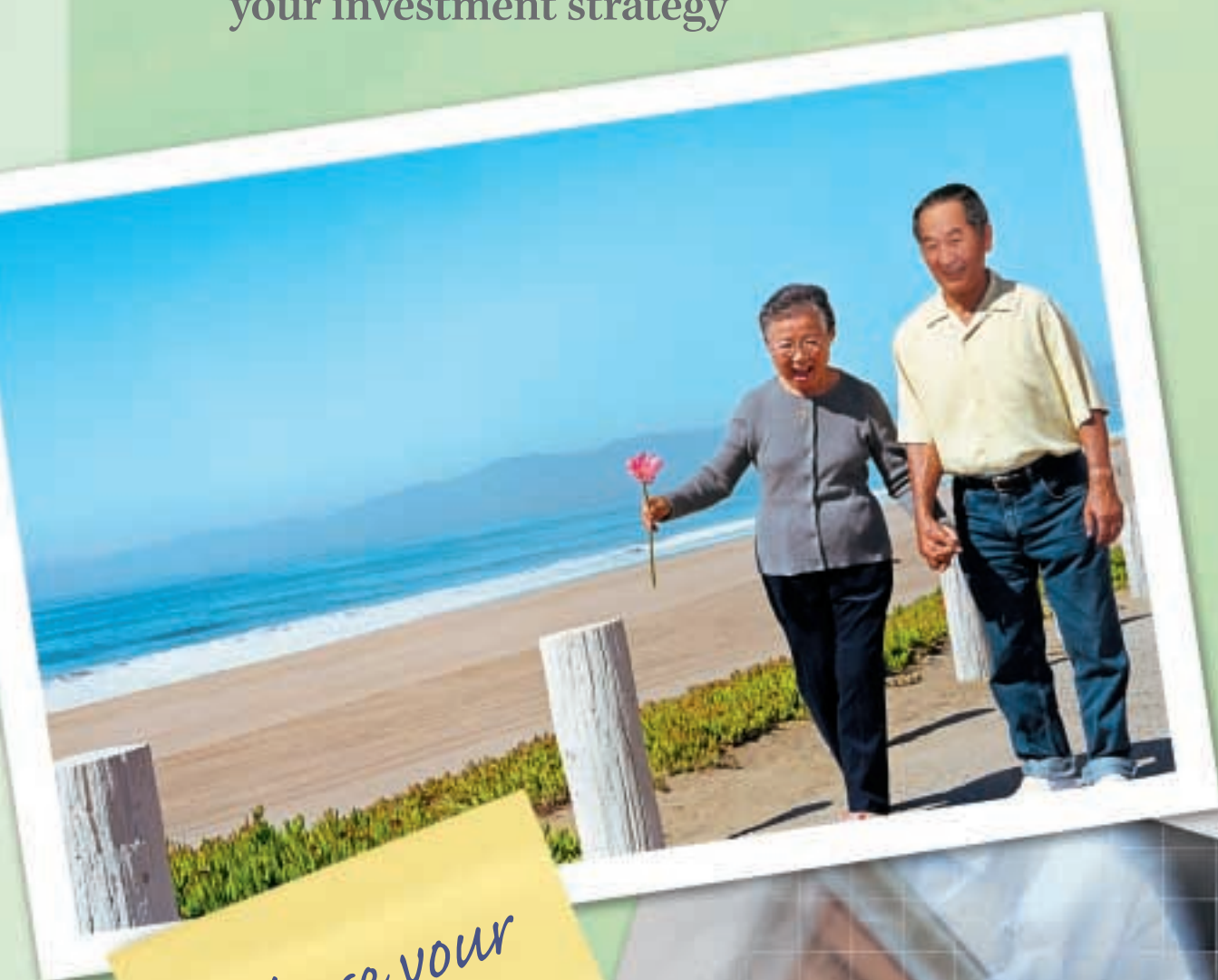


Review

your investment strategy



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dreams*



Supporting Services

Overview

Our focus

- Reengineer processes to enhance operational efficiency
- Ensure that essential supporting services are provided for the smooth operation of the whole organization

In 2005-06, we

- Conducted 30 recruitment exercises to fill vacancies at manager and supporting grades
- Reorganized the work of the Supervision and Enforcement Divisions to facilitate the implementation of risk-based supervisory and regulatory approaches and to provide a “through-train” service in investigation and recovery of MPF contributions in arrears
- Reviewed the Inventory Management Policies and Procedures Manual to strengthen the management of assets and ensure effective internal control
- Launched the ORSO Records Management System to replace the obsolete Occupational Retirement Schemes System
- Commenced the development of a Management Information System to address the organization’s management information needs
- Adopted the use of an electronic filing system in five departments

As at 31 March 2006:

- The staff establishment was 322
- The balance of the Capital Grant was \$5.4 billion
- The value of investment of the Compensation Fund was \$884.1 million



STAFFING

As at 1 April 2005, the establishment of the MPFA was 280, and there were 28 temporary posts to meet transient manpower requirements. During the year, new positions were created to strengthen the enforcement team, and to meet the needs of the Supervision Division and the Research Department. Certain temporary posts were also confirmed to be of continued need and transferred to the approved establishment. As at 31 March 2006, the MPFA had an establishment of 322 as well as nine temporary posts. The staff cost to total expenditure ratio for the year 2005-06 was 65.56%, and the staff turnover rate was 10.75%. During the year, 30 recruitment exercises, both external and internal, were conducted to fill vacancies arising from natural attrition at manager and supporting grades. The recruitment of a new Head (External Affairs) was near completion towards the end of the financial year.

The remuneration of the top management staff of the MPFA is disclosed in the notes to the Financial Statements on page 85.

More information on MPFA's staff development and staff activities is set out in the chapter, "MPFA Staff and the Community", on pages 28 to 33.

REORGANIZATION OF WORK

From time to time, the MPFA reviews its structure and operations, taking into account the development of the organization. With the implementation of the Compliance Standards, we have reorganized the Supervision Division's work and resources in 2005 to facilitate the implementation of the risk-based supervisory and regulatory approaches. We completed a review of the organization structure of the Division, identified the skills requirement for the positions and re-deployed staff members with the right skills to match the jobs. Promotion and recruitment exercises were conducted to meet new job requirements.

In order to raise productivity and to provide a "through-train" service in investigation and recovery of MPF contributions in arrears, the Enforcement Division has been restructured to combine the investigation and claims functions in the same teams. The reorganization of work was implemented in August 2005, with processes streamlined and efficiency improved. A new Special Task Force team was also set up in the Division to investigate default contribution cases reported by trustees.



To address the research and knowledge needs of the MPFA, we have examined the establishment of a research function within the organization. After deliberating on the options for the structure and role of the function and identifying the resources requirements, the Research Department was set up under the Regulation and Policy Division in February 2006.

Towards the end of the 2005-06 financial year, in our effort to strengthen the MPFA's work at the district level, we considered establishing a branch office function. The purpose was to maintain a presence in the districts and to provide convenience to the local community in obtaining MPFA's services. After exploring various options for carrying out the function, the option of operating a trial branch office was pursued. The Tsuen Wan office would become operational in mid-2006.

FINANCIAL CONTROL During the year, the MPFA continued to apply stringent cost controls and maintain the overall costs at a reasonable level.

Meanwhile, we had to deploy more financial resources to step up public education and to further develop and refine the supervisory functions. Total expenditure for the MPFA in 2005-06 was \$218.0 million, representing a 9.6% increase as compared with the previous year.

We reviewed the delegation of authority in handling financial matters, taking into account the organizational changes of the MPFA in recent years. The control measures in financial operations were further reviewed and changes to policies and procedures were implemented.

Following the full implementation of the new investment strategy for the MPFA's reserve, we reviewed the new investment reports and implemented changes to checking and recording processes to improve efficiency and effectiveness. We also took the opportunity of the development of the new ORSO Record Management System to strengthen the accounts receivables functions for ORSO fees and for default contribution items. Relevant features in the Financial Information System were enhanced to improve the work process.



The MPFA continued its efforts in ensuring an efficient allocation of resources. During the year, we completed the costing study for the Financial Control Department with findings and recommendations reported to management for strategic and operational reviews. We reviewed our financial statements to comply with relevant accounting and reporting standards effective for the reporting year. We will continue to keep in view any new standards and interpretations that have been issued but are not yet effective and assess their impact on MPFA's operations and financial reporting.

TREASURY Upon the first full-year implementation of the new investment strategy for the \$5 billion Capital Grant from the HKSAR Government, which held a global balanced portfolio, investment results have improved. As at 31 March 2006, the balance of the Capital Grant was \$5.4 billion. Meanwhile, the value of investment of the Compensation Fund, which includes the \$600 million seed money from the Government and the levies already collected pursuant to the MPFSO, was \$884.1 million¹.

We closely monitored the services and performance of the master custodian and the three external fund managers appointed to manage the Capital Grant's securities investments. The purpose was to ensure high service standards, compliance with MPFA's investment guidelines and satisfactory performance.

Pursuant to the MPFSO, the approved MPF trustees may be required to pay to the MPFA an annual registration fee in respect of registered schemes. Such fee has been waived since the implementation of the MPF System. During the year, we completed a study and analyses to facilitate the consideration of a suitable timing for the introduction of annual registration fee. After consideration by the Management Board, it was agreed that the MPFA should continue to waive such fee for the time being.



¹ This figure is different from the balance of the Compensation Fund as shown in the Financial Statements. The latter is presented on an accrual basis.

INVENTORY MANAGEMENT

To strengthen management of the MPFA's assets and ensure effective internal control, the Inventory Management Policies and Procedures Manual was reviewed during the year. The Manual sets out the policies and procedures for inventory management, guides staff in carrying out inventory management activities, standardizes system and processes, establishes uniform corporate-wide practices, and facilitates financial control. A training session was held to bring key issues in inventory management to the attention of relevant staff.

INFORMATION TECHNOLOGY

We continued to enhance and develop information systems to facilitate business operations. The development of a new computer application system, ORSO Record Management System (ORMS), to replace the obsolete Occupational Retirement Schemes System (ORSS) was completed during the year. In respect of supervision of MPF intermediaries, the information system for processing the registration and de-registration of intermediaries was enhanced to facilitate the issuance of MPF certificates for intermediaries, replacing the MPF intermediaries cards.

A number of enforcement-related information systems were enhanced to improve efficiency and effectiveness. These include systems to process default contribution cases and small claims. A register for unclaimed benefits was also built to facilitate public enquiry.

In the process of restructuring and reorganizing MPFA's work, we have identified the need for a Management Information System. Work has commenced on the building of such a system, with management information needs of all departments identified. Further analysis of the information needs and the development of user requirements will continue in the next financial year.

During the year, we commenced the upgrading of the existing computer equipment in phases. By the end of March 2006, 22% of all users have had their desktop computers upgraded. The whole replacement exercise is scheduled for completion by the end of 2006. Our computer system has also been installed with the requisite hardware and software to cater for the revamp of the MPFA's website.



RECORDS MANAGEMENT

In the financial year 2004-05, individual functional units had drawn up their respective records disposal schedules in accordance with a set of records retention guidelines. The first formal disposal exercise was conducted in early 2006. This will be a regular exercise to be carried out annually. We conducted an exercise to project the growth of records maintained by the MPFA. Proposed options are being developed to cater for the future storage needs.

Regarding the implementation of electronic records management, five departments have adopted the use of the General Office & Registry Information Automation (GLORIA) system, an electronic filing system, after completing a trial. The use of the system will be promoted to more departments in the coming year.

RISK MANAGEMENT AND BUSINESS CONTINUITY PLANNING

In anticipation of the Sixth Ministerial Conference of the World Trade Organization held in Hong Kong in December 2005, the MPFA assessed the possible impact that the event might have on our business operations, and drew up contingency arrangements. We closely monitored developments during the period of the Conference and gave timely updates and appropriate advice to our staff.

We regularly test the capability and preparedness of the MPFA to respond to disasters affecting the office premises and the information technology systems. A comprehensive drill in this respect was successfully conducted in November 2005. The drill covered staff evacuation from office premises, testing of staff communication channels, the establishment of crisis command and operations centres, the recovery of the MPFA's computer information systems in an alternate site, and handling a fictitious crisis in the MPF market. A crisis management team was set up to monitor critical operations and maintain communication with staff and relevant external parties.

Other work on risk management is also reported under the chapter "Corporate Governance" on page 24.



LEGAL SUPPORT The Legal Department provides legal support to many aspects of MPFA's operation.

On the supervision side, the Department advised the Supervision Division on issues related to the monitoring of approved MPF trustees, intermediaries and ORSO schemes. It also advised on legal issues arising from scheme administration, investment restrictions, scheme re-structuring, non-compliance and exemption.

On the enforcement side, the Legal Department worked closely with the Enforcement team in ensuring enrolment in and contributions to MPF schemes. It provided advice during the inspection and investigation stages, and liaised with the Department of Justice and prosecutors in prosecution cases. It also advised on civil actions for the recovery of outstanding contributions on behalf of scheme members and the enforcement of judgements.

The Department contributed to the review and refinement of the MPF System by providing legal support to the development of proposals to amend the MPF legislation, and to the revision of related guidelines. Its service also covers legal issues that may arise in the day-to-day operation of MPFA.

