field units (i.e. 28 working days in 2023-24 (actual)).

4.4 According to WFSFAA:

- (a) WFAO has set internal performance targets/indicators for monitoring the processing time of applications (e.g. submission of recommendations for supervisors' approval within 20 working days upon receipt of applications, receipt of complete information, or the applicants' deadlines for reply for providing information — see para. 2.11(b)). For the purpose of ensuring that the key procedures in processing applications are attended by staff within reasonable time, WFAMS includes built-in alerts to Vetting Officers/Vetting Supervisors and weekly progress reports highlighting cases with applicable targets falling due for review by Assistant Managers of the Vetting Teams (see paras. 2.12(a) and 2.17(b)). The reports are also available for management's monitoring; and
- (b) as the circumstances of each application vary, the applicable checking processes are different and the processing time can vary greatly. Against

this backdrop, WFSFAA has not published any generalised performance pledge about the processing time of WFA applications. The principle has always been to approve applications only when satisfactory proof is available to establish the eligibility of applicants for WFA.

4.5 While noting WFSFAA's control mechanism on the processing time of WFA applications, to enhance accountability and transparency and as a good practice, WFSFAA needs to take measures to improve the performance management and reporting for WFA Scheme, including setting performance targets/indicators in the CORs and/or on website and publicising the achievements thereon.

Audit recommendation

4.6 **Audit has *recommended* that the Head, WFSFAA should take measures to improve the performance management and reporting for WFA Scheme, including setting performance targets/indicators in the CORs and/or on website and publicising the achievements thereon.**

Response from the Government

4.7 The Head, WFSFAA agrees with the audit recommendation. He has said that WFSFAA will consider setting a performance pledge and/or target/indicator for WFA Scheme by drawing reference from similar schemes.

Publicity and facilitation measures

Need to review provision of outreaching activities

4.8 WFAO promotes WFA Scheme through various publicity channels, including outreaching activities and advertising (e.g. advertisements in public transport) (see para. 1.11). According to WFAO, its promotional efforts focus in particular on the potential target audience, and the main goals are to catch the attention of low-income working households and to assist eligible households to navigate the application process to prove their eligibility.

4.9 Apart from setting up enquiry counters (Note 34) to answer public enquires about WFA Scheme and offer assistance in filling out application forms, WFAO also organises the following outreaching activities for promoting the Scheme and facilitating the public to apply for WFA:

- (a) **Information booths.** WFAO sets up information booths at various locations (e.g. public housing estates and job fairs) to promote the Scheme, answer public enquiries and offer assistance in filling out application forms (see Photograph 2 for an example). An information booth is generally manned by two staff with service hours ranging from 45 minutes to 8 hours (Note 35);

Photograph 2

Example of information booth



Source: WFSFAA records

Note 34: *The enquiry counters are located at WFAO's office in Kwun Tong and the customer service centre of the Hong Kong Housing Authority in Lok Fu.*

Note 35: *According to WFAO, the service hours of information booths varied depending on availability of venues and nature of events. For example, the service hours of information booths set up at job fairs were about 7 hours and those at schools were about 1 hour.*

- (b) ***Briefing sessions.*** Briefing sessions are held to introduce the Scheme and to explain the eligibility criteria. For example, front-line social workers of Integrated Family Service Centres (operated by SWD or NGOs) and other NGOs, who may assist and encourage low-income families to apply for WFA in their day-to-day contact with their service users, have been invited to attend to the briefing sessions to learn about the Scheme from time to time. Target audience also includes potential WFA applicants such as users of Community Living Rooms, service users of Support Service Centres for Ethnic Minorities (EM) and parents of students; and
- (c) ***Form-filling sessions.*** According to WFAO, form-filling sessions are provided upon request from individual NGOs at their venues for WFAO staff to assist applicants contacted by the NGOs in filling out application forms. Having regard to the varying nature of different applicants' difficulties in completing application forms in connection with their education background, language preference, age or disability, etc., the sessions aim to offer step-by-step and more personalised guidance to individual applicants in need. The service hours range from 45 minutes to 4.5 hours (Note 36).

4.10 For the period from 2018-19 to 2024-25 (up to September 2024), WFAO conducted a total of 718 outreaching activities. Audit examined the number and attendance of these activities and noted that:

- (a) after the resumption of normalcy from the COVID-19 epidemic, the total number of outreaching activities in 2023-24 was still 55% lower than that in 2018-19 (see Table 15) (Note 37); and

Note 36: *According to WFAO, the service hours varied depending on the arrangements with NGOs.*

Note 37: *According to WFAO, in 2018-19, the Scheme's inception year, it deployed additional resources to introduce and promote the newly revamped scheme. The subsequent decrease in the number of activities organised in the period from 2020-21 to 2022-23 was due to the social distancing measures during the COVID-19 epidemic. After the resumption of normalcy, WFAO diversified its promotional efforts through different channels (e.g. advertisements in public transport and on second pouch boxes of the Hong Kong Post, roadside banners, video broadcasts, collaboration with different B/Ds and NGOs), and had correspondingly reduced the number of the three types of face-to-face promotional activities mentioned in paragraph 4.9.*

Table 15

**Number of outreaching activities
(2018-19 to 2024-25 (up to September 2024))**

Year	Information booth	Briefing session	Form-filling session	Total
2018-19	185	67	37	289
2019-20	60	10	18	88
2020-21	—	2	15	17
2021-22	10	10	33	53
2022-23	36	12	26	74
2023-24	86	19	24	129
2024-25 (up to September 2024)	44	13	11	68
Total	421	133	164	718

Source: WFSFAA records

- (b) in terms of number of attendance, from 2018-19 to 2023-24 (see Table 16):
- (i) the total number of attendance decreased by 83 % from about 57,000 in 2018-19 to about 10,000 in 2023-24;
 - (ii) the average number of attendance decreased by 64 % for information booths and by 34 % for briefing sessions; and
 - (iii) the average number of attendance for form-filling sessions organised by NGOs was low, ranging from 5 to 15.

Table 16

**Number of attendance in outreaching activities
(2018-19 to 2024-25 (up to September 2024))**

Year	Information booth	Briefing session	Form-filling session	Total
<i>Total number of attendance</i>				
2018-19	54,687	2,158	304	57,149
2019-20	10,328	281	89	10,698
2020-21	—	43	228	271
2021-22	3,420	135	357	3,912
2022-23	6,014	222	289	6,525
2023-24	9,320	405	243	9,968
2024-25 (up to September 2024)	4,536	226	119	4,881
Total	88,305	3,470	1,629	93,404
<i>Average number of attendance</i>				
2018-19	296	32	8	198
2019-20	172	28	5	122
2020-21	—	22	15	16
2021-22	342	14	11	74
2022-23	167	19	11	88
2023-24	108	21	10	77
2024-25 (up to September 2024)	103	17	11	72
Overall	210	26	10	130

Source: Audit analysis of WFSFAA records

Remarks: According to WFAO, fewer activities were organised under the social distancing measures during the COVID-19 epidemic (e.g. no information booth was set up in 2020-21) which resulted in the decrease in number of attendance in the period from 2020-21 to 2022-23 (see Note 37 to para. 4.10(a)).

4.11 *Need to review provision of form-filling sessions.* Audit examination noted that for form-filling sessions:

- (a) the number of attendance in the period from 2018-19 to 2024-25 (up to September 2024) ranged from 0 to 61 (Note 38). Of the 164 sessions conducted, 46 (28%) sessions were attended by 5 persons or fewer; and
- (b) with regard to the districts where the form-filling sessions were offered:
 - (i) in 2018-19 (i.e. the year of launch of WFA Scheme), form-filling sessions were provided in 5 districts (i.e. Central and Western, Kowloon City, Kwun Tong, Sham Shui Po and Yau Tsim Mong);
 - (ii) since 2019-20, except for 2 sessions in Kwun Tong and 1 session in Sha Tin, all the other sessions had been provided in Sham Shui Po; and
 - (iii) apart from Sham Shui Po (where sessions had been provided for participants not limited to the said district), Kwun Tong and Yuen Long were among the top three districts in terms of successful applicants' residential districts since the launch of the Scheme. However, Yuen Long had not been covered in all years and no sessions had been conducted in Kwun Tong since 2020-21.

4.12 *Need to review provision of information booths.* Audit analysis of the information booths set up from 2018-19 to 2024-25 (up to September 2024) revealed that:

- (a) in 2018-19, information booths were set up at schools or mosques for reaching potential target audience. Although the numbers of attendance of some of these events were quite high (up to about 500 for each event), no information booth had been set up at these types of venues since 2019-20; and

Note 38: *According to WFAO, it was invited to provide a walk-in form-filling session organised by an NGO in 2019 in which no participant showed up.*

Other related issues

- (b) no information booth had been set up in the Central and Western District since 2020-21. In this connection, Audit analysis revealed that the Central and Western District was among the top three districts where the workplaces of low-income working population were located (Note 39) and such population were the potential target audience of WFAO's promotion activities.

4.13 *Need to keep under review service hours of information booths.* Audit noted that for the form-filling sessions which were usually provided upon request from NGOs (see para. 4.9(c)), most of the sessions were provided after office hours (i.e. after 6:00 p.m.), indicating that there was demand for form-filling service after office hours. However, for the 421 information booths set up in the period from 2018-19 to 2024-25 (up to September 2024), only 24 (6%) booths were open at weekends or after office hours on weekdays.

4.14 In Audit's view, with a view to facilitating the public to apply for WFA, WFSFAA needs to review the provision of outreaching activities, including:

- (a) keeping under review the arrangement of outreaching activities including the types of venues and geographical locations taking into account various factors (e.g. the locations of workplaces of potential target audience) and taking follow-up actions as appropriate;
- (b) enhancing collaboration with NGOs in organising form-filling sessions, including continuing to engage more NGOs in different districts to participate as appropriate; and
- (c) keeping under review the service hours of information booths and taking follow-up actions as appropriate with a view to assisting more potential applicants.

Note 39: *The top three districts included Central and Western, Yau Tsim Mong and Kwun Tong. The analysis was based on the statistical information in the 2021 Population Census published by the Census and Statistics Department and certain assumptions including: (a) income level of target potential applicants (e.g. working population with monthly income closest to the income limit for singleton household eligible for WFA); and (b) the major industries which these working population were engaged in (e.g. real estate, professional and business services) were largely consistent with those of applicants granted with WFA.*

Need to ascertain reasons for higher rejection rates and provide more assistance to EM applicants

4.15 According to WFAO, various efforts had been made to facilitate EM applicants' easy understanding of WFA Scheme, including translating guidelines of the Scheme into 8 languages, disseminating relevant information through television, radio, Facebook page etc., and organising briefings and visits for EM groups.

4.16 Audit examination found that from 2018-19 to 2024-25 (up to September 2024), the rejection rates for EM applicants over the years (average: 10.2%) were consistently higher than the overall rejection rates (average: 5.6%) (see Table 17).

Table 17

**Rejection rate of applications
(2018-19 to 2024-25 (up to September 2024))**

Year of application	Overall			EM applicants		
	Number of applications		Rejection rate (c) = (b) ÷ (a) × 100%	Number of applications		Rejection rate (f) = (e) ÷ (d) × 100%
	Received (a)	Rejected (b)		Received (d)	Rejected (e)	
2018-19	92,883	4,051	4.4%	2,406	201	8.4%
2019-20	109,011	5,314	4.9%	2,640	189	7.2%
2020-21	135,229	8,754	6.5%	3,434	405	11.8%
2021-22	134,942	6,869	5.1%	3,269	292	8.9%
2022-23	128,127	7,243	5.7%	3,100	306	9.9%
2023-24	115,589	7,413	6.4%	2,958	356	12.0%
2024-25 (up to September 2024)	58,816	3,662	6.2%	1,593	233	14.6%
Overall	774,597	43,306	5.6%	19,400	1,982	10.2%

Source: Audit analysis of WFSFAA records

Remarks: According to WFAO, all yearly figures shown in the table pertain to the year of application.

Other related issues

4.17 Audit considers that WFSFAA needs to ascertain the reasons for the higher rejection rates of EM WFA applicants and provide appropriate assistance to them accordingly (e.g. engaging relevant NGOs to provide assistance).

Need to conduct satisfaction survey for evaluating effectiveness of publicity and facilitation measures

4.18 Satisfaction survey is a useful tool to collect feedback and to identify areas for improvement. Audit noted that WFAO did not conduct survey to collect feedback from users regarding its publicity and facilitation measures such as form-filling sessions.

4.19 The number of WFA applications decreased from the peak of 135,229 in 2020-21 to 115,589 in 2023-24 (see Table 2 in para. 1.6). With the increase in the rates of allowances by 15% with effect from the claim month of April 2024 and with a view to encouraging more eligible households to apply for WFA and further promoting e-submission of applications (see para. 2.9), WFSFAA needs to strengthen the publicity efforts and facilitation measures for WFA Scheme, including reviewing the effectiveness by conducting satisfaction survey to collect feedback from users as appropriate.

Audit recommendations

4.20 Audit has *recommended* that the Head, WFSFAA should:

- (a) review the provision of outreaching activities, including:
 - (i) keeping under review the arrangement of outreaching activities including the types of venues and geographical locations taking into account various factors (e.g. the locations of workplaces of potential target audience) and taking follow-up actions as appropriate;
 - (ii) enhancing collaboration with NGOs in organising form-filling sessions, including continuing to engage more NGOs in different districts to participate as appropriate; and

- (iii) **keeping under review the service hours of information booths and taking follow-up actions as appropriate (e.g. setting up information booths at weekends and after office hours) with a view to assisting more potential applicants;**
- (b) **ascertain the reasons for the higher rejection rates of EM WFA applicants and provide appropriate assistance to them accordingly (e.g. engaging relevant NGOs to provide assistance); and**
- (c) **strengthen the publicity efforts and facilitation measures for WFA Scheme, including reviewing the effectiveness by conducting satisfaction survey to collect feedback from users as appropriate.**

Response from the Government

4.21 The Head, WFSFAA agrees with the audit recommendations. He has said that:

- (a) to promote WFA Scheme and render assistance to the target audience, WFSFAA has all along been keeping under review the different types of outreaching activities. With the experience gained over years, WFSFAA has diversified the means of promotion to include out-of-home advertisements, online materials, information booths and enquiry counters, etc. WFSFAA will continue to strategically allocate resources taking into account the patronage of different activities and their timing, location and venue, and continue to explore collaboration opportunities with NGOs with a view to expanding the reach of the promotional activities;
- (b) WFSFAA will explore collaboration opportunities with relevant NGOs to tap their insights on further assistance for EM applicants; and
- (c) whilst various publicity efforts and facilitation measures have been taken, WFSFAA will look into the feasibility of conducting service surveys having regard to the nature of different outreaching activities.

Way forward

Need to keep under review WFA Scheme

4.22 Since the launch of WFA Scheme and up to December 2024, the number of active WFA households ranged from about 42,000 to 62,000. As of December 2024, there were about 50,000 active WFA households, involving about 170,000 persons. Audit noted that the number of WFA applications had been on a decreasing trend since the peak in 2020-21 (see Table 2 in para. 1.6). According to the Government:

- (a) the number of WFA applications and active households might be affected by multiple factors, including the prevailing economic situation and labour market conditions, as well as eligible applicants' individual circumstances and keenness to apply for WFA (Note 40); and
- (b) upon the launch of WFA Scheme, it has constantly kept the Scheme under review. Enhancements have been made aiming at improving the effectiveness of the Scheme and better supporting low-income working families. These enhancements included an increase in allowance rates by 16.7% to 40% with effect from the claim month of July 2020, and a further increase in allowance rates by 15% across the board with effect from the claim month of April 2024 (see para. 1.5).

4.23 In this audit review, Audit has identified room for improvement in the administration of WFA Scheme, for example:

- (a) ***Processing of applications.*** There was scope for expediting the processing of some applications (see para. 2.15) and some inconsistent practices were noted in the vetting process (see para. 2.20);
- (b) ***Follow-up on processed applications.*** The proportion of high-risk current year applications with special investigation conducted and also the

Note 40: *According to the Government, it had continuously evaluated the estimated number of WFA households for budgeting purposes, and the corresponding financial provisions required for implementing WFA Scheme had been reflected in WFSFAA's annual estimates (see Note 10 to para. 1.7).*

percentage of high-risk cases selected for special investigation from applications meeting the risk rules had been on a decreasing trend (see paras. 3.8 and 3.10), and there was scope for shortening the processing time of some special investigation cases (see para. 3.21); and

- (c) ***Other related issues.*** WFSFAA had not publicised any performance pledges or targets/indicators (see para. 4.3), and some districts were not covered in WFAO's outreaching activities (see paras. 4.11(b) and 4.12(b)).

4.24 Having regard to the developments of WFA Scheme, WFSFAA needs to, in collaboration with the Labour and Welfare Bureau, take into account the audit observations and recommendations in this Audit Report, keep under review the operation of WFA Scheme with a view to enhancing the Scheme as appropriate.

Audit recommendation

4.25 **Audit has *recommended* that the Head, WFSFAA should, in collaboration with the Secretary for Labour and Welfare, take into account the audit observations and recommendations in this Audit Report, keep under review the operation of WFA Scheme with a view to enhancing the Scheme as appropriate.**

Response from the Government

4.26 The Secretary for Labour and Welfare and the Head, WFSFAA agree with the audit recommendation.

**Working Family Allowance Scheme:
Income and asset limits
(for claim months from April 2024 to March 2025)**

Number of household members	Monthly household income upper limits			Household asset limits (\$)
	Full-rate (\$)	3/4-rate (\$)	Half-rate (\$)	
1 person	11,000	13,200	15,400	286,000
2 persons	15,900	19,000	22,200	387,000
3 persons	19,800	23,800	27,700	505,000
4 persons	25,000	30,000	35,000	590,000
5 persons	25,000	30,000	35,000	655,000
6 persons	27,600	33,100	38,600	709,000
7 persons				757,000
8 persons				792,000
9 persons				877,000
10 persons or more				945,000

Source: Working Family and Student Financial Assistance Agency records

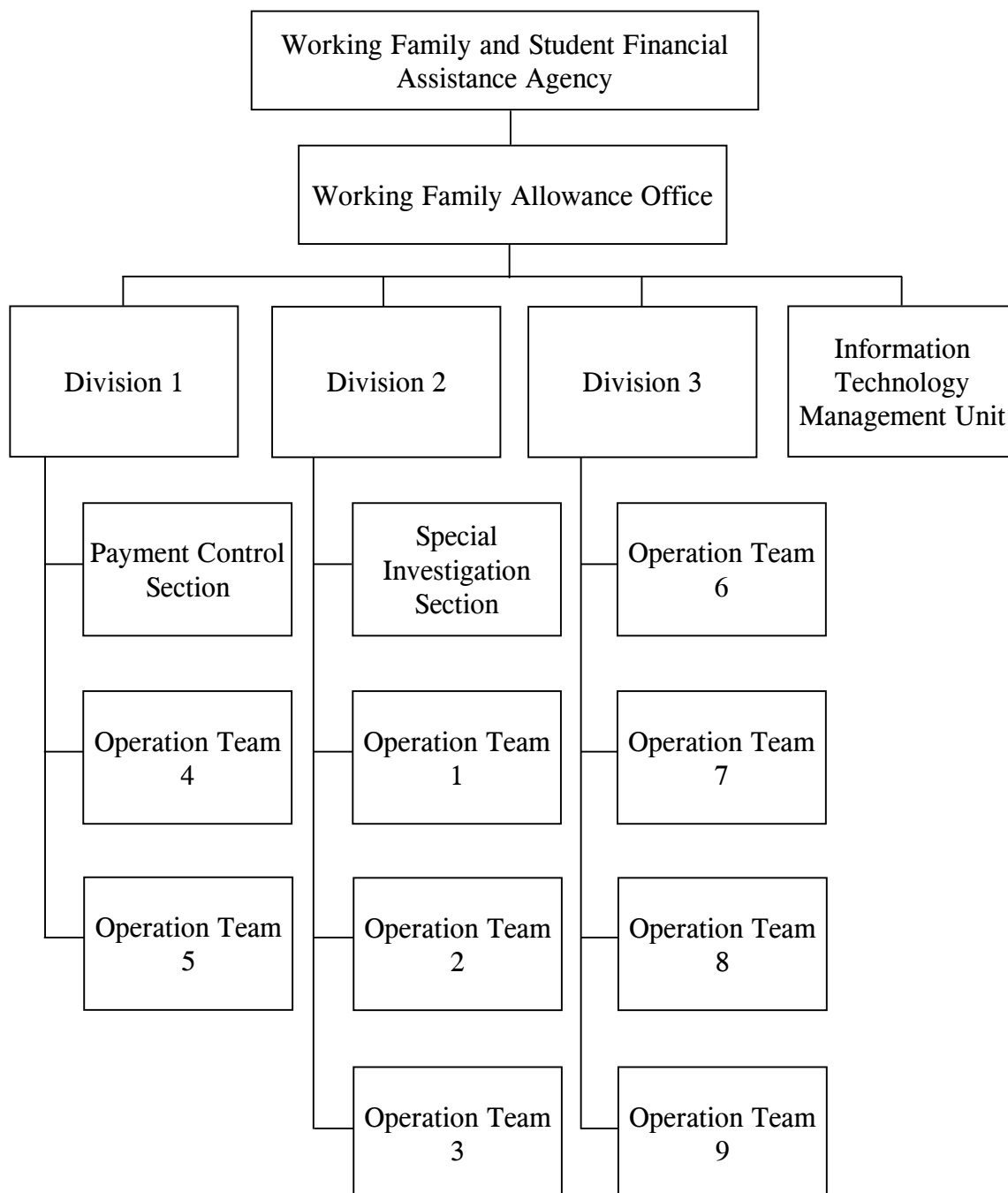
Appendix B
(Note 2 to Table 2
in para. 1.6 refers)

**Working Family Allowance Scheme:
Rates of allowances
(since claim month of April 2018)**

Type of allowances	Full-rate (\$)	3/4-rate (\$)	Half-rate (\$)
For claim months from April 2018 to June 2020			
<i>Monthly allowance for each household</i>			
Basic Allowance	800	600	400
Medium Allowance	1,000	750	500
Higher Allowance	1,200	900	600
<i>Monthly allowance for each eligible child</i>			
Child Allowance	1,000	750	500
For claim months from July 2020 to March 2024			
<i>Monthly allowance for each household</i>			
Basic Allowance	1,000	750	500
Medium Allowance	1,200	900	600
Higher Allowance	1,400	1,050	700
<i>Monthly allowance for each eligible child</i>			
Child Allowance	1,400	1,050	700
With effect from claim month of April 2024			
<i>Monthly allowance for each household</i>			
Basic Allowance	1,150	863	575
Medium Allowance	1,380	1,035	690
Higher Allowance	1,610	1,208	805
<i>Monthly allowance for each eligible child</i>			
Child Allowance	1,610	1,208	805

Source: Working Family and Student Financial Assistance Agency records

**Working Family and Student Financial Assistance Agency:
Organisation chart (extract)
(31 December 2024)**



Source: WFSFAA records

Remarks: Only the divisions/unit/sections/teams related to the implementation of WFA Scheme are shown.

Acronyms and abbreviations

Audit	Audit Commission
B/Ds	Government bureaux/departments
CORs	Controlling Officer's Reports
CSSA	Comprehensive Social Security Assistance
DoJ	Department of Justice
EM	Ethnic minorities
HKPF	Hong Kong Police Force
LIFA	Low-income Working Family Allowance
MMDHIEA	Median Monthly Domestic Household Income of economically active
NGOs	Non-governmental organisations
QA	Quality assurance
SI Section	Special Investigation Section
SWD	Social Welfare Department
WFA	Working Family Allowance
WFAMS	Working Family Allowance Management System
WFAO	Working Family Allowance Office
WFSFAA	Working Family and Student Financial Assistance Agency